VERIZON COST STUDY INPUTS

Verizon's cost studies are Forward-Looking

Verizon's study methods are completely forward-looking. They assume the use of the latest available technologies currently being deployed in Verizon's network and not the current embedded technology mix. The studies use forward-looking plant costs, equipment, fill factors, labor costs and other inputs.

The cost study inputs reflect how the network will evolve efficiently over time to reflect the realities of network deployment and operation that Verizon expects to encounter in the future. The studies are consistent with the FCC definition of "long run". They use the most efficient technologies currently available and being deployed in the network. Verizon's use of a current study period is entirely consistent with the long run approach because the study assumes that the technologies that are the most efficient to deploy incrementally, in new and replacement installations during the next few years, are used throughout the entire network, even though they would not actually replace the entire network in such a relatively short period of time.

The studies assume the plant quantities – e.g., cable lengths, fills, pair sizes – that can realistically be achieved based on expectations about network deployment.

Chart 1 provides a summary of the key inputs to the Verizon cost studies.

Chart 2 lists the depreciation lives used in the studies for each equipment account.

Depreciation

Verizon properly uses state-specific generally-accepted accounting principle ("GAAP") depreciation lives in its forward-looking cost analysis. Regulatory depreciation rates do not reflect current or future competitive realities and are inappropriate in a forward-looking cost study. Verizon's depreciation inputs consider the decline in an asset's value from all causes, including competition and technological change. They reflect the principle that depreciation should be consistent with forward-looking economic assumptions and based on competitive market asset lives. Technological innovation and competition are flourishing and will continue to increase in the foreseeable future. This is due not only to the opening of markets under the Telecommunications Act of 1996, but also to revolutionary technological developments that are occurring in many areas.

The Verizon depreciation lives and net salvages were prepared by plant class in accordance with GAAP and they reflect the economic lives of network assets. Verizon's use of GAAP lives in this proceeding is conservative because Verizon experiences unique risks associated with providing network services.

The GAAP depreciation lives are based upon the expected life during which the assets will produce economic benefits to the company. The goal is to allocate as equitably as possible the cost of using a depreciable asset over the period that the company obtains economic benefits from the asset. The GAAP lives are forward-looking because they are based on the expected period of future economic benefit to the company. The initial assessment of useful life is based on the period of time that the asset will produce economic benefits to the company from the date of acquisition. The remaining useful life of the asset is reassessed as financial reports are released to reflect events as they occur and circumstances as they change.

Cost of Capital

Verizon also uses a forward-looking cost of capital. Forward-looking costs are the costs that a carrier would incur in the future, and do not include embedded or historical cost. The Verizon cost of capital reflects the forward-looking cost of established companies that operate in competitive environments and realistic assumptions about the dynamic economic conditions that Verizon will face in the future.

The cost of capital used by Verizon is developed using an expected capital structure of debt and equity, an actual cost of its existing debt, and a realistic financially sound expected cost of equity demanded in the competitive capital markets.

Fill Factors

The fill factors used by Verizon in the subscriber line charge cost analysis are totally appropriate for a forward-looking cost study. They are state-specific to accurately represent the costs by state, and recognize variances in plant types, plant mixes, and geographic conditions.

Verizon's actual fill factors for copper feeder cable, remote terminal common electronics, fiber strand and copper distribution cable reflect the use of sound engineering principles to achieve the most efficient network design. They are realistic and not based on a hypothetical network that will never be built. These factors have been stable in Verizon's network for years, and there is no factual or theoretical basis to believe that these utilization rates would be substantially different in a network of the future. The most significant change in the forward-looking model – the substitution of digital loop concentrators for copper facilities in a large fraction of the plant – has minimal impact on utilization. The forward-looking model does not require changing the

location of distribution areas within Verizon's network because the forward-looking assumptions do not change the volume and nature of the demand that Verizon will serve. Thus Verizon's actual utilization rates represent the best measure of expected utilization rates for use in a forward-looking cost analysis.

Loop Length

Verizon's study uses a maximum copper loop length of 12,000 feet. This reflects current network design and forward-looking engineering principles. NASUCA argues (at 32) that Verizon's use of 100 percent fiber in feeder plant in the Link Cost Model is inconsistent with its decision not to use this assumption in the Loop Cost Analysis Model. This is incorrect. The Link Cost Model is used in New York, where the New York commission has determined that only fiber facilities will be used in the future for feeder construction. This assumption has not been made in all other jurisdictions.

Common Cost

The Commission concluded in the *Local Competition Order* that if prices are to be based on incremental cost, they should include an allocation of forward-looking common cost. ***See*** *Local Competition Order*, 11 FCC Rcd 15499, ¶ 682 (1996). Because common costs cannot be directly assigned to particular elements, they must be allocated over elements in some reasonable manner in a forward-looking study. Any allocation methodology should ensure that the sum of common costs assigned to various elements does not exceed Verizon's total common costs. The common costs were assigned in the same manner as the FCC universal service fund model, which is on a per-line basis.

Chart 1

Verizon Cost Study Inputs Summary

Cost of Capital:	12.95%
Debt:	25%
Equity:	75%
Cost of Debt:	7.55%
Cost of Equity:	14.75%
Maximum Loop Length	12k feet
Switch Technology Mix:	
	5ESS
	DMS – 10
	DMS – 100
	GTD5
	Ranges
Network Technology Mix:	
Analog	0% - 49.39%
Universal	3.11% - 64%
% Integrated	20% - 94%
Loop Fill Factors:	
Copper Feeder	31% - 65%
Distribution	27% - 41.8%
Fiber Electronics:	
Common	51% - 75%
Plug – In	80% - 84%
Conduit	39.3% - 60.63%

EXHIBIT 1

	Chart 2	Economic	
Account Number	**Account Description**	**Life Years**	**Future Net Salvage %**
2112	Motor Vehicles	8	15
2113	Aircraft	8	50
2116	Other Work Equipment (includes 2114 & 2115)	12	0
2121	Buildings	35	0
2122	Furniture	15	0
2123.1	Office Support Equipment	10	0
2123.2	Company Comm. Equipment	8	0
2124	Computers	5	0
2212	Digital Switches	10	2
2220	Operator Systems	10	0
2231	Radio Systems	5	0
2232	Circuit Equipment	9	2
2351	Public Telephones	8	0
2362	Other Terminal Equipment	7	0
2311.1	Station Apparatus	1	0
2411	Poles	30	@
2421.1	Aerial Cable - Metallic	#	-10
2421.2	Aerial Cable - Non Metallic	20	-10
2422.1	Underground Cable - Metallic	#	-10
2422.2	Underground Cable - Non Metallic	20	-10
2423.1	Buried Cable - Metallic	#	-5
2423.2	Buried Cable - Non Metallic	20	-5
2424.1	Submarine Cable - Metallic	15	-10
2424.2	Submarine Cable - Non Metallic	20	-10
2425.1	Deep Sea Cable - Metallic	15	-10
2425.2	Deep Sea Cable - Non Metallic	20	-10
2426.1	Intrabldg Cable - Metallic	#	-15
2426.2	Intrabldg Cable - Non Metallic	20	-10
2431	Aerial Wire	#	-5
2441	Conduit Systems	50	-10
2690	Software		
	Network - Switch & Transmission	3	0
	All other	5	0
	Note #	#	
	CA	14	
	FL, E-PA	15	
	OR, NJ, NC, W-PA, WA, MA	16	
	ID, KY, MO, NV, SC, IN, W-VA, TX, HI	17	
	NY, MD, E-VA, ME, DE, DC	17	
	AL, OH, IL, MI, WI	18	
	NH, RI, VT, WV	18	
	Note @		@
	CA, FL, NC, W-PA, ID, KY, MO, SC, TX		-75
	AL, OH, MI, WI, ME, MD, W-VA, E-VA, WV		-75
	E-PA, VT, NH, HI, IL, IN, NV		-90
	OR, WA, NJ, DE,		-110
	NY, RI, DC, MA		-140