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June 21, 2002

Ex Parte

Marlene Dortch
Secretary
Federal Communications Commission
445 12th H Street, SW, Portals
Washington, DC 20554

RE: Application by Verizon New Jersey for Authorization To Provide In-Region, InterLATA Services in State of New Jersey, Docket No. 02-67 - REDACTED

Dear Ms. Dortch:

This letter responds to AT&T's June 18, 2002 ex parte alleging that certain New Jersey rates are too high. The bulk of AT&T's letter simply repeats arguments that Verizon has already addressed. However, Verizon would like to clarify the record regarding AT&T's attempt to salvage its patently flawed analysis of Verizon's New Jersey switching rates.

In its April 30, 2002 ex parte, AT&T claimed that the New Jersey switching rate resulted in Verizon over-recovering 149% of its switching costs. AT&T's witness Mr. Baranowski reached this conclusion by comparing what he alleged was Verizon's "total switching investment" to Verizon's "total switching recovery." Verizon's June 7, 2002 ex parte demonstrated that Mr. Baranowski's analysis was flawed because he failed to include in his alleged "total switching investment" figure the costs Verizon incurs for engineering, furnishing and installing ("EF&I") switching equipment, the power costs Verizon incurs to operate the equipment, and the costs associated with providing vertical features.

AT&T now apparently admits that its so-called "total switching investment" figure did not include the loading factors Verizon identified, but it argues that this obvious error would have "no impact" on the results of Mr. Baranowski's analysis because "the loading factors would have to be applied to *both* Verizon's total switching investment and to Verizon's total switching investment recovery." AT&T June 18, 2002 at 2. AT&T is wrong once again.

The loading factors Verizon identified would *not* need to be applied to both the total switching investment and its total switching investment recovery as AT&T claims, because the switching investment recovery figure already includes these factors. Although Mr. Baranowski omitted the

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EF&I and power loadings from his "total switching investment" figure, as described further below, the switching minute of use rate Mr. Baranowski used to calculate Verizon's total switching recovery actually incorporates these loadings.

Verizon's local switching cost per minute of use is developed using the following steps. First, the SCIS Model Office program provides the "material" price investments figure which represents the price for the switch inclusive of applicable vendor discounts. Second, because the material price does not include the EF&I and the Power, Land and Building investment loadings, the annual cost factors are loaded for those costs. Third, the loaded annual cost factors are applied to this total investment in order to convert the investment to an annual cost. The annual cost factors, which include the application of the aforementioned investment loadings, are contained in Verizon's New Jersey cost study. See Excel spreadsheet named "Recurring & Misc._NRC_doc, Exhibit G-1, Switching and Features, Usage File, Tab 5.1

In short, contrary to AT&T's claim, it is only the switching investment figure that Mr. Baranowski cites that does not account for the EF&I and power factors. Consequently, Mr. Baranowski's conclusion that Verizon enjoys an over-recovery of its switching costs in New Jersey is simply a function of the fact that Mr. Baranowski's analysis begins by understating Verizon's total switching investment.

AT&T makes much of the fact that the arguments in Verizon's June 7, 2002 were not attested to by an expert. But, the arguments contained in Verizon's June 7, 2002 ex parte are the same arguments Verizon made in its June 18, 2002 letter to the New Jersey Board in response to a Mr. Baranowski affidavit in support of AT&T's pending Petition for Reconsideration. This letter was accompanied by an affidavit from Verizon cost expert Marsha Prosini and is attached hereto as Attachment A.

The attachment contains proprietary information and has been redacted. A confidential version is also being filed with the attachment. The twenty-page limit does not apply as set forth in DA 02-718. If you have any questions, please do not hesitate to call me.

Sincerely,

Clint E. Odom/ATD

cc: A. Johns
S. Pie