REDACTED VERSION
FOR PUBLIC INSPECTION

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of

Application by Verizon New England Inc., Verizon Delaware Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks, Inc., and Verizon Select Services Inc., for Authorization To Provide In-Region, InterLATA Services in New Hampshire and Delaware	)	WC Docket No. 02-157

SUPPLEMENTAL DECLARATION OF MICHAEL LIEBERMAN
ON BEHALF OF AT&T CORP.

1. My name is Michael R. Lieberman. I am the same Michael Lieberman who sponsored a declaration in support of AT&T initial comments in this proceeding on July 17, 2002, and co-sponsored a declaration with Brian F. Pitkin in support of AT&T's reply comments on August 12, 2002. The purpose of this supplemental declaration is to explain why Verizon's UNE prices in Delaware, even after the reduction in the price of unbundled switching proposed by Verizon on August 30, would still preclude competitive entry in Delaware. As I show below, the gross margin available to new entrants in Delaware that use a margin-maximizing combination of UNE and resale entry is still only **[BEGIN AT&T PROPRIETARY]** ■■■■ **[END AT&T PROPRIETARY]** on a state-wide basis. This margin still is not remotely

sufficient to cover an efficient entrant's internal costs, which (as demonstrated in the July 17 declaration of AT&T witness Stephen Bickley) exceed $10.00 per line per month.

2. If Verizon's August 30 rate reduction takes effect, Delaware monthly per line

Table 1

Loop and Port Cost

	Delaware	
	Loop	Port
Zone 1	$ 10.07	$ 2.23
Zone 2	$ 13.13	$ 2.23
Zone 3	$ 16.67	$ 2.23
Statewide Average	$ 12.22	$ 2.23

Note: The weights used to derive the state-wide averages from the zone data are based on Residential Lines only.

rates for non-usage sensitive switching and loop elements (UNE loops and UNE switch ports) will have the values summarized in Table 1, above. *See also* Exhibit A, page 1 (showing the sources for this data).

3. Most other network elements required for local service are charged on a usage basis. Therefore, it is necessary to combine published per minute rates with usage volumes to estimate the cost of the other network elements. As noted earlier, Delaware-specific local usage volumes are available from Verizon's annual "dial equipment minutes" ("DEMs") submissions to NECA (the same data that is used in the Commission's Synthesis Cost Model). Because local DEMs have not yet been reported for 2001, my analysis uses the 2000 data to split the intrastate minutes between toll and local minutes. This calculation of "usage minutes" retains the non-

conversation time that is reflected in DEMs and is included in the cost of UNEs. My analysis assumes that there is a netting of charges for traffic terminating to a new entrant's UNE-P customer and thus originating local traffic and its associated termination is relevant for local usage on these lines. For the toll-related minutes of use ("MOU") categories, my analysis reflects the TNS Telecoms (formerly PNR) residential volumes per line from Bill Harvesting market research. These toll volumes and the calculations for local usage are detailed in Exhibit A (attached).

4. For each category of usage (*e.g.,* local, intraLATA toll, etc.), particular network architecture assumptions must be applied. Local usage must be apportioned to reflect the fact that some local calls are "intra-switch" calls (where the calling and called parties are served by the same switch) and some are "inter-switch" calls. Inter-switch calls also require assumptions regarding the portion of these calls that are routed directly between the two switches and those that are routed via a tandem. I have assumed that approximately 2% of local inter-switch minutes and 20% of intraLATA toll and interLATA minutes are tandem-routed. Approximately 35% of local calls in Verizon's network are assumed to be intra-switch calls.[1] *See* Exhibit A, page 6 (attached).

5. The calculated intra-switch, inter-switch, and tandem conversation minutes (or, in the case of toll calls, the toll direct and toll tandem conversation minutes) are then multiplied by

[1] Although the Commission's Synthesis Model recognizes that about 50 percent of local calls would be intraswitch calls in an efficiently designed network with properly sized switches, the relevant figure for a new entrant contemplating entry is what it will actually pay Verizon. Because Verizon's existing network is not efficiently designed and sometimes uses two switches where one would be more efficient, the 35 percent figure must be used to determine expected connectivity costs that will be billed by Verizon to the competing carrier.

the corresponding Verizon usage charges in Delaware to arrive at expected monthly usage costs per line. *See* Exhibit A, page 6. The total monthly usage charges per line in each zone are summarized in Table 2, below. *See also* Exhibit A, page 1 (attached).[2]

Table 2

Usage Cost

	Delaware	
Zone 1	$	3.55
Zone 2	$	3.55
Zone 3	$	3.55
Statewide Average	$	3.55

6. New entrants must also pay a daily usage feed ("DUF") charge. Those costs are summarized in Table 3 (below). *See also* Exhibit A, page 1.

[2] UNE purchasers must pay switching, transport and related usage charges for access-related usage whether a call is originated or terminated by their customer, and the assumption is that the customer receives as much access traffic as he or she originates. For intraLATA toll traffic, every originating minute is associated with a terminating minute to another customer (for simplicity, this is assumed to be served by the same ILEC) in the ILEC's service area.

Table 3

Daily Usage Feed

	Delaware	
Zone 1	$	0.09
Zone 2	$	0.09
Zone 3	$	0.09
Statewide Average	$	0.09

7. The total recurring monthly connectivity costs (loop plus usage plus DUF) incurred by new entrants to serve a customer in Delaware are summarized in Table 4 below. *See also* Exhibit A, page 1. The statewide average cost is equal to the monthly connectivity costs for the three zones, weighted by the relative number of estimated *residence* lines in each zone served by Verizon.

Table 4

Platform Recurring Cost

	Delaware	
Zone 1	$	15.94
Zone 2	$	19.00
Zone 3	$	22.54
Statewide Average	$	18.10

8. In addition to the recurring monthly connectivity costs, new entrants must also pay Verizon for one-time, non-recurring costs associated with acquiring that customer (such as set-up costs). For the purpose of this analysis, I have assumed that those up-front costs will be recovered over a period of 30 months to reflect a 2½ year customer life. Those costs are summarized in Table 5 below. *See also* Exhibit A, page 1.

Table 5

Non-Recurring Costs

	Delaware	
Zone 1	$	0.54
Zone 2	$	0.54
Zone 3	$	0.54
Statewide Average	$	0.54

9. **Revenues.** The Verizon local service rates that UNE-Platform-based providers can obtain for their services are effectively capped by the retail rates charged by Verizon. If new entrants attempt to charge higher rates than Verizon, these new entrants would be unable to attract customers.[3] Verizon local service rates are readily available and verifiable from many

[3] In fact, this assumption probably overstates margins because if competitive entry of any sizeable scale were to occur, Verizon likely would decrease its retail rates in an effort to respond to such competition. While such reductions are the essence of competition – and obviously advantageous to consumers in the short run – those reductions also increase the risk faced by the new entrant. Thus, it is critical that UNE rates be based on properly calculated TELRIC, *i.e.*, the forward-looking costs of an efficiently configured and operated competitor. Proper pricing of UNEs ensures that consumers receive the full benefit of competitive pricing over the long run by maximizing the likelihood that competitors are not squeezed out of the market.

sources, including CCMI. The mapping of the local rates to wire centers and then mapping the wire centers to UNE zones determines the basic revenue by zone.

10. There are, of course, other revenue opportunities available to new entrants. A local service provider can expect to sell vertical features to many customers. I used data taken from the TNS Telecoms Bill Harvest market research product updated through the first quarter of 2002, to determine the average vertical feature revenue per month a new entrant can expect to receive in Delaware. However, my analysis does not include any allowance for a federal subscriber line charge because there is no universal service funding available in Delaware.

11. In addition, a UNE-Platform-based provider earns access revenues for originating and terminating long-distance calls. This revenue may either be explicit (when a CLEC charges an independent IXC), or implicit (if the CLEC acts as its own IXC). To estimate these access revenues it is necessary to multiply expected toll minutes (derived from the TNS Telecoms Bill Harvest toll MOU data) by the relevant access charges that AT&T can replace with UNEs.[4] My calculations of amounts for estimated monthly per line access charge revenues are set forth in Exhibit A.

12. I also sought to include the amount of portable federal and state universal service fund revenues that would be available to carriers in each state. However, there were no such revenues available to potential entrants in Delaware.

[4] Dedicated transport access charges are not included because AT&T does not avoid these access charges through its acquisition of a UNE-P local customer.

13. In addition, I have computed the intraLATA and interLATA toll contributions that may be available to new entrants. This information is confidential, and is included in Table 6, which is confidential.

14. Table 6 summarizes the total revenues for Delaware that AT&T (or another entrant) could expect to receive from residential UNE-based service. This table includes revenue from vertical features, federal subscriber line charges, access charges, and intraLATA and interLATA toll revenue. **[BEGIN AT&T PROPRIETARY]**

Table 6

Total Revenues (for a New Entrant)
from Residential UNE-based Services

	Delaware
Zone	$
Zone	$
Zone	$
Statewide	$

[END AT&T PROPRIETARY]

15. **Margin.** There are many standard financial measures for assessing the profitability of investing (or continuing) in a line of business. The margin per line can be computed by comparing a carrier's expected costs with its expected revenues for each line. A "gross" UNE-P margin can be determined by subtracting expected direct connectivity expenses (*e.g.*, cost of goods sold) from expected revenues. A "net" (or operating) UNE-P margin can

only be determined by subtracting all expected operating expenses (*e.g.*, marketing, customer service, billing, order processing, and other operating activities) from expected revenues.

16. Also, as noted above, my analysis accounts for the possibility that a new entrant may enter a state using a combination of UNE-based and resale services by assuming, on a zone-by-zone basis, that a CLEC will adopt a UNE-based approach where that produces the highest margin, and a resale-based approach where that produces the highest margin.

17. Table 7 (below) summarizes the residential *gross* margins (for this margin-maximizing amalgam of UNE-based/Resale-based local entry) that are available to new entrants in Delaware. *See* Exhibit A, page 1. **[BEGIN AT&T PROPRIETARY]**

Table7

Residential Gross Margin

	Delaware
Zone	$
Zone	$
Zone	$
Statewide	$

[END AT&T PROPRIETARY]

18. To compute a potential entrant's *net margins*, it is necessary to account for the potential entrant's internal costs of entry. As explained in the declaration of Stephen Bickley, an efficient entrant's internal costs (*e.g.*, customer care, uncollectibles, and general and administrative costs) exceed $10.00 per line per month in Delaware. *See* Bickley Decl. (July 17, 2002) ¶¶ 2-11.

19. As shown in the above table, on a statewide basis, Delaware does not generate margins sufficient to recover a new entrant's internal costs of $10.00 or more of providing local services, even when interLATA and IntraLATA toll contributions are included in this analysis. Thus, there is no question that Verizon's Delaware UNE rates would still create a price squeeze that precludes competitive entry, even including the reduction in the price of switching proposed by Verizon on August 30.

20. One reason that margins available to potential entrants in Delaware are so poor is the inflated level of Verizon's nonrecurring costs in that state. As discussed above, the amortized value of those NRCs is approximately $0.54 per year per line. This amount is vastly overstated: the comparable figure for New York, the benchmark Verizon state, is only *ten cents*. *See* Exhibit B.

CONCLUSION

21. Based on my analysis, there is no question that Verizon's Delaware UNE rates continue to effect a price squeeze and thereby preclude competitive entry from CLECs such as AT&T in Delaware.

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.

/s/ Michael Lieberman

Michael Lieberman

Executed on: September 10, 2002

EXHIBIT A

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Exhibit B ---------->

Comparison of NRC Rates

	DE	NY
New Install	$ 138.12	$ 10.67
Migration	$ 2.67	$ 2.15
% New Install	10%	10%
% Migration	90%	90%
Customer life	30	30
Amortization of NRC	$ 0.54	$ 0.10