

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of)
)
Verizon Telephone Companies) WC Docket No. 02-237
)
Section 63.71 Application to Discontinue)
Expanded Interconnection Service Through)
Physical Collocation)
)

REPLY COMMENTS OF VERIZON

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VERIZON REPLY

I. Introduction and Summary

So much confusion has been generated in the comments filed in response to Verizon's application that it is important to make certain points clear at the outset. Verizon is *not* proposing to discontinue any existing physical collocation arrangements established under the federal expanded interconnection tariff or to force conversion of those arrangements to state arrangements or to virtual collocation. Verizon is *not* proposing to discontinue offering cross-connects *between* collocation arrangements established under either the federal or state tariffs (which section 51.323(h) of the Commission's rules requires regardless of whether a carrier offers physical collocation in its federal tariffs). Verizon is *not* requiring carriers to establish separate collocation arrangements to connect to Verizon's state and interstate services. And Verizon is not proposing that any collocator "pay twice" for anything. Verizon is simply exercising its right, as provided in the Commission's rules, to offer only new virtual collocation

arrangements in its federal expanded interconnection tariffs, while allowing carriers to obtain new physical collocation arrangements through its state offerings.

Under its section 214 application, Verizon will not discontinue *any* existing physical collocation arrangements. It will simply stop providing *new* physical collocation arrangements and *new* supporting services to federal arrangements in its federal tariffs, while continuing to provide both through its intrastate offerings. This merely puts Verizon in the same position as most of the other former Bell operating companies, who offer physical collocation only in their state tariffs and section 251 interconnection agreements. Ironically, this includes Qwest, which argues, without any sense of its own inconsistency, that Verizon should not be allowed to do what Qwest has been doing all along (and continues to do today). A grant of Verizon's petition will ensure that, going forward, new physical collocation arrangements in a given state will be provided under a single set of rates, terms and conditions, greatly simplifying the administration of these arrangements and eliminating the potential for arbitrage. And, for the embedded base of customers, Verizon has voluntarily proposed to "grandfather" the space-related charges for existing physical collocation arrangements under the federal tariffs rather than require customers to convert those arrangements to the state tariffs (while still permitting customers to convert these arrangements to the state tariffs or interconnection agreements if they so choose).

Although the Commission's orders make it clear that a section 214 applicant need not show that the substitute services will not cost more, the fact here is that they will cost less. In response to the commenters' claims that their existing collocation charges will increase, Verizon examined each carrier's existing federal arrangements and determined that they will pay less than they do today, some saving hundreds of thousands of dollars per year.

The commenters dispute Verizon's argument that discontinuance of interstate physical collocation is necessary to prevent arbitrage between the federal and state tariffs, but their own comments show that they "tariff shop" rather than order arrangements based on whether they will be used for intrastate or interstate purposes. It simply is not feasible for Verizon to continue to maintain two different tariffs for essentially the same service. By approving this section 214 application, the Commission would permit Verizon to harmonize its state and interstate offerings while completely fulfilling its obligations under the Commission's expanded interconnection rules and under the collocation requirements of section 251(c)(6) of the Act.

II. No Customer Will Be Forced To Discontinue An Existing Collocation Arrangement Or Convert It To A State Arrangement.

It is evident that many of the parties either misunderstand or are purposely mischaracterizing Verizon's section 214 application. Contrary to their claims, Verizon has gone out of its way to ensure that no existing collocators will be forced to discontinue its existing physical collocation arrangements under the federal expanded interconnection tariffs or to convert those arrangements to either virtual collocation in the federal jurisdiction or to physical or virtual collocation in the state jurisdiction. Verizon is giving existing customers the *option* to convert their arrangements, and it is offering substantial credits to customers who choose to do so in the New England states.

Verizon's section 214 application made it perfectly clear that Verizon will allow customers with existing physical expanded interconnection arrangements in service or on order as of the effective date of the discontinuance tariff filing the option either to continue to be billed for those arrangements under the federal tariffs or to convert those arrangements to the state

tariffs or interconnection agreements. *See* Verizon Petition, 4; Illustrative Tariff, §§ 19.1, 19.4(R). Nonetheless, some commenters claim that Verizon will force them to discontinue these arrangements. For example, Sprint speaks (at 10) of “forced migration” to state collocation tariffs and of being “pushed” into replacing existing expanded interconnection arrangements with state arrangements. Both AT&T and Sprint claim that Verizon would force them to convert their federal expanded interconnection arrangements in New York to state arrangements, which they claim would cause “double recovery” of space preparation costs due to the fact that the federal tariff recovers these costs through up-front nonrecurring charges while the New York state tariff recovers them in the monthly recurring charges. *See* AT&T, 13; Sprint, 6. These claims are puzzling to say the least. Verizon’s petition clearly stated *six times* (at 1, 2, 3, 4, 6, 8) that Verizon would give existing customers the *option* of retaining their federal expanded interconnection arrangements. Moreover, Verizon did this, in part, to address the specific situation in New York, which has a different rate structure for space preparation charges than is used in the federal tariff and in the other states. *See* Verizon Petition, 7. Verizon wanted to avoid making collocators pay the higher New York recurring rates after they had already paid for space preparation costs under the federal tariff. In other states, the monthly recurring charges are similar in both the federal and state tariffs. Nonetheless, Verizon did not propose to force any carrier to convert federal arrangements to state arrangements in those states either. There should be no doubt that Verizon will not force any collocator to convert a physical expanded interconnection arrangement that is in service or on order at the time of the tariff filing to a state arrangement.

Similarly, the commenters are completely wrong in arguing that Verizon plans to discontinue providing cross-connects as an interstate service between collocation arrangements

to the extent required by the Commission's *Fourth Report and Order* and *Order on Reconsideration* in the advanced services proceeding. *See Deployment of Wireline Services Offering Advanced Telecommunications Capability*, Fourth Report and Order, 16 FCC Rcd 15435, ¶¶ 62-78 (2001) ("*Fourth Report and Order*"); Order on Reconsideration of Fourth Report and Order, and Fifth Report and Order, FCC 02-234, ¶ 9 (rel. Sept. 4, 2002) ("*Order on Reconsideration*"). The commenters cite Verizon's statement that it will discontinue providing new cross-connects under the federal tariff and instead provide them under the state tariffs and interconnection agreements. *See, e.g.*, Allegiance, 8-9; AT&T, 14-15. The commenters are confusing the "cross-connects" that Verizon installs between the collocation arrangements and the Verizon distribution facilities that provide connections to Verizon's access services with the "cross-connects" between collocation arrangements of two different collocators. As the illustrative tariff makes clear, Verizon is proposing to discontinue providing new cross-connects through the federal tariffs only between physical collocation arrangements and Verizon's own interstate services. *See, e.g.*, Illustrative Tariff FCC No. 11, Sections 6.1.3(A), 7.1.2(A). The orders cited by the commenters only require the incumbent local exchange carriers to offer cross-connects between collocation arrangements of different carriers. *See, e.g.*, *Order on Reconsideration*, ¶ 9 & fn. 29 ("This requirement applies only to cross-connects between collocated carriers. . . . we do not address in this Order cross-connects between a collocated carrier and an incumbent LEC"); *see also* 47 C.F.R. § 51.323(h) ("an incumbent LEC shall permit a collocating telecommunications carrier to interconnect its network with that of another collocating telecommunications carrier."). Verizon implemented that requirement through its Dedicated Transit Service, which provides cross-connects between collocation arrangements as a section 201 service. *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 11, Section 27,

and Tariff FCC No. 1, Section 18, Interconnection Between Collocated Spaces. Verizon has not proposed to make any changes in that service whatsoever.

Verizon also has not proposed, as Conversent claims (at 9), that collocators pay again for cross-connects that they have already purchased under the federal tariffs. Under the nonrecurring rate structure that Verizon introduced into its federal expanded interconnection tariffs for New York, Connecticut, and the Verizon South states, customers pay nonrecurring charges that recover the capital costs of installing cross-connects between Verizon's distribution facilities and the collocation arrangements, and they pay nominal recurring charges only for recovery of maintenance and administrative support for those cross-connects. *See, e.g.*, Verizon Telephone Companies FCC No. 1, Transmittal No. 59 (filed June 21, 2001). When Verizon implemented this rate structure, it began billing the new, lower recurring charges for all cross-connects that had already been installed to the collocation arrangement and that were in service. Verizon applied both the nonrecurring charges and the recurring charges for cross-connects that were not in service at that time that the collocator wanted to retain for future activation. Accordingly, since Verizon considers the capital costs of these cross-connects "paid for," Verizon's section 214 application proposed to continue billing these cross-connects under the federal tariff after Verizon discontinued providing physical collocation as a federal service. *See* Verizon Petition, 5. However, again Verizon proposed that customers would have the *option* to convert the recurring charges for these cross-connects to the state recurring rates. *See id.*, 6.

Since Verizon has already implemented a similar rate structure for cross-connects in its state tariffs for New York, Connecticut, and the identical rate structure in the Verizon South states, a carrier converting to the recurring state cross-connect rates would not pay again for the

nonrecurring costs of installing the cross-connects in those states. Conversent argues (at 9-10) that if Verizon established the nonrecurring rate structure in New England, a customer that converted to the state rates would pay again for the costs of cross-connects that it already paid for in the nonrecurring charges for federal cross-connects. This is incorrect – Verizon has not established the nonrecurring rate structure in its federal tariffs for New England. The federal tariff section cited by Conversent applies only in New York and Connecticut. *See* Verizon Telephone Companies Tariff FCC No. 11, Section 31.28.1(C)(2) (note #). In both its federal and state tariffs for New England, Verizon currently begins billing carriers for cross-connects only after they are activated by the collocator. If Verizon implemented the nonrecurring rate structure for the New England states, it would follow the same procedures it did in introducing this structure in the other states to make sure that customers are not disadvantaged with the conversion to a nonrecurring/recurring rate structure.

III. Collocators Will Have An Opportunity To Reduce Their Costs When Verizon Discontinues Physical Collocation In Its Federal Tariffs.

The commenters make wildly extravagant, and almost entirely unsubstantiated, claims that the costs for their existing federal collocation arrangements will increase dramatically if the Commission grants Verizon's application. *See, e.g.*, Covad, 8-9; NAS, 7; Qwest, 5; Joint Commenters, 10; AT&T, 8. In fact, as is shown below, their costs actually are likely to go *down* if they take advantage of the opportunity offered by the application of Verizon's state rates to restate their power requirements to the total load amps ordered in place of the current federal charges, which are based on the amount of fused power that they have ordered.

As an initial matter, of course, even if the commenters were correct that their costs for collocation would go up if Verizon discontinued offering physical collocation in its federal tariffs, that would not be a basis for rejecting Verizon's petition. The Commission's orders make it clear that a section 214 applicant need not show that the services that are a "reasonable substitute" will not cost more than the services being discontinued. *See, e.g., AT&T, Application for Authority Pursuant to Section 214 of the Communications Act to Discontinue the Offering of Type 400 Switching System Service*, 63 F.C.C. 2d 371, ¶ 4 (1977). The Commission has stated that "the mere fact that an alternative service costs more than the discontinued service, or requires customers to purchase additional equipment, does not render the alternative service nonviable as a substitute." *AT&T Corp., Application for Authority Under Section 214 of the Communications Act, as amended, to Discontinue the Offering of High Seas Service and to Close its Three Radio Coast Stations*, 14 FCC Rcd 13225, ¶ 10 (1999). The Commission has explained that in a section 214 application to discontinue a service, the issue is not whether the alternative service costs more, but whether the increase is so high that customers cannot afford to purchase it. *See id., order on reconsideration*, 16 FCC Rcd 13636, ¶ 15 (2001).

Verizon easily meets that standard here. The rates for physical collocation in the state tariffs clearly are "affordable," as evidenced by the fact that most collocators purchase their arrangements out of both the federal and state tariffs. For instance, Covad states that it uses the state tariffs for about 60 percent of its arrangements. *See Covad*, 2. Verizon's own records show that collocators in general use the state tariffs for about 40 percent of their collocation arrangements. Collocators have cited a variety of factors that affect their decision to choose between the federal and state tariffs, including relative price levels for space vs. power, administrative convenience, or personal preference, but none has shown that the state tariff rates

are so high as to make it impractical for them to provide service. Indeed, since state rates are based on the Commission's TELRIC pricing standard, it is inconceivable that carriers could show that state collocation arrangements are not reasonable substitutes. *See* 47 C.F.R. §§ 51.503, 51.505.

In any event, the allegation that the collocators' costs will go up if the federal rates are no longer available is incorrect as a factual matter. As noted by Conversent (at 6-7), Verizon bills for DC power in its federal tariffs based on the number of amps of fused power ordered by the collocators to each of the "A" and "B" feeds, which is higher than the number of "load" amps ordered. Verizon has modified its tariffs in the state jurisdictions to apply the per-amp rates for DC power based on load amps. For this reason, although the per-amp rates in the federal tariffs are lower than the per-amp rates in the state tariffs, a collocator's charges for power for federal arrangements can actually go down when power charges under the federal tariffs are replaced with charges under the state tariffs.

To prove that this is so, Verizon has estimated the difference between current DC power charges paid by the commenters in this proceeding under the federal tariff and the charges that they would pay if billing were converted to the state rates. Based on the comments submitted by the collocators in this proceeding and in numerous other federal and state proceedings and on how the collocators order power, Verizon determined that the average collocator could reduce the number of amps to which per-amp charges are applied by two thirds by converting to the state rate structure, which bills on a load basis. For instance, a collocator that ordered 40 load amps currently would be fused at 60 amps on the "A" feed at the current standard of fusing at 1.5 times load. In addition, as noted by Conversent (at 7), the collocator typically will be fused at 60 amps

on the “B” feed to provide a continuous, backup power flow if the fuse on the “A” feed trips. This produces a total of 120 fused amps to which the federal charges would apply. However, the amount of “load” amps would be only 40, since each feed must be capable of handling the entire load at a level below the capacity of the fuse if one of the feeds should fail. For this reason, collocators have argued that billing based on load rather than fused capacity would allow them to reduce their power charges by two thirds.¹ Verizon’s experience with previous collocator requests to restate power requirements when converting to billing based on load amps shows this to be a realistic example of the reduction that can be achieved.²

Assuming a two-thirds reduction in the number of amps to which the power charges would apply, almost all of the commenters in this proceeding would enjoy substantial reductions in their charges for DC power. Although Conversent’s total charges for power to its federal collocation arrangements would increase by a modest amount – ****begin proprietary****

¹ *See, e.g.*, Conversent Petition to Reject, Suspend and Investigate, *Verizon Tariff Transmittal Nos. 1373, 1374*, at 8-9 (filed Apr. 17, 2001) (“Conversent’s practice was to order 40 amps for the A-feed and 40 amps for the B-feed. Even so, under no circumstances did (or does) Conversent’s equipment draw more than 40 amps. . . . Verizon charged Conversent 120 amps per fuse panel, even though Conversent only used 40 amps per panel”); Redacted Comments of Covad, *Application of Verizon New England, et. al for Authorization to Provide In-Region, InterLATA Services in Massachusetts*, CC Docket No. 01-9, at 36 (filed Feb. 8, 2001) (“Although Covad requests 40 ‘drained’ amps when setting up its collocation arrangements in Verizon central offices, Verizon fuses power supply at 1.5 times the drained amps (or, in this case, 60 amps). In addition to fusing, Verizon also provides a redundant power feed in case the primary feed fails. . . . Covad nonetheless does not draw more than 40 amps of power at any time”). NAS (at 7) admits that the second feed is redundant, meaning that it is used only as a backup and does not normally draw power.

² The state tariffs would allow the customer to order DC power based on a 2.5 ratio of fuse to load. In this example, the customer could restate its power requirements at 50 fuse amps on each feed and 20 load amps on each feed, which would be sufficient to allow the entire 40 amp load to be carried on one feed if the other failed. Verizon has already sent notices to its collocation customers requesting that they restate their power requirements in anticipation of the Commission’s approval of the section 214 application.

****end proprietary**** per month – this minor increase would be more than offset by the credits that Conversent would receive by converting its federal arrangements in New England to state collocation arrangements. Verizon estimates that Conversent could obtain credits of ****begin proprietary**** ****end proprietary**** calculated on a monthly basis.³ Consequently, if Verizon’s section 214 application were approved, Conversent could reduce its annual collocation costs by approximately ****begin proprietary**** ****end proprietary**** per year, a ****begin proprietary**** ****end proprietary**** percent reduction.

The other commenters could obtain even greater savings on a regional basis. *See* Attachment. For instance, Verizon estimates that Covad could save ****begin proprietary**** ****end proprietary**** per year, NAS could save ****begin proprietary**** ****end proprietary****, Qwest could save ****begin proprietary**** ****end proprietary****, and AT&T could save ****begin proprietary**** ****end proprietary****, including the reduction in power charges and the New England credit. In fact, *every* commenter could save money if the Commission approved Verizon’s application. *See id.*

Qwest complains (at 4-5) that Verizon’s state rates for power are excessive. This is the pot calling the kettle black – Qwest’s rates for DC power to collocation arrangements exceed almost all of Verizon’s state rates.⁴ For example, Qwest’s rate for power in Colorado is \$16.20 per load amp, plus a substantial nonrecurring charge for installing the power cable to the

³ This is based on the annual credit specified in Illustrative Tariff FCC No. 11, Section 31.28.1(E), divided by twelve, minus the difference in monthly space rental charges between the federal and state tariffs.

⁴ *See* Bell Atlantic Telephone Companies, CC Docket No. 01-140, Verizon Direct Case, Exhibit 8 (filed July 17, 2001).

arrangement (for which Verizon charges nothing).⁵ For a 40 load amp arrangement with two feeds fused at a total of 120 amps and 175 feet of cable, the nonrecurring charge is \$18,242. *See id.*, Section 10. In addition, there is a recurring charge for these cables of \$56 per month for a 60 amp fused capacity.⁶ Qwest's combined non-recurring and monthly recurring rates over a 5-year period would be the equivalent of \$25.20 per load amp.

Sprint (at 4-5) argues that its recurring monthly charges for collocation space will increase by 20 percent, because state monthly charges are higher in some states than the federal charges. Sprint based its calculations on the assumption that it would be forced to convert its federal arrangements to state arrangements. However, as Verizon showed above, it will not require any customer to convert an existing federal arrangement to a state arrangement. In addition, Sprint does not take into account the fact that any carrier choosing to convert to the state rates in New England would receive Verizon's proposed credit of \$3,480 per year for a 100 square foot arrangement, more than the amount of the monthly recurring space rental charges in the state tariffs. *See* Illustrative Tariff FCC No. 11, Section 31.28.1(E). For new arrangements, Sprint's simple comparison of federal and state monthly recurring charges does not take into account the fact that the higher monthly charges in New York and Massachusetts are offset by the lower initial nonrecurring charges in the state tariffs. For example, New York has only initial

⁵ *See* Qwest Colorado PUC Tariff No. 22, Section 10. Qwest recently replaced the Colorado tariff with a statement of generally available terms and conditions ("SGAT"). Verizon has not analyzed if there is a difference in the SGAT rates compared to the previous tariff. However, its tariffed rates show what it has been charging for power for several years.

⁶ The DC power cables are only available in 20, 40 or 60 amp fused increments. Therefore, to achieve an equivalent 50 amp fused capacity, as for Verizon, the collocater would need a 60 amp fuse for Qwest.

application, engineering and administration fees, because space preparation costs are recovered through the recurring monthly charges.

NAS claims (at 8) that its current recurring charges for space would increase by 50 percent if it took the option of converting to the state tariffs. Its analysis, and the affidavit upon which it is based, are seriously flawed. First, the \$2.04 per square foot rate that NAS uses for the federal example, and that it assumes for all of its 298 collocation arrangements, applies only in the New England area. This rate is well below the rates in Verizon's federal tariffs for many other areas.⁷ Second, NAS compares the federal and state recurring floor space charges only in Massachusetts, which represents just ****begin proprietary**** ****end proprietary**** percent of NAS' federal collocation arrangements in Verizon East. Third, NAS compared the \$2.04 rate to the \$3.33 per square foot rate in the Massachusetts state tariff for the "metro" density zone, which applies to only ****begin proprietary**** ****end proprietary**** percent of NAS' federal collocation arrangements in Massachusetts (and which does not even apply to the two central offices it uses as examples in the attached affidavit). Therefore, the simple comparison of these two rates does not provide any support for its claim that its costs will go up by 50 percent across the board.

Furthermore, NAS ignores the fact that it would obtain Verizon's proposed annual credit if it exercised its option to convert to the state rates in New England. In the attachment hereto, Verizon has looked at all of NAS' federal arrangements in the New England area and has estimated that NAS' total charges for floor space would go up by only about ****begin**

⁷ *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Section 19.7.2, Tariff FCC No. 11, Section 31.28.1(B)(2).

proprietary **end proprietary**** per month, or by ****begin proprietary** **end proprietary**** percent more than its current charges, if it converted its existing federal arrangements to the state tariffs in New England. Although NAS would not be required to make such a conversion, it would be foolish not to – NAS would also get Verizon’s proposed credit, which would equal ****begin proprietary** **end proprietary**** per month for 9 ½ years. The credit would exceed the increase in the space rental charges by ****begin proprietary** **end proprietary**** per year. In fact, the credit would exceed the *total* space rental charges under the state tariff by ****begin proprietary** **end proprietary**** per year, meaning that NAS would get *free* collocation space for existing arrangements in New England for the next 9 ½ years. Of course, no collocator would be forced to convert its arrangement to the state tariff, but it is unlikely that any carrier would give up the opportunity to obtain such savings.

NAS also claims (at 7) that its charges for DC power would go up by \$75,000 per month if Verizon’s application were approved. This is also incorrect. The affidavit attached to NAS’ comments shows that NAS assumed that its “load” amps are two-thirds of the “fused” amps in a typical collocation arrangement. *See* NAS, Affidavit, 3. For example, in an arrangement with two feeds fused at 60 amps each (total 120 fused amps) NAS indicates that it would have 45 amps of load on each feed (total 90 amps load). This is inconsistent with NAS statement (at 7) that it requires two leads in each arrangement to provide redundancy (as is the normal practice for other collocators). If NAS had 90 amps of load in this configuration and the fuse on one of the feeds tripped, the load would shift to the other lead and cause it to trip as well. To obtain redundancy, the load on both feeds normally is not so high as to exceed the fuse on either single feed. Normally, with a 40 amp load, a collocator would use two feeds fused at 60 amps each, so

that either feed could carry the entire load if both failed. Verizon’s analysis of the impact of converting to the state rates is consistent with this assumption, which, as noted above, the collocators have also relied upon in other proceedings. Using this assumption, Verizon estimates that NAS would actually save almost ****begin proprietary**** ****end proprietary**** per year if it converted its existing arrangements to the state power rates. *See* Attachment.

Despite the generosity of Verizon’s New England credit proposal, some commenters criticize it. AT&T argues (at 14) that Verizon should have based the credits on a 30-year amortization schedule, citing the 30-year amortization schedule in Verizon’s FCC No. 1 tariff for re-use of a wire mesh enclosure (i.e., “collocation cage”). However, that tariff only applies in the Verizon South states, while the credit applies only in the Verizon New England states, and the FCC No. 1 tariff does not use 30 years for amortization of any space preparation costs other than the wire mesh enclosure (cage). While a building may last for 30 years, space preparation costs have nothing to do with the life expectancy of the building. The space within the confines of a building constantly changes for both Verizon’s own use as well as that of the collocators. For example, in Washington, DC, the midtown and downtown central offices have multiple collocation rooms. Each of the original collocation rooms was expanded five times before space was allocated in separate areas of the central office. To make space for collocation, Verizon has reconfigured administrative space, removed obsolete equipment, and made other modifications as to how space was previously used. Moreover, the collocators’ plans change over relatively short periods as well. Verizon has received numerous applications by collocators to terminate or consolidate collocation arrangements, which is likely to result in reconfiguration of the returned space to different uses over the next few years. For example, in planning a recent building addition for the Waldorf, MD central office, Verizon dedicated approximately 40 percent of the

additional space to collocation based on the collocators' applications. However, since then, eleven collocators, including four of the commenters in this proceeding, terminated collocation arrangements in that building.⁸ Clearly, space is likely to be reconfigured many times in the life of a building.

For these reasons, it is reasonable for Verizon to use the 12-year depreciation life for transmission equipment to calculate the New England credit. The useful life of this equipment is the best measure of the economic life of the collocation arrangement. In calculating the credit, Verizon subtracted the average 2 ½ year life of the existing collocation arrangements to determine the average remaining useful life of those arrangements. This is far more appropriate than assuming that the existing collocation arrangements will last the life of the building.

Some commenters argue that Verizon should extend the credit mechanism to federal arrangements in the other Verizon East states. *See, e.g.*, Sprint, 6-7; Allegiance, 12. However, the credit proposal is not a section 214 requirement, and Verizon made it only as an accommodation due to the relatively large differences between the federal and state space preparation charges in New England. A similar credit would not be warranted in the Verizon South states, because, until recently, the space preparation charges in the federal and state tariffs were the same. In late 2000, Verizon entered a settlement agreement with the collocators to restructure the space preparation charge in the Verizon South state tariffs to reduce the charges

⁸ Prior to completion of the initial construction phase of the collocation area, the number of applications exceeded the initial amount of space allocated. Verizon requested that one carrier reduce the 400 square feet of space so that Verizon could accommodate another application. The collocator refused and Verizon expanded the collocation area two additional times. This collocator recently terminated all 400 square feet of space and never had any active service since completion of the space in the fall of 1999.

for the initial 100 square feet, making smaller arrangements less expensive than in the federal tariffs but making larger arrangements more expensive. This settlement agreement was implemented in the state tariffs over a two-year period, with the first state approving it in January 2001 and the last state (Virginia) approving it in late June 2002. The number of collocation arrangements that Verizon received declined significantly starting in 2001, and about half of those arrangements were terminated. Consequently, the vast majority of existing federal collocation arrangements in the Verizon South states were established under the same rate structure that existed in the state tariffs prior to adoption of the settlement rates. In New York, the credit proposal would not make any sense, because any collocator that purchased its arrangement under the federal tariff avoided the substantially higher monthly recurring rates that are used in the state tariff to recover the space preparation costs. For these reasons, it is reasonable for Verizon to propose the credit only for the New England states.

Some commenters also argue that Verizon should give them the credit in a lump sum, rather than in annual amounts over time. *See, e.g.*, Allegiance, 12; Sprint, 7. However, Verizon is under no obligation to provide a credit at all. The proposal is a reasonable method of ameliorating the effect of the section 214 discontinuance on collocators who might have made different choices in the past if they had foreseen that Verizon would discontinue providing physical collocation in the federal tariffs. The amortization schedule makes it financially feasible for Verizon to offer a credit and it gives the collocators an incentive to convert the arrangements to the state tariffs rather than to continue under the grandfathered federal rates. This is a reasonable proposal for all parties concerned.

Finally, some commenters argue that Verizon should calculate customer-specific credits for each collocation arrangement that is converted to a state arrangement rather than establish an average rate. *See, e.g.*, *Conversent*, 11. This is not practical. In order to develop customer-specific refunds, Verizon would need to research each collocation arrangement and determine when it was ordered and what rates were in effect to determine the amount that the customer originally paid for the arrangement. Then, a complete history of the arrangement would have to be developed to identify any augments or modifications to the arrangements over the years, and the amounts charged for these activities under the tariffs as they changed from time to time. This labor-intensive process would produce data that would likely be disputed by the collocators, leading to protracted negotiations over thousands of arrangements. This process would be burdensome for both Verizon and the collocators. Applying a fixed credit based on the average collocation arrangement is a reasonable approach that is consistent with normal ratemaking procedures.

IV. Verizon Has Met The Statutory Standard For Discontinuing Physical Collocation Service In Its Federal Tariffs.

A. Verizon Is Discontinuing A Service, Not Incorporating State Rates In Its Federal Tariffs.

Some commenters argue that this is not a section 214 application at all, but rather an attempt by Verizon to use the state tariffs to provide supporting service to interstate services. *See, e.g.*, *AT&T*, 5-9; *Allegiance*, 4-7; *NAS*, 4-5. This argument is based entirely on the fact that Verizon has proposed to grandfather the existing federal collocation arrangements, rather than immediately convert them to the state tariffs. Since Verizon is grandfathering only the space-related charges, the commenters claim that this violates a requirement to tariff other collocation-

related services as well. However, as Verizon demonstrated above, there is no requirement that Verizon offer physical collocation in its federal tariffs at all. The fact that Verizon proposes to grandfather the space preparation rates so that existing collocators would not be forced to pay twice for space preparation costs due to rate structure differences should not disqualify its section 214 application. The easy remedy for this would be to abandon the grandfathering proposal entirely and convert all federal arrangements to the state tariffs immediately. However, this would impose unnecessary costs on the collocators as well as imposing administrative costs on Verizon to convert all of the accounts to state rates. Clearly, the best approach for all parties is for the Commission to allow Verizon to grandfather the space-related charges.

The commenters also argue that the Commission should require Verizon to grandfather the rates for supporting services to the existing federal collocation arrangements, rather than provide them under the state tariffs. *See, e.g.*, Allegiance, 3-4; Conversent, 12-13; ChoiceOne, 6. There is no basis for grandfathering anything other than the space preparation rates and in-service cross-connects. These rates are based on what was purchased in the past, while rates for supporting services are all forward-looking. How much a collocator paid in the past for supporting services such as DC power has nothing to do with the reasonableness of rates or charges to be applied in the future for these services. Therefore, all forward-looking services to support existing arrangements should be provided out of the state tariffs and interconnection agreements.

B. Virtual Collocation In The Federal Tariffs and Physical Collocation In The State Tariffs Are Reasonable Substitutes For The Discontinued Physical Collocation Services In Verizon’s Federal Tariffs.

The commenters argue that Verizon has not met the standard for discontinuing a service under section 214, because neither virtual collocation under the federal tariff or physical collocation under the state tariffs and interconnection agreements are reasonable substitutes for physical collocation in the federal expanded interconnection tariff. *See, e.g.*, Sprint, 9-10; Covad, 4-5; AT&T, 11-14. This is incorrect as a matter of law. Physical collocation under the state tariffs and interconnection agreements provide the collocators with their full rights under section 251(c)(6) of the Act. The D.C. Circuit has made it clear that the Commission has no authority under section 201 of the Act to require carriers to offer physical collocation. *See Bell Atlantic v. FCC*, 24 F.3d 1441, 1446 (D.C. Cir. 1994) (“[Section 201] does not supply a clear warrant to grant third parties a license to exclusive physical occupation of a section of the LECs’ central offices”). The Commission complied with that decision by amending its rules to make it clear that incumbent local exchange carriers are required to offer only virtual collocation in their federal tariffs. *See* 47 C.F.R. § 64.1401(c). Contrary to Allegiance’s claims (at 5), the Commission never tried to avoid the court ruling by requiring incumbent local exchange carriers to offer expanded interconnection through physical collocation in their federal tariffs. Therefore, as to new requests for expanded interconnection, customers are only entitled to purchase virtual collocation from Verizon, as they currently do in most other regions of the country. Furthermore, Verizon’s offering of physical collocation in its state tariffs and interconnection agreements will give new collocation arrangements interconnection to both federal and state services, as provided in section 251(b) of the Act.

The commenters argue that certain customers, such as end users and Internet service providers, will not be able to obtain new physical collocation arrangements in the state tariffs and interconnection agreements that they otherwise would have been able to obtain under the interstate tariffs because physical collocation under the section 251(c)(6) is limited to “telecommunications carriers” as defined in the Act. *See* Covad, 4-5. However, as noted, end users are only entitled to obtain virtual collocation out of the federal tariffs, and the Commission has made it clear that expanded interconnection is available only for collocation of transmission equipment, not enhanced services equipment used by Internet service providers. *See* 47 C.F.R. § 64.1401(d)(1) (only “basic transmission facilities, including optical terminating equipment and multiplexers,” may be collocated under expanded interconnection).

AT&T argues (at 12-13) that physical collocation under state tariffs and interconnection agreements is not a reasonable substitute for physical collocation in the federal tariffs because the rates and rate structures differ between the federal and state tariffs. This is clearly not the standard for “reasonable substitute” under section 214, as AT&T well knows – the Commission has granted AT&T’s own section 214 applications in situations where the rates for substitute services are quite different, and substantially higher, than the rates for the services AT&T sought to discontinue. For example, the Commission allowed AT&T to discontinue providing private line service with a switching function, because the Commission found that alternative services were available from other carriers, albeit at a higher price than AT&T was offering. *See AT&T, Application for Authority Pursuant to Section 214 of the Communications Act to Discontinue the Offering of Type 400 Switching System Service*, 63 F.C.C. 2d 371, ¶ 4 (1977). The Commission found that no “irreparable harm” to the public would occur if AT&T were allowed to discontinue the service. Clearly, “reasonable substitute” does not mean “equivalent rates.” Moreover, the

“irreparable harm” standard is easily met here – the record shows that collocators successfully use the state tariffs and interconnection agreements for many of their physical collocation arrangements.

Finally, some commenters argue that physical collocation in the states is not a reasonable substitute because the states might discontinue requiring Verizon to provide it, and they complain that Verizon is trying to convince the Massachusetts commission to do so. *See, e.g.*, Sprint, 13; WorldCom, 7-8. This argument has no merit. Section 251(c)(6) requires the incumbent local exchange carrier to provide physical collocation if space is available (and virtual if it is not), and any collocator can pursue its rights of appeal under section 252(e)(6) of the Act if a state unreasonably restricts collocation. The proceeding in Massachusetts is an investigation by the state commission to determine whether physical collocation should be restricted in circumstances where it is necessary to ensure security of the central office, an important concern in the current situation. *See, e.g., Massachusetts DTE, Investigation by the Department on its own motion pursuant to G.L. c.159 §§ 12 and 16, into the collocation security policies of Verizon New England Inc. d/b/a Verizon Massachusetts, D.T.E. 02-8, Reply Brief of Verizon Massachusetts (filed Aug. 23, 2002).* The Commission’s rules permit security concerns to be taken into account in determining how and where collocation will be provided. *See* 47 C.F.R. § 51.323(i)(4) (LEC may restrict physical collocation to space separated from space housing the LEC’s equipment, provided certain conditions are met). The Massachusetts state commission is properly carrying out its responsibilities under this section to ensure that collocation is provided in a way that ensures security for all parties.

C. The Continued Offering Of Physical Collocation In The Federal Tariffs Is Not Required By The Act Or The Commission’s Rules.

Some commenters argue that the Commission’s *Fourth Report and Order* in the advanced services proceeding requires Verizon to continue to offer physical collocation in its federal tariffs, because it required the incumbent local exchange carriers to offer cross-connects as federal services under section 201 of the Act. *See, e.g.*, WorldCom, 4-5. However, as Verizon demonstrated above, that order and the *Order on Reconsideration* do not require the offering of physical collocation in the federal tariffs – they only require the incumbent local exchange carriers to offer cross-connects between collocation arrangements of different carriers in the same office. The order does not establish any new collocation rights. Verizon will continue to offer the cross-connect service between different collocation arrangements in its federal tariff.

Some commenters go so far as to argue that the Commission should require Verizon (and perhaps other incumbent local exchange carriers) to offer physical collocation in their federal tariffs in order to maintain uniform rates, terms and conditions in all states, and that section 251 of the Act gives the Commission the authority to do so. *See, e.g.*, Covad, 5; Conversent, 4-5; Sprint, 12-13. This is clearly wrong. In the *Local Competition Order*, the Commission recognized that the states have the authority to set rates for physical collocation under section 251(c)(6) of the Act, and that there is no federal tariffing requirement for collocation under this section. *See, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499, ¶ 610 (1996) (“Local Competition Order”). In Section 252, Congress specifically chose to give the states the authority to determine the reasonableness of rates for interconnection under section 251 rather than require the Commission to establish

uniform federal rates. *See, e.g., Verizon v. FCC*, 122 S. Ct. 1646, 1670 (2002); 47 U.S.C. § 251(d).

D. The Comments Provide Proof Of The Arbitrage Problem That Verizon Faces.

Verizon explained that it decided to discontinue offering physical collocation in its federal tariffs because it has become increasingly difficult to manage the arbitrage problem created by maintaining two tariffs for essentially the same service in the federal and state jurisdictions. The commenters argue that Verizon has not substantiated the arbitrage problem, but their comments prove that it exists. *See, e.g., Covad*, 6; *WorldCom*, 8-9. For instance, Covad admits that it uses the federal tariffs for 40 percent of its physical collocation arrangements, but Covad is a DSL carrier that uses collocation almost exclusively for access to voice grade lines, which are not available under the federal tariffs. In addition, ****begin proprietary**** almost all of those federal arrangements were ordered in the Verizon South states – in the north, Covad orders almost all arrangements out of the state tariffs, ****end proprietary****. Some collocators, such as ****begin proprietary****

****end proprietary****, order physical collocation from Verizon East exclusively out of the federal tariffs, even though they use these arrangements primarily for interconnection to unbundled network elements, which are not available under the expanded interconnection tariffs. Sprint admits (at 9) that it orders collocation out of the federal tariffs for reasons of administrative efficiency and regulatory stability, not based on the jurisdiction of the services it intends to order. In general, 60 percent of Verizon East’s in-service collocation arrangements have been ordered out of the federal tariffs, but only a small percent of the cross-connects to

these arrangements are interstate.⁹ Clearly, there is no consistency between the jurisdiction of the services for which collocation is used and the tariffs from which it is purchased. Rather, the collocators are engaging in tariff-shopping, using whatever tariff appears to be less expensive or more advantageous in a given situation.

WorldCom argues (at 8) that this is not an arbitrage problem, because “[a]ny number of services offered by Verizon are tariffed at both the federal and state levels.” WorldCom misses the point. Although Verizon offers services such as special access in both its state and federal tariffs, customers are not permitted to pick and choose which tariff to use. If 10 percent or less of the traffic to be sent over a special access line is interstate, the customer must order the service out of the state tariff. *See* 47 C.F.R. § 36.154(a). If more than 10 percent of the traffic is interstate, it must be ordered out of the federal tariff. Therefore, having different rates, terms and conditions in the federal and state tariffs for special access does not ordinarily create an arbitrage problem. Here, there is no basis for Verizon to deny a collocation application under either the federal or state tariffs, because only the collocator can know what it intends to use it for. For this reason, the collocator has complete discretion to play one tariff against the other. Verizon has been unable to harmonize the rates in its federal and state tariffs, as each regulatory commission pursues its own policies and precedent. The only way that Verizon can solve this problem definitively is to cease providing physical collocation in its federal tariffs, and to provide it solely out of the state tariffs and interconnection agreements.

⁹ To substantiate these facts, Verizon analyzed the total working cross connects at all of the collocation arrangements in the former Verizon south jurisdictions for representative sample of CLECs. Only 13% of the total services to these federal arrangements are access services (both interstate and intrastate), while the remaining 87% are UNEs.

V. A Grant Of Verizon's Section 214 Petition Would Not Modify Its Section 251 Interconnection Agreements.

Qwest, which knows quite well that the Commission's rules do not require incumbent local exchange carriers to offer physical collocation in their federal tariffs and which takes advantage of this to limit its own federal tariffs to virtual collocation, must have struggled to find a theory that would require Verizon to offer physical collocation but not require Qwest to do the same thing. It comes up with the flimsy argument that a grant of Verizon's petition to discontinue physical collocation in its federal tariffs would violate Verizon's existing interconnection agreements. *See* Qwest, 6-7. This argument collapses of its own weight. As Qwest's quotations from Verizon's interconnection agreements demonstrate, the agreements only state that collocation will be provided according to the terms and conditions of Verizon's federal and state tariffs. They do not, and were not intended to, lock the parties in to the rates, terms, and conditions that existed at the time that the agreements were executed. If that were the intent, the agreements would have said so. Instead, by stating that collocation will be provided as set forth in the tariffs, the agreements allow the rates, terms and conditions of collocation to track any changes in the tariffs approved by the Commission or by the state regulatory commissions. In fact, Verizon's expanded interconnection tariffs, as well as Qwest's, change all the time. No party has ever claimed that this violates the interconnection agreements that reference the tariffs. Because the agreements are specifically subject to any changes in the tariffs, they do not guarantee that Verizon will make physical collocation rather than virtual collocation available in the federal tariff. Nor do they bind the Commission in deciding whether Verizon has complied with applicable law in filing tariff changes to withdraw physical collocation.

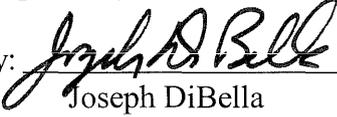
Qwest's argument (at 4-6) that elimination of physical collocation in the federal tariff would violate the agreements because it would cause the rates for DC power to increase fails for the same reason. Even if Verizon did not discontinue offering physical collocation in its federal tariffs, it could increase (or decrease) those rates at any time if the Commission approved. When the parties decide to reference the tariffs, rather than prescribe collocation rates in the agreements, they necessarily deferred to the regulatory commissions as the ultimate arbiters of those tariffs.

For the same reason, NAS' argument (at 2-3) that elimination of physical collocation to a CLEC under the federal tariffs requires an application under section 251(c)(6) has no merit. Regardless of whether it is a CLEC, an interexchange carrier, or anyone else that purchases expanded interconnection under the federal tariffs, Verizon does not provide that service pursuant to section 251(c)(6). The Commission has made it clear that expanded interconnection is a section 201 requirement, and that section 252 procedures do not apply to expanded interconnection. *See Local Competition Order*, ¶¶ 567, 610. The fact that NAS' interconnection agreement with Verizon refers to expanded interconnection does not make the service a section 251(c)(6) service. Verizon will continue to meet its section 251(c)(6) obligation to provide physical collocation through its state tariffs and interconnection agreements as a state service, which is not required to be tariffed in the interstate jurisdiction. *See id.*, ¶ 610.

Conclusion

For the foregoing reasons, Verizon has met the standards for approval of its application under section 214 of the Act to discontinue offering physical collocation in its federal expanded interconnection tariffs. The Commission should approve Verizon's application.

Respectfully submitted,

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Dated: October 3, 2002

A 6 page Attachment

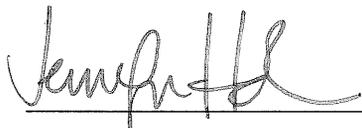
**“Combined Estimated Monthly /Annual Rate
Impact Summary”**

**Containing Confidential Customer Proprietary
Network Information**

Has Been Redacted

CERTIFICATE OF SERVICE

I hereby certify that, on this 3rd day of October, 2002, copies of the foregoing "Reply Comments of Verizon" were sent by first class mail to the parties listed on the attached.



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