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December 16, 2002

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

Re: ***Ex Parte***
CC Docket Nos. 01-338, 96-98, 98-147

Dear Ms. Dortch:

In this letter, Granite Telecommunications, Inc. ("Granite") provides further information for the Commission's consideration in the above-captioned proceeding concerning the continued availability of UNE-P. Granite provides competitive local exchange and interexchange telecommunications services in the Verizon and BellSouth service territories to several thousand subscribers. Granite relies on UNE-P by necessity, due to the highly limited availability of competitive vendors of switching and transport facilities, and significant switch and facility deployment costs, which render incumbent UNE-P the only economically viable service medium available to Granite today.

Granite submits the attached declaration of Rand Currier, Vice President of Operations, providing a detailed analysis of costs that would be incurred in implementation of a switched-based market entry strategy. This analysis demonstrates that it is not economically feasible to enter markets by deployment of switches. First year costs would exceed \$12 million for each market in which it would be necessary to deploy a switch, assuming capital was generally readily available to the competitive telecommunications industry. Accordingly, the Commission in this proceeding must retain unbundled access to switching as a market entry strategy.

Granite also takes this opportunity to call to the Commission's attention the recent information provided by Lila A. Jaber, Chairman, Florida Public Service Commission, showing that service provided by CLECs via UNE-P constitutes a separate market from service provided by facilities-based CLECs.¹ These constitute separate markets because migration from a UNE-P to a facilities-based market strategy is not economically feasible under current cost/price relationships. Ms. Jaber concludes, therefore, that it would not be appropriate to require a migration plan based on ownership of switching facilities unless and until a more cost-effective

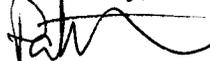
¹ Letter from Lila A. Jaber, Chairman, Florida Public Service Commission, to Commissioner Kevin J. Martin, CC Docket No. 01-338, filed December 6, 2002.

Marlene H. Dortch
December 16, 2002
Page 2

end-user migration procedure for moving UNE-P access lines to CLEC owned facilities can be implemented. Granite fully concurs with this view.

Granite also stresses that resale does not provide a viable substitute for UNE-P. The resale discount offered by ILECs is generally too small, ranging between 12% to 26% depending on the state, with most below 20%. This does not provide a sufficient margin to support competitive entry in most markets. Moreover, the discount is generally based on the highest retail rate, and ILECs offer many discounts to their retail customers so that the available margin between the resale price and the ILEC's retail rates is effectively very small. Nor can CLECs providing service via resale benefit from other revenue streams such as access charges. Further, ILEC billing for resale is essentially unauditible. Verizon North, for example, does not detail USOCs on electronic bills. BellSouth provides its resale bills in CLUBS format which provides few details, instead of CBOS, the industry standard used for UNE-P. For all these reasons, resale does not provide an adequate substitute for UNE-P.

Sincerely,



William B. Wilhelm, Jr.
Patrick J. Donovan

Counsel for Granite
Telecommunications, Inc.

cc: Hon. Kevin Martin
Dan Gonzalez
Matthew Brill
William Maher
Jeffrey Carlisle
Robert Tanner

DECLARATION OF RAND CURRIER

I, Rand Currier, state that I am the Vice President of Operations of Granite Telecommunications LLC (“Granite”). In this capacity I am responsible for the entirety of Granite’s technical network operations and carrier relations, and, therefore, have intimate knowledge regarding the costs associated with switch and network facility deployment in Granite’s service “foot print.” Prior to joining Granite, I served in a similar capacity with Network Plus, Inc., a facilities-based competitive local exchange and interexchange carrier whose annual revenues exceeded \$250M. Based on my network experience with Granite and long-term telecommunications operations experience with other local and interexchange carriers, I maintain that today’s costs associated with a transition from the incumbent’s unbundled network element – platform (“UNE-P”) currently used by Granite, to a facilities-based Granite network, in the absence of economically priced competitive switching alternatives, prove prohibitively expensive, remove all investment incentives, and would permanently preclude Granite’s ability to serve subscribers if current incumbent UNE-P obligations are eliminated or amended.

Granite is a premier provider of competitive local exchange telecommunications services in the Verizon and BellSouth service territories to several thousand subscribers. Granite also provides a host of competitive interexchange services. Granite’s local exchange services are currently provided primarily utilizing Verizon and BellSouth unbundled loops, transport, and switching under the incumbents’ unbundled network element – platform (“UNE-P”). Granite relies on UNE-P by necessity, due to the highly limited availability of competitive vendors of switching and transport facilities, and significant switch and facility deployment costs, which render incumbent UNE-P the only economically viable service medium available to Granite today.

The purchase of a switch represents only a fraction of the costs associated with its deployment. For a switch to efficiently and economically serve a subscriber base, the switch must be housed, powered, interconnected, and maintained. Switch costs and the associated recurring support costs are significant and prohibitive, unless the provider’s customer base in any single geographic area is of sufficient size to support those costs.

Granite conducted preliminary cost studies associated with deploying its own network in the greater Boston metropolitan area¹ where Granite is headquartered. The results of that study underscore the prohibitive nature of the costs entailed in switch and network deployment. The cost of purchasing a class 5 Lucent or Nortel equivalent switch is more than \$5.4 million. A switch acquisition would further entail another \$2 million in attendant *non-recurring* charges. Yet to support this switch, Granite would be obligated to assume nearly as much in annual *recurring* expenses, roughly \$5.0 million, for a total initial network investment of nearly \$12.0

¹ Boston proper and surrounding suburban communities.

million for the Boston local market alone, regardless of whether it served a single subscriber, as detailed below:

NON-RECURRING COSTS

Class 5 Switch Acquisition Cost \$5,400,000.00²

Non-recurring Switch-related Costs:

Digital cross connect equipment	\$600,000.00
Switch room environment	
Uninterruptible power supplies	\$40,000.00
Backup power generator	\$60,000.00
Raised floor and room environment build out	\$50,000.00
Billing software to support local switch call detail	\$1,000,000.00
Support vehicles for on site maintenance and customer repair (10)	\$200,000.00
TOTAL NON-RECURRING COSTS	\$7,350,000.00

MONTHLY RECURRING SWITCH LOCATION COSTS

Switch Location Costs:

Interconnecting interexchange facilities	\$8,000.00
Maintenance (including technician salaries, test equipment software upgrades, contracted support, security, administrative support, and engineering: 5 technicians)	\$47,500.00
Collocation space rental	\$25,000.00
Utilities	\$3,000.00
TOTAL MONTHLY RECURRING SWITCH LOCATION COSTS	\$83,500.00

MONTHLY RECURRING CENTRAL OFFICE COSTS

² Designed for 120,000 ports: 70,000 local exchange, 50,000 interexchange, and related software, based on the going industry rate and my experience.

Granite would further assume the following associated monthly recurring expenses to serve subscribers in *each* of metropolitan Boston's 44 incumbent carrier central offices, based on estimates of at least 1,500 subscriber lines per office, 4 lines per subscriber:

Collocation space rental (including space, utilities and Security)	\$2,200.00
Interconnecting transport facilities to Granite's switch Entrance facilities	\$2,400.00
	\$250.00
Maintenance (including technician salaries, test equipment software upgrades, contracted support, security, administrative support and engineering)	\$2,000.00
TOTAL RECURRING PER CENTRAL OFFICE COSTS	\$6,850.00
TOTAL RECURRING BOSTON CENTRAL OFFICE COSTS (x44)	\$301,400.00
TOTAL MONTHLY RECURRING COSTS BOSTON	\$384,900.00

AGGREGATED COSTS

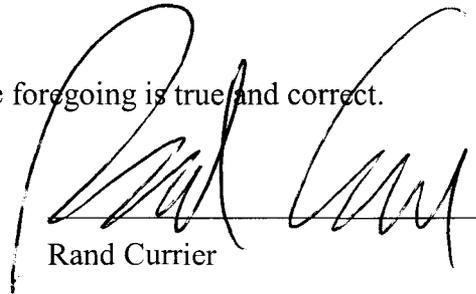
TOTAL ANNUAL RECURRING COSTS BOSTON (Monthly x12)	\$4,618,800.00
TOTAL FIRST YEAR EXPENDITURE BOSTON MARKET ENTRY	\$11,968,800.00

It becomes readily apparent that Granite would require a significant base of customers in Boston alone, to justify such significant long-term expenses. Such is not the case today. When considering an average monthly local telephone bill of \$30.00 per month, a small company such as Granite would need to attract many more subscribers in metropolitan Boston than is reasonably possible just to break even on network related expenses, and more taking into account the entirety of Granite's business expenses, presuming that Granite had access to sufficient capital to underwrite these costs over an extended period of time.

The above costs considerations do not even begin to consider a host of invisible and incalculable opportunity costs that Granite would assume by implementing a switch in Boston including, the inability to serve markets outside of Boston (given the need to focus exclusively on Boston in order to recoup switching costs), or the added costs of maintaining customer support and billing functions for a geographically limited customer base without the opportunity to recoup costs from serving a broader customer base. These extensive costs would further limit Granite's ability to expand into other markets in light of the need first to recoup investments in the Boston market and then build up sufficient financial surpluses to invest in market expansions.

The cost of evaluating switch and network deployment cannot be viewed in isolation. Granite's corporate and industry experience demonstrates the myriad of direct and indirect costs, and the necessity for a large customer base to justify and support these expenses. New market entrants such as Granite are incapable of assuming such costs for a protracted period of time while they attempt to build up customer bases. Clearly there comes a point when a transition from the UNE-P to facilities deployment may be economically justified. That point, however, is years off for most smaller companies who, particularly in today's capital starved markets, must continue to rely on the UNE-P to serve subscribers and stay in business. The "build it and they will come" investment model would require a significant leap of blind faith and poor business planning before Granite could justify the expenditure of \$10 million *per market*, presuming access to necessary capital funding.

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



Rand Currier

December 13, 2002