

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

Federal-State Joint Board on
Universal Service

CC Docket No. 96-45

**COMMENTS OF VERIZON¹ ON
UPDATING PROXY MODEL INPUTS**

While the Wireline Competition Bureau's notice proposes a simple repeat of the updates to the line counts and other inputs to the universal service cost model that the Bureau has performed in the prior two years,² the effects of such an update this year are likely to be exacerbated by the Bureau's recent revisions of the model that converted a portion to the Delphi computer language and incorporated two "technical improvements."³ The prior line count orders reduced the amounts of high-cost support for non-rural carriers in many states, due primarily to increases in the counts of voice grade equivalent lines. The *Delphi Language Order* will result in additional reductions in support, but the reasons for those changes are not clear. Verizon has not been able to replicate the per-line costs in the *Delphi Language Order* using the data available on the model from the Commission's web site. Given the substantial reductions in universal service

¹ The Verizon telephone companies ("Verizon") are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in Attachment A.

² *See Federal-State Joint Board on Universal Service*, 16 FCC Rcd 22418 (2001); *Federal-State Joint Board on Universal Service*, 15 FCC Rcd 23960 (2000)

³ *See Federal-State Joint Board on Universal Service*, Public Notice, CC Docket No. 96-45, DA 03-25 at 1 (re. Jan. 7, 2003) ("*Public Notice*"); *Federal-State Joint Board on Universal Service*, Order, CC Docket No. 96-45, DA 03-24 (rel. Jan. 7, 2003) ("*Delphi Language Order*").

support that will occur this year solely as a result of changes in the model, the Bureau should not implement these changes until it provides interested parties a meaningful opportunity to evaluate and comment upon the causes for the loss of support.

The Bureau has requested comments on updating the inputs to the universal service proxy cost model to include year 2001 line counts and ARMIS data on investment in general support facilities and switching costs. *See Public Notice*. In recent years, apparently straight-forward updates to line counts and other inputs have caused significant changes in the amounts of high-cost support that have been targeted to certain states. For instance, in the Verizon East states, the support amounts have declined significantly;

	<i>2000 support</i> ⁴	<i>2001 support</i> ⁵	<i>2002 support</i> ⁶
Vermont	\$15.0 million	\$10.0 million	\$9.2 million
Maine	\$10.7 million	\$8.9 million	\$5.4 million
West Virginia	\$31.1 million	\$26.2 million	\$26.0 million

These reductions were not the result of any policy changes or of a deliberate decision by the Commission that high-cost support should be phased down. In fact, the Commission did not anticipate that this would happen when it adopted the forward-looking cost model to determine

⁴ *Common Carrier Bureau Releases Estimated State-By-State Universal Service High-Cost Support Amounts for Non-Rural Carriers*, 15 FCC Rcd 10191 (2000).

⁵ *Common Carrier Bureau Releases Estimated State-By-State High-Cost Universal Service Support Amounts for Non-Rural Carriers for 2001*, 15 FCC Rcd 24018 (2000).

⁶ *Common Carrier Bureau Releases Estimated State-By-State High-Cost Universal Service Support Amounts for Non-Rural Carriers for 2002*, 16 FCC Rcd 22417 (2001).

high cost support. Rather, these changes were the effect of the model itself, which has a tendency to reduce the per-line costs over time by converting the increased demand for high-speed special access services into voice grade equivalencies, which lowers the average cost per line and which offsets the overall reduction in demand for voice grade residential service.

The *Delphi Language Order* included several changes to the model, two of which the Bureau found would have a significant impact on the amount of high cost support; (1) a reduction in grid size that placed drop terminals closer to customer locations; and (2) corrections to the input values for drop terminals, manholes, and service area interfaces. *See Delphi Language Order*, ¶ 10. The Bureau found that the change from Turbo-Pascal to the Delphi computer language for the outside plant portion of the model, which the Bureau adopted to allow the Commission and interested parties to better understand and follow the logic of the model, would not have a significant impact on costs. *See id.*, ¶¶ 6-7. However, Verizon has not been able to confirm these findings by running the model on the Commission's web site and it has not been able to conduct sensitivity analyses for each of the changes. A simple change in the type of computer language used for a particular module should not cause any change in support levels, but it is not possible to confirm this. More disturbing is that when Verizon runs the model using the same year-end 2000 line counts that the Bureau states it used to calculate the per-line costs in the order, it does not reach the same results.

The inability of interested parties to confirm the accuracy of the changes in the *Delphi Language Order* and to explore the reasons for the changes in per-line costs is most disturbing because these changes affect costs differently from state to state. Although the order states that the nationwide average change is an increase of less than 3 cents per line (*see Delphi Language*

Order, ¶ 11), the changes for individual states are very significant. As the order notes, the statewide average cost per line increases in states containing higher density zones (which tend to be states with large urban areas and lower than average costs) and the statewide average costs per line decreases in states containing lower density zones (which tend to be rural states with higher than average costs). Consequently, per-line costs decline significantly in rural states like Vermont and Maine, while they increase somewhat in states like New York with large urban areas. *See Delphi Language Order*, Attachment A. Using the data in the order, Verizon estimates that the amounts of high cost support for the Verizon East states will decline significantly solely as a result of these technical changes, and that it will be eliminated entirely for Maine;

	<i>2002 support</i>	<i>2002 support with Delphi Order Changes</i>
Vermont	\$9.2 million	\$3.4 million
Maine	\$5.4 million	none
West Virginia	\$26.0 million	\$22.8 million

In the *Delphi Language Order*, the Bureau stated that it would defer calculating support using the Delphi version of the model with the incorporated technical improvements until the effective date of a Commission order in the separate proceeding addressing the remand of the *Ninth Report and Order* by the 10th Circuit Court of Appeals. *See Delphi Language Order*, ¶¶ 1, 12. The Bureau also stated that updates to line counts would be considered in conjunction with the 10th Circuit remand proceeding. However, this deferral will produce more uncertainty about how changes in the model will affect policy decisions in the remand proceeding. These issues

should be resolved before the Commission decides how the model will be used to calculate high cost support. Otherwise, the Commission cannot be confident that its policy decisions in the remand proceeding will accomplish the Act's universal service goals.

Conclusion

For the foregoing reasons, the Bureau should not update the line counts and other inputs for the forward-looking cost model until it provides interested parties with an opportunity to explore the reasons for the reductions in support that these changes would cause.

Respectfully submitted,

By:  _____

Joseph DiBella

1515 North Court House Road
Suite 500
Arlington, VA 22201-2909
(703) 351-3037
joseph.dibella@verizon.com

Attorney for the Verizon
telephone companies

Of Counsel
Michael E. Glover
Edward Shakin

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THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.