

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	

REPLY COMMENTS OF AT&T CORP.

Pursuant to the Commission’s *Notice*,¹ AT&T Corp. (“AT&T”) submits these reply comments concerning the use of updated wire center line counts and other information used to calculate high-cost universal service support for non-rural carriers.

INTRODUCTION AND SUMMARY

The comments confirm that the Commission should comprehensively update the data used in the universal service cost model (“Synthesis Model”) to compute universal service support and contribution amounts. The outdated and mismatched line count and line allocation data currently used in the Synthesis Model can distort per line cost estimates and, therefore, produce inaccurate support and contribution amounts. The comments further confirm that *all* lines, including wholesale lines, should be included in the line count data to fully account for the economies of scale and other cost savings that local exchange carriers (“LECs”) obtain from deploying those lines. Finally, there is no legitimate basis to adopt Verizon’s proposal to delay updating line counts and other data until Verizon is able to replicate the Commission’s run of the Delphi version of the Synthesis Model.

¹ Public Notice, *Wireline Competition Bureau Seeks Comment On Updating Line Counts And Other Limited Information Used In Calculating High-Cost Universal Service Support For Non-Rural Carriers*, DA 03-25, CC Docket No. 96-45 (released January 7, 2003).

I. THE COMMENTS CONFIRM THAT THE COMMISSION SHOULD USE THE MOST CURRENT AVAILABLE LINE COUNT AND LINE ALLOCATION DATA TO COMPUTE PER LINE SUPPORT.

The analysis conducted by the Maine Public Utilities Commission (“MPUC”) and the Vermont Public Service Commission (“VPSB”) further confirm that using outdated and mismatched line count and line allocation data in the Synthesis Model can produce inaccurate per line cost estimates, and thus inaccurate universal service support and contribution amounts. The MPUC and the VPSB collected updated line count and allocation data from Verizon, and incorporated that data into the Synthesis Model. That analysis confirms that using outdated and mismatched data can allocate the wrong number of lines to the wrong wire centers, thereby misstating the relative costs of providing eligible services.²

The MPUC and VPSB speculate that updating the line count and line allocation data will increase the overall size of the fund and the amount of support for which Maine and Vermont will be eligible. But that speculation is based on the tenuous assumption that the errors in cost estimates observed in Maine and Vermont would be identical in the other 48 states. In fact, there likely is a wide degree of variation in the direction and magnitude of the errors in the cost estimates for each of the 50 states caused by using outdated and mismatched line count and line allocation data. Thus, because support levels are based on each state’s costs relative to other states, it is unclear whether total support levels, or the support level for any particular state will increase or decrease after the line count and allocation data used in the Synthesis Model are updated.

However, the MPUC and VPSB analysis does make clear beyond any doubt that the use of outdated and mismatched data in the Synthesis Model can produce inaccurate cost estimates,

² MPUC/VPSB at 7.

inaccurate support amounts, and inaccurate contribution levels.³ These inaccuracies can create windfalls for some carriers and can deny other carriers much needed support. As a result, these inaccuracies can warp carriers' incentives to deploy service to high-cost areas, undermining the goals of the universal service mechanism.⁴ Thus, the Commission should promptly act to fully update the line count and allocation data used in the Synthesis Model.

The Commission has in the past partially addressed these issues by substituting one- to two-year-old line count data for the more outdated two- to three-year-old line count data used in the Synthesis Model (the Commission has never attempted to update the five-year-old line allocation data).⁵ Although this partial solution certainly is better than doing nothing at all,⁶ the time is ripe for the Commission to adopt a more comprehensive solution. First, the Commission should incorporate statistical forecasts of line count data into the Synthesis Model to better match the vintage of the data in the cost model used to compute per line support levels and the data used to make actual payments.⁷ Second, the Commission should direct the incumbent LECs to submit data relating to line counts within each class of service that update the 1998 data submitted by these LECs in 1999.⁸

³ See MPUC/VPSB at 1-7.

⁴ See, e.g., Report and Order, *Federal-State Joint Board on Universal Service*, 12 FCC Rcd. 8776, ¶ 19 (1997) (noting that universal service must “be sustainable in a competitive environment” and that “the system of support must be competitively neutral”).

⁵ See, e.g., Notice at 2; see also generally Order and Order On Reconsideration, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, DA 01-2928 (Dec. 18, 2001) (“2002 Line Counts Order”); see Order and Order On Reconsideration, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, DA 00-2729 (Dec. 8, 2001) (“2001 Line Counts Order”).

⁶ AT&T at 11.

⁷ AT&T at 4-6; MPUC/VPSB at 7-9 (supporting the use of more accurate line count data).

⁸ MPUC/VPSB at 7-9; AT&T at 5-6.

Line Count Data. Using standard statistical techniques, the Commission can ensure that the vintage of the line counts used in the Synthesis Model to compute per line support matches the vintage of the line counts used to actually allocate that support.⁹ The *Notice* proposes to update the line count data used in the Synthesis Model from year-end 2000 data to year-end 2001 data. Although this proposal certainly is preferable to continued use of year 2000 data, a better solution would be to use 2001 line count data to compute the average growth in line counts, and to use those growth levels to estimate the line counts for the year 2003 – the year that the support will actually be distributed.¹⁰

As noted by the MPUC and the VPSB (at 8), it also is critical that the projected line count data reflect all lines, including wholesale lines. A LEC obtains the same economies of scale and other cost savings associated with those lines whether the LEC ultimately sells those lines to retail customers or to wholesale customers. Yet, as explained by the MPUC and VPSB, “some, possibly most, local exchange carriers do not consider loop UNEs as ‘lines’ for ARMIS reporting purposes.”¹¹ And because the Synthesis Model currently relies on the ARMIS line count data to estimate per line costs, that practice can substantially “distort the results of the cost model in wire centers with substantial UNE platform local competition.”¹² The Commission therefore should direct LECs to report all lines, including wholesale UNE and resale lines, in future ARMIS reports.

For the same reasons, the Commission also should reject the proposal advanced by MPUC and VPSB (at 8) to remove DS-3 lines from per line support estimates. The MPUC and

⁹ AT&T at 4-5.

¹⁰ *Id.*

¹¹ MPUC/VPSB at 8.

¹² *Id.*

the VPSB complain (at 3) that the Synthesis Model currently accounts for DS-3 lines by first converting those lines into DS-1 and DS-0 equivalents. These State commissions correctly point out (at 8) that this way of accounting for DS-3 lines is less desirable than directly measuring DS-3 costs (which the Synthesis Model is not designed to do).¹³ However, that is not a legitimate reason for ignoring those lines altogether. As the Commission has recognized, it is critical that the universal service support mechanism reflects the economies of scale and other cost savings associated with the growth in the number of lines serviced by the LECs.¹⁴ And, as the MPUC and VPSB admit (at 4), there has been substantial growth in the number of lines served by DS-3 lines during the past several years, resulting in substantial per line cost savings for the LECs. Completely removing DS-3 lines from the Synthesis Model would ignore these cost savings and could significantly distort support and contribution amounts in the universal service cost mechanism.

Excluding DS-3 lines could, for example, substantially distort the amount of support that states are eligible to receive by ignoring the cost savings accrued by carriers in states with relatively high DS-3 deployment. Likewise, excluding DS-3 lines could distort the distribution of support within a state because removing DS-3 lines would overstate the relative cost of a wire center with substantial DS-3 deployment (by ignoring economies of scale associated with the DS-3 deployment) compared to a wire center with relatively little DS-3 deployment. Because support is based on relative wire center cost estimates, removing DS-3 lines from the universal

¹³ Indeed, a direct measure of DS-3 costs would include numerous other cost savings, including economies of scope associated with the sharing of structure and other costs with other types of lines.

¹⁴ See, e.g., *2002 Line Counts Order* ¶ 7; *2001 Line Counts Order* ¶ 9.

service mechanism would artificially shift support from wire centers with low DS-3 deployment to those with relatively high DS-3 deployment.¹⁵

Line Allocation Data. As the MPUC and VPSB have conclusively demonstrated, the 1998 allocation data do not reflect current line allocations, resulting in potentially substantial errors in per line support estimates.¹⁶ That problem is easily remedied. The Commission should require incumbent LECs to provide updated line allocation data, which then can be used to properly allocate the projected line counts used in the Synthesis Model.¹⁷ Such a data request would hardly be burdensome to the incumbent carriers, which presumably maintain that important information in the ordinary course of business and for other regulatory purposes. Indeed, it appears that Verizon was able to readily supply that information to MPUC and VPSB.¹⁸

II. THE COMMISSION SHOULD NOT ALLOW LECs TO PICK AND CHOOSE SUPPORT AMOUNTS FROM PRIOR YEARS.

The MPUC and VPSB propose (at 9) to allow LECs to obtain the higher of the universal service support for which they would be eligible using updated line count data or the amount of support for which they were eligible in 2000. The Commission must reject that proposal. The current size of the universal service fund is fixed, and the fund is sized to produce sufficient

¹⁵ The Commission also should consider updating the Synthesis Model to account for optical carrier (“OCn”) lines. These lines are fiber lines with capacity that is substantially greater than even DS-3 lines. The Synthesis Model currently excludes these lines from the universal service support and contribution calculations and, therefore, fails to reflect the economies of scale and scope associated with those lines.

¹⁶ MPUC/VPSB at 5-7.

¹⁷ AT&T at 5-6.

¹⁸ Any additional data submissions relied on by the Commission to compute universal service support must be made publicly available to all third parties to verify the integrity of the universal service computations. *See, e.g.,* Comments of AT&T, *Federal State Joint Board On Universal Service*, CC Docket No. 96-45 (filed June 26, 2000).

support given the projected requirements for the current year. If LECs are permitted to receive support that is greater than that for which they are eligible in 2003 – as would be the case if they were allowed to choose the higher of the year 2000 support levels or the year 2003 support levels – carriers’ claims on the universal service support fund would be greater than the actual size of the fund. Accordingly, this proposal must be rejected.

III. THE COMMISSION SHOULD REJECT VERIZON’S PETITION FOR RECONSIDERATION OF THE DELPHI COST MODEL ORDER.

Verizon’s comments do not directly address the issues raised in the *Notice*. Instead, Verizon complains about the “technical improvements” to the Delphi version of the Synthesis Model adopted by the Commission in a January 7, 2003 Order.¹⁹ In that order, the Commission explained that the Delphi version of the Synthesis Model contained two technical improvements that affected cost estimates. First, “a correction was made to locate drop terminals using the 360 feet square grid cell adopted in the *Fifth Report and Order*, rather than 1000 feet square cells.”²⁰ Second, the Commission “corrected the coding that caused the model to read the wrong row of input tables for drop terminal, manhole, and service area interfaces . . . costs.”²¹ The Commission concluded that “implementation of these technical improvements [was] . . . necessary and appropriate to ensure that the model operates as designed in the *Fifth Report and Order*.”²²

¹⁹ Order, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, DA 03-24, ¶ 10 (rel. Jan. 7, 2003) (“*Delphi Order*”).

²⁰ *Id.* ¶ 10.

²¹ *Id.*

²² *Id.* ¶ 11.

Verizon now complains that it is unable to reproduce the Commission’s Delphi-based cost estimates that reflect these “technical improvements.”²³ Verizon therefore argues that these technical improvements should be reconsidered, and that the Commission should not implement any changes to line counts until the Commission has conducted this review. But Verizon fails to offer any legitimate reason for the Commission to continue computing universal service support and contribution amounts based on outdated and mismatched line count and line allocation data. Even assuming *arguendo* that the technical improvements adopted by the Commission are flawed, Verizon offers no evidence that those alleged flaws would be aggravated by using more up-to-date and consistent line count data. Moreover, Verizon itself has explicitly recognized the importance of updating the line count data used in the universal service cost model, and has supported the Commission’s prior proposals to update those data.²⁴ Thus, the Commission should reject Verizon’s current proposal to further delay improvements to the data used in the Synthesis Model.

²³ Verizon at 1-2.

²⁴ *See, e.g.*, Verizon 2002 Line Count Comments (filed October 4, 2002) (“Updating line counts on an annual basis is appropriate, as it allows the model to reflect increasing economies of scale as demand grows.”).

CONCLUSION

For the foregoing reasons, and the reasons set out in AT&T's initial comments, the Commission should open a proceeding to determine the appropriate method of estimating current line counts for use in the Commission's universal service cost model. Until that proceeding is concluded, the Commission should use the most recent line count data available when computing the amount of universal service support and contribution levels. The Commission also should order incumbent LECs to file line count data that allocates lines among classes of service, and to provide sufficient information to allow the Commission to match the updated line counts with the wire centers in the universal service cost model. In addition, the Commission should adopt its proposal to update the tables in the cost model with the most recently available line count information to estimate GSF investment (no other commenters appear to have addressed this issue). Finally, the Commission should promptly implement the numerous improvements to the Synthesis Model advocated by AT&T and other parties in prior proceedings (as described in AT&T's initial comments (at 8)).

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I, Peter M. Andros, do hereby certify that on this 12th day of March, 2003, a copy of the foregoing "Reply Comments of AT&T Corp." was served by U.S. first class mail, postage prepaid, on the parties named below.

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