

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of

Federal-State Joint Board on Universal  
Service

CC Docket No. 96-45

**REPLY COMMENTS OF VERIZON<sup>1</sup> ON  
UPDATING LINE COUNTS**

The Bureau's proposal to exclude special access demand from the forward-looking cost model may be a positive step in the process of updating line counts, but it should be done only after the public has been given sufficient information to assess the impact on the model. The interexchange carriers not only oppose the Bureau's proposal, they want to make the situation infinitely worse. AT&T and MCI argue that the Commission should not only retain special access demand in the model, but that it should also include demand for packet-switched data services, such as DSL and other advanced services. These advanced services would be translated into a virtually unlimited number of "voice grade equivalent" lines, further deflating the per-line costs produced by the model. The interexchange carriers miss the point that the objective of the model was to estimate the forward-looking costs of "supported services," *i.e.*, the services that fall within the definition of universal service under Section 245(c) of the Act. These services include voice grade access to the public switched network and associated services, but not special access services or advanced services. It is obvious at this point that including special access and

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

other high capacity services on a voice grade equivalent basis in the line count inputs for the forward-looking cost model causes it to significantly understate the per-line costs of universal service. Absent a revision to the model platform, the best way to cure this appears to be to eliminate special access services from the model. However, the Commission should do so only after it has placed data in the record of the effects of excluding special access so that interested parties have an opportunity to comment on the results.

In their comments, Verizon and Qwest demonstrated that increases in demand for special access services drive down the per-line costs due to the way that the model translates special access demand into copper loops and then converts that demand into voice grade equivalents. Put simply, for ordinary residential or business exchange line, the model constructs a copper loop for each customer “line.” However, for DS1 special access, it constructs two copper loops, but then counts 24 voice grade equivalent “lines.” For DS3 special access, the model constructs 107 copper pairs and then counts 672 voice grade equivalent “lines.” *See* Verizon, 2 fn. 3. Since the number of loops constructed for DS1 and DS3 special access services is far below the number of voice grade equivalents, the per-line costs are a small fraction of the costs of ordinary voice grade lines. With demand for traditional voice grade lines declining at the same time that demand for special access services is growing, this causes the average per-line cost to decline and, in turn, it reduces the high-cost support produced by the model.

Rather than try to fix the problem by excluding the distorting effects of special access demand, AT&T and MCI would exacerbate the problem by including “non-traditional non-switched services” such as digital subscriber line (“DSL”) and other packet switched services. *See* AT&T, 3-5; MCI, 3-5. It is not clear how (or whether) they propose to account for the costs

of these services in the model, but they obviously recognize that the amount of demand that would be added to the model if broadband services are translated into voice grade equivalents would be enormous. AT&T calculates that Qwest would have almost three times as many broadband voice grade equivalent “lines” as it has in total voice grade telephone lines. For Verizon, the number of voice grade equivalent lines would almost double. For instance, if a customer had a voice grade telephone line with DSL service, that would be counted as at least two “lines,” even though the customer only has one copper loop. But if the DSL service were counted in terms of voice grade equivalents, a customer with 1.5 mbps DSL service could be considered to have 24 voice grade equivalent channels, producing a total of 25 “lines” over the same copper loop. This multiplier effect would drastically reduce the per-line costs without any reduction at all in network costs. Such a result would drive the model into the realm of pure fantasy.

The interexchange carriers argue that these services must be included in the model (even though they have not since the model was first published), because the guidelines that the Commission established in 1997 for a forward-looking cost model include a requirement that the model encompass the total economies of scale and scope of the network. *See* AT&T, 2-3; MCI, 3. That is not correct. The Commission stated that the model should include provision of multi-line business services, special access lines, and private lines, but it said nothing about broadband services or advanced services. *See Federal-State Joint Board on Universal Service*, 12 FCC Rcd 8776, ¶ 250 (sixth criterion) (1997).

Moreover, the first criterion for the model is that it must estimate “the least-cost, most-efficient, and reasonable technology for providing the *supported services* that is currently being

deployed.” *Id.*, ¶ 250 (first criterion) (emphasis added). While the Commission found that the loop design “should not impede the provision of advanced services,” (*id.*) the purpose of the model has always been to estimate the costs of “supported services.” *See id.*, ¶ 192 (“The universal service support a carrier will receive will be based on the Commission’s determination of the cost of providing the supported services . . . ”); *Federal-State Joint Board on Universal Service*, 14 FCC Rcd 20432, ¶ 2 (1999) (“The new high-cost support mechanism described in this Order provides support based on the estimated forward-looking costs of providing supported services.”). “Supported services” clearly do not include advanced services. Supported services are defined as single-party service; voice grade access to the public switched network; DTMF signaling or its functional equivalent; access to emergency services; access to operator services; access to interexchange services; access to directory assistance; and toll limitation services for qualifying low-income consumers. *See Federal-State Joint Board on Universal Service, Order and Order on Reconsideration*, FCC 03-170, CC Docket No. 96-45, ¶ 5 (rel. July 14, 2003). The Commission specifically has declined to include advanced services in this definition. *See id.*, ¶ 8.

Even if the Commission originally intended to include the economies of scale of all services in the model, the Public Notice observed that it may be necessary to exclude special access demand from the model to more accurately estimate the costs of supported services. The argument applies with infinitely greater force to advanced services, which would completely distort the model’s results due to the almost limitless “voice grade equivalent” capacity of these services.

For these reasons, the Commission should reject the interexchange carrier's proposal to add more distorting demand to the model. Instead, it should provide data from the model to show the effects on high cost support of excluding all special access, or just DS3 special access. The Commission should not adopt such changes to the model until the parties have been given an opportunity to comment on the effects of these changes.

### **Conclusion**

For the foregoing reasons, the Commission should reject the proposals to include demand for advanced services in the line counts used as inputs to the forward-looking cost model.

Respectfully submitted,

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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.