

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

In the Matter of )  
 )  
Federal-State Joint Board on ) CC Docket No. 96-45  
Universal Service )

**REPLY COMMENTS**

BellSouth Corporation, on behalf of itself and its wholly-owned subsidiaries, (“BellSouth”), submits this reply to comments filed in response to the *Public Notice* released by the Wireline Competition Bureau (“Bureau”) on October 15, 2004.<sup>1</sup>

In its *Notice*, the Bureau sought comment on using year-end 2003 line counts filed July 31, 2004 and 2003 ARMIS special access lines as input values for purposes of estimating average forward-looking costs and determining support for non-rural carriers in 2005.<sup>2</sup> The Bureau also sought comment on whether to continue to adjust high-cost support amounts each quarter using quarterly carrier-reported wire center line count data.<sup>3</sup> In the alternative, the Bureau sought comment on whether it is appropriate to defer line counts updates until the Bureau addresses issues raised by commenters in the past *Line Counts Update Proceedings*.<sup>4</sup>

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<sup>1</sup> *Wireline Competition Bureau Seeks Comment on Whether to Update Line Counts and Other Limited Information Used in Calculating High-Cost Universal Service Support for Non-Rural Carriers*, CC Docket No. 96-45, *Public Notice*, DA 04-3269 (rel. Oct. 15, 2004) (“*Notice*”).

<sup>2</sup> *Notice* at 2.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* The Bureau sought comment on whether deferring such updates is consistent with § 254(b)(5) of the Communications Act, and whether delaying any future line count updates will ensure continuity of support for non-rural carriers. *Id.* at 3.

In the event the Bureau decides not to defer line counts updates until it addresses the many issues raised in the *Line Counts Proceedings*, the Bureau solicited comments on the appropriateness of continuing its past non-switched special access line count disaggregation methodology, and whether to apply the method used in past decisions for matching line count data to wire centers used in the model.<sup>5</sup> Finally, the Bureau sought comment on whether to update the tables in the model used to calculate general support facilities investment using the same methodology used in its earlier two orders, and on whether and how to update the traffic parameter data now that carriers are no longer required to report dial equipment minutes for separations accounting.<sup>6</sup>

In light of the comments filed, and the issues raised in the *Line Counts Update Proceedings*, the Bureau should not update the line counts used in the cost model for purposes of calculating support to non-rural carriers in 2005.<sup>7</sup> The fundamental problems identified in *the Line Counts Update Proceedings* continue to dog the Bureau's use of the current model: (1) the current model cannot accurately model the cost of special access and other high capacity services by attempting to convert high capacity lines to voice grade equivalents, and (2) updating line counts without accounting for updates in road and customer location data results in false economies of scale not reflective of actual conditions found in the telecommunications network today.<sup>8</sup> The net effect of these shortcomings of using updated line counts in the current model is

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> Comments of Rural State Commissions on Updating Line Counts and Other Limited Information Used in Calculating High-Cost Universal Service Support for Non-Rural Carriers ("Rural Commissions") at 12-13; Comments of Verizon on Updating Line Counts ("Verizon") at 1.

<sup>8</sup> Verizon Comments at 2-3, Rural Commissions' Comments at 3-4, 6-7.

the continued understatement of the per-line costs of universal service, thus substantially reducing support for non-rural carriers and ratepayers.<sup>9</sup> The Bureau's continuing practice of updating line counts without updating customer locations and roads will exacerbate the fundamental problem of using asynchronous data sets.

Thus, Verizon demonstrates that the Bureau should not update line counts before the model updates information regarding road and customer location data.<sup>10</sup> Indeed, in an appeal from a recent state UNE proceeding, the United States District Court for the Northern District of Georgia remanded a Georgia Public Service Commission Order establishing UNE rates for loops and loop related elements for the Commission's failure, among other things, to "rationally determine the costs associated with" growth in line counts.<sup>11</sup> Because both line counts and customer information impact forward-looking costs, it is impossible to update line count information alone without a corresponding downward bias in the model. In fact, the Bureau's decision to update line counts without updating customer locations and road data is even more problematic when the updated line counts include a count of special access DS0 equivalents.

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<sup>9</sup> Verizon Comments at 2, Rural Commissions' Comments at 8.

<sup>10</sup> Verizon Comments at 3.

<sup>11</sup> *BellSouth Telecommunications, Inc. v. Georgia Public Service Commission*, Civ. Action No. 1:03-CV-3222-CC, slip op. at 13 (N.D. Ga, Apr. 6, 2004) ("*Georgia UNE Remand Order*"). In the remand proceedings associated with the *Georgia UNE Remand Order*, *supra* n. 11 above, BellSouth has filed new testimony demonstrating that, under BellSouth's loop model, changes in customer locations, line counts and roads increase total loop investment, but result in almost no change in per line loop investment. Revised Direct Testimony of Mr. James W. Stegeman on Behalf of BellSouth Telecommunications, Inc. Before the Georgia Pub. Serv. Comm'n, Docket No. 14361-U (Phase I Remand Proceeding), at 9-10 (Oct. 22, 2004). Mr. Stegeman's testimony further discusses customer "sprawl" as well as the number of new roads being built, etc., and demonstrates that these trends result in less dense concentrations of customers located farther from the central office. *Id.* at 23-26. This testimony shows that any "growth" observed within BellSouth is not growth in switched access lines, but rather is predominately growth in fiber-based high capacity services. *Id.* at 15-16, 28. This growth has little or no impact on the costs of basic local service loops since these hi-cap services usually ride separate fiber overlay networks. *Id.* at 28-30. Similar such evidence would need to be considered by the Bureau in order to create an accurate model in the instant proceedings.

As the number of special access high capacity circuits increase, the DS0 equivalents of these circuits grow at an ever-increasing rate (e.g., one DS1 added is 24 DS0 equivalents but one additional OC48 is 32,256 additional DS0 equivalents). The current model's attempt to convert these special access DS0 equivalents to copper pairs models results that drift farther and farther from reality as more high capacity circuits are deployed. This is because all special access circuits greater than DS3 (and, indeed, a large and ever increasing number of DS1s) are served over fiber facilities. Attempting to "convert" these circuits to copper pairs is illogical and irrational. The number of switched services transported over the copper network used to provide universal service are actually in decline. Additionally, as customer locations continue to sprawl out to new developments farther and farther from urban centers overall line density continues to decline.

Therefore, the Bureau's current practice of (1) updating line counts without updating customer locations and roads and (2) attempting to convert high-capacity special access lines to copper equivalents models a copper network that appears to have more lines working on it at the same customer locations. This is the antithesis of reality and is both arbitrary and capricious, being unsupported in fact or law. As the Rural Commissions explain, the Bureau has a legal obligation to ensure that the data it uses to calculate costs are sufficiently accurate to "form the basis of rational decision-making."<sup>12</sup> Neither the Bureau's proposal with respect to special access line counts, nor its continued use of six year old customer location data, provide a sustainable foundation for rational decision-making, and any continued attempts to attribute the

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<sup>12</sup> Rural Commissions' Comments at 11.

inherent downward bias of these inputs to “economies of scale”<sup>13</sup> is not only unsupported in fact, but is an inherently unlawful post-hoc rationalization of a flawed model.

### **CONCLUSION**

The comments demonstrated that the Bureau should defer line count updates until it addresses the issues raised in the *Line Counts Proceedings*.

Respectfully submitted,

**BELLSOUTH CORPORATION**

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<sup>13</sup> *Federal-State Joint Board on Universal Service*, Order and Order on Reconsideration, CC Docket 96-45, DA 03-4070 (Wireline Comp Bur., rel. Dec. 24, 2003) at para. 7.

**CERTIFICATE OF SERVICE**

I do hereby certify that I have this 19<sup>th</sup> day of November 2004 served the following parties to this action with a copy of the foregoing **REPLY COMMENTS OF BELLSOUTH** by electronic filing and/or by placing a copy of the same in the United States Mail, addressed to the parties listed on the attached service list.

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