Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	
Federal-State Joint Board on Universal Service	CC Docket No. 96-45
High-Cost Universal Service Support	WC Docket No. 05-337

DECLARATION OF PATRICK GARZILLO

1. My name is Patrick Garzillo. My business address is One Verizon Way, Basking Ridge, New Jersey 07920-1097. I am Vice President- Finance, Service Costs, Verizon, and I have more than 30 years of experience with Verizon and its predecessor companies. My current responsibilities include managing and supervising the development, preparation and analysis of economic cost information, embedded costs of regulated and non-regulated services, separated costs, supporting data, cost analysis, and Universal Service Fund related issues. In this capacity, I have information and knowledge relating to the analysis of carrier rate and revenue data described below.

2. I hold a Bachelor of Science degree in Electrical Engineering Technology from the New York Institute of Technology, which I earned in 1969, and a Masters of Science degree in Management Science from Polytechnic University, which I earned in 1975. In addition, over the past several years I have attended business and educational seminars at Duke University's Fuqua School of Business, University of Pennsylvania's Wharton School of Business, Brookings Institute and Columbia University.

3. The purpose of my declaration is to present and explain Verizon's analysis of available data, which indicates that (a) based on a sample of rural and urban Incumbant Local Exchange Carrier ("ILEC") rates, it appears that these rates in rural areas by and large are reasonably comparable to urban areas; and (b) based on an analysis of ILEC revenue data, it appears that the high cost mechanism is providing more support than is necessary to achieve reasonable comparability between urban and rural rates.

I. Analysis of Sample Rural And Urban ILEC Rates Indicates They Generally Are Reasonably Comparable, And Have Been For Several Years.

4. Section I describes an analysis Verizon undertook to compare rural and urban rates from various sources. Although the analysis was performed for only a sample of rates, as discussed in more detail below, the data suggest that ILEC rates in rural areas are reasonably comparable to (or in many cases lower than) urban ILEC rates, and have been for several years.

A. Comparison of Sample Data Regarding Most Recently Available Rural And Urban ILEC Rates Demonstrates That Rural And Urban Rates Generally Are Reasonably Comparable

5. In this section, I will describe the analysis Verizon conducted of the most recently available sample rates from rural and urban areas. One major difficulty with attempting to analyze rural and urban ILEC rates from currently available data is that carriers' tariffs often cover areas that are not easily divided into "rural" and "urban" categories. For example, the study areas for large carriers often include both urban and rural areas, but, the tariffs often do not classify rate groups based on the same designations. Thus, when looking at a database of carrier rates, it can be difficult to determine which rates are "urban" and which are "rural."

6. Although the *Qwest Commc'ns Int'l v. FCC*, 398 F.3d 1222 (10th Cir. 2005 ("*Qwest II*") decision applies only to non-rural carriers, the statute makes a distinction between

"rural" and "urban" *areas*, not the type of carrier serving them. *See* 47 U.S.C. § 254(b)(3). Therefore, it makes sense to look at *all* rural areas, not just rural areas served by non-rural carriers. Moreover, rates for rural carriers generally are likely to reflect rates charged in rural areas. With this in mind, Verizon selected rates charged by rural ILECs in six states as a proxy for "rural rates."

7. *Source For Sample 2005 Rural Data From Six States: CCMI Rate Database Supplemented With Publicly Available Data, Where Available.* Verizon analyzed the 2005 basic residential telephone rates charged by rural ILECs operating in six states: Iowa, Maine, Montana, New Hampshire, Vermont, and Wyoming. Three of the states, Maine, Vermont, and Wyoming, were chosen because they contain areas that commenters have suggested are not receiving sufficient support under the high cost mechanism. Two other states, Montana and New Hampshire, were chosen because they are similar in population density and terrain to the other three states. Finally, Verizon chose to look at Iowa because it is a state that has a significant number of rural ILECs. Verizon obtained sample rural rate data for ILECs in these six states from a database of rates maintained by the Center for Communications Management Information ("CCMI"). *See* CCMI TelView Online Rate & Tariff database, *available at* www.CCMI.com.

8. From the list of carriers in the six states, Verizon limited its selection to rural ILECs that were receiving high cost loop support as of fourth quarter 2004. Using this criterion, Verizon was able to locate rural rate data for 31 carriers from the CCMI database. In order to supplement this sample, Verizon also searched publicly available resources (online websites) and identified rate data for another 54 rural ILECs who received high cost loop support in these states. A summary of the rates collected, and the source for each, is located at Attachment B. On both the

CCMI database and online websites, the rates are for carriers' basic, unlimited flat-rate service. Other charges from the customer's local service bill, such as the subscriber line charge ("SLC"), taxes, or other fees, were not included. And wherever the rural ILEC charged more than one rate in a study area, Verizon used the straight average of those rates for this analysis. Taking a straight average of the 85 available rates, Verizon calculated an average 2005 rural rate of $12.89. The average, weighted by the number of lines served in each area, was $13.83. Verizon calculated the line weighted average based on the number of working loops for each of the rural study areas as of December 31, 2004. *See* USAC, *Federal Universal Service Support Mechanisms Fund Size Projections for the Fourth Quarter 2004*, at Appendix HC-05, column G (2004) (reporting the number of working loops for each study area) ("Q4 2004 Report").

9. *Source for 2004 Urban Rate Data: FCC Urban Rate Survey.* Verizon obtained the 2004 urban rates for ILECs' basic residential telephone service from the Federal Communication Commission's Industry Analysis & Technology Division's annual survey of ILEC local telephone service rates in 95 urban areas.[1] Data from that survey are summarized in the *FCC Reference Book of Rates, Prices Indices, and Household Expenditures for Telephone Service* (2005) ("*FCC Reference Book*"), *available at* http://www.fcc.gov/wcb/iatd/lec.html. The underlying data are available in a document entitled, *Raw Data from the Industry Analysis Division Urban Rates Survey* ("*Urban Rates Survey Raw Data*"), available at the same website.

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[1] Urban rate data for 2005 are not yet available.

10. Like the 2005 rural data, Verizon collected information for carriers' basic, monthly unlimited flat-rate service, excluding charges such as the subscriber line charge, taxes, and other fees. Verizon calculated a straight average of the urban rates available in the FCC survey, which yielded a 2004 average urban rate of $14.21. The FCC has calculated a weighted average of the Urban Rates Survey Raw Data to be $14.53. *FCC Reference Book*, Table 1.2.

11. As shown in Chart 1.A below, based on the available data, not only is the average ILEC rural rate reasonably comparable to the urban rate, but it is actually, on average, lower than the average urban rate. Comparing a straight average of rural and urban ILEC rates ($12.89 to $14.21), the rural rates are only just over 90% (90.7%) of the urban rates. Using the weighted average, the rural rates on average are still lower than the urban rates, at a ratio of 95.2% ($13.83 to $14.53).

Chart 1.A
Average Rates For Rural And Urban ILEC Basic Residential Telephone Service And the Rural-to-Urban Ratios
Based On A Database Sample Of Rural Rates From Six States

	Rural Average (2005)	Urban Average (2004)	Rural-to-Urban Ratios
Straight average	$12.89	$14.21	90.7%
Weighted average	$13.83	$14.53	95.2%

12. In addition, the distribution of the range of rural and urban rates is reasonably comparable, as is shown in Charts 1.B and 1.C. Only one rural rate in the survey of sample data (United Telephone of the West, in Wyoming, at an average rate of $57.65 per month) falls outside the range of urban rates. The 95 urban data points contained in Charts 1.B and 1.C are from the *Urban Rates Survey Raw Data*. *See supra* ¶¶ 9-10. The 98 rural data points contained in the two charts are from two sources. *See supra* ¶¶ 7-8 (describing how Verizon obtained 85 rural data points); *see also infra* ¶¶ 17-18 (detailing how Verizon calculated 13 rural data points).

Chart 1.B
Distributions of Sample 2004 Urban and 2005 Rural Rates (Graph)

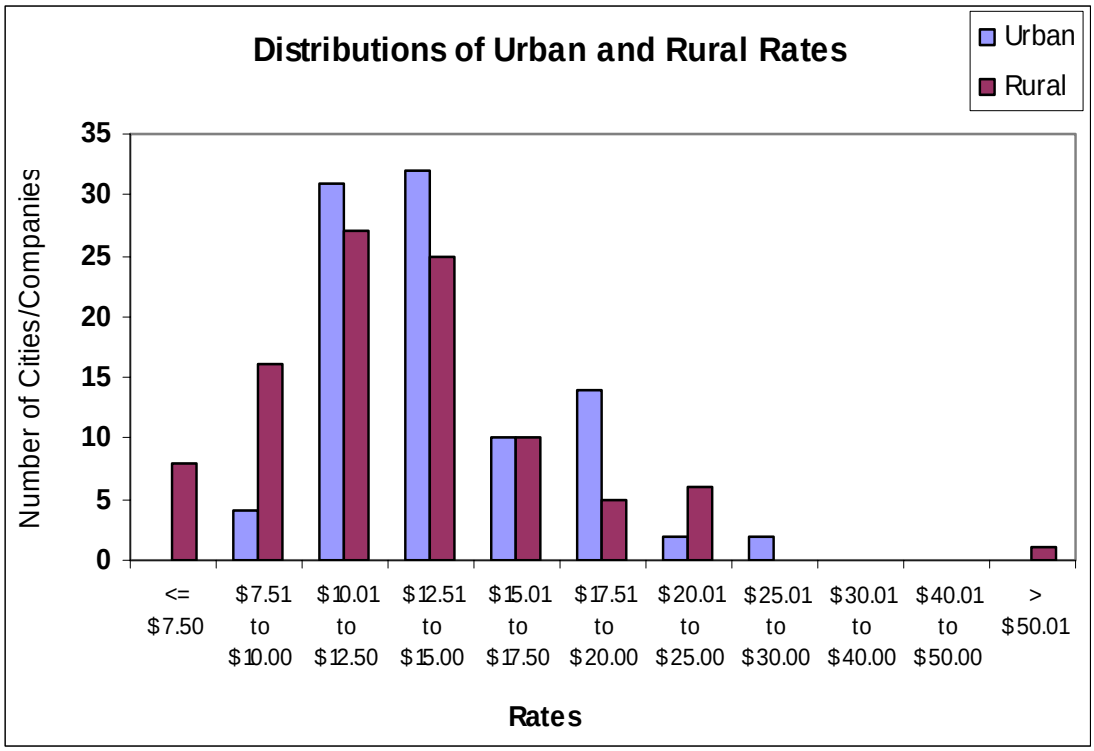
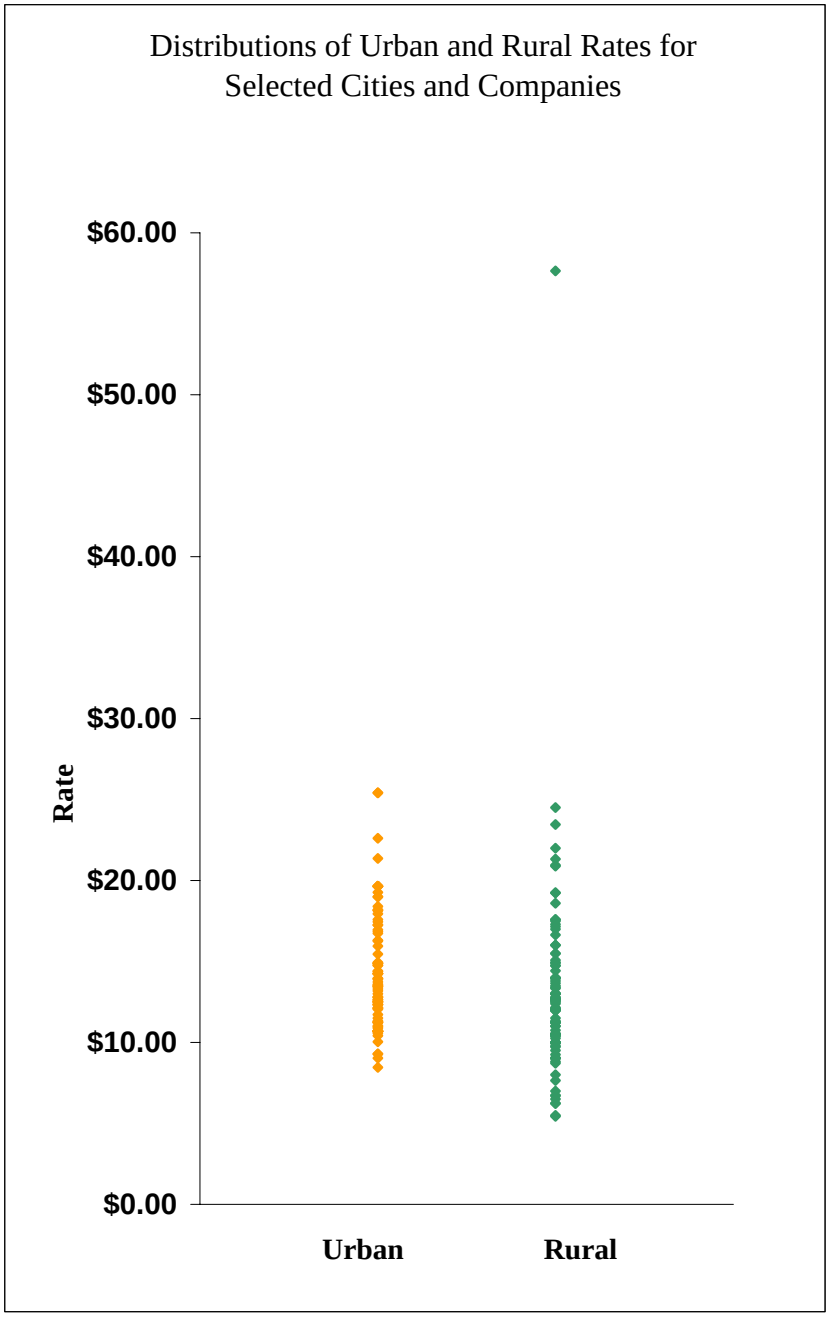


Chart 1.C
Distributions of Sample 2004 Urban and 2005 Rural ILEC Rates (Graph)



B. Sample Data of Rates Updated From the 2002 GAO Report Suggests That Rates From Even Some of the Most Rural Areas of the Country Generally Are Reasonably Comparable to Urban Rates, And Have Been For Several Years.

13. Verizon also compared sample ILEC basic telephone rates from the 95 urban areas identified above with 13 rural areas that were originally identified in the 2002 GAO Report, and for which 2005 rates could be found. *See Telecommunications: Federal and State Universal Service Programs and Challenges to Funding*, General Accounting Office Report to the Ranking Minority Member, Subcommittee on Telecommunications and the Internet, Committee on Energy and Commerce, House of Representatives (Feb. 2002) ("GAO Report"). Verizon analyzed rates both as they existed in 2001, and as reported in the most recently available year (2004 for urban data, 2005 for rural data). While this analysis is based on only a small snapshot of rates across the country, these data also indicate that even in some of the most rural areas of the country, ILEC rates for rural basic residential telephone service and urban basic residential telephone service are, in general, reasonably comparable, and have been since at least 2001.

14. *Source for 2001 Rural Rates: 2002 GAO Report.* Verizon started with the rate information contained in the 2002 GAO Report. The GAO Report collected sample data in every state from three categories of places, based on population density: central cities; suburbs; and non-metropolitan statistical areas ("non-MSAs"). *See* GAO Report, Table 3. The U.S. Office of Management and Budget defines MSAs and, in general, these areas must contain at least one urbanized area of 50,000 or more inhabitants.

15. Thus, if there were any discrepancy between rural and urban ILEC rates it would likely show up when comparing the rates charged by carriers serving non-MSAs to rates charged in urban areas because non-MSAs are the most extremely rural areas of the country. Nevertheless,

as discussed in more detail below, Verizon's analysis found that ILEC rates in non-MSAs, were reasonably comparable to urban ILEC rates.

16. Verizon used the GAO Report data regarding rates charged by carriers serving non-MSAs to calculate an average for rural rates during 2001. A straight average of all of the 2001 non-MSA data points available from the GAO Report would have yielded a figure of $14.76. However, in order to make a meaningful comparison of the trend between rural rates in 2001 and 2005, Verizon calculated the average for 2001 rural rates based only on those data points for which it also could obtain 2005 rates. As explained below, Verizon was able to find 2005 rate data for 13 non-MSAs that were reported in the 2002 GAO Report. And these rates can be found in Attachment C. The average of the 2001 local rate data for these same 13 non-MSA data points was $14.51.

17. *Source for 2005 Rural Rates: Update of Data For Available Sources Originally Identified in the GAO Report.* While the GAO Report identified rates for 136 different non-MSAs, it did not identify the names of carriers serving those areas, or which carriers were rural or non-rural. Therefore, Verizon asked the GAO to identify all of the rural ILECs that served the 136 non-MSA places listed in the 2002 report. The GAO responded to Verizon's inquiry and identified 41 of the 136 carriers as rural carriers. *See* Attachment D. Verizon again used the CCMI database of rates to attempt to locate rates for those carriers. *See* CCMI TelView Online Rate & Tariff database, *available at* www.CCMI.com. This database enabled Verizon to obtain the 2005 rates charged by 13 of the 41 rural carriers that GAO used for its 2002 report. *See* Attachment C.

18. Verizon took a straight average of the 2005 rural rates derived from the CCMI database to arrive at a 2005 average rural rate of $15.03. Because Verizon did not have available

the line counts associated with the non-MSAs, a weighted average could not be calculated. Line counts are generally reported based on study areas and not based on a particular non-MSA.

19. *Source for 2001 and 2004 Urban Rates: Urban Rates Survey Raw Data.* Verizon obtained the 2001 and 2004 average urban rates for basic residential telephone service from the *Urban Rates Survey Raw Data, available at* http://www.fcc.gov/wcb/iatd/lec.html.[2] Data from that survey are summarized in the *FCC Reference Book*, available at the same website. The *Urban Rates Survey Raw Data* contained data on urban residential rates charged by ILECs in 95 cities in both 2001 and 2004.

20. By taking a straight average of the 95 data points for each year, Verizon calculated a 2001 average urban rate of $13.80 and a 2004 average urban rate of $14.21.

21. *Comparison of Rural and Urban Rate Data.* Comparing the sample data, it appears that the average rate for basic residential telephone service in rural areas is reasonably comparable to the average rate for basic residential telephone service in urban areas. Both in 2001 and in the most recently available year (2004/2005), the rates in these very rural areas have been, on average, at a ratio of 105% to 106% of urban rates. Thus, the ratio of rural rates to urban rates has remained relatively constant since 2001. *See* Chart 1.D below.

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[2] Urban rate data for 2005 are not yet available.

Chart 1.D

Average Rates For Rural And Urban Basic Residential Telephone Service And the Rural-to-Urban Ratios Based On Rural Data From the GAO Report

	Rural Average	Urban Average	Rural-to-Urban Ratios
2001	$14.51	$13.80	105.2%
2005 (2004*)	$15.03	$14.21*	105.7%

C. Additional Rural And Urban Comparability Data From Public Sources

22. Verizon also analyzed rate comparability certifications that states filed with the Commission. Under the Commission's rules, states must annually review the residential rates charged by non-rural ILECs serving rural portions of a state and compare those rates to the nationwide urban rate benchmark of $34.21. *See* 47 C.F.R. § 54.316; *see also FCC Reference Book*, at I-4. And these state certifications confirm that the rates charged by non-rural ILECs serving rural areas are reasonably comparable to urban rates. Out of the 26 states that filed certifications with the Commission, 24 certified that the rates charged by non-rural carriers serving rural areas of their state are below the Commission's urban benchmark.[3]

23. In addition, 15 out of the 26 states provided information about the actual rates charged by the non-rural ILECs operating in their states. Six non-rural ILECs operating in five

[3] Only Wyoming and Vermont concluded that their non-rural ILECs charged rates above the national benchmark. *See* Wyoming Public Service Corporation, CC Docket No. 96-45 (Sept. 30, 2005); Vermont Public Service Board, CC Docket No. 96-45 (Sept. 26, 2005).

of those states charged the same rates in all areas of the state.[4] Thus, the urban and rural rates charged by those non-rural ILECs are reasonably comparable.

II. Analysis of Per Line Revenue Data For Several Non-Rural ILECs Indicates That The Universal Service Fund Is Providing More High Cost Model Support Than Is Necessary

24. In Section II, I will describe how Verizon compared the rates of several non-rural carriers based on their revenues. Using reporting carriers' average per-line revenues as a proxy for rates, Verizon analyzed the correlation between the non-rural carriers that receive high-cost model support and the non-rural carriers that have the highest revenues per line (*i.e.*, highest rates). The data demonstrate that, through the non-rural high cost portion of the fund, (1) the Commission is providing more support than is necessary in many areas, particularly Mississippi; and (2) in general, non-rural carriers have sufficient resources to bring rates within their study areas within two standard deviations of the rates Verizon calculated, which is also within the presumptive "reasonably comparable" benchmark set by the Commission. *See FCC Reference Book*, at I-4 (providing the most recently available national urban rate benchmark of $34.21).

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[4] In addition, Hawaii's non-rural ILEC charged a single rate on an island by island basis. Moreover, one of Wisconsin's non-rural ILECs and Utah's non-rural ILEC charged uniform statewide basic rates with varying extended area service calling areas. *See* State of Hawaii Public Utilities Commission, CC Docket No. 96-45 (Sept. 26, 2005); Public Service Commission of Wisconsin, CC Docket No. 96-45 (Oct. 3, 2005); State of Utah Department of Commerce, CC Docket No. 96-45 (Oct. 4, 2005).

A. In Many Areas, The Commission Is Providing More High Cost Support Than Is Necessary To Achieve Rates That Are Reasonably Comparable to Urban Rates

25. Verizon calculated the average monthly revenues of all Regional Bell Operating Companies ("RBOCs") from data reported in the ARMIS 43-03 reports and for the mid-size carriers that file revenue data from Table 2.9 of the FCC's Statistics of Communications Common Carriers. *See* FCC, Statistics of Communications Common Carriers, Table 2.9 (2004/2005 ed.). This set of data included all large and midsize ILECs that received high cost support.

26. Chart 2.A (which can be found in Attachment E) tracks the results of this analysis organized by Column D, average monthly revenues *with* high cost support, which is the sum of each carrier's per-line revenue plus the per line high-cost support they receive. As described below, this amount is a proxy for the rates that carriers would likely charge end-user customers if they received no high-cost support. That is, assuming that if these carriers no longer received high-cost support, it is likely they would seek to increase rates, if permitted, to recover the discontinued support amount, these amounts are an estimate of the rates they would then charge end user customers. Chart 2.B (which can also be found in Attachment E) tracks the results of this analysis organized by Column G, average monthly revenue *without* support. As described below, this amount is a proxy for the rates that carriers actually charge end-user customers.

27. *Source for RBOC Per-Line Revenue Data: ARMIS Report 43-03, Rows 5001 and 5081 (Revenues) and ARMIS Report 43-08, Table II (Line Counts).* All regional Bell Operating Companies ("RBOCs") are required to file ARMIS Report 43-03 revenue data. Verizon collected data from Report 43-03, row 5001, column b ("basic area revenue") and Report 43-03, row 5081, column b ("end user revenue"). Row 5001 "basic area revenue" includes revenue derived from the

provision of basic area message services, such as flat rate and measured service, and extended area services. *See* 47 C.F.R. § 32.5001. Row 5081, "end user revenue," includes "federally and state tariffed monthly rate charges assessed upon end users." 47 C.F.R. § 32.5081. These are charges such as the SLC, 911 fees, taxes, and universal service charges. Account 5081, end user revenue contains interstate end user revenues, including the monthly flat rate charge assessed upon end users (local subscribers) for each residential and business line. This charge is for the subscriber's portion of the common line charge covering the jointly used plant from the end office to the customer's premises for the provision of exchange services in connection with the customer's interstate calls. Verizon calculated each large carrier's annual total residential local telephone service revenue by adding the revenues that each carrier reported on rows 5001 and 5081. Verizon used data from the most recently available ARMIS reports, filed in April 2005, which summarize carriers' 2004 revenues. These categories include revenues from both residential and business services. The revenue data are reported by study area; however, if a carrier had more than one study area in a state, Verizon combined the study areas to create one, statewide revenue total. This was necessary for the per-line analysis because, as noted below, access line data, as reported for the large and mid-sized ILECs in the ARMIS 43-08 report, are only reported at a company's statewide level. By combining study areas of a carrier within a state, this reduced 86 RBOC study areas to 69 separate RBOC statewide areas.

28. In order to calculate each carrier's average per-line revenues, Verizon had to determine how many access lines the carriers served during 2004. Verizon calculated an average 2004 access line total by taking an average of data reported by carriers for the number of lines available for end of year 2003 and end of year 2004. This data was obtained from carriers' ARMIS Report 43-08, Table II "switched access lines in service" for the past two years. The

average access lines are reported in Column H of both Chart 2.A and Chart 2.B, entitled, "2004 Average Access Lines." *See* Attachment E.

29. Verizon calculated each carrier's per-line average yearly revenue by dividing average revenues by average number of lines. Verizon then calculated a monthly average per-line revenue by dividing the average yearly revenue per line by 12. The results of this calculation are reported in Column D of Chart 2.A and Chart 2.B, entitled, "Average Monthly Revenue With Support Per Line." *See* Attachment E.

30. The amounts reported in Column D include carriers' high cost model support. In order to figure out what revenues the carriers received directly from end users, Verizon subtracted the high cost fund dollars these carriers received from the total revenue. Those carriers in Charts 2.A and 2.B that receive high-cost support are identified through the notation, "Hi Cost," in Column E. The amounts of high cost support were obtained from Appendix HC-15 of USAC's Q4 2004 Report, which provides the amount of high-cost model support that each carrier received by state and wire center. The monthly wire center data was annualized and summed by state and company to develop the annual high cost support per company. Verizon divided this figure by the carrier's average number of access lines (Column H) to get the amount of support per line that the carrier received for 2004, and then divided that number by twelve to arrive at the monthly figure listed in Column F, "Average Monthly Support Per Line."

31. For those carriers receiving high-cost support, Verizon subtracted their average monthly support per line (Column F) from their average monthly revenue per line with support (Column D). The results of this calculation are reflected in Column G, "Average Monthly Revenue without Support Per Line." Thus, the distinction between Column D ("Average Monthly

Revenue With Support Per Line") and Column G ("Average Monthly Revenue Without Support Per Line") is that the figure in Column D includes the revenues, if any, that the carrier received from high-cost universal service support while Column G does not include any high-cost support. The figures in Column G more closely represent the average monthly per line revenue derived from end users.

32. *Source For Mid-Size Carrier Per-Line Revenue Data: FCC's Statistics of Communications Common Carriers.* Verizon used information from the FCC's Statistics of Communications Common Carriers to obtain the revenues of 28 mid-size ILECs, and performed calculations to make the data comparable to the RBOC data summarized above. *See* Statistics of Communications Common Carriers, Table 2.9. The Statistics of Communications Common Carriers report summarizes information that the mid-size ILECs submitted on FCC ARMIS Report 43-01. The Commission, however, does not require these mid-size ILECs to provide the same level of granularity for Report 43-01 as it requires the larger ILECs to submit for Report 43-03. Thus, the revenues the FCC reports on Statistics of Communications Common Carriers Table 2.9 are derived from a number of different revenue sources and are aggregated. For example, the Commission allows mid-size carriers to combine "basic area revenues," "private line revenues," and "other basic area revenues" into one line (ARMIS Report 43-01, row 1010 labeled "basic local services"), while the RBOCs must provide these data in separate ARMIS rows (ARMIS Report 43-03, rows 5001, 5040, and 5060). Similarly, the Commission does not require the mid-size ILECs to separate out and report their "end user revenues" on a single line like the larger carriers report on row 5081. Rather, the FCC requires the mid-size ILECs to report all of their revenues from "end user revenues" (the equivalent of row 5081), "switched access revenues" (the equivalent of row 5082), and "special access revenues" (the equivalent of row 5083) on a

combined ARMIS category, which is reported in Statistics of Communications Common Carriers, row 1020 (titled "network access services").

33. Verizon used an analysis of RBOC data to estimate the portion of mid-size carrier revenues that was attributable to the same categories as the RBOC revenues reported above. First, Verizon calculated that the larger ILECs' row 5001 revenue accounted for 67.9% of their revenues from rows 5001, 5040, and 5060 combined. Because the mid-size carriers report their combined revenues from rows 5001, 5040, and 5060 in one area (summarized on Statistics of Communications Common Carriers, row 1010), Verizon calculated each mid-size carrier's "basic area revenue" (or the equivalent of RBOC ARMIS 43-03 row 5001) by assuming that their "basic area revenue" would be 67.9% of their row 1010 revenue. Similarly, Verizon determined that the RBOCs' ARMIS 43-03 row 5081 revenue accounted for 32.5% of the sum of their revenues from rows 5081, 5082, and 5083. Because the mid-size carriers reported their revenues from rows 5081, 5082, and 5083 on one line (summarized in Statistics of Communications Common Carriers, row 1020), Verizon calculated each mid-size ILEC's "end user revenue" (or the equivalent of RBOC ARMIS 43-03 row 5081) by multiplying their Statistics of Communications Common Carrier row 1020 revenue by 32.5%. Finally, Verizon combined the two totals to get one total average revenue number per carrier.

34. Verizon calculated the Column H 2004 average access lines for mid-sized carriers using the same method and data sources as were used for the RBOCs. *See supra* ¶¶ 28. Once Verizon obtained this figure, Verizon calculated the mid-size carriers' average monthly revenue per line with support (Column D) and without support (Column G) by repeating the process detailed in paragraphs 29-31 of this Declaration.

35. This combination of data from RBOCs and mid-sized carriers resulted in a list of the average monthly revenues per line from basic local telephone service for 97 large and mid-sized ILECs in 2004. And this list of 97, which Verizon identifies in Charts 2.A and 2.B, includes revenue data for every large and mid-sized non-rural ILEC that received high cost support. *See* Attachment E.

B. The High Cost Mechanism Is Providing Too Much Support

36. Chart 2.A is organized in order of the carriers' average monthly revenues *with* high cost support (Column D). Assuming that if a carrier did not have high cost support it would have incentives (if able) to raise rates to recover these revenues directly from its end-user customers, the figures in this column represent a rough estimate of the average monthly rates carriers *would* charge their customers if they did not receive high cost support. Chart 2.B organizes the data in order of carriers' average monthly revenue without support (Column G), which can serve as a proxy for rates actually charged by these carriers.

37. Assuming that the carriers' average monthly revenue without support per line (Column G) can serve as a proxy for rates actually charged to end-user customers, Verizon calculated the line weighted average of the rates by performing a two-step calculation. First, for each of the carriers, Verizon divided the carrier's average number of access lines (Column H) by the sum of all the carriers' average number of access lines (the sum of Column H) and multiplied that figure by the carrier's average monthly revenue without support per line (Column G). Second, Verizon added all of the figures obtained from the first step and arrived at a line weighted average of the rates and calculated the standard deviation of that figure. Verizon calculated that the weighted average of Column G per-line monthly revenues without support is $24.45; one

standard deviation above the average is $28.82; and two standard deviations above the average is $33.19. Verizon added grey lines on both Charts 2.A and 2.B to reflect these weighted averages and the one- and two-standard-deviations-below-average lines. *See* Attachment E. For Chart 2.A, the grey lines indicate the relationship of Column D amounts (which serve as a proxy for what rates would be *without* high cost support) to these weighted averages. In Chart 2.B, the grey lines indicate where Column G amounts (a proxy for the rates *actually* charged to end users) fall in relation to average rates, and the one- and two-standard-deviations-above-average lines.

38. Carriers in only two study areas currently appear to not have sufficient resources to charge reasonably comparable rates. Turning to Chart 2.B, and using Column G, total revenues *without* high cost support included, as a proxy for the rates actually charged end user customers, only four study areas fall outside the two standard deviation spread. *See* Attachment E, Chart 2.B. And two of those four have average proxy-derived rates that are only pennies above the two standard deviation line (with average per-line revenues of $33.37 and $33.21, compared to a two standard deviation benchmark of $33.19), and those carriers' proxy-derived rates are below the actual rate benchmark set by the Commission ($34.21). *See* Attachment E, Chart 2.B; *see also FCC Reference Book*, at I-4.

39. Even if non-rural high cost support were removed entirely, it appears that only four carriers would fall above the Commission's reasonable comparability benchmark. Looking at Chart 2.A, it appears that out of the 97 study areas reflected in the chart, only seven have per-line averages in Column D (Average Monthly Revenue With Support Per Line) that fall above the line of two standard deviations of average rates. In other words, if Column D represents the rates that customers *would* have to pay for local telephone service if their carriers were not receiving high

cost support, it appears that only seven areas would have rates that would be more than $33.19, more than two standard deviations above the weighted average rate. Moreover, all but four of these carriers would have rates below the most recent national urban rate benchmark of $34.21. *See FCC Reference Book*, at I-4.

40. Four of the seven carriers that have Column D amounts that are above the two standard deviations line are receiving high cost support. Thus, it appears that all but three of the carriers that would have the highest local rates without local support have been targeted by the current high cost mechanism to receive support.

41. However, it also appears that several carriers that have Column D amounts that fall below the two-standard-deviations mark also are receiving high cost support. The most significant amount of support is that going to BellSouth in Mississippi. Looking at Column G, it appears that the high cost fund is providing enough support to allow BellSouth to charge end user rates that average $25.60 per line per month, which is only slightly above the weighted average for all carriers. *See* Attachment E, Chart 2.B. However, with an average of $7.41 in per line per month high cost model support, BellSouth is receiving $33.01 per line per month in total revenues. This indicates that, even if the Commission were to remove all high cost model support from BellSouth, and the carrier was able to increase rates to replace the lost revenue, $33.01 is a reasonable proxy for rates that BellSouth would charge customers in Mississippi if it had *no* high-cost model support. This hypothetical rate is within two standard deviations of the average rates charged by other non-rural carriers, and below the presumptive "reasonable comparability" standard reflected in the current rules. In other words, it appears that BellSouth would be able to achieve reasonably comparable rates in non-rural areas even with *no* high cost model support.

42. The amount of high cost model support given to Mississippi is a significant portion of total high cost model support. In fact, according to publicly reported figures, this one state receives more than half of all high cost model support. *See Federal-State Joint Board on Universal Service*, 2005 Universal Service Monitoring Report, CC Docket No. 98-202, Table 3.25 (December 29, 2005) (reporting that in 2005, Mississippi received $148.1 million of the total $290.85 million high cost model support that was disbursed). Over $99 million of Mississippi's non-rural high cost model funding is for one carrier, BellSouth. *Id.* Because of the Commission's portability rules, CLECs in Mississippi are receiving an additional $48.4 million in support, which are entirely derivative of the support calculations for the ILEC. *See id.*

43. This concludes my declaration

I declare under penalty of perjury that the foregoing is true to the best of my knowledge, information, and belief.

Executed on March 27, 2006

Patrick Garzillo