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

In the Matter of	)	
CMRS Market Competition	)	WT Docket No. 07-71

VERIZON REPLY COMMENTS

Verizon's wireline companies[1] are responding in this docket only because Sprint has raised claims about special access that are both untrue and go beyond the scope of this proceeding.[2] Contrary to Sprint's baseless claims, Verizon has demonstrated that the prices customers actually pay for special access services, particularly DS1 and DS3 services, have declined since the introduction of pricing flexibility, and have declined more rapidly than they did prior to that time. Verizon also has shown that there are numerous competitive providers of these high-capacity services. As a result, competition both for wireless services and for other services that use special access has thrived. Although Sprint claims that it is experiencing "adverse effects" in the form of "high" costs for special access inputs and decreased intermodal competition, there is no evidence that consumers are being harmed, and the fact that Sprint would like to pay less and increase its profits is not a valid basis for Commission action.

[1] The Verizon companies participating in this filing ("Verizon") are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

[2] *See* Sprint Nextel Corporation Comments, *CMRS Market Competition*, WT Docket No. 07-71 (FCC filed May 7, 2007).

Sprint's claim that Verizon is exercising monopoly power over special access pricing is wrong, and the "evidence" Sprint cites to support this claim proves nothing. First, Sprint improperly compares the DSL services Verizon offers its residential retail customers with the high-capacity DS1 special access services Verizon sells to Sprint and other business customers. The fact that there is a difference in price between residential DSL and high-capacity DSl services is meaningless. As demonstrated below, the DSL service offered to business customers that is most comparable to Verizon's DS1 special access services *is* priced at levels comparable to Verizon's DS1 special access service. Second, as Verizon has explained repeatedly, and the Commission has recognized, ARMIS rates-of-return (or profits as Sprint describes them), bear no relationship to pricing and serve no rate-making purpose. Thus, ARMIS returns shed no light on whether special access rates are competitive, which they are.

I. Prices Customers Pay for Special Access Services Have Declined.

Verizon has provided extensive evidence that prices customers pay for special access services have declined both in regulated and in non-regulated market areas. These declines have occurred as customers have taken advantage of the many discount plans that are being offered as a result of increased pricing flexibility.

To determine the prices customers actually pay for Verizon's special access services, Verizon analyzed data to calculate average revenue per special access line. This data showed that average revenue per line for special access services overall, and separately for DS1s, has fallen significantly. Taken as a whole, prices have declined in all regions since the FCC implemented pricing flexibility. Even in areas that continue to remain under price caps, prices have declined by more than the Commission mandated.

Between 2002 and 2004, for example, DS1 prices declined by about 6 percent,[3] while the mandated FCC reduction over the same period was only 4 percent.[4] Overall, the special access rates that customers paid declined by about 16-17 percent annually between 2001 and 2004, while the mandated Commission reduction was only 4 percent.[5] Pricing flexibility is applying additional downward pressure on prices.

Although Sprint complains (at 4) about the pricing for "last mile" connections to its cell cites, typically DS1s, these connections are still largely regulated. Very few of Verizon's last mile circuits (or DS1 channel terminations) have received complete pricing flexibility. The vast majority remain under FCC price regulation.

II. The "Evidence" Sprint Cites to Support its Claim That Verizon's Special Access Prices Are Too High Proves Nothing.

The first bit of "evidence" Sprint offers to support its claim that Verizon's special access prices, particularly for DS1 services, are too high is a purported comparison in the price of Verizon's "DSL Power Plan" service and Verizon's DS1 special access service. These services, however, are not comparable and are not the same "type" of circuits as Sprint suggests. Verizon's DSL Power Plan service is a retail residential DSL service offering. This particular service offering is one of the lowest priced and lowest speed DSL services Verizon offers.[6] While it is appropriate to serve the needs of many

---

[3] *See* Declaration of William E. Taylor on Behalf of Verizon ¶ 26 ("Taylor Special Access Declaration"), *attached to* Comments of Verizon, *Special Access Rates for Price Cap Local Exchange Carriers*, WC Docket No. 05-25 (FCC filed June 13, 2005) ("Verizon Special Access Comments").

[4] Taylor Special Access Declaration at Table 4.

[5] *Id.* at Tables 1 & 4.

[6] For a comparison of DSL residential and business plans, see http://www22.verizon.com/content/businessdsl/packages+and+prices/

residential customers, it is an asymmetrical service offering, meaning that the speed for uploading data is not equal to that for downloading data.

In contrast, Verizon's DS1 special access service is sold almost exclusively to business customers and to other competitive providers, like Sprint. Residential customers typically have no need for and do not purchase these types of high-capacity facilities. Verizon's DS1 special access service provides a dedicated two-way service capability at speeds much faster then Verizon's DSL Power Plan offering. The most comparable DSL service offering that Verizon has to a DS1 special access offering is a service called "Premium DSL," which is a service Verizon offers to business customers. Like Verizon's DS1 special access service, this DSL service provides symmetrical data capability and provides speeds comparable to DS1 special access for both uploading and downloading data.[7] The price for this service is $222 per month,[8] in line with the month-to-month base price for DS1 special access service Sprint cites.

In addition to the fact that these services are not comparable, the price Sprint quotes for DS1 special access service is misleading as well. Competitive providers who argue that special access rates have risen since the Commission granted pricing flexibility and, therefore, that the Commission should re-regulate pricing for these services, usually cite, as Sprint does here, the pre-discount month-to-month rates offered in ILEC special access tariffs. As Verizon has explained elsewhere, however, the majority of special

---

packages+and+prices.htm and http://www22.verizon.com/content/consumerdsl/plans/all+plans/all+plans.htm.

[7] *See* Verizon, *Generally Available Terms and Conditions*, Attachment 3, Section V, https://www22.verizon.com/dslmembersonly/docs/GATC-TermsandConditionVer1_2.pdf.

[8] *Id.*

access customers, representing as much as 85 percent of Verizon's wholesale demand, do not pay these month-to-month rates.[9] Instead, they purchase special access services under pricing plans that provide discounts ranging from 40 to 70 percent off standard, month-to-month rates. These discounts, in part, account for the significant decline in prices customers are actually paying for special access services. Sprint is no different. In fact, Verizon's analysis shows that Sprint is paying significantly less for Verizon's special access DS1s than the prices it cites in its comments.

The second piece of "evidence" Sprint offers to support its claim that Verizon's special access rates are too high is the timeworn argument that Verizon's ARMIS rate of return is high. But this argument proves nothing either. First, as Verizon has explained,[10] and the Commission has long recognized, accounting rates of return reported in ARMIS do "not serve a ratemaking purpose,"[11] and for good reason. ARMIS reports require wholly arbitrary allocations of costs among categories of interstate services. There are mismatches between revenues and costs among ARMIS categories. "For example, marketing expenses related to all interstate categories are recovered predominately through common line rates, and expenses and revenues associated with universal service contributions and other regulatory surcharges are booked to different

---

[9] Verizon Special Access Comments at 3.

[10] Verizon Special Access Comments at 18-23; Reply Comments of Verizon at 8, *Special Access Rates for Price Cap Local Exchange Carriers*, WC Docket No. 05-25 (FCC filed July 29, 2005) ("Verizon Special Access Reply Comments"); Reply Declaration of William E. Taylor on Behalf of Verizon ¶¶ 11-19 ("Taylor Special Access Reply Declaration"), *attached to* Verizon Special Access Reply Comments.

[11] *See Policy and Rules Concerning Rates for Dominant Carriers*, Order on Reconsideration, 6 FCC Rcd 2637, ¶ 194 (1991).

categories."[12] So long as all costs are allocated, the allocations serve the Commission's purpose, even if allocation of costs is inherently arbitrary. To use those allocations for rate-of-return calculations, however, stretches the purpose of the FCC allocations beyond their reasonable use.

Moreover, the arbitrary nature of the ARMIS category-specific data, and the fallacy of claims that rates-of-return should drive special access pricing determinations, is evident from comparing special access and switched access rates-of-return over time. While Verizon's overall interstate rate of return has remained within a fairly narrow and reasonable range between 2000 and the present (17 to 21 percent), reported special access returns increased somewhat and the switched access returns dramatically declined. Accordingly, if the Commission were to consider service-specific rates-of-return, it would have to ameliorate the apparently confiscatory returns in the switched access category. Verizon's returns for switching and total traffic sensitive services, in the former NYNEX serving area most recently were, for example, 0.45 and 1.29 percent, respectively, and rates-of-return for transport were negative across throughout the Verizon footprint, ranging from -0.33 percent in the former Bell Atlantic serving area to -7.45 percent in the former NYNEX serving area.[13] Yet no proponent of using rate-of-return data to advocate pricing determinations has suggested that rates for these services should be increased to correct this shortfall.

III. There Are Multiple Competitive Providers of Special Access Services.

---

12 *See generally* Verizon Special Access Comments at 21; Taylor Special Access Declaration ¶¶ 93-95 (explaining the "impossibility" of "assigning fixed common costs and network investment in any economically meaningful way.").

13 2006 ARMIS FCC Reports 43-01.

Verizon also has demonstrated, and the Commission has agreed, that there are numerous competitive providers of special access services, particularly in areas where demand for high-capacity services is greatest.[14] Verizon has shown that the majority of the demand for high-capacity special access services, including demand for DS1 special access services, is highly concentrated in central business districts and office parks.[15] Indeed, 80 percent of the demand for Verizon's high-capacity special access services is concentrated in a little over 8 percent of the Verizon wire center locations contributing to Verizon's high-capacity special access revenue.[16]

Because demand for high-capacity services is so concentrated, competitive providers have targeted their facilities deployment geographically to reach the greatest demand. Accordingly, Verizon's inspections and data show that there is competitive fiber collocated in nearly two-thirds of Verizon's central offices in MSAs that account for 80 percent of Verizon's demand for high-capacity special access services.[17] In addition, 80 different providers, both large and small, have collocated in Verizon wire centers in

---

[14] Verizon Special Access Comments at 24-34; Declaration of Quintin Lew ¶¶ 11-20 and Exhibits 8-26 ("Lew Special Access Declaration"), *attached to* Verizon Special Access Comments. *See also Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, Memorandum Opinion and Order, 20 FCC Rcd 18433, ¶¶ 24, 30 (2005) ("Verizon/MCI Order") ("[I]n Verizon's territory, it is clear that, in addition to MCI, 360 Networks, AboveNet, AT&T, Broadwing/Focal, Cablevision Lightpath, Con Ed, Cox, CTC Communications, CTSI, Elantic/Dominion, Edison Carrier Solutions/SCE, Electric Lightwave, Fiber Net, FPL Fibernet, Interstate Fibernet/ITC Deltacom, DMC Telecom, Level 3, Looking Glass, McLeod USA, Neon, NTS Communications, On Fiber, PPL Telecom, Progress Telecomm, Qwest, SBC Communications, Sprint, TelCove, Time Warner, Wiltel and XO provide wholesale . . . special access services.").

[15] Verizon Special Access Comments at 24.

[16] *Id*.

[17] Verizon Special Access Reply Comments at 20. *See also* Lew Special Access Declaration ¶¶ 10-12 & Exhibits 2-5.

the top 40 MSAs contributing to special access revenue in Verizon's territory, and many of these providers have fiber in anywhere from several dozen to over a 100 Verizon wire centers.[18]

These collocation data, moreover, understate the extent of deployment because they fail to capture competition from carriers that bypass Verizon's facilities altogether. Indeed, even Sprint has recognized that collocation triggers "can be inadequate and unreliable indicators of competition" because "[m]any alternative providers of special access services do *not* collocate in the ILEC end office (for example, a neighboring ILEC that overbuilds its local franchise, or a cable or electric power company that uses its own plant to provide telecommunications services)."[19] Providers collocating in carrier hotels which are often located in the same buildings as competing carriers' optical networks, for example, obtain direct access to competitive transport networks.[20] For this reason, Sprint's arguments (at 2) about the number *ILEC access lines* AT&T and Verizon collectively control and the percent of *ILEC special access revenue* AT&T and Verizon earn, prove nothing because they fail to account for the non-ILEC high-capacity access lines that are provided by these numerous competitors.

Based on this and additional data showing competitors' fiber deployment and lit buildings,[21] the Commission has found that in Verizon's serving territory competitors

---

[18] Verizon Special Access Reply Comments at 20. *See also* Lew Special Access Declaration ¶¶ 10-12 & Exhibits 4-5.

[19] Comments of Sprint Corporation at 10, *Special Access Rates for Price Cap Local Exchange Carriers*, WC Docket No. 05-25 (FCC filed June 13, 2005).

[20] Verizon Special Access Reply Comments at 21.

[21] Verizon Special Access Comments at 27-28; Lew Special Access Declaration ¶¶ 14-23 & Exhibits 4, 5, 22N, 22T & Appendix B (showing that competitive providers

have "extensive networks," and "reasonably could provide wholesale special access . . . ."[22] Contrary to Sprint's claims then there are multiple alternative providers of wholesale high-capacity special access services.

Furthermore, although Sprint argues that it still lacks multiple competitive alternatives for *remote* cell cites, this does not mean that special access services or prices should be re-regulated. Competitive pressure in places where demand is concentrated and competition is greatest disciplines prices even in more remote areas. For wireless carriers with demand outside of central business districts, Verizon's discount pricing plans allow Sprint and other wireless carriers to obtain discounts that cover *all* special access services. Wireless carriers, therefore, may leverage their purchases to obtain discounts for services in remote areas just as they do in areas where demand is greatest.

Not surprisingly, the Commission and courts have recognized that the wireless industry is highly competitive and data "'clearly show that wireless carriers' reliance on special access has not posed a barrier that makes entry uneconomic,' and that 'market evidence already demonstrates that existing [special access] rates . . . don't impede competition.'"[23] Although we do not doubt that Sprint would like to pay less for services, as consumers would always purchase at lower prices if they could, wireless carriers have been thriving even while paying current rates for special access services.

---

have over 55,000 local route miles and use their own fiber to connect to over 31,400 buildings across the country).

22 Verizon/MCI Order ¶ 45.

23 *Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Order on Remand, 20 FCC Rcd 2533, ¶ 35 (2005) (citing *USTA v. FCC*, 359 F.3d 554, 575-576 (D.C. Cir. 2004)).

There is simply no reason to think that wireless carriers, including Sprint, need a price break to compete.

Respectfully submitted,

Michael E. Glover
Of Counsel

Edward Shakin
Sherry A. Ingram
Verizon
1515 North Court House Road
Suite 500
Arlington, Virginia 22201
(703) 351-3099

Attorneys for Verizon

May 22, 2007