Attachment B

Declaration of Harold E. (Trip) West III

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

In the Matter of Special Access Rates for Price Cap Local Exchange Carriers	WC Docket No. 05-25, RM 10593

Declaration of Harold E. (Trip) West III On Behalf of Verizon and Verizon Wireless

1. My name is Harold E. West III. I am employed by Verizon Services Corp. as Director – Regulatory Support. My office is located at One Verizon Way, Basking Ridge, NJ.

2. I graduated from Princeton University in 1980 with a Bachelor of Sciences in engineering. In 1991, I completed an Executive Masters program at the University of Pennsylvania and received a Master of Sciences in engineering. I began working for Verizon New Jersey's predecessor, New Jersey Bell, in 1980 as a central office equipment engineer. I then held positions of increasing responsibility in Service Costs, Rates, Product Management, Sales and Regulatory. I began my current position in December 1994. In this position, I have testified before the Federal Communications Commission ("FCC"), as well as public utility commissions across the country, on various marketing, policy and pricing issues associated with competitive entry into telecommunications markets.

I. Overview

3. In this declaration, I describe the methodology I used to calculate the rate of decline in the prices Verizon's customers paid for DS1s and DS3s between 2002 and 2008. As explained

below, I calculated the real (inflation-adjusted) prices customers paid for Verizon's special access services (DS1s and DS3s) between 2002 and 2008 and used these prices to show that they have each declined by about 24 percent.

4. I also explain a methodology that could be used to calculate the changes in the costs of the network components used to provide special access services. With telephone plant cost indices commonly used by the industry, it is possible to calculate overall cost indices to show the relative change in the real cost of the network components used to provide special access services between two different years.

II. Price Indices for Special Access Services

5. I used the following methodology to calculate the real average prices Verizon's customers paid for DS1 services and DS3 services between 2002 and 2008. I first examined Verizon's DS1 and DS3 revenues for the years 2002, 2005 and 2008. Because of the various discount plans, contract tariffs, and price promotions offered by incumbent carriers, there is not just one set of prices for DS1s or DS3s. In order to capture the different prices actually paid by special access customers, it is necessary to use the average prices customers paid for Verizon's DS1 services and DS3 services.

6. These revenues have two basic components: channel termination and mileage. These special access revenue categories were totaled separately for DS1s and DS3s and then averaged on a per channel termination basis. In order to make valid price comparisons across the years, I normalized yearly fluctuations in mileage quantities by using the average mileage for DS1s and DS3s for 2002 in all subsequent years. These calculations yielded average special access revenues per DS1 channel termination and DS3 channel termination for the years 2002, 2005 and 2008 in nominal terms.

7. Because the prices of goods and services vary over time, I then adjusted these nominal revenue figures for inflation by using the GDP-PI for the corresponding years. They show that between 2002 and 2008, the prices paid for Verizon's special access DS1s and DS3s both declined in real terms by about 24 percent. A numerical illustration of this price methodology is included in Appendix I.

III. Cost Indices for Special Access Network Components

8. It would be possible to estimate the changes in the costs of providing special access services over time. This can be done by examining how the costs have changed for the individual network components commonly used to provide special access services. These network components include: digital circuit equipment, fiber and copper cable, poles and conduit.

9. One set of cost indices that can be used for this purpose is the AUS Telephone Plant Index ("TPI").[1] The AUS TPIs are based on the Commission's Uniform System of Accounts, Part 32. The AUS TPIs have been used extensively in the telecommunications industry for such things as the determination of trended original cost in fair value rate jurisdictions, insurance valuations, property tax valuations, cost forecasting, and price cap productivity adjustments.

10. The AUS TPI provides changes in the reproduction cost of network components through individual cost indices (TPIs) for each network component. As new technologies are introduced, AUS Consultants review the composite weight included in development of the account level indices to reflect the new mix of the property in the TPIs that are published twice each year. The AUS TPI also reports regional values for each of the individual cost indices.

11. To develop accurate estimates of the cost changes in providing special access services, the TPIs for all relevant network components, including the labor costs of installing the network components, must be included in the analysis. Looking at the cost changes for just one network component can provide a misleading picture of the overall changes in the costs of providing special access services. The AUS TPIs are available for all necessary components and include the appropriate labor costs.

12. In order to make cost comparisons between years, it is possible to aggregate the relevant TPIs into an overall, inflation-adjusted cost proxy. The TPIs for each of the network components used to provide special access services can be weighted by their investment values, such as by using the relative investment values set forth in the Commission's *Universal Service*

[1] AUS Telephone Plant Index, Bulletin No. 40, Cost Trend Tables from 1946 to July 1, 2009.

Order.[2] Such an aggregation should include the TPIs for ***all*** of the network components used to provide special access services, including the TPIs for both fiber cable and copper cable. The regional TPI values should also be weighted according to the relative regional deployment of the network components. These weightings of the relevant TPIs would produce an overall cost proxy. The overall cost proxy can then be adjusted for inflation to facilitate comparison across years. I provided an illustrative methodology that shows how the TPIs for two network components with two regional values could be aggregated into an overall, inflation-adjusted cost proxy. *See* Appendix II.

[2] *In the Matter of Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, 14 FCC Rcd 20156 (1999), *aff'd sub nom. Qwest Corp. v. FCC*, 258 F.3d 1191 (2001).

Appendix I

Example Calculation for 2008 DS1 Average Revenue Per Unit (ARPU)		
Revenue and Units are Illustrative Only		
Channel Termination Revenue	A	$ 400,000,000
Channel Termination Units	B	4,000,000
Channel Termination ARPU	C = A / B	$ 100.00
Mileage Revenue	D	$ 200,000,000
Mileage Units	E	20,000,000
Mileage ARPU	F = D / E	$ 10.00
Average Mileage per Channel Termination (2008)	G = E / B	5.00
Average Mileage per Channel Termination (2002)	H	7.00
Nominal DS1 ARPU Per Channel Termination		
at 2008 Average Mileage	I = C + (F x G)	$ 150.00
Nominal DS1 ARPU Per Channel Termination		
at 2002 Average Mileage	J = C + (F x H)	$ 170.00
GDP-PI		
2002	K	92.113
2008	L	108.481
Real DS1 ARPU Per Channel Termination		
at 2002 Average Mileage, in 2002 Dollars	M = J x K / L	$ 144.35

Appendix II

Illustrative Cost Index Construction for 2008			
Assuming two regions and two cost indices			
Row	**Data**	**Calculation**	**Result**
1	Region 1 demand	input	100
2	Region 2 demand	input	150
3			
4	Region 1 weight	row 1 / (row 1 + row 2)	40%
5	Region 2 weight	row 2 / (row 1 + row 2)	60%
6			
7	Region 1 Cost Index for Component A	input	100
8	Region 2 Cost Index for Component A	input	200
9			
10	Region 1 Cost Index for Component B	input	50
11	Region 2 Cost Index for Component B	input	75
12			
13	Region-Weighted Cost Index for Component A	(row 4 * row 7) + (row 5 * row 8)	160
14	Region-Weighted Cost Index for Component B	(row 4 * row 10) + (row 5 * row 11)	65
15			
16	Investment weight for Component A	input	70%
17	Investment weight for Component B	input	30%
18			
19	Composite Nominal Cost Index	(row 13 * row 16) + (row 14 * row 17)	131.500
20			
21	2002 GDP-PI	input	92.113
22	2008 GDP-PI	input	108.481
23			
24	Composite Real Cost Index (2002 $)	row 19 * (row 21 / row 22)	111.659

I declare under penalty of perjury under the laws of the Unites States of America that the foregoing is true and correct.

January 19, 2010

Harold E. (Trip) West III