COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Pricing, based upon Total Element Long-Run Incremental Costs, for Unbundled Network Elements and Combinations of Unbundled Network Elements, and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services in the Commonwealth of Massachusetts	D.T.E. 01-20 Part A (UNE Rates)

AT&T'S COMMENTS REGARDING VERIZON'S COMPLIANCE FILING AND ASSOCIATED MOTIONS BY AT&T FOR CLARIFICATION, RECONSIDERATION, OR RECALCULATION

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Introduction.

AT&T Communications of New England, Inc., respectfully urges the Department to direct Verizon to make substantive changes in three areas of the cost studies submitted with its compliance filing, and also to direct Verizon to make several changes to its illustrative tariff. These substantive changes are required because Verizon failed to comply with the Department's directives in key areas. Further, in one critical and material instance (the forward looking-to-current, or "FLC", factor), Verizon opportunistically seized upon the minutest ambiguity in the Department's order to inflate rates substantially, rather than taking the procedurally appropriate action of seeking Clarification. The substantive changes in the three areas of Verizon's cost studies described below will materially affect the outcome. Whether or not the Department orders Verizon to make these changes will determine whether the final UNE rates adopted by the Department are commercially viable.

As the Department is well aware, it is vitally important that final rates be approved as quickly as possible. The fact that (with the exception of non-recurring charges for hot cuts) these rates will take effect retroactive to August 5, 2002, does not change the fact that time is of the essence. AT&T cannot make a business decision regarding whether it can economically enter the residential local exchange market in Massachusetts until final rates have been approved. Quite simply, the rates that come out of this compliance process will determine whether AT&T can enter the market and provide an alternative local service to Massachusetts consumers. AT&T therefore requests that Verizon be directed to file a summary of corrected recurring and non-recurring charges within five business days after the Department rules on the compliance filing, with supporting cost studies submitted electronically but not in paper form. The changes that are required will have a material impact on the results, but they can be made by Verizon to its cost studies with relatively little effort.

The following corrections must be made to Verizon's compliance filing so that it will, in fact, comply with the Department's orders. They are explained in detail beginning on page 4.

First, AT&T requests that the Department not accept Verizon's recalculation of its forward-looking-to-current ("FLC") factor, as it does not comply with the Department's orders. Accordingly, AT&T moves that the Department reconsider the paragraph at the top of page 98 of the D.T.E. 01-20 order issued in July 2002 and direct Verizon to recalculate its rates based upon a FLC factor of 80 percent, as Verizon had proposed in its cost models.

This Motion is both well-grounded and timely. The DTE has found that Reconsideration is justified in a proceeding like this if a Department's order to adjust some specific facet of a cost study is discovered at the compliance filing stage to be the result of mistake or inadvertence. *Consolidated Arbitrations*, Phase 4-A Order at 4-5. Here, the Department was led to believe that Verizon's cost models calculate a forward-looking investment for the entire network, and that one could then adjust the FLC mathematically by comparing (i) the forward-looking investment that Verizon previously said its models produce with (ii) the forward-looking investment produced after the models and inputs were adjusted per the Department's order. However, as demonstrated below, this premise was mistaken, and the Department was misled by Verizon. While AT&T suspected discrepancies in Verizon's calculation of the FLC upon initial review of the Compliance Filing, it was not until the technical session on March 5th and 6th that the errors and inadequacies of Verizon's alternative calculation of a new FLC factor came to light. Thus, this is the first opportunity AT&T has had to bring them to the Department's attention.

Furthermore, Verizon did not undertake the recalculation ordered by the Department, nor did it seek Clarification. Instead, Verizon performed a distinctly different calculation of an entirely new FLC factor. This calculation of a new 59 percent FLC factor is not based on record evidence, is not credible, and therefore must be rejected. Indeed, as AT&T will demonstrate below, fixing Verizon's recalculation to approach consistency with Department orders produces a FLC of at least close to 80 percent, and perhaps higher than that.

Second, with respect to another critical issue, Verizon did not comply with the Department's order regarding avoidable retail costs. Rather than revise its calculation of avoidable percent factors in accord with the Department's explicit directive, Verizon instead abandoned that aspect of the cost models approved by the Department and without permission substituted a portion of its old, 1996 cost model that differs materially from what the Department contemplated and ordered. The Department had ordered the avoidable percentages to be increased, but Verizon's sleight of hand had the effect of decreasing them. Given how Verizon misconstrued the Department's prior orders on this point, AT&T requests that the Department clarify those orders now.

Third, Verizon failed to comply with numerous aspects of the Department's orders with respect to non-recurring charges (NRCs), all in ways designed to inflate its NRCs above the TELRIC levels ordered by the Department. AT&T again requests clarification of the Department's prior orders where necessary.

Fourth, AT&T has identified several ways in which Verizon's illustrative Tariff 17 should be modified. AT&T has not had the time to undertake a complete, word-for-word review of these voluminous changes reflected in the illustrative tariff. However, AT&T requests that Verizon be ordered to correct the several errors or ambiguities which we have identified.

Argument.

I. Verizon's Calculation of an Entirely New FLC Does Not Comply with the Department's Orders, the Mathematical Adjustment Ordered by the Department Cannot Be Done, and Instead Verizon Developed Without Authorization an Entirely New FLC That is Not Based on the Record Evidence in this Proceeding or Even on Verizon's Own Cost Models.

A. Introduction and Background Regarding FLC.

Verizon proposed a forward-looking-to-current (FLC) conversion factor of 80 percent in its recurring cost model. Several CLEC witnesses argued in response that that it would be inappropriate to use any FLC factor, but that even if a FLC factor were accepted it should be higher than 80 percent. In response, in prefiled Surrebuttal testimony Verizon presented numbers purporting to show that a FLC as low as 65 percent would be appropriate. However, Verizon's witnesses acknowledged that in fact this analysis could not be used to set a FLC factor, conceding that the forward-looking investments it assumed were incomplete at the very least because they excluded the *substantial* investments that Verizon's models categorize as "support." Ex. VZ-38a at 7-8. Thus, the testimony presented by Verizon argued that its 80 percent FLC factor "was more than reasonable," and should be adopted as is by the Department. *Id.* Verizon made the same point in its reply brief, at page 36 fn. 27, where it argued that the 80 percent FLC factor was "conservative" and should be adopted.

The Department "conclude[d] that Verizon's ACFs should be adjusted by the proposed FLC factor." D.T.E. 01-20 at 97. It then went further, however, and also directed Verizon to adjust its FLC factor to reflect revisions in network assumptions or input values ordered by the Department. *Id.* at 98. The Department believed that the FLC factor could be adjusted in a mechanical, mathematical way. It was led to believe, by Verizon, that Verizon's recurring cost models, when revised to reflect the Department's orders regarding network design or inputs, would produce "a forward-looking investment" that could be compared to "what Verizon proposed" in its original filing. *Id.* at 98.

But the Department was misled by Verizon on this score, and we now know from Verizon's compliance filing that these assumptions by the Department were mistaken. As explained below, Verizon's recurring cost models for the most part estimate costs for particular units of capacity, but never calculate total forward-looking investment. Thus, it was impossible for Verizon to comply with the Department's order regarding an adjustment to the FLC factor. But rather than informing the Department of its inability to comply, or seeking clarification of the Department's Order, Verizon instead took advantage of the opportunity to calculate an entirely new FLC factor that would significantly inflate the rates. While Verizon may argue that this approach is consistent with the per unit costs produced by its models, it is nevertheless, fatally flawed. First, the 59 percent FLC factor that Verizon now proposes, for the first time, is not based on record evidence, but instead is based on assumptions that have never been reviewed by the Department. Second, Verizon's brand new FLC calculation represents the ratio of purportedly forward-looking data to 1999 base data which prove to be not at all comparable. As a result, the calculation produces a number that is meaningless and arbitrary. As demonstrated below, if the Department were to begin to try to fill in the tremendous gaps in Verizon's back of the envelope calculation, it would instead derive a FLC factor that at the very least is quite close to, and perhaps higher than, 80 percent.

Since Verizon failed to comply with the Department's order to adjust its FLC factor based on record evidence and also failed to seek Clarification on this fundamental point, AT&T respectfully urges the Department to reconsider its prior order and adopt a FLC factor of

80 percent. To do anything else would result in UNE rates that are arbitrary and capricious, and therefore unlawful.[1]

B. Analysis Regarding FLC.

1. Verizon Did Not Make the Adjustment That the Department Ordered, and The Record Evidence In This Proceeding Does Not Support Verizon's Calculation of a New FLC Factor From Scratch.

The Department's order that Verizon adjust its FLC factor was based on the mistaken premise that Verizon's models produce a total forward-looking investment for the entire network, so that this model output prior to the Department's changes in network assumptions and input values could be compared to the same model output after the Department's other changes. D.T.E. 01-20 at 98. This assumption was incorrect, and thus the adjustment that the Department envisioned cannot be made. Indeed, Verizon emphasized this point during the recent technical session discussions of its new FLC factor, explaining that its outside plant and IOF models only calculate per unit cost, that they have never looked at total demand, and that they therefore do not calculate total forward-looking investment. Tech. Session Tr. 19, 25-26, 3/5/03. This is consistent with the record evidence. At the evidentiary hearings, Verizon's witness explained that its outside plant models use "a capacity-costing approach … that estimates the representative costs of the different elements. It doesn't try to estimate the cost of the total network in Massachusetts and then divide by different types of units to get the cost. It's a different approach." Tr. 3258, 2/6/02; *see also* Tr. 2475-2476, 1/31/02; Tr. 2626-2631, 2/1/02, Tr. 3288, 2/6/02.

[1] The issue is not whether Verizon's interpretation of how it should re-calculate the FLC is reasonable, absent Clarification. Seeing the ambiguity, Verizon was obliged to seek Clarification and failed to do so. Verizon sought reconsideration or clarification on 13 different issues, but rather than seek Clarification on this point Verizon opted to set out on a course of its own choosing and calculate an entirely new FLC, based on untested assumptions and not on record evidence. Consequently, it is appropriate for the Department to reject Verizon's unilateral and unauthorized interpretation, and reinstate the 80 percent FLC factor that was proposed by Verizon in its cost models.

Because Verizon's cost models do not produce a total network investment, Verizon tried to combine the per unit costs produced by its models with external demand assumptions to calculate on an *ad hoc* basis a forward-looking network investment figure. The total that Verizon derived in its compliance filing was $5.57 billion. In general terms, this figure was derived as follows. First, Verizon took the per unit costs produced by its models, and multiplied those unit costs by demand assumptions – taken from an "external source" – that do not appear anywhere in its models, to produce totals for particular portions of particular network elements based on those demand assumptions. Tech. Session Tr. at 25-26, 3/5/03. In addition, Verizon recognized that there are many portions of Verizon's network that are not in fact costed out in its UNE cost models. To the extent that it was able to identify categories of telecommunications plant in service not addressed by its models, Verizon used the 1999 embedded investments for those categories as surrogates. This is true, for example, for accounts 2220 (operator services) and 2351 (pub. tel. term. eqp.), as well as for many of the investment categories that Verizon lumped together as support investments. *See* Verizon's FLC backup.

Verizon did not adjust its 80 percent FLC factor as the Department directed, because that adjustment cannot be done. Instead, at its own initiative, Verizon set out to calculate an entirely new FLC factor. In its compliance filing, at page 1 of its electronic FLC backup, Verizon argued that "Verizon's initial FLC of 80% was not MA-specific and as such not comparable to the investment change now evident. Therefore, VZ compared the new Forward-looking investments to those provided in Verizon's Sur-Rebuttal Testimony, calculating a MA-specific FLC calculation." In other words, Verizon decided to take its new forward-looking investment figure (which does not come from Verizon's cost models, but instead was derived ***solely*** for the purpose of estimating as low a FLC factor as possible), and divided it by a figure that Verizon describes as representing its total plant in service in Massachusetts at the end of 1999, to calculate a FLC of 59 percent.

Not only did Verizon undertake a calculation very different from that which the Department was led to believe could be made, however, Verizon did so in a manner replete with uncorrectable errors. Its demand assumptions are inconsistent with the Department's orders (see Section I.B.2, below), and its estimate of forward-looking investment is fatally flawed because it improperly excludes many categories of network investment that are represented in the 1999 embedded investment denominator of the FLC calculation (see Section I.B.3).

This second set of problems cannot be quantified or fixed. To do a FLC calculation of the kind attempted by Verizon in a manner that could possibly provide the Department with a sound evidentiary basis for accepting it would require an additional proceeding rivaling this one in scope. The Department would need to investigate the full extent of Verizon's entire network in 1999, and for the many categories of investment not addressed in Verizon's UNE cost models it would have to develop an alternative means of estimating the TELRIC-based, forward-looking investment for those categories. Such an investigation is not feasible. But Verizon's effort to substitute a flawed and arbitrary calculation in its stead should, and indeed must, be rejected as arbitrary and capricious.

However, as explained below, if we begin to correct the flaws in Verizon's proposed new FLC calculation, the result is a FLC of close to or even above 80 percent. It would be improper to reduce the FLC factor below that level as there is no record evidence to support such a change.

2. The Untested Demand Assumptions Used by Verizon to Reduce the FLC Factor Are Inconsistent With the Department's Order.

As noted above, the demand assumptions upon which Verizon based its estimate of forward-looking investment do not come from the cost models approved by the Department, but instead were taken from an "external source." Tech. Session Tr. at 25-26, 3/5/03. At the technical sessions on its compliance filing Verizon tried to justify these demand assumptions by saying that they were the same ones used to estimate forward-looking investment in Verizon's recurring cost panel surrebuttal testimony, for the purposes of trying to justify its proposed 80 percent FLC factor. Tech. Session Tr. at 32, 48, 3/5/03. However, up until the technical sessions two weeks ago Verizon had concealed the fact that it used demand assumptions external to its models to derive a figure purporting to represent forward-looking investment. Indeed, in its surrebuttal testimony, Verizon misled the Department to believe that its network investment figures were outputs from its cost models. Ex. VZ-38a at 7-9. In the attachment to Verizon's surrebuttal testimony it labeled these derived figures as the "Amount in UNE Cost Studies." Ex. VZ-38a, Attachment, Pages 1 & 2. But we now know, because Verizon for the first time revealed this fact at the technical sessions, that this characterization was incorrect. Verizon derives forward-looking investment separate and apart from its cost models, and the amounts listed by Verizon as forward-looking investment – whether with its surrebuttal testimony or its compliance filing – are not found in its cost studies.

Thus, the demand assumptions used in Verizon's *post hoc* estimate of forward-looking investment are untested, were never investigated, and certainly were never adopted by the Department. Because Verizon's cost models only derive per unit costs, without first estimating total network investment and then dividing by total demand, there was never any need to litigate demand assumptions. Indeed, Verizon affirmatively represented that there was no need for the Department to review any demand forecasts or assumptions because they would not make any difference in the calculation of per unit costs by Verizon's models. Verizon indicated that for limited purposes in its SCIS runs it projected that access line demand would grow at the rate of

1.5 percent per year, but it represented that "the precise growth rate in access lines (within a range of plus-or-minus 5 percent) has little impact on the results of [Verizon's] cost model." *See* Ex. ATT-VZ 4-29, DTE-Supp 1, Supplemental Reply (citing Ex. ATT-VZ 4-6). At the evidentiary hearings, Verizon further explained that changes in levels of demand would have no impact on per unit costs in their models. Tr. 1671, 1673, 1/24/02.

But now that Verizon seeks to recalculate an entirely new FLC factor based on demand assumptions external to the cost models approved by the Department, Verizon's compliance filing for the first time makes these previously unrevealed and never before tested demand assumptions of crucial importance. It would be improper to adopt a new FLC factor based on demand assumptions that are not in the record evidence, especially where they cannot be squared with the Department's orders.

The Department required Verizon to adjust its expense factors by projecting productivity savings through 2004, which is the mid-point of the period during which the Department expects rates established in this proceeding to be in effect. D.T.E. 01-20 at 106. For the same reason, it is improper for Verizon to calculate an entirely new FLC factor based on historic demand levels. If the Department were launching a new investigation of a new FLC factor, it would have to consider the total forward-looking network investment based on expected demand in 2004, the midpoint of the expected rate period.

But that is not what Verizon did in its *post hoc* calculation of a new FLC. At the recent technical session, when asked where the demand assumptions used in the new FLC calculation came from, Verizon's witness explained that they "represent the same time period as the sample for the model," which he suggested was year end 2000. Tech. Session Tr. 19-20, 3/5/03. Verizon has represented that its cost models should assume annual demand growth of at least 1.5

percent per year, and perhaps as much as five percent growth per year. *See* Tr. 1669, 1/24/02; Ex. ATT-VZ 4-29, DTE-Supp 1, Supplemental Reply. Thus, to be consistent with the Department's order to adjust expense factors out to 2004, Verizon's new FLC calculation would have had to project four years of demand growth at between 1.5 percent and five percent per year. Verizon did not do so, and in this way as well its new FLC calculation cannot be squared with the Department's orders.

Attempting to correct this one error in Verizon's new FLC calculation produces results that are dramatically different from the 59 percent FLC factor that Verizon is now seeking. If we start with Verizon's claimed forward-looking investment of $5.570 billion presented in its compliance filing, and adjust it to account for demand growth through 2004 at an annual rate of between 1.5 percent and 5.0 percent in accord with Verizon's prior discovery response, this one change alone produces a FLC of between 62.6 percent and 71.7 percent, as shown in the following table.

<u>Adjusting New FLC for Demand Growth</u>

1999 Booked Investments ($ billions)	Forward-Looking Investments ($billions)	Annual Demand Growth	FLC
$9.439 *	$5.570 *	0.00%	**59.0%**
$9.439	$5.912	1.50%	**62.6%**
$9.439	$6.330	3.25%	**67.1%**
$9.439	$6.770	5.00%	**71.7%**
A	B = 5.570 * ((1+C)^4)	C	D=B/A

* As claimed in Verizon's Compliance Filing.

3. Verizon's Attempt to Quantify Forward-Looking Investment Leaves Out Large Categories of Physical Plant, and Is Not Comparable to the 1999 Base Data Used by Verizon.

Verizon calculated its brand new FLC factor by dividing the purported forward-looking investment by its total telecommunications plant in service in Massachusetts in 1999. Tech. Session Tr. at 16, 3/5/03. The $9.439 billion figure used in Verizon's compliance filing to calculate a new FLC factor represents the book value of every facility, software, or other asset on the books of Verizon-Massachusetts as 1999. *Id.* at 16-17. It includes plant used for intrastate as well as interstate services, for switched and unswitched lines, including all forms of special access and private lines. It includes not only the portions of the network used to provide UNEs, but also all other network assets used to provide any and all voice, data, video, or other services. Quite simply, this figure was the book value of "the entire network," including "the whole kit and caboodle." *Id.* at 17. Furthermore, this 1999 booked investment total does not reflect any depreciation, but rather reflects the original cost (the book value) of all network assets. Tech. Session Tr. at 17.

Thus, in order to have an apples-to-apples comparison suitable for calculating a new FLC factor, any calculation of the value of the forward-looking network as of 2004 must be just as comprehensive. Verizon acknowledges this in principle, which is why its calculation of forward-looking investment includes as surrogates the 1999 embedded investments for accounts 2220 (operator services) and 2351 (pub. tel. term. eqp.), for example. *See* Verizon's FLC backup. Verizon's cost models do not address these items, but Verizon concedes that one cannot calculate a new FLC without accounting for them as well as the forward-looking cost of the rest of the entire network.

However, although Verizon recognized in principle the need to ensure that any estimate of total forward-looking investment fairly accounts for the entire Verizon-Massachusetts network, in practice it failed to recognize significant portions of that network when it made its *post hoc* estimate.

For example, Verizon's estimate of forward-looking investments for switching and circuit equipment includes hardware material, but fails to include the right-to-use (RTU) fees for associated software. This is improper. Verizon's 1999 embedded network investment included substantial RTU fees, which Verizon capitalized as it bought new equipment. Tr. 1650, 1/24/02. Verizon's compliance filing accounts for RTU costs throughout the old Bell Atlantic region with a total present value of $1.537 billion. *See* Compliance Filing, Recurring Cost Model Part G-9, Workpaper Pages 1-3, Lines 2. Those same workpapers indicate that Massachusetts represents 13 percent of that total, or $200 million. *Id.*, VZ East Investments tab. Adding just this one category of missing investment to Verizon's figures, as corrected to reflect demand growth, produces a FLC of between 64.9 percent and 74.3 percent, as shown in the following table.

Further Adjusting New FLC for RTU Investments

1999 Booked Investments ($ billions)	Forward-Looking Investments ($billions)	Annual Demand Growth	FLC
$9.439 *	$5.770 **		
$9.439	$6.124	1.50%	**64.9%**
$9.439	$6.557	3.25%	**69.5%**
$9.439	$7.013	5.00%	**74.3%**
A	B = 5.770 * ((1+C)^4)	C	D=B/A

* As claimed in Verizon's Compliance Filing.
** Includes $200 million RTU investment.

But RTU fees are far from the only significant category of investment missing from Verizon's back-of-the-envelope guess at the total forward-looking investment figure. Looking at the facilities offered as UNEs, neither dark fiber nor IOF entrance facilities are reflected in

Verizon's forward-looking investment number. Verizon also offers many services that were not accounted for in its UNE cost models because they involve facilities not offered to CLECs on an unbundled basis. For example, Verizon offers DSL services to a very large number of customers in Massachusetts. Yet the only DSL-related investment for which Verizon accounts is a small amount of wideband test equipment. *See* Verizon's Compliance Filing, FLC Development spreadsheets, "Misc. Other" tab. Nowhere does Verizon account for the substantial investment in splitters, routers, and other equipment needed for DSL services in its forward-looking network. Verizon also provides many other data services that were not accounted for in its UNE cost models, including frame relay, cell relay, and other ATM services. But Verizon has not accounted for the switching and other extra investment needed to provide these services in its forward-looking network. Verizon offers an exhaustive list of other services that require specialized equipment, including a variety of specialized video conference and other video services, virtual private networks, and 911 equipment owned by Verizon rather than a municipality. *See* <http://www22.verizon.com/enterprisesolutions/ProdSolns/AllProduct.jsp.> Again, none of the extra investment needed to provide these services was accounted for in Verizon's new FLC calculation.

All told, network components missing from Verizon's new FLC calculations are likely to add up to hundreds of millions of dollars in facilities that would be part of the forward-looking network. These missing investments represent many additional percentage points that should have been added to the new FLC calculated by Verizon. It is impossible to say for certain how many points should have been added for this reason: 3%? 5%? far more? It was arbitrary and capricious for Verizon to leave these investments out of its new FLC calculation, but on the record evidence there is no way to quantify the magnitude of Verizon's error.

There is one other substantial category of investment that is included in the 1999 booked investment figures but omitted from Verizon's forward-looking investment calculations. In 1998, the FCC's Accounting Safeguards Division (ASD) audited NYNEX's continuing property records (CPR) for hard-wired equipment, and found substantial flaws.[2] These CPR are detailed records which underlie the plant accounts that NYNEX used to calculate its total 1999 booked investment for Massachusetts, as imported into Verizon's brand new FLC calculation. By FCC regulation the basic CPRs must be "equal in the aggregate to the total investment reflected in the financial property control accounts." 47 C.F.R. § 32.2000(e)(2). NYNEX was able to confirm to the FCC that its CPR totals correspond almost exactly to the totals in its USOA financial property control accounts.[3]

The hard-wired central office equipment that was the subject of this audit "represents the items generally fixed in place (frames, switches, batteries), as opposed to "plug-ins," which are relatively portable (line cards). The hard-wired investment in central offices represents approximately one-fourth of the total capital investment for a telephone company."[4] Plug-in central office equipment represents an additional one-fourth, and outside plant represents the other 50 percent.[5]

The ASD concluded that at least $381.5 million in hard-wired central office equipment listed in NYNEX's CPR could not be found.[6] One would expect that large, fixed in place central office equipment should be much easier to keep track of than plug-in equipment or far flung

2 The documentation cited herein regarding this audit can all be found at:< http://www.fcc.gov/wcb/asd/audits/ >.

3 FCC's Accounting Safeguards Division, Audit of the Continuing Property Records of the NYNEX Telephone Operating Companies Also Known as Bell Atlantic North As of March 31, 1997 ("NYNEX CPR Audit"), ¶ 9, fn. 16.

4 FCC Press Release titled "FCC Releases Audit Reports on RBOCs' Property Records," released February 25, 1999.

5 NYNEX CPR Audit, ¶ 14.

outside plant equipment. Since hard-wired equipment represents only one-fourth of the total, this audit finding strongly suggests that NYNEX had at least $1.526 billion in missing equipment altogether. In addition, the ASD identified $376.7 million in "undetailed investment" for which NYNEX could provide no description or backup whatsoever.[7] Finally, the ASD identified an additional $418.9 million in "unallocated" investment, which NYNEX represented to be hard-wired related costs that were not recorded as specified in-place costs because they were "in excess of those reasonably includable in the item in-place costs."[8] Once again, since hard-wired equipment is only one-fourth of the total, this suggests that NYNEX had at least $1,675.6 billion in total unallocated costs listed on its books. Thus, this audit suggests that NYNEX had at least $3.578 billion in unverified investments on its books [1.526 + .377 + 1.675 = 3.578]. Verizon has presented data in support of its compliance filing expense factors indicating that Verizon-Massachusetts represents about 25 percent of the total investment in the old NYNEX region. The Massachusetts share of these unexplained CPR problems is therefore in the neighborhood of $900 million.

Mustering all of its powers of understatement, the ASD concluded that:

> The inability of the company to demonstrate the existence of such a high percentage of the equipment contained in its records raises significant questions about the valuation of NYNEX/Bell Atlantic North's plant accounts. At its worst, failure to provide sufficient and convincing documentation for the acquisition of the assets in question and for their placement into regulated accounts raises doubts whether policymakers can rely on these records.[9]

Verizon challenged these results, but upon review no errors were found in the ASD's findings.[10]

(continued...)

[6] NYNEX CPR Audit, ¶¶ 3, 23, 39.

[7] NYNEX CPR Audit, ¶¶ 4, 28.

[8] NYNEX CPR Audit, ¶ 31.

[9] NYNEX CPR Audit, ¶ 39.

[10] FCC Press Release titled "Corrections to Audit Reports of Bell Operating Companies' Continuing Property Records, CC Docket No. 99-117, ASD File No. 99-22," released 10/22/99.

If we accept the premise that Verizon's new FLC calculation could be performed in theory, we would have to add these additional categories of missing investment to Verizon's forward-looking network calculations in order to come closer to an apples-to-apples comparison with the 1999 booked investment for Verizon. Making this further correction produces a FLC of between 75.0 percent and 85.9 percent, as shown in the following table.

Further Adjusting New FLC for Missing CPR Amounts

1999 Booked Investments ($ billions)	Forward-Looking Investments ($billions)	Annual Demand Growth	FLC
$9.439 *	$6.670 **		
$9.439	$7.079	1.50%	**75.0%**
$9.439	$7.580	3.25%	**80.3%**
$9.439	$8.107	5.00%	**85.9%**
A	B = 6.670 * ((1+C)^4)	C	D=B/A

* As claimed in Verizon's Compliance Filing.

** Includes $200 million RTU investment, plus $900 million to account for missing CPR amounts.

Finally, Verizon's calculation of a new FLC factor is inconsistent with the record evidence in yet another way. Verizon presented evidence that its total 1999 booked investment was $9.206 billion. *See* Ex. VZ-38a, Attachment Page 2. It is not proper for Verizon to use a different number in its compliance filing, under the guise that it inadvertently left something out the first time around. Verizon's cost models are extraordinarily complex, and it is to be expected that numerous inadvertent errors remain embedded within it. It is unfair for Verizon to use its very large cost study staff to make corrections in Verizon's favor during the compliance filing phase, when it is impossible for CLECs to identify counterbalancing errors that undoubtedly still linger. Correcting for this overreaching by Verizon produces a newly calculated FLC factor of between 76.9 percent and 88.1 percent, as shown in the following table.

Further Adjusting New FLC to Reflect Original 1999 Booked Investment

1999 Booked Investments ($ billions)	Forward-Looking Investments ($billions)	Annual Demand Growth	FLC
$9.206 *	$6.696 **		
$9.206	$7.107	1.50%	**76.9%**
$9.206	$7.610	3.25%	**82.3%**
$9.206	$8.139	5.00%	**88.1%**
A	B = 6.696 * ((1+C)^4)	C	D=B/A

* As stated in Verizon's Prefiled Surrebuttal Testimony, Ex. VZ-38a.

** Includes $200 million RTU investment, plus $900 million to account for missing CPR amounts.

C. Conclusion Regarding FLC.

Verizon misled the Department into believing that Verizon's cost models produce an estimate of the total investment in the forward-looking network. They do not. As a result, the adjustment that the Department sought to make to the 80 percent FLC factor simply cannot be done.

Verizon's unauthorized effort to calculate a new FLC factor from scratch is largely based on unverifiable assumptions rather than record evidence. It would be arbitrary and capricious, and thus unlawful, for the Department to rely on such unsupported sleight of hand to set a new FLC factor.

If we attempt to quantify the many errors and omissions in Verizon's *ad hoc* and *post hoc* calculation of a new FLC factor, we discover that such a calculation should produce a FLC factor of close to or even in excess of 80 percent. Indeed, even if we assume only the minimum annual demand growth posited by Verizon of 1.5 percent per year, and recognize the significant impact of the unquantifiable omissions of investment from the forward-looking network (including investment for DSL service, high-volume data services for businesses, video conferencing services, etc.), we arrive at a FLC factor of at least 80 percent. *See above.*

Any one of the gaping holes in Verizon's unauthorized new FLC calculation is sufficient for the Department to reject it. Together, they provide a compelling demonstration that Verizon's brand new 59 percent FLC factor is without credible foundation, does not comply with the Department's orders, and must be rejected.

In sum, there is no basis for accepting Verizon's proposal of a brand new 59 percent FLC factor. AT&T respectfully urges the Department to order Verizon to restate its UNE rates using an 80 percent FLC factor, for the reasons stated above.

II. VERIZON IMPROPERLY <u>REDUCED</u> ITS AVOIDABLE RETAIL-RELATED COST PERCENTAGES, RATHER THAN INCREASING THEM AS ORDERED BY THE DEPARTMENT.

Verizon has deliberately misinterpreted the Department's order with respect to exclusion of retail-related expenses. Rather than adjust this portion of its cost study (based on 1999 expenses, and excluding depreciation costs that are dealt with elsewhere) in accord with the Department's order, Verizon instead substituted a completely different analysis (based instead on 1995 expenses, and comparing retail-related expenses to a total that includes depreciation costs). It did so without authorization or justification. The difference between what the Department ordered and what Verizon did makes a very substantial difference in the resulting rates. Verizon is trying to pull a fast one.

In the post-hearing briefs, AT&T made two simple points regarding this issue. First, the share of each expense category that would be avoided because it is retail-related should be no lower now than the Department had ordered in the *Consolidated Arbitrations* proceeding. AT&T noted that for some categories Verizon's cost study in this proceeding establishes that a higher share would be avoided (this is true for accounts 6612, 6623, and 6124), and that in those cases that higher avoided percentage should be applied. Second, AT&T noted that the Department previously found that the excluded share of indirect expenses should at least equal the ratio of the avoidable retail-related direct expenses to the total direct expenses, and that Verizon failed to provide any evidentiary support for making a change in this principle at this time. AT&T restated Verizon's avoidable retail expense calculations in accord with these principles, and urged the Department to require Verizon to uses these percentages in its cost studies. *See* AT&T's Initial Brief at 47-49. (For the Department's convenience, a copy of this restatement is attached to these comments.)

In its order, the Department agreed with AT&T on all points, and directed Verizon to make these changes in its cost study. D.T.E. 01-20 at 116.

Verizon did not do as directed. Instead of revising its avoidable retail expense calculation as shown by AT&T and ordered by the Department, Verizon instead replaced that portion of its cost study with a completely different retail-related calculation. This substitute calculation was not proposed by Verizon at any time during this proceeding, and was not authorized in the Department's order. This substitute calculation differs in two very significant ways from the retail-related calculation in the cost model approved, with the revisions described above, by the Department in this proceeding. First, Verizon's unauthorized substitute analysis calculates avoidable retail percentages based on old 1995 expenses, rather than on 1999 expenses as approved by the Department. Tech. Session Tr. 53-54, 3/5/03. Second, in the cost model approved by the Department, Verizon did not include depreciation expense (or uncollectibles) within its analysis of avoidable retail expense, because depreciation expense and uncollectibles are dealt with separately in other parts of the cost models. *Id.* at 54. However, Verizon's unauthorized substitute analysis adds depreciation expense back into the analysis, which has the effect of improperly and substantially decreasing the calculation of avoidable retail expense.

The differences between what the Department ordered and what Verizon used are striking. For example, in the avoidable retail expense calculation proposed by AT&T and adopted by the Department, the ratio of avoidable retail-related direct expenses to total direct expenses (which is then used to calculate the avoidable shares of most indirect expense accounts) is 26.50 percent. In Verizon's unauthorized substitute analysis, that ratio is only 18.7 percent.

The main culprit is Verizon's improper inclusion of depreciation expense in its substitute analysis. If one takes Verizon's substitute analysis and begins to correct it only by removing depreciation (and uncollectibles) from the calculation, so that in structure it is stated on the same basis as the avoidable retail-related expense calculation that the Department actually approved, the difference is striking. As shown in Addendum Page 2 to these comments, with this one change Verizon's substitute analysis would produce a ratio of avoidable retail-related direct expenses to total direct expenses of 28.71 percent, higher even than proposed by AT&T and ordered by the Department. This analysis also differs from that approved by the Department by assuming avoidable shares for accounts 6612, 6623, and 6124 that are lower than the shares conceded by Verizon in the cost study it filed in this proceeding. As shown on Addendum Page 3 to these comments, if these three items are also corrected then Verizon's substitute analysis would produce a ratio of avoidable retail-related direct expenses to total direct expenses of 29.58 percent.

Verizon will undoubtedly argue that it thought it was carrying out the Department's directives. It will likely claim that, because the Department concluded its analysis by "direct[ing] Verizon to revise its ACFs to exclude all retail related expenses to the extent required by the *Consolidated Arbitrations*," Verizon thought it was supposed to abandon the avoidable cost analysis submitted in this proceeding and substitute one based on 1995 data with depreciation expenses added into the analysis. AT&T requests that the Department clarify that this was not its intent. It is clear from the complete text of this section of the order that this was not the Department's intent.

Indeed, what Verizon has done makes no sense. When Verizon filed its cost study in this proceeding, in Part G-1 it calculated a ratio of avoidable direct expenses to total direct expenses of 22.06 percent. The Department ordered changes to this calculation that would increase this figure to 26.50 percent, as discussed above. But in its compliance filing, Verizon has ***reduced*** this percent to 18.7 percent. What Verizon has done with this item has the effect of substantially increasing the forward-looking costs that its models calculate. This unauthorized change was not even proposed by Verizon during the proceeding, and Verizon was not given permission to slip it in during the compliance phase. AT&T respectfully requests that Verizon be directed to use the avoidable cost percentages shown in Addendum Page 1 to its Initial Brief (and attached to these comments), as the Department previously ordered.

III. WITH RESPECT TO NRCS, VERIZON MADE CHANGES NOT AUTHORIZED BY THE DEPARTMENT, AND DISREGARDED ASPECTS OF THE DEPARTMENT'S ORDERS THAT IT DID NOT LIKE.

A. Verizon Improperly Inflated Its NRC Labor Rates.

The Department had approved Verizon's use in its NRC model of labor rates trended from 1999 through 2002. *See* D.T.E. 01-20 at 435, 518-519. Neither Verizon nor any other party had asked the Department to adopt different labor rates for calculating NRCs, and thus no change was ordered in those rates by the Department. *Id.*

However, without any authorization Verizon took it upon itself to use different labor rates, that are 5.92 percent higher than the labor rates approved by the Department. Rather than use the prior rates trended through 2002, in its compliance filing Verizon decided to make up new labor rates for 2004, and made the assumption that labor rates would increase in 2003 and 2004 at the same rate it had previously assumed for 2001 and 2002. This assumption was never litigated, and the use of higher labor rates than those approved by the Department is improper in a compliance filing.

Verizon attempted to hide this material and unauthorized change to its NRC model. Verizon was directed to provide a summary of all changes that it made to its cost models. Verizon did not list this material change to its NRC labor rates in its "Compliance Tracking Matrix," and only revealed this unilateral change when asked about it by AT&T at the technical session. At the technical session Verizon's witness asserted that the Department had specifically ordered Verizon to increase its labor rate. Tech. Session Tr. 175-176, 3/5/03. When asked by Staff to point out where that directive could be found in the Department's orders, Verizon proved unable to do so. *Id.*; TS Request-6. The reason is simple: no such directive exists.

After this sleight-of-hand was discovered at the technical session, Verizon tried to explain it away on the grounds that it "was necessary to reflect the Department's directive that the recurring and NRC models for UNEs should be based on the same network assumptions." TS Request-6. But that is a misstatement. The Department was referring to technology assumptions, which it said should be consistent across the recurring and non-recurring models. D.T.E. 01-20 at 441. Verizon's recurring cost model does not include any labor rates. It is disingenuous and misleading for Verizon to try to justify its unauthorized increase to its NRC labor rates on this basis. Similarly, the productive adjustment in VCost does not affect the NRC model, and thus the Department's order on the former should have no effect on the latter. TS Request-6.

Verizon should not be allowed to make unilateral changes to its cost models during the compliance phase. With respect to NRC labor rates, it should be directed to use the rates previously approved, and not be permitted to increase them by 5.92 percent.

B. Verizon Failed to Remove Field Dispatch and Loop Maintenance Costs From its Non-Recurring Cost Model.

Verizon was ordered to recover all field dispatch and loop maintenance costs through the ACF applied to calculate its recurring costs. D.T.E. 01-20 at 452-453. The only exception was for very narrowly limited optional field dispatches. D.T.E. 01-20 Part A-A (reconsideration) at 86. The only instances in which that optional field dispatch NRC will apply is where a CLEC requests the "tagging of NIDs" or "circuit identification at a demarcation point." See Illustrative Tariff DTE MA No. 17 Part A, § 3.3.2.A.6.

Verizon disobeyed the Department's directive, and failed to remove any of the field dispatch or loop maintenance costs from its NRC model. Verizon's technical session witness said those costs were kept in the model as "placeholders," but that Verizon removed these costs from its illustrative tariff. Tech. Session Tr. at 155, 3/6/03. But this approach – which is not at all what the Department ordered – produces results inconsistent with the Department's directives. Verizon has in fact failed to remove all field dispatch and loop maintenance costs from the NRCs in its illustrative tariff, because it failed to revise its NRC model as directed.

The Department made clear that Verizon was required to remove not only the tasks under the heading "field dispatch", but also to "remove … any other field work-related tasks from the NRCM." D.T.E. 01-20 at 497. For example, the Department expressly ordered Verizon to remove CO Frame tasks numbers 17 and 18. Verizon did so only with respect to hot cut NRCs, but failed to do so with respect to any other NRCs (*see, e.g.*, NRCs 1, 2, 7, 8, 11-14, and 80-83).

There are numerous other individual work activities that relate solely to field dispatch, and thus must be removed from the non-recurring cost study. For example, RCCC activities 9, 10, and 11 are for verifying a field dispatch, removing related roadblocks, and verifying work by the field technician. RCCC activity 17 has to do with demarcation information or testing in the field, and RCCC activity 35 involves dealing with "no access" problems with a field dispatch. RCMAC activities 5, 6, and 8 all involve loop maintenance-related work for identifying and fixing maintenance problems on customer's lines. Since all of these activities relate solely to field dispatch and loop maintenance, they must be eliminated from Verizon's cost study in accord with the Department's order.

Furthermore, for some NRCs the only work being done is field dispatch work. In those instances, where no central office wiring is performed, all coordination work (by the RCCC and other work groups) necessarily is only for field dispatch, since there is no other work being performed. This is true for NRC numbers 84 through 95, for example, for new IDLC loops or for distribution subloops. Since the entire NRC relates to field dispatch, and those costs are now being recovered through Verizon's recurring rates, these NRCs must be eliminated in their entirety. (The UNE-P NRCs will have to be reduced accordingly, since they are based in part on IDLC work that is solely related to field dispatches.)

The same is true for NRC numbers 62, 63, and 64: Misdirect In, Misdirect Out, and TC Not Ready. These activities are solely for loop maintenance, and in addition NRC Nos. 63 and 64 (Misdirect Out and TC Not Ready) are only for field dispatch-related work. All three of these NRCs need to be eliminated from the cost study to comply with the Department's directive to exclude loop maintenance and field dispatch costs from Verizon's NRC model and calculations.

Verizon should be directed to make all of these corrections to its NRC model, in compliance with the Department's direct order to remove all field dispatch and loop installation costs from Verizon's NRCs (except for the limited optional field dispatch, that is separate and apart from all the other NRCs).

C. Verizon Misapplied the Department's Orders Regarding Fallout and FLAF Reductions.

Verizon has interpreted and applied the Department's orders regarding both a global fallout rate of two percent and downward revisions in forward-looking adjustment factors (FLAFs) in several ways that are inconsistent with the Department's clear intent. AT&T requests that the Department clarify its prior orders to remove any confusion on these points, and direct Verizon to make the requisite corrections to Verizon's non-recurring cost model.

1. Verizon Applied the Two Percent Fallout Rate Very Selectively, and Not Globally As Directed.

The Department "order[ed] Verizon to modify its NRCM to assume a global fallout rate of two percent." D.T.E. 01-20 at 483. Verizon failed to do so in several key ways.

First, for hot cut NRCs Verizon assumed a two percent fallout rate with respect to TISOC tasks 1 and 2 in its compliance filing, but it did not make the same adjustment to TISOC task 3. This is incorrect. The Department specifically found that a two percent fallout rate should apply to TISOC task 3. D.T.E. 01-20 at 496. Furthermore, Verizon failed to apply the two percent fallout rate for these TISOC tasks to other NRCs (*see, e.g.*, NRCs 1, 7, 11, 13, 17, 21, 23, 25, 28-30, 32-36, 38, 40-53, 80, 82, 84, 86, 88, 90, 92, 94, 120-121). This too is incorrect. Verizon may not apply a "global" change selectively. Verizon should be ordered to fix these deviations from the Department's orders.

For MLAC and RCMAC tasks, the same problem occurs in reverse. The MLAC and RCMAC are only involved if an order falls out of automatic processing. Tr. 666, 1/17/02.

Verizon acknowledges that the global two percent fallout assumption applies to all MLAC and RCMAC tasks. Tech. Session Tr. at 158-159, 3/6/03. However, Verizon did not apply this fallout rate for these tasks on hot cut UNEs, because the Department had ordered specific FLAF changes which resulted in an assumption of fallout far in excess of two percent. This inconsistency within the Department's order appears to be a mistake. It did not come to light until Verizon made its compliance filing. AT&T asks that the Department clarify its prior order to make clear that if there is an inconsistency between its directive that Verizon apply a global fallout rate of two percent and its separate adjustments to specific FLAFs, that whichever change results in a more efficient, *i.e.* shorter, forward-looking work time is the one that Verizon should implement in its NRC. The Department's clear intent was to account for all reasonable forward-looking efficiencies in the restatement of Verizon's NRC model. Verizon should not be permitted to pick and choose among the Department's directives in a manner that assumes the least efficient network it can justify with reference to some isolated portion of the Department's order.

2. Verizon Failed to Apply the Department's Specific FLAF Reductions to NRCs Other than Hot Cuts.

The Department analyzed Verizon's FLAF assumptions in the context of a two-wire hot cut, ordered Verizon to make specific revisions to make the study more forward-looking, and further directed that Verizon apply these same revisions to any other NRC in which the same task appears. D.T.E. 01-20 at 494. Verizon failed to follow the latter part of the Department's order: it did not make the same downward revisions in FLAFs to any NRCs other than for hot cuts. This is true, for example, with respect to the FLAFs for RCCC task 3. Verizon was ordered to reduce the FLAF for this task to 10 percent. It did so for hot cut NRCs, but for 2-wire new initial orders (NRC No. 1) it assumes a higher FLAF of 16 percent in its compliance filing.

However, it would not make sense to apply the Department's directive in a way that makes the NRC model less forward-looking. There are some FLAF reductions that the Department ordered with respect to hot cuts that would result in FLAF ***increases*** if applied to other NRCs. For example, for RCCC task 6 Verizon was directed to reduce the FLAF (in the hot cut context) to 25 percent. But for new 2-wire loops, NRC No. 1, the Department's general order to reduce FLAFs by 20 percent results in a FLAF of 16 percent. It would not make any sense for Verizon to substitute a higher FLAF of 25 percent in this instance, or more generally for Verizon to apply the Department's orders in way that increases FLAFs above what results from reducing Verizon's proposed FLAFs by 20 percent.

AT&T requests that the Department clarify its prior order to make this clear, in accord with the Department's evident intent. Verizon should be directed to take all of the FLAF reductions ordered for hot cut NRCs and apply them to the same tasks for all other NRCs, but only to the extent that doing so results in a ***lower*** FLAF than the Department's more general order to reduce all FLAFs by 20 percent.

D. Verizon Failed to Reduce Its Task Times As Ordered, and Instead Deliberately Violated the Department's Directives.

The Department directed Verizon to compute a 95 percent confidence interval around each of the task times used as inputs to its NRC model, and to use the low end of the 95 percent confidence interval instead of the times proposed by Verizon. D.T.E. 01-20 at 470. On reconsideration, Verizon challenged this directive, and argued instead for a "trimmed mean" approach under which it would eliminate the highest and lowest 10 percent of the work times and calculate a new average. D.T.E. 01-20 Part A-A at 85. The Department expressly rejected Verizon's proposal to use a trimmed mean approach, and confirmed that Verizon must instead "reduce task times by using the low end of the 95 percent confidence interval" without trimming away high or low observations from the survey data set. *Id.* at 89.

Verizon ignored the Department's express orders, and instead input into its NRC model new work times that used the "trimming" approach rejected by the Department. Verizon calculated a 95 percent confidence interval in two different ways. One was calculated on the full survey data set, as directed by the Department. These recalculated times are in the column labeled "lower limit without trimming" in the task time backup provided by Verizon at the request of the Department. The other method Verizon used was to delete or "trim" 10 percent of the observations from the high end of the survey data set and another 10 percent of the observations from the low end of the data set before calculating the confidence interval. These recalculated times are labeled "lower limit with trimming" in Verizon's backup. *See* Tech. Session Tr. 3/6/03 at 167-168, 187-190, 193.

Verizon improperly used the task times recalculated "with trimming" in its compliance filing. *Id.* These task times are materially higher than the task times that lie at the low end of the 95 percent confidence interval calculated using the standard equation, without trimming.

In sum, Verizon deliberately flouted the Department's orders. Verizon filed a motion for reconsideration arguing that its recalculation of task times should be done by trimming away the highest and lowest ten percent of observations. The Department expressly rejected that proposed revision to its order. But Verizon went ahead with its trimming approach anyway. That directly violates the Department's order on reconsideration. Verizon did so because it is trying to keep its NRC charges higher than the forward-looking levels mandated by the Department.

AT&T respectfully urges the Department to require that Verizon recalculate its NRCs using the task times that it calculated in its "lower limit without trimming" column, since that represents the low end of the 95 percent confidence as mandated by the Department.

E. Verizon May Not Impose NRCs for Service Order Modifications or Date Changes, As They Were Neither Requested by Verizon Nor Approved by the Department, and Because They Are Subsumed in the TISOC Portion of All Other NRCs and Thus Would Constitute Improper Double Charging.

In its illustrative tariff, Verizon indicates that it intends to impose NRCs for "Modification" of a service order or for a "Service Date Change," in an amount equal to its NRCs for a "record change" to the CLEC's own billing information. *See* Illustrative Tariff 17, Part M, Section 1, Page 18. This is improper.

Verizon never proposed any non-recurring charge for either service order modifications or service order date changes, at any time during this proceeding. *See* Tech. Session Tr. at 174-175, 3/6/03; *see also* Verizon's NRC Exhibit M. The reason is simple: TISOC tasks 2 and 3 already cover any forward-looking costs incurred by Verizon for processing service order modifications or date changes. Tech. Session Tr. at 175; *see also* Verizon's descriptions for TISOC tasks 2 and 3.

It is improper for Verizon to seek to impose non-recurring charges that have not been approved by the Department. That is especially true where those charges would be duplicative, since the relevant costs are already accounted for in all of the other NRCs. AT&T requests that Verizon be directed to eliminate the "Modification" and "Service Date Change" NRCs from its tariff.[11]

[11] Even if those charges were legitimate, which they are not, they would have to be reduced to reflect the Department's forward-looking adjustments to Verizon's NRC model. *See* Section III.F, below.

F. Verizon Failed to Reflect the Department's Forward-Looking Adjustments in its "Exhibit M" NRCs.

Verizon's NRCs for record changes, design changes, data entry searches, and duplicate bills were contained in its NRC Exhibit M, because they had not yet been integrated into the spreadsheets comprising the rest of Verizon's NRC model. Each of these four NRCs were based on the 15 minutes (0.25 hours) of work time originally assumed in Verizon's NRC for TISOC task 2, for UNE-P 2-Wire New Initial orders (*see* NRC Model, Conn Time Tab, L6, Col 36, per the reference in Exhibit M). But the 15 minutes originally assumed by Verizon has been substantially reduced during the course of the proceedings. First, the time itself has been reduced from 15 minutes to 7.66 minutes by Verizon. Second, the Department has ordered Verizon "to assume a global fallout rate of two percent," which Verizon acknowledges applies to TISOC task 2. *See* D.T.E. 01-20 at 483; Tech. Session Tr. at 162, 3/6/03.

Thus, the correct forward-looking time for this task is 0.14 minutes (or 0.0023 hours), not the 15 minutes (or 0.25 hours) that Verizon is still carrying in its revised NRC Exhibit M submitted with its compliance filing. AT&T requests that Verizon be directed to use this correct forward-looking time and recalculate these four Exhibit M NRCs accordingly. (For example, using this correct time, the NRCs for a record change, design change, or data entry search should be $0.13, not the $13.85 proposed in Verizon's compliance filing. These are electronic submissions that would flow through 98 percent of the time in a forward-looking environment, per the Department's orders.)

IV. MISCELLANEOUS CORRECTIONS TO VERIZON'S COMPLIANCE FILING RATES AND ILLUSTRATIVE TARIFF.

A. Verizon Lists an Incorrect Rate for Meet Point A Arrangements.

There is an error in the Meet Point A rate calculated by Verizon in its summary pages and presented in its Illustrative Tariff 17, Part M, Section 3.1.1, Page 1. The Meet Point A recurring rate is made up of two components: terminating end-office switching (0.000767 per minute), and common trunk port (0.000428 per minute). *See* Tech. Session Tr. at 90; Verizon's Compliance Filing, Workpaper Part C-2, Section 1, Page 1, Line 36, and Section 2, Page 1, Line 6.

Adding these two components together produces a per minute charge of $0.001195 for Meet Point A arrangements. Verizon's compliance filing and its illustrative tariff erroneously state that the rate for Meet Point A arrangements will be $0.002069.

All of these numbers will be reduced if the Department orders Verizon to correct its FLC factor and its avoidable retail cost percentages, for the reasons set forth above. If so, Verizon should be directed to ensure that its final Meet Point A rate is in fact the sum of the two rate elements which comprise it.

B. Depreciation: Verizon Should Fix Its Errors With Respect to Asset Lives and Salvage Values.

At the technical sessions on Verizon's compliance filing, AT&T asked several questions about errors it believed had been made with respect to the asset lives that Verizon had used for its compliance filing. Though at that time Verizon denied having made any errors, several days later in response to TS Request-1 Verizon acknowledge having made the very errors about which AT&T had asked. Verizon should be required to fix these errors.

C. As Agreed, Verizon Should Clarify its Proposed Tariff Language for the "Feature Charge."

Verizon has an NRC for a "Feature Charge." *See* Illustrative Tariff No. 17, Part M, Section 2.61, Page 9. Verizon agrees that this charge is to be applied only if an order is submitted to change features for an existing UNE-P customer. It is not to be assessed as either part of a new UNE-P order or a UNE-P migration. *See* Tech. Session Tr. at 180-181, 3/6/03.

Verizon's product manager agreed that it would be appropriate to memorialize this clarification in the language of the tariff. *Id.* AT&T requests that Verizon be directed to include this agreed-upon clarification in its tariff.

D. Verizon Should Delete "E.g." From Its Tariff Language Regarding Optional Field Dispatches.

On reconsideration, Verizon was permitted to assess a non-recurring charge for optional field dispatches under very narrow circumstances. The Department directed Verizon "to specify in its compliance filing those instances where a CLEC would be charged a field dispatch NRC for optional tasks." D.T.E. 01-20 Part A-A at 93. Verizon specified only two such instances, which are the same two instances that it discussed in its motion for reconsideration. Those instances are: for the "tagging of NIDs" or for "circuit identification at a demarcation point." *See* Illustrative Tariff No. 17, Part A, Section 3.3.2.A.6, Page 12.

However, Verizon has attempted to leave itself the option of assessing this charge in other, unspecified instances. It has done so by stating in its illustrative tariff that this charge:

> Applies when a technician is dispatched at the specific request of a TC to perform work outside of the normal routine work associated with service installation and maintenance, **<u>e.g.</u>** tagging of NIDs, circuit identification at a demarcation point.

Id. The "e.g." is inappropriate, as it violates the Department's order that Verizon was required to specify the instances in which this charge would apply. AT&T requests that Verizon be directed to modify this language to read as follows:

> Applies when a technician is dispatched at the specific request of a TC to perform work outside of the normal routine work associated with service installation and maintenance, **<u>either for</u>** tagging of NIDs **<u>or for</u>** circuit identification at a demarcation point.

Per the Department's express order, all other field dispatch costs for service installation or maintenance are being recovered through Verizon's recurring UNE rates.

Conclusion.

AT&T respectfully urges that the Department to direct Verizon to make the corrections or changes that AT&T has demonstrated above are necessary. Verizon should be able to make these corrections and resubmit (and distribute to all parties) electronic versions of its corrected cost studies, rate summaries, and tariffs in a matter of a few days. It is vitally important that Verizon not be permitted to delay the adoption of final UNE rates.

Respectfully submitted,

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