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INITIAL POST–HEARING BRIEF

of

THE UNITED STATES DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES

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I. INTRODUCTION

The United States Department of Defense and All Other Federal Executive Agencies ("FEAs") participated in this proceeding to provide their recommendations concerning the rates and charges for unbundled network elements ("UNEs") in Massachusetts. As end users, the FEAs will not acquire UNEs from Verizon. However, the charges and terms of service for UNEs will be major factors in determining the prices that FEAs and other end users will pay to obtain services from competitive local exchange carriers ("LECs").

On July 16, 2001, the FEAs filed Rebuttal Testimony to address submissions by Verizon and AT&T Communications ("AT&T").[1] On December 17, 2001, the FEAs filed Surrebuttal Testimony to address conclusions and recommendations by Verizon, AT&T and other parties.[2] Testimony by the FEAs' witness was entered into the record at the evidentiary hearing on January 28, 2002.

As described in this brief, the FEAs identified many infirmities in Verizon's cost studies, and urged the Department to address these issues because they lead to inflated cost estimates and excessive charges for the company's UNEs.[3] Also, the FEAs explained that if competitive LECs are not able to obtain the UNEs that they need at reasonable prices, there will be few competitive alternatives available to the FEAs or other consumers.[4]

II. TO DETERMINE UNE COSTS, THE DEPARTMENT SHOULD RELY ON APPROACHES USED BY VERIZON'S COMPETITORS.

A. Verizon's models reflect historical configurations and operating procedures.

Verizon's cost estimates are based on a loop cost model ("LCAM") and an interoffice cost model.[5] Also, Verizon uses two models developed by Telcordia Technologies — the Switching Cost Information System ("SCIS") and the Common Channel Signaling Cost Information System ("CCSCIS").[6] In addition, the company employs a spreadsheet building tool called "VCost" and additional Excel spreadsheets.[7]

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1 Rebuttal Testimony of Harry Gildea (Exh. DOD–1).

2 Surrebuttal Testimony of Harry Gildea (Exh. DOD–2).

3 *Id.*, p. 1.

4 *Id.*

5 Panel Testimony of Verizon Massachusetts on Costs and Rates for Unbundled Network Elements and Related Wholesale Services ("Verizon Panel Testimony"), (Exh. VZ–36), p. 12.

6 *Id.*

7 *Id.,* pp. 12–15.

Verizon claims that all the studies performed with its models reflect long–run incremental costs.[8] However, the FEAs explained that Verizon's studies are narrowly focused and company–specific.[9] Moreover, as the FEAs noted, Verizon's approaches rely substantially on the historic configuration and design of the company's local exchange network, as well as factors that reflect past costs and operating procedures.[10]

There are many indicators of the retrospective nature of Verizon's approach. For example, Verizon emphasizes that it eschewed "speculative future innovations" and changes in wire center locations.[11] Indeed, the company grudgingly uses total element long–run incremental cost ("TELRIC") methods at all, emphasizing that the requirement to employ TELRIC is pending review by the U.S. Supreme Court.[12] Additionally, the company refers to "current actual utilization" and data in its property records for equipment "installed in 1998."[13]

Moreover, Verizon is very conservative in estimating costs developed on the basis of material prices. For example, the company states that relationships between material prices and total installed costs based on 1998 data are representative of those that the company expects to experience on a going–forward basis.[14] Thus, according to Verizon, if the forward–looking incremental costs of equipment are less, an adjustment should be made in the loading factor because the amount of time required to engineer or install the equipment would not change if the price of the equipment itself is reduced.[15] The company makes similar statements regarding maintenance costs and administrative costs such as

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8 *Id.*, pp. 15–16.

9 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), pp. 5–6.

10 *Id.*

11 Verizon Panel Testimony (Exh. VZ–36), p. 18.

12 *Id.*, pp. 18–19.

13 *Id.*, p. 30.

14 *Id.*, p. 31

15 *Id.*

legal and executive expenses, stating that there is "no reason to believe" that these will decline with reductions in investment costs.[16] From the FEAs' perspective, it is significant that these assumptions, which appear to reflect little or no expected future improvement in labor productivity, were apparently made without the benefit of any sensitivity analyses.[17]

In addition, the FEAs explained that Verizon's reliance on data that is alleged to be "proprietary" provides additional evidence that the company's studies look to the past.[18] An open approach would have practical advantages from the standpoint of an analyst not employed by Verizon. In addition, an open approach would have significant substantive advantages. For example, non–proprietary models could be refined and updated more readily as additional information becomes available.[19]

B. The HAI Model is the preferred tool for determining forward–looking costs.

Cost model approaches used by AT&T in this case provide an accurate and flexible means for estimating the costs of UNEs. AT&T employs an updated version of the HAI Model, Release 5.2 for Massachusetts ("HM 5.2a–MA"), and an adjunct model.[20] This carrier explains that this approach reflects the appropriate long–run incremental methodology for determining the costs that Verizon incurs in providing UNEs.[21]

The HAI approach is forward–looking and based on solid engineering principles.[22] Significantly for end users, the approach has evolved to the present version in response to (1) the availability of more data and information; (2) recommendations of the FCC and the Federal–State Joint Board on Universal Service; and (3) comments by intervenors and

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16 *Id.*, p. 60.

17 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 7.

18 *Id.*

19 *Id.*

20 Direct Testimony of Robert A. Mercer (Exh. ATT–25), p. 5.

21 *Id.*, p. 6.

22 Direct Testimony of John C. Donovan (Exh. ATT–27), pp. 5–10.

state regulatory agencies.[23] In addition, the approach offers flexibility to users, both in control of the inputs and the operation of the model, as well as the ability to perform sensitivity analyses.[24]

Verizon states that the HAI Model is "patently unreliable" and therefore should not be used in preference to Verizon's cost models.[25] The Department should reject this contention.[26]

As the FEAs explained, Verizon's assertion that the HAI Model develops unreasonably low costs does not reflect a balanced assessment of the reasons for differences between these cost projections and the cost projections made with Verizon's models.[27] For example, Verizon witness Tardiff points to a multi–fold difference between the investment per line that competitive LECs have incurred and the predictions by the Modified FCC Model.[28] Witness Tardiff claims that the "low cost" predictions by the Modified FCC Model are a result of infirmities in this model. However, it is likely that the disparity reflects the high costs for new entrants to provide local services in competition with the incumbent LEC.[29]

Contrary to Verizon's claims, it is reasonable for competitors' costs to be much greater than the costs that a major incumbent carrier incurs. As the FEAs explained, competitive LECs must incur disproportionately large start–up costs, and overcome huge diseconomies of scale.[30] Moreover, competitors must build nearly all of their basic infrastructure from the start. In contrast, the incumbent carrier's costs, which the Synthesis

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23 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 5.

24 Direct Testimony of Robert A. Mercer (Exh. ATT–25), p. 6.

25 Rebuttal Testimony of Timothy J. Tardiff (Exh. VZ–48), pp. 12–44.

26 Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 2.

27 *Id*.

28 *Id*., p. 42.

29 Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 2.

30 *Id.*

Model is intended to calculate, represent incremental build–outs on a network that has been in place serving millions of subscribers in the Commonwealth for many years.[31]

In summary, the higher costs for competitive LECs underline the need for the Department to ensure that UNE charges do not exceed the incumbent carrier's incremental costs. Since competitors must incur high costs to build their own facilities, they are initially dependent on the incumbent carriers' UNEs to provide services to their subscribers.

III. THE DEPARTMENT SHOULD NOT ADOPT VERIZON'S PROPOSAL TO EMPLOY A "MARKET-BASED" CAPITAL STRUCTURE.

A. Verizon's proposed structure will not represent the company's future capital requirements.

Verizon's charges for UNEs will strongly influence the development of competition in Massachusetts. One of the major factors determining UNE charges is the mix of debt and equity capital that establishes the company's weighted average return Annual cost factors for return and the associated income taxes are multiplied by Verizon's investment costs to produce annualized costs, and hence the monthly costs and proposed monthly charges for all UNEs using Verizon's plant.[32]

Verizon's capital cost witness asks the Department to adopt a "target market value capital structure" containing 25 percent debt and 75 percent equity as the basis for the assumed weighted average cost of capital.[33] The witness claims that the appropriate capital structure should have less debt and more equity to reflect the requirement that prices for UNEs be based on forward–looking economic costs rather than book costs.[34]

The FEAs urged the Department to reject Verizon's fictitious capital structure, explaining that a capital structure of 25 percent debt and 75 percent equity is not a

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[31] *Id.*

[32] Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 12.

[33] Direct Testimony of James H. Vander Weide (Exh. VZ–3), p. 48.

[34] *Id.*, p. 49.

reasonable forward–looking target.[35] Indeed, the company's annual report for 2000 supports a mix of 55 percent debt and 45 percent equity because it shows long term debt of $42.5 billion and stockholders' investment of $34.6 billion at the end of the year.[36] These figures are consolidated totals for the company's operations in four business segments — Domestic Telecommunications, Domestic Wireless, International, and Information Services.[37]

Theoretically, Verizon could shift its capital structure from the current 55 percent debt to the 25 percent debt assumed by the company's witness. However, as the FEAs explained, this massive restructuring would take a long time to accomplish.[38] To shift its capital structure this much, Verizon would have to retire many billions of dollars of debt and/or issue many billions of dollars of equity capital.[39]

Moreover, Verizon's capital structure represents the consolidated financial requirements for all the company's operations. Among Verizon's four business segments, the segment called Domestic Telecommunications, which contains the activities at issue in this proceeding, is the most regulated, least competitive and least "risky" of all.[40] Thus, if the segments were separately financed, the Domestic Telecom segment would have a greater debt–to–equity ratio than for all four segments combined on a consolidated basis.[41] A debt ratio of 25 percent, as hypothesized by Verizon, is simply not consistent with the financial requirements for UNEs being established in this case.

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35 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 9.

36 *Id.*, citing Verizon Communications Annual Report for 2000, p. 33.

37 *Id.*, p. 10.

38 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 9.

39 *Id.* (emphasis in original).

40 *Id.*, p. 9.

41 *Id.*

Verizon's cost of capital witness asserts that economists "unanimously" reject the use of "book value" in favor of the "market value" structure that he recommends.[42] On the other hand, the FEAs' witness explains that authorities accord more respect to book value weights than Verizon's witness acknowledges.[43] He cites two references that endorse the use of book value weights.[44] Indeed, one of these references states that in the context of rate making for regulated utilities, it is <u>common practice</u> to weight debt and equity requirements at their respective book values.[45] From the FEAs' perspective, this does not indicate unanimous rejection of the process, as Verizon contends.

B. Other agencies have declined to set UNE charges with capital structures reflecting only market–based weights.

Regulators in other states where Verizon is the incumbent carrier have rejected requests to employ a capital mix based only on market weights as Verizon proposes in Massachusetts. As the FEAs explained, these agencies have adopted a more realistic capital structure in computing UNE costs.[46]

For example, to determine UNE costs in an order adopted earlier this year, the Vermont Public Service Board prescribed a capital structure reflecting the midpoint between market value and book value weights.[47] The result is a capital structure of 36 percent debt and 64 percent equity.[48]

Similarly, the Administrative Law Judge ("ALJ") presiding over the UNE case in New York issued a Recommended Decision adopting a capital structure of 35 percent

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[42] Rebuttal Testimony of James H. Vander Weide (Exh. VZ–4), p. 34.

[43] Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 5.

[44] *Id.*, pp. 5–6, citing Prentice Hall, 1991, "The Vest–Pocket Guide to Business Ratios." and Public Utilities Reports, Inc., 1984, "Utilities' Cost of Capital."

[45] Public Utilities Reports, Inc., 1984, "Utilities' Cost of Capital", p. 265.

[46] Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 5

[47] *Id.*, citing Vermont Public Service Board Docket No. 5713, Order entered February 4, 2000, p. 41.

[48] *Id.*

debt and 65 percent equity.[49] Verizon filed "Exceptions" to the Recommended Decision, *inter alia* reiterating its claim that UNE charges should reflect a market–based capital structure. The FEAs respectfully request the Department to take administrative notice of the New York Public Service Commission's substantive Order released during the evidentiary hearings in this case, which upholds the ALJ's findings on this point.[50]

To summarize, regulatory agencies have found that book value weights are a key determinant of the capital structure to be employed for setting future rates. For this additional reason, the FEAs urge the Department to prescribe a capital structure of 40 percent debt and 60 percent equity for determining charges for UNEs in Massachusetts.

IV. UNE CHARGES SHOULD INCORPORATE SAVINGS FROM VERIZON'S MERGER WITH GTE.

Besides the effects of a fictitious capital structure, Verizon's UNE costs are inflated because they do not reflect the significant cost savings to be achieved from the merger with GTE.[51] As the FEAs' witness testified, Verizon boasted of the cost reductions to be achieved in its 1998 Annual Report to Stockholders.[52] The company told shareholders that it expects:

- annual expense savings of approximately $2 billion, with savings generated from operating and procurement synergies, reduced corporate overheads, the migration of long distance traffic onto GTE's network, and greater efficiency in wireless operations; and

[49] Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 5, citing New York Public Service Commission Case No. 98–C–1357, Recommended Decision, May 16, 2001, p. 77.

[50] New York Public Service Commission Case No. 98–C–1357, Order released January 28, 2002, p. 87.

[51] Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 12.

[52] *Id.*, p. 13.

- annual capital synergies of approximately $500 million through volume purchasing and the elimination of certain capital costs associated with building a data network in our current territory.[53]

Although these savings and synergies are totals for Verizon's operations nationwide, some portion is applicable to the company's operations in Massachusetts.

A witness for AT&T/WorldCom also addresses the need to recognize Verizon's cost savings from the merger. Witness Baranowski explains that UNE charges should consider forward–looking cost savings from efficiencies produced by Verizon's recent mergers.[54] Moreover, witness Baranowski's testimony goes on the describe the method employed to estimate the savings in New York.[55]

The FEAs recommend that the Department require Verizon to provide a Massachusetts–specific estimate of savings, with detailed support, for review by the Staff and other parties in this case.[56] However, it is vital that the Department make some adjustment, <u>regardless</u> of how it is implemented. If the company is making such unqualified statements about merger savings to the public, it should be held to the same standard in establishing the UNE charges that will determine what the public will pay.

V. THE DEPARTMENT SHOULD RECOGNIZE THAT MANY COSTS ARE AVOIDED IN PROVIDING SERVICES TO OTHER CARRIERS.

A. UNE charges should reflect all savings in the provision of wholesale services.

Verizon avoids many costs in providing UNEs to other carriers on a wholesale basis. Verizon's annual cost factors ("ACFs") should reflect these savings, but the company falls short in recognizing the costs that are not incurred.

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53 *Id.*, citing 1998 Annual Report for Bell Atlantic, Management's Discussion and Analysis, p. 1.

54 Rebuttal Testimony of Michael R. Baranowski (Exh. ATT–23), p. 41.

55 *Id.*, p. 42.

56 Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 7.

As the FEAs explained, Verizon's Direct and Indirect Account Summary indicates that the company believes it will not avoid costs contained in most of its accounts.[57] Indeed, Verizon claims that the only direct costs avoided are for Product Management (6611), Sales (6612), Customer Services (6623) and Testing (6533).[58] Of these four accounts, only Sales costs are fully avoided, according to Verizon.[59]

The FEAs urge the Department to reject Verizon's claims concerning avoided costs because many additional expenses are avoided in providing services to other carriers on a wholesale basis. For example, the most evident omission is Product Advertising (6613).[60]

The FEAs emphasized that Verizon should ascribe no advertising costs to the provision of UNEs.[61] Advertising is not necessary for the facilities and services at issue in this proceeding because carriers acquiring UNEs are well aware of the only source of supply — the incumbent LEC.[62] Moreover, any advertising to promote attention by the ultimate users — the competitors' customers — should be the responsibility of the competitors themselves. Indeed, it is likely (and understandable) that any advertising by Verizon would be designed to promote use of Verizon's services, rather than to abet the activities of its competitors. In other words, by including advertising costs in its charges to resellers, Verizon is asking other carriers to pay for activities designed to thwart their own interests.

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57 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 15.

58 *Id.* (Numbers in parentheses refer to the FCC's Uniform System of Accounts.)

59 *Id.*

60 *Id.*

61 *Id.*

62 *Id.*

Moreover, the FEAs explained that there are additional issues with Verizon's cost allocations because of infirmities concerning "indirect" expenses.[63] For example, the company considers about 43 percent of expenses for General Purpose Computers (6124) and much smaller percentages of Executive (6711) and General and Administrative (6728) to be avoided.[64] However, according to Verizon, no costs in any of the other indirect accounts would be saved.[65]

The FEAs explained that if the General Purpose Computer maintenance function supports Sales (6612), the function was considered avoided in the same proportion as Sales.[66] Similarly, if the General Purpose Computer maintenance function supports Product Management (6611), it was considered avoided in the same proportion as that activity.[67] This procedure is reasonable, as far as it goes, but Verizon stops short of portraying its actual savings because it shows no avoided costs in other indirect accounts, including Land and Buildings (6121), Furniture and Artwork (6122), Office Equipment (6123), Human Resources (6723) and similar accounts.[68] Yet, just as a reduction in sales (or product management activity) leads to cuts in requirements for general purpose computers, the sales activity reduction also leads to cuts in the requirements for buildings, furniture, office equipment and human resource personnel.[69] Moreover, if there are fewer employees, less office space is necessary. Also, fewer desks and other office facilities are required.[70] Human Resources costs are also variable.

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63 *Id.*

64 *Id.*, p. 16.

65 *Id.*

66 *Id.*

67 *Id.*

68 *Id.*

69 *Id.*

70 *Id.*

Verizon's Human Resources expense account includes expenses for employee communications, benefit administration, employee activity programs, and employee safety programs.[71] The size, scope and cost of many of these activities should be less with fewer employees. Indeed, there are savings because of reductions in direct costs, and also savings because of other indirect cost reductions. For example, with reductions in general purpose computers to support the sales effort, there would be consequent reductions in land and buildings for these computers, and also reductions in human resources requirements for the personnel who maintain them.

Verizon's analysis neglects all of these effects, and thus significantly understates the percentage of costs avoided with UNEs. The FEAs' witness urged the Department to account fully for avoided costs in setting the charges for UNEs.[72]

B. Parties explain that a significant reduction in Verizon's wholesale marketing factor is vital to recognize avoided costs.

Witnesses for other parties also address the need to modify Verizon's statement of avoided costs. For example, AT&T/WorldCom witness Baranowski states, "Verizon's proposal to include any advertising costs is absurd and should be rejected outright."[73] Similarly, witness Fisher for the CLEC coalition explains that all competitive LECs are fully aware of the fact that Verizon is the <u>only</u> supplier of UNEs.[74] Consequently, witness Fisher recommends that all "advertising" expenses be removed from Verizon's calculation of the "Wholesale Marketing Factor."[75] As described in his rebuttal testimony, the effect is to reduce the "Wholesale Marketing Factor" by 18.2 percent.[76]

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71 *Id.*, citing FCC Uniform System of Accounts, Part 32.

72 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), pp. 14–15.

73 Rebuttal Testimony of Michael R. Baranowski (Exh. ATT–23), p. 44.

74 Rebuttal Testimony of Warren R. Fisher, p. 34.

75 *Id.*

76 *Id.*, n. 2.

The FEAs recommend that the Department consider a significant modification in Verizon's cost study results to recognize avoided costs. In view of the fact that Verizon avoids costs in many accounts, including indirect costs such as land and buildings, office equipment, and human resources, the adjustment proposed by witness Fisher is potentially insufficient. Therefore, the FEAs urge the Department to consider the 18.2 percent reduction as the <u>minimum</u> necessary to reflect cost savings, and to require additional changes if they are necessary for the UNE charges to reflect Verizon's costs of providing services to its competitors.

VI. ISSUES CONCERNING UNEs FOR HOUSE AND RISER CABLE ARE IMPORTANT TO OCCUPANTS OF MULTI–FLOOR BUILDINGS.

A. All local carriers should have equal access to the cable needed to serve their own customers.

The FEAs urge the Department to address the Verizon facility called House and Riser cable. House and Riser refers to cabling within a multi–story building that provides access to the network side of end users' network interfaces from a point of interconnection, typically in the basement of the building.[77] House and Riser includes "vertical" cable up to the individual floors, as well as "horizontal" cable connecting end users with a central termination point on the individual floors.[78] House and Riser also includes terminals, as well as associated installation and engineering costs associated with these facilities.[79]

House and Riser cable is important to FEAs because most federal offices are located in multi–story buildings where this facility is necessary.[80] The FEAs' witness explained that the Federal Technology Service of the U.S. General Services Administration ("GSA") has been conducting a nationwide Metropolitan Area Acquisition ("MAA")

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77 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 17.

78 Verizon Panel Testimony (Exh. VZ–36), pp. 123–127.

79 *Id*.

80 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), pp. 17–18.

program to implement advanced telecommunications services in major metropolitan areas.[81] Incumbent and competitive LECs bid for contracts to provide telecommunications services to federal agencies in each area. In some metropolitan areas, including Boston, contracts have been awarded to several vendors.[82] Therefore, it is vital that all carriers — incumbent and competitive LECs — have equal access to the cable in buildings where federal offices and located.

Verizon's competitors have discussed the need for the Department to ensure equal access. In his rebuttal testimony, AT&T/WorldCom witness Donovan explains the Verizon's proposals for connections to House and Riser cable reflect "a confusing, complex, inefficient design" that gives a distinct advantage to Verizon over its competitors.[83] For example, competitors' configurations involve more cross–connections, making them less reliable and more troublesome from a maintenance standpoint.[84] Moreover, Verizon's proposed configurations lead to more equipment and greater UNE costs, which places other carriers at a competitive disadvantage.[85]

There are different configurations for inside plant, depending on factors such as the construction of the building and the steps that carriers have taken to deploy facilities to serve their customers. The FEAs urge the Department to ensure that all tenants in office buildings continue to be able to obtain telecommunications services from alternative providers, where alternatives exist in the local area.

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81 Surrebuttal Testimony of Harry Gildea (Exh. DOD–2), p. 8.

82 *Id*.

83 Rebuttal Testimony of John C. Donovan (Exh. ATT–28), pp. 32–33.

84 *Id*., pp. 32–35.

85 *Id.*, pp. 35–36.

B. Verizon's charges for house and riser cable should not exceed the TELRIC.

The charges that end users pay to competitive LECs for telecommunications services in multi–story office buildings reflect the charges that these carriers must pay to Verizon for House and Riser cable.[86] Therefore, the FEAs urge the Department to require Verizon to offer these facilities to competitors at long–run incremental costs.

For House and Riser cable, there are three recurring rate elements — building access per pair, floor access per pair, and horizontal cable.[87] In addition, there is a set–up charge to initiate service.[88] For each of these rate elements, Verizon shows costs that are geographically disaggregated for four types of areas — metro, urban, suburban, rural — as well as a statewide average.[89]

The FEAs explained that Verizon's proposed charges for House and Riser cable do not reflect the TELRIC to provide these facilities.[90] In the first place, Verizon's proposed charges for all of the House and Riser rate elements reflect input assumptions, such as the hypothetical target capital structure, that inflate Verizon's costs.[91] In addition, the company assumes a 40 percent utilization factor, which also exaggerates its costs.[92]

A 40 percent utilization factor would not be appropriate for House and Riser cable, even if it is accurate for the distribution portion of outside plant. In deploying distribution cable, spare capacity is necessary to allow for uncertainty in neighborhood growth patterns. However, the size and layout of an office or apartment building will generally change very little, so that it should be relatively easy to estimate the total future

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86 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), pp. 17–18.

87 Verizon Recurring Cost Summary, p. 2.

88 *Id.*, p. 3.

89 *Id.*, pp. 2–3.

90 Rebuttal Testimony of Harry Gildea (Exh. DOD–1), p. 17.

91 *Id.*

92 *Id.*

requirements for wire pairs, and unnecessary to provide much extra plant to allow for growth and churn.[93] Thus, a utilization factor in the range of 60 to 70 percent would be more than adequate for House and Riser.[94] Indeed, if Verizon wishes to allow for a great deal of growth over a long planning horizon, there is the issue of matching costs and revenues. Beyond a certain point, current customers should not be required to fund future income streams.

Moreover, there are additional factors that lead to unreasonably high costs for Verizon's House and Riser cable. The FEAs explained that Verizon assumes unrealistically low labor productivities.[95] A response to an FEA interrogatory provides a comparison between the House and Riser termination labor costs for AT&T and for Verizon.[96] Because of large differences in the times required to place terminal blocks, splice, and perform other operations, Verizon's claimed termination labor requirements, expressed in minutes of work, are more than 10 times those of AT&T.[97]

The result is a major overstatement of Verizon's costs for House and Riser cable.[98] Verizon's claimed cost for horizontal cable and the associated terminations is several times that for AT&T. The interrogatory response shows a monthly cost of $1.075 per pair using Verizon's assumptions, but only $0.232 per pair using the conditions in AT&T analysis.[99]

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93 *Id.*, p. 18.

94 *Id.*

95 *Id.*

96 AT&T Response to DOD1-1, Attachment (Exh. ATT–VZ 1–1).

97 *Id.*

98 *Id.*

99 *Id.*

VII. CONCLUSION

WHEREFORE, the premises considered, the U.S. Department of Defense and All Other Federal Executive Agencies urge the Department to adopt the recommendations set forth in this Initial Post–Hearing Brief.

Respectfully submitted,

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