Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of Application by Verizon New York Inc., Verizon Long Distance, Verizon Enterprise Solutions, Verizon Global Networks Inc., and Verizon Select Services Inc., for Authorization To Provide In-Region, InterLATA Services in Connecticut	))))))))))	CC Docket No. 01-____

DECLARATION OF WILLIAM E. TAYLOR

EXECUTIVE SUMMARY

1. From an economic perspective, Verizon's entry into the interLATA long distance business in Connecticut will unequivocally promote the public interest. As an initial matter, Verizon's provision of long distance services would benefit consumers by enhancing competition in both local and long distance telecommunications markets. This increased competition will reduce prices, increase consumer choice, expand demand, and promote economic efficiency. In addition, Verizon's entry into the interLATA business in Connecticut will raise no significant risk to competition in local exchange or long distance markets.

2. Verizon's entry into the Connecticut long distance market will enhance competition in three critical respects.

a. *Verizon's entry will increase competition in the long distance market by adding a strong new competitor with sufficient resources to challenge the major three national incumbent long distance carriers—AT&T, WorldCom and Sprint (the "Big Three")—as well as SNET in Connecticut.* As evidenced by actual market experience in New York, allowing Verizon to enter the long distance market will provide consumers with more innovative calling plans and cheaper prices for long distance services. Thus, Verizon's entry into the market will have both price and non-price benefits. The most readily quantifiable portion of these benefits is the increase in consumer welfare stemming from greater price competition. Because of the high margins between the incumbent long distance carriers' prices and their costs, injecting new competition is likely to produce significant price decreases. And because long distance demand is relatively price-elastic, the increase in market demand resulting from lower prices will lead to large consumer welfare gains.

b. *Verizon's entry also will add a strong new competitor to the market for **bundled packages** of services*. For many consumers, the ability to engage in one-stop shopping for a bundled package of communication services is viewed as a significant benefit. Today, the companies that are best positioned to provide these bundled packages are the incumbent long distance carriers and cable companies. Consumers in Byram and Greenwich are denied an additional choice since Verizon is barred from competing with bundled long distance and local services. When Verizon is permitted to provide long distance service, it will be able to assemble a comparable package of services and compete on the same terms as the major long distance and cable companies. Consumers will benefit from the greater competition in Byram and Greenwich, which is likely to reduce prices and increase service innovation of bundled packages of services.

c. *Verizon's entry into the long distance and bundled services markets also will spur additional competition for* ***local*** *services in its territory*. As Verizon begins to compete for the long distance carriers' customers and offer bundles of local and long distance services, the long distance carriers will have an increased incentive to compete vigorously for mass-market local exchange services. Indeed, since the FCC approved Verizon's application to provide long distance service in New York, local competition in New York has increased.

3. While Verizon's entry into the long distance market will enhance competition in both long distance and local exchange markets, there is no significant risk that Verizon's entry will harm competition in any market. There has been entry by Competitive Local Exchange Carriers serving residential and business customers in the Byram and Greenwich exchanges. In addition, Verizon uses the New York systems and procedures to serve Competitive Local Exchange Carriers in Connecticut, and the New York Public Service Commission and Federal Communications Commission already concluded that the local services market in New York is open to competition. Thus, the local market in the Byram and Greenwich exchanges is also open.

4. Contrary to the dire predictions of the long distance incumbents, there is no significant risk that Verizon's entry will harm long distance competition. On the contrary, in addition to requiring Verizon to open its local markets by satisfying the competitive checklist, the Act itself established extensive regulatory safeguards to address any speculative concerns stemming from Verizon's status as an incumbent local exchange carrier. And actual market experience in previous instances where Bell companies were allowed to compete in adjacent markets demonstrates that these speculative concerns are unfounded.

5. In sum, Verizon's entry in the long distance market in Connecticut is in the public interest. It will benefit consumers by increasing competition in both the long distance and local

markets. In addition, Verizon's entry into the long distance market will not harm competition. Instead, Connecticut consumers—like those in New York—are likely to pay less for long distance calls and, therefore, increase their use of interLATA services after Verizon can provide long distance service in Connecticut.

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I. INTRODUCTION, BACKGROUND AND CONCLUSIONS

6. My name is William E. Taylor. I am Senior Vice President and head of the Communications practice at National Economic Research Associates, Inc. ("NERA") at One Main Street, Cambridge, Massachusetts.

7. I have been an economist for about 25 years. I earned a Bachelor of Arts degree from Harvard College in 1968, a Master of Arts degree in Statistics from the University of California at Berkeley in 1970, and a Ph.D. from Berkeley in 1974, specializing in Industrial Organization and Econometrics. During this period, I have taught and published research in the areas of microeconomics, theoretical and applied econometrics (which is the study of statistical methods applied to economic data), and telecommunications policy at academic and research institutions. Specifically, I have taught at the Economics Departments of Cornell University, The Catholic University of Louvain in Belgium, and the Massachusetts Institute of Technology. I have also conducted research at Bell Laboratories and Bell Communications Research, Inc. I have participated in telecommunications regulatory proceedings before many state public service commissions and the Federal Communications Commission ("FCC"), concerning incentive regulation, price cap regulation, productivity, access charges, local competition, interconnection, pricing for economic efficiency, telecommunications mergers, and entry into the long distance market. I have also testified on market power and antitrust issues in federal court. I attach my *vitae* as Attachment F. Verizon has asked me—as an economist—to assess the public interest implications of its proposed entry into the long distance market in Connecticut.

A. Background

8. In Connecticut, Verizon is the incumbent local exchange carrier ("ILEC") serving the communities of Byram and Greenwich, an area adjacent to Verizon's service territory in Westchester County, New York. See Lacouture/Ruesterholz Decl. ¶¶ 8-16. Verizon has included Greenwich and Byram as part of its New York operations for over one hundred years, and has served its retail customers in Connecticut through New York retail centers. In fact, Verizon serves Byram through a central office that is located in Port Chester, New York. See id. Just as Verizon's retail customers in Connecticut are served by New York retail centers, Connecticut wholesale customers are served by the same operations centers that serve New York wholesale customers. See id. These platforms, equipment, competitive offerings, and personnel were found by the FCC to meet its stringent 14 point checklist in serving New York customers:

> [c]onsistent with our extensive review of the competitive checklist, which embodies the critical elements of market entry under the Act, we find that barriers to competitive entry in the local market have been removed and the local exchange market today is open to competition.[1]

9. This FCC finding applies—without specific reference—to every wire center and local exchange in Verizon's New York service territory. Given the commonalities between Verizon's New York and Connecticut service territories, it follows that—absent the theoretical possibility of regulatory differences between New York and Connecticut that might impact

[1] Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act To Provide In-Region, InterLATA Service in the State of New York, Memorandum Opinion and Order, 15 FCC Rcd 3953, 4162, ¶ 426 (1999) ("New York Order").

competitive entry[2]—the FCC's determination that Verizon's New York market is open to competition should equally apply to Verizon's exchanges in Byram and Greenwich.

10. Verizon's entry into the interLATA long distance business in Connecticut unambiguously would promote the public interest. As an initial matter, Verizon's provision of long distance services would benefit consumers by enhancing competition in local and long distance markets alike. This increased competition would reduce prices, increase consumer choice, expand demand, and promote economic efficiency. In addition, Verizon's entry into the interLATA business would raise no significant risk to competition in local exchange or long distance markets.

II. VERIZON'S LONG DISTANCE ENTRY WILL BENEFIT CONSUMERS

11. Residential long distance prices have risen substantially even as long distance costs (including carrier access charges) have fallen. These price increases have been greatest for low-volume customers. Although incumbent long distance carriers have offered volume discount plans, only a fraction of residential customers actually save money by subscribing to such plans. If Verizon is permitted to enter the Connecticut long distance market, the degree of competitive rivalry in the long distance market will increase significantly, resulting in lower prices, new offerings of bundled service options, and increased competition for local services.

[2] I show below that there are no such regulatory differences: the Connecticut legislature and Department of Public Utility Control ("Department") have acted to open Connecticut local exchange markets to competition and the same wholesale prices, wholesale tariffs, and Performance Assurance Plan regulate Verizon's business in both states.

A. Verizon's Provision of InterLATA Services Will Introduce an Important New Source of Long Distance Competition in Connecticut That Will Benefit Consumers.

12. As a major new competitor, offering extensive facilities-based service, Verizon will spark long distance competition in three key respects. First, Verizon will offer competitive pricing plans—which will help break the Big Three's pattern of increasing long distance prices—while its presence in the long distance market will also spur the introduction of new and improved services. As the FCC recently reaffirmed, "BOC entry into the long distance market will benefit consumers and competition."[3] Second, Verizon will serve as a new competitor in the market for bundling long distance service with other services. Third, the advent of a new competitor for long distance services and for bundled services will force other competitors to offer a full array of competing services, including local service. As a result, the entry of Verizon into the long distance market will increase competition for local services as well.

1. Verizon's entry would promote competition in the Connecticut long distance market.

13. Verizon is a more formidable competitor than any other potential long distance entrant in Connecticut. Verizon differs from other potential entrants in two respects: it has a customer base and market presence within its service territory in Connecticut, and, more generally, it has a strong brand awareness throughout Connecticut, based on its marketing in New York and Massachusetts. When a new reseller (for example) undercuts the incumbent long distance carriers' prices, the long distance carriers do not have to respond because their loss of market

[3] Joint Application by SBC for Provision of In-Region, InterLATA Services in Kansas and Oklahoma, Memorandum Opinion and Order, CC Docket No. 00-217, FCC 01-29, ¶ 268 (rel. Jan. 22, 2001) ("Kansas/Oklahoma Order"); accord New York Order ¶ 428.

share will be small. But if Verizon were to undercut their prices, the risk of market loss would be much greater, and the incumbent long distance carriers would be unable to ignore such price-cutting. For these reasons, the FCC has recognized that:

> [T]he 1996 Act provides the best solution to any problem of tacit price coordination . . . by allowing for competitive entry in the interstate interexchange market by the facilities based BOCs . . . .[4]

14. In its New York Section 271 Decision, the FCC confirmed that:

> BOC entry into the long distance market will benefit consumers and competition if the relevant local exchange market is open to competition consistent with the competitive checklist. As a general matter, we believe that additional competition in telecommunications markets will enhance the public interest.[5]

On those grounds, the FCC required no additional showing that entry into New York long distance markets served the public interest. Although the service territories and circumstances are different in some respects between New York and Connecticut, the same principle—that long distance entry furthers the public interest—applies even more strongly in Connecticut.

15. First, Verizon even has brand awareness in the bulk of the Connecticut market that it does not currently serve. Verizon's service territory borders SNET's service territory on all sides, and it shares regional media markets and communities of interest with SNET in the Boston and New York metropolitan areas. While out-of-region long distance service would ordinarily be profitable for Verizon in this circumstance, because it serves as an ILEC for about 60,000 Connecticut customers, it is not permitted to provide long distance service to the

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[4] Policy and Rules Concerning the Interstate, Interexchange Marketplace Implementation of Section 254(g) of the Communications Act of 1934, as amended, Notice of Proposed Rulemaking, 11 FCC Rcd 7141, ¶ 81 (1996), footnote omitted.

[5] New York Order ¶ 428.

remaining two million out-of-region customers in Connecticut, even though Verizon is not *their* ILEC and possesses no bottleneck facilities to serve them.

16. Second, the fact that Verizon currently serves such a small portion of Connecticut increases its incentive to meet the Section 271 requirements of the Act and extends the public interest benefits of long distance competition beyond Verizon's local service area. In exchange for having opened one (incremental) central office in Connecticut to local exchange competitors, Verizon would receive authority to compete for over two million incremental residential and business long distance customers, nearly all of whom may have seen Verizon marketing or have had experience with Verizon services at work.[6] One would expect this leverage to lead to a larger effect on Connecticut long distance prices and services than would be predicted by applying some estimate of Verizon's likely long distance market share among its local exchange customers in Byram and Greenwich.

17. In addition, Verizon has the size and resources to deploy and operate a facilities-based long distance network in Connecticut to challenge the incumbent long distance market leaders—AT&T, WorldCom, and Sprint—that compete on a facilities basis in national and global long distance markets.

18. Actual market experience where Verizon or other local exchange carriers have been permitted to provide long distance service in their local service areas demonstrates that Verizon's entry into the long distance market will increase competitive pressures and deliver benefits to Connecticut consumers. The best real-life example of the benefits consumers will enjoy is evidenced by the impact of Verizon's provision of long distance services in New York.

[6] SNET served about 1.6 million residential access lines and about 2.4 million switched access lines in total on December 31, 1999. Ind. Anal. Div., FCC, Statistics of Communications Common Carriers at Table 2.6 (1999 ed. 2000).

Verizon's entry into the New York long distance market has already reduced long distance prices available to residential customers there. For most customers, Verizon's long distance prices in New York are lower than pricing options available from AT&T, WorldCom or Sprint. According to the Telecommunications Research & Action Center ("TRAC")—an independent consumer group that, among other things, compiles information about long distance rates—savings for consumers who switched to Verizon's long distance was between more than $46 million and $120 million.[7] TRAC estimates that the average New York residential customer who switched to Verizon Long Distance service from other interexchange carriers saved up to $10.04 per month. See Att. C.

19. My own analyses confirm that residential customers have saved substantially as a result of Verizon's long-distance entry in New York. I analyzed billing data from a large, representative sample of telephone bills of New York residential customers.[8] I calculated what each AT&T customer would have paid in April 2001 for his or her interLATA direct-dial calls using the customer's calling plan with AT&T, and I compared it with what the customer would have paid under the Verizon Long Distance ("Verizon LD") calling plan that would minimize the customer's bill, given the customer's usage pattern.[9] I find that about 92 percent of the

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[7] Telecommunications Research and Action Center, A Study of Telephone Competition in New York (Sept. 6, 2000) (Attachment C hereto).

[8] This analysis is based on calling and billing data from PNR & Associates, Inc., MarketShare Monitor, Version 2.0 (April 23, 1999).

[9] The Verizon LD calling plans were as follows: e-Values[sm], Timeless, Best Times, TalkTime 180, TalkTime 300, and TalkTime 500. I exclude from the analysis Verizon's SmartTouch prepaid calling, which would have produced additional savings. The calculations include monthly service charges and universal service fund charges. AT& assesses a universal service fund charge of 9.9 percent of interstate usage charges and service charges, whereas Verizon LD assesses a charge of only 6.6827 percent. I assume, conservatively, that half of basic-rate customers would have switched to AT&T's One Rate Basic plan, which charges $0.16 per minute for interstate calls and that half of the customers who do not already receive separate bills from AT&T would opt for separate bills to avoid the $1.50 monthly charge AT&T now imposes for long-distance bills sent to customers by local exchange carriers on behalf of AT&T. (See M. Moore, AT&T to Charge $1.50 Fee for Bills, AP Financial, (March 22, 2001). MCI and Sprint imposed such charges earlier this year. Id.) My analysis is not directly comparable to the TRAC study: I restrict the data to domestic direct-dial interLATA toll calls and to AT&T

customers who had at least one interLATA call would have a lower bill by subscribing to the lowest-cost Verizon LD calling plan than they would pay for their AT&T calling plan. For those customers who could save money, the average savings is about $90 per year, or 58 percent. Those who switched have saved at least about $190 million.[10]

20. My calculations also confirm expectations that Verizon's entry into the long distance market would especially benefit low-usage customers. The average interLATA direct-dial usage of the residential customers who would pay less under Verizon LD's calling plans than under the most cost-effective of the Big Three's calling plans is 130 minutes a month. In contrast, the few customers who would not save money with Verizon have an average usage of 621 minutes a month.

21. Verizon's "Timeless" calling plan in New York—the most popular of the New York plans—is the plan in which customers are enrolled unless they specifically request another plan. See Att. B ¶ 2. Under the Timeless plan, customers pay $0.10 per minute for direct-dialed interstate and intrastate calls and pay no subscription charge or minimum usage charges. Verizon has additional calling plans with lower rates.[11]

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customers; I use actual usage data instead of illustrative calling patterns; I analyze Verizon LD calling plans that TRAC did not include; I account for AT&T's new monthly charge of $1.50 for receiving AT&T's bills through a local exchange carrier; and I calculate what customers would pay to AT&T in April 2001 for their chosen calling plan, not a hypothetical choice of AT&T calling plan.

[10] The savings would be even larger if, as seems likely, the customers who signed up with Verizon LD tended to be ones who would save the most by changing carriers. Verizon New York long-distance service began in January 2000, and by the end of the year, Verizon had signed up approximately 1.4 million customers. See Telecommunications Regional Bells Looking At Long Run With Spending Plans, Investor's Business Daily at A8 (Jan. 17, 2001). By now, I presume the number of Verizon LD customers has grown further.

[11] For example, under the e-Values plan, New York customers who sign up on the Internet pay $0.09 per minute all day Monday through Friday for both interstate and intrastate calls, they pay $0.05 per minute for interstate calls on weekends, and they pay $0.08 per minute for intrastate calls on weekends. There are no monthly subscription charges or minimum usage fees. See Attachment B for information regarding Verizon's additional calling plans.

22. In fact, the difference in price between Verizon's initial interstate rates in New York and what AT&T's customers were actually paying in 1999 in New York was substantial. Ninety-seven percent of AT&T's residential customers in New York would have paid less for their interstate direct-dialed calls under Verizon's Timeless calling plan than they paid to AT&T in July 1999.[12] These customers would have saved an average of 46 percent off their AT&T interstate bill under Verizon's Timeless rates. As demonstrated by the experience in New York, allowing Verizon to compete in the Connecticut long distance market would provide Connecticut consumers with competitive alternatives to incumbent long distance carriers' higher prices.

23. Although AT&T, WorldCom and Sprint tout their supposedly low-priced calling plans by quoting plan rates of $0.05 or $0.07 per minute, these per-minute rates are misleading because many of these plans charge subscribers a monthly recurring fee ranging from $3.95 to $8.95. This means that subscribers actually pay far more per minute than the advertised per-minute rate. Additionally, these monthly subscription fees or minimum usage charges make most of the Big Three's calling plans unattractive to low-volume customers. An examination of AT&T's One Rate 7 Cents plan makes the point. Under this plan, AT&T subscribers pay $0.07 per minute along with a monthly recurring fee of $3.95.[13] Most of AT&T's residential customers—customers having the lowest toll usage—would *increase* their interstate long distance bill by shifting to AT&T's One Rate 7 Cents plan.

[12] This analysis is based on calling and billing data from PNR & Associates, Inc., MarketShare Monitor, Version 2.0 (Apr. 23, 1999). My calculations include per-minute rates, carrier line charges in effect at that time ($1.47 for Verizon and $1.51 for AT&T), universal service charges, monthly minimum usage charges and calling plan subscription charges (allocated between interstate and intrastate minutes). The savings would have been greater had I accounted for Verizon's other calling plans.

[13] AT&T Website, AT&T State-to-State Rates and Plans, http://www.att.com/rate_info/state_to_state.html (accessed March 26, 2001).

24. Verizon's entry in New York has reduced the prices paid by customers who continue to subscribe to Big Three long distance services. Industry analysts have characterized the Big Three's new calling plans as preemptive responses to the imminent entry of new competition by the Bell Operating Companies ("BOCs").[14] If true, then residential customers nationwide have saved roughly $1 billion per year.[15] In the absence of long distance entry by Verizon and the other BOCs, it is unclear if even these limited rate reductions would have occurred or could be sustained. What is clear is that the incumbent long distance carriers have reduced intrastate prices within New York in response to Verizon's entry. AT&T's intrastate interLATA price for New York residential calling plan customers is now $0.10 per minute,[16] whereas it was $0.14 per minute before Verizon's entry.[17] Similarly, AT&T has reduced its intrastate intraLATA price for New York residential calling plan customers from $0.08 per minute to $0.05 per minute.[18] If all New York residential customers were to receive such price reductions, the total savings would be about $190 million per year.

25. SBC's entry in Texas has similarly led to increased long-distance competition. Like Verizon, SBC offered long distance service at rates below those offered by the Big Three.[19]

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[14] Cable News Network Financial, Market Coverage, Lauren Thierry, "Telecom Sector Analysis," interview of Michael Mahoney, head of telecom investing at Dresdner RCM (Aug. 9, 1999); S. Young, AT&T Enters the Fray with New Rates; CEO Says Co. Undervalued, Dow Jones News (Aug. 30, 1999), citing Janney Montgomery Scott analyst Anna-Maria Kovacs.

[15] I calculate what customers' minimum long distance bills would be today without the Big Three's $0.07- and $0.05-per-minute calling plans, compared with they would be with such plans. My calculations net out a reduction in per-minute access charges of about $0.01 that has occurred since July 1999.

[16] AT&T Website, In-State Rate Finder, http://www.shop.att.com/offer/isrf.jhtml?planCode=or7&portal=shopatt (accessed April 3, 2001).

[17] United Communications Group, Telview Express tariff database, showing AT&T tariff rates effective April 30, 1999, http://www.telview.com/te_archive/te_03_36/te_html/te_prod.htm.

[18] Id; AT&T Website, Local Toll Service, http://www.shop.att.com/offer/ltl_result.jhtml?found=y&_requestid=135946&portal=shopatt (accessed April 3, 2001).

[19] J. Files, Texas-Based Phone Company Changes Focus from Acquisitions to Customer Service, San Jose Mercury News (Dec. 10, 2000) ("Whatever plan they pick, Southwestern Bell's long-distance subscribers can't really lose – its highest rate for calls from a subscriber's home is 9 cents a minute – far below AT&T's basic rate

Those plans enabled SBC to attract 1.4 million customers during the six months following the approval of its section 271 application in Texas.[20] Moreover, SBC's successes have led its competitors to respond by cutting prices. AT&T, for example, reduced its intrastate price to only $0.01 per minute above intrastate access charges, while its intrastate price remained $0.07 and $0.09 per minute above intrastate access charges in Arkansas and Missouri, respectively, where AT&T was not yet subject to SBC's competition.

26. On March 7, 2001, SBC began providing long distance service in Kansas and Oklahoma.[21] Two days earlier, in an "apparent competitive response," AT&T announced a loyalty incentive to keep its current long distance customers, offering them 30 free minutes of long distance for remaining with AT&T.[22] This offer is confined to Kansas and Oklahoma and AT&T has stated that it has "no immediate plans to extend the program to other states."[23] Again, the causal link is clear: BOC entry into the long distance market in a state leads to increased competition in that state.

27. Verizon's provision of long distance service in the northern New Jersey/New York and Camden/Philadelphia corridors provides a third example of the competitive benefits associated with permitting local exchange carriers to compete in the long distance market. Verizon has competed with the long distance carriers for interLATA traffic in these corridors since AT&T's

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of 29.5 cents a minute."). (Recently, Southwestern Bell's long-distance affiliate has changed the rate for its calling plan to $0.10 per minute, but still with no monthly service charge.)

[20] V. Vittore, SBC Long-Distance Progresses, Telephony (Jan. 29, 2001).

[21] See Communications Daily at 9 (Mar. 8, 2001).

[22] See id.

[23] See id.

divestiture in 1984.[24] Actual experience there shows that Verizon's presence will prompt additional price competition in the long distance market. In the northern New Jersey/New York corridor, Verizon's corridor rates have been about 26 percent lower than the average price that AT&T's New York residential customers paid for the same calls.[25] The additional price competition from Verizon was sufficiently vigorous that AT&T filed with the FCC for permission to reduce its rates just in the northern New Jersey-New York corridor where Verizon was allowed to compete—but not in other places where it could not—and WorldCom (formerly MCI) joined in the request so that it, too, could meet the competition.[26]

28. Another compelling example of the positive impact of an incumbent local exchange carrier's entry into the long distance market is the experience of Southern New England Telephone ("SNET"). SNET, the incumbent local exchange carrier for nearly all of Connecticut, established an interstate long distance reselling subsidiary called SNET America in 1993.[27] In April 1994, the Connecticut Department of Public Utility Control ("DPUC") approved a joint marketing agreement under which SNET's local telephone company could sell SNET America's long distance services and SNET America could resell SNET's intrastate

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[24] The Modification of Final Judgment established the corridor exceptions to the interLATA service prohibition, "to continue [local carriers'] long-standing interstate service arrangement in two areas: (1) between New York City and Northern New Jersey; and (2) between Philadelphia and Camden, New Jersey." United States. v. Western Electric Co., 569 F. Supp. 990, 1002 (D.D.C. 1983).

[25] This comparison is based on my analysis of calling and billing data from Market Share Monitor, op. cit., and Verizon New York tariff FCC No. 12, at 107. See also Bell Atlantic Seeks Nondominant Status in 'Corridor', Telecommunications Reports (Jul. 17, 1995).

[26] AT&T, AT&T Petition for Waiver of Section 64.1701 of the Commission's Rules, Petition for Waiver and Request for Expedited Consideration, CC Docket No. 96-26, at 3 fn. 3 (FCC filed Oct. 23, 1996); MCI Comments at 1 (FCC filed Nov. 18, 1996).

[27] "SNET America, Inc. ('SNET America') was incorporated in 1993 under the laws of the State of Connecticut. SNET America resells a complete range of interstate and international long-distance services to Connecticut customers, including calling card and "800" service, along with volume discount plans such as SNET All Distance Simple Solutions[SM], a calling plan for small business and residence customers. SNET America began offering service in the third quarter of 1993." See Southern New England Telecommunications Corp., Form 10-K, for the fiscal year ended December 31, 1995.

services.[28] "This arrangement enabled the Corporation to satisfy its customers' long-distance calling needs with a single point of contact through the SNET All Distance℠ service offerings."[29] The transition to a regime similar to that which would prevail when Verizon is granted interLATA relief was completed in May 1994 when ". . . the State of Connecticut Legislature enacted Public Act 94-83 . . . [which opened] Connecticut telecommunications services to full competition, including local exchange service...."[30] Thus, SNET's experience provides a good example of the likely effects on consumers from allowing BOCs to compete with long distance carriers. Following SNET's entry into the long distance market, and before Verizon's entry into the long distance market in New York, AT&T's Connecticut customers paid on average 24 percent less than its New York customers for the identical interstate direct dial service.[31] In addition, SNET's customers in Connecticut paid on average 36 percent less than AT&T's customers in New York did. Further information regarding the experience in Connecticut after SNET entry is provided in Attachment D.

2. Verizon's entry will spur competition for bundled services.

29. There is substantial evidence that consumers want, and would benefit from, bundled telecommunications services—i.e., packages of local, long distance and other services bundled in one offering from a single supplier. Perhaps the strongest evidence of this demand is the hundreds of billions of dollars in investments by the Big Three that are clearly aimed at

[28] "On April 13, 1994, the DPUC approved a joint marketing arrangement between the Telephone Company and SNET America enabling the Telephone Company to sell SNET America's interstate and international services, and SNET America to sell the Telephone Company's intrastate products and services." Id.

[29] Id.

[30] Id.

[31] AT&T's New York residential customers paid an average of $0.193 per conversation minute for interstate direct-dial calls, while AT&T's Connecticut customers paid an average of only $0.146 per minute for such calls. See Att. D ¶ 3.

offering bundled services to the most lucrative customers in the top markets. By way of example, a recent study by the Strategis Group reported that:

> “Telecom bundling is the new reality of the market. Consumers demand it, businesses demand it and operators are finally beginning to provide the service. It’s now a race among carriers to become the customer’s one-stop communications partner.”[32]
>
> “Local and long distance phone service proved to be the most popular choices for bundles, with 78 percent of consumers requesting those services in their preferred bundle.”[33]
>
> “Demand for bundled consumer and business telecom services is strong among consumers, SOHOs, and small-to-large-sized businesses, according to two studies by The Strategis Group; 66% of businesses and 63% of consumers are interested in purchasing bundles with at least two services.”[34]

30. Incumbent long distance carriers have recognized this trend and gotten a jump start on offering bundled packages of services:

> Sprint overcame a big hurdle for long distance carriers with its June announcement of its new Integrated On-Demand Network [ION]. Meanwhile, MCI has offered integrated MCI One packages for both residential and small business markets for more than two years. For small businesses, this means local toll, toll-free, MCI Internet, calling card, 800 number and international calling on one bill.
>
> Business customers are looking for simplicity, flexibility and a single point of contact, so AT&T offers several voice, data, wireless and Internet access services that can be packaged together. The carrier offers integrated billing for domestic private line and voice services, including local voice in some areas. It also offers one customer service number, which routes callers to experts.[35]

More recently,

> We firmly believe that this business is about having broadband, narrowband, local, long-distance, wireless, and wire-line capabilities, and we think companies that don’t have those capabilities are severely limiting their

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[32] James Mendelson, analyst with The Strategis Group and lead author of study on bundling: Survey Finds That Users Want Bundled Services, CLEC–Planet (Jan. 13, 2000).

[33] Id.

[34] Bundle Up, Telecoms, Communications News at 10 (Apr. 1, 2000).

[35] S. Schmelling, Bundling Takes on New Meaning, Telephony at 20 (Jul. 13, 1998).

> opportunities…It's the synergy, it's the integration of these capabilities that we think is the winner.[36]

31. The long distance carriers' efforts go well beyond simple marketing programs. They include substantial investments in local facilities to provide bundled services to both business customers and—more recently—to high-volume residential customers. The evidence includes AT&T's $137 billion dollar investments to acquire McCaw's wireless network (for $12.6 billion),[37] TCG's local business network (for $11 billion), TCI (for $52 billion) and MediaOne (for $62 billion) for the express purpose of offering bundled services to its most lucrative high-volume customers who are able to buy the full bundle of local, long distance, wireless, Internet, and cable TV offerings.[38] Similar motives have driven the MCI/WorldCom MFS/UUNet mergers and Sprint's PCS and broadband services investments.

32. Allowing Verizon into the Connecticut long distance market would add an important new competitor to the bundled services market. Verizon already offers a full array of local services. Allowing it to package those services with long distance service would help meet consumer demand for such packages. Accordingly, Verizon's entry into the Connecticut long distance market will not only increase competition for long distance services alone, but it will also increase competition for bundled package offerings that include long distance service. As

[36] S. Schiesel, Sprint Still Aspires to Offer One-Stop Communications, New York Times at C1 (Jan. 15, 2001), quoting Ronald T. LeMay, President and Chief Operating Officer of Sprint.

[37] McCaw's Cellular One Northeast Region Becomes AT&T Wireless Services – Heralds New Era in Wireless Communications, Dow Jones Interactive (August 28, 1995).

[38] AT&T Press Release, AT&T, TCI to Merge, Create New AT&T Consumer Services Unit (Jun. 24, 1998); AT&T Press Release, AT&T Completes TCG merger; TCG Now Core of AT&T Local Services Network Unit (Jul. 23, 1998); Big Mergers Revive Notion of Bundled Telecom Services, excerpt from September 14, 1998, edition of Video Competition Report, http://127.0.01:15841/v1?catid=9661315&md5=a973b42e877b80044cc4f8902503eeaa.

a result of such competition, it would be reasonable to expect lower prices, new and varied offerings for bundled packages of services, and greater choice—all to the benefit of consumers.

33. Verizon's entry into the long distance market will also increase competition for local services in Byram and Greenwich in particular and in Connecticut generally. This increase in Byram and Greenwich will occur because long distance carriers will need to offer local service to retain their high-margin long distance customers and to attract the most valuable new customers by offering bundled local and long distance packages. In addition, once Verizon can compete on equal terms by offering long distance, the incumbent long distance carriers will have a greater incentive to compete vigorously for a broader sector of mass-market local exchange customers in Byram and Greenwich. Incumbent long distance carriers would no longer be able to ignore these markets if they hoped to retain their current customers in the face of Verizon's new bundles of local exchange and long distance services. Outside of Verizon's local exchange territory in Connecticut, Verizon would finally be able to compete as a long distance carrier in a market where it has considerable exposure but no current local exchange customers.

34. Actual market experience in New York shows that local competition, particularly competition for residential customers, has increased since Verizon has been in the long distance market. In the first year since Verizon entered the long distance market in New York, competitors added over 1.6 million lines in New York.[39] That represents a 104 percent increase in one year, including a 290 percent increase in Unbundled Network Element Platform ("UNE-

[39] This calculation includes CLEC E911 listings as a measure of facilities-based lines. That measure is conservative, since each E911 listing can correspond to multiple customer access lines; in particular, multi-line residential customers may have only one E911 listing, and business customers may have hundreds of access lines at a location corresponding to a single E911 listing.

P") lines and a 45 percent increase in facilities-based lines.[40] There has also been a 173 percent increase in stand-alone UNE loops, a 104 percent increase in collocation sites, and a 42 percent increase in interconnection trunks. In January and February of 2001, CLECs in New York added approximately 200,000 new lines, including more than 130,000 through platforms and at least 70,000 using their own facilities.[41] New York was also the first state where AT&T, Sprint, and WorldCom began providing local service on a mass-market basis, with their entry coinciding with the final stages of Verizon's successful efforts to obtain long distance authority. For example, WorldCom began offering mass-market local service in February 1999, and now has more than 400,000 customers, most of whom are residential.[42] Similarly, AT&T begin offering mass market local service in New York in December 1999, the same month the FCC approved Verizon's New York 271 application, and now has more than 620,000 largely residential local customers.[43] And all of this expansion is in addition to the hundreds of thousands of primarily business customers that each of these carriers serves predominantly over its own facilities, and the numbers of these customers likewise have grown consistently since Verizon's entry.

35. Likewise, since SBC's Section 271 application in Texas was approved, local competition has similarly increased. For example, as of February 2001, AT&T has attracted about 325,000 local Texas customers.[44] The three major IXCs have also chosen Texas for early trials of fixed wireless systems, designed to offer an assortment of phone and Internet bundles.

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[40] Again, the measure of facilities-based lines is from CLEC E911 listings.

[41] In addition, competitors now serve a total of 370,000 lines through resale.

[42] M. McDonald, Rivals Swipe Verizon's Residential Users: 1 Million Switch, But Wall St. Shrugs, Crain's New York Business at 26 (Oct. 16, 2000).

[43] Id.

[44] V. Bajaj, Dallas Morning News at 1D (Feb. 2, 2001).

In addition, investment in and deployment of advanced services in Texas has heightened following approval of SBC's application. AT&T is using Texas as one of its test grounds for cable telephone services.[45] AT&T recently announced major improvements to its high-speed local networks serving the four major Texas cities—Austin, San Antonio, Dallas/Fort Worth, and Houston—including upgrading its fiber network to OC-192 (10 gigabits per second).[46] Indeed, according to former FCC Chairman William E. Kennard: "We have witnessed a dynamic market for broadband services develop as a result of the opening of local markets in Texas and New York."[47]

36. Given the increase in local competition in New York since Verizon entered the long distance market, it is likely that, once Verizon enters the Connecticut long distance market, local competition in Greenwich and Byram will increase as well. Incumbent long distance carriers will have the same incentive to enter Verizon's Connecticut local markets as they did the New York local market, once Verizon can compete for their long distance customers. As discussed below, customers in Connecticut are already starting to see the payoff of increased local competition. Competitive local exchange carriers now serve a total of more than 2,500 business and residence lines in Greenwich and Byram. See Att. A ¶ 1(a). Notwithstanding the competitive presence that exists in the Connecticut local market today, if Verizon is authorized to provide its own bundle of local and long distance services in Connecticut, the amount of local competition will undoubtedly increase.

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[45] J. Landers, Faster, Faster: Americans Clamor for High-Speed Net; FCC To Release Data on Spread of Broadband Services, Dallas Morning News at 22A (Aug. 3, 2000).

[46] AT&T Press Release, AT&T Offers San Antonio Business Customers Local Service Choice (Dec. 5, 2000).

[47] William E. Kennard, Chairman, Federal Communications Commission, Statement of William E. Kennard Before the Committee on the Judiciary United States House of Representatives on H.R. 1686 – the "Internet Freedom Act" and H.R. 1685 – the "Internet Growth and Development Act", at 8 of 14 (July 18, 2000),

III. VERIZON'S LONG DISTANCE ENTRY WILL NOT HARM COMPETITION IN ANY MARKET.

37. In addition to the large, immediate, and real benefits that will flow from Verizon's entry into the Connecticut long distance market, there is no significant countervailing risk of harm to competition in any market. As an initial matter, actual market experience shows that the Connecticut local market has already been opened to competition. Because a substantial portion of this entry has occurred through investment in competing facilities, it also is irreversible. In addition, speculative assertions by long distance incumbents about supposed risks of harm to long distance competition are misplaced. Actual experience has proven these assertions wrong in every prior instance where BOCs have been allowed to compete in adjacent markets. And, in any event, the opening of the local market and the comprehensive safeguards that already are in place provide abundant assurance that no anticompetitive behavior is possible.

A. Actual Market Experience Confirms that the Connecticut Local Market Is Open.

38. The local exchange market in Connecticut is open to competition. From a network perspective, the systems and operations Verizon uses to serve Byram and Greenwich are the same systems and operations that it uses in New York and that the FCC has previously found to be compliant with the Section 271 checklist. Competitors seeking to serve Verizon's Connecticut territory would rely on the same OSSs, processes, and procedures that they would use in New York.

http://www.house.gov/judiciary/kenn0718.htm.

39. As demonstrated in New York and in the attached Local Competition Report (See Att. A), actual market activity helps to confirm that the Connecticut local market is open. Competing carriers have entered the business and residence markets and are continuing to do so. Local competitors are using all three modes of entry (facilities-based, resale and UNEs), serving residence and business customers. More specifically, as of March 1, 2001 competitors were serving more than 2,500 lines in Greenwich and Byram, which break down as follows: approximately 550 over CLEC facilities and approximately 2,000 through resale. Competitors were also serving approximately 285 customers using unbundled loops (not counting loops used to provide DSL services). See Att. A at Table 1.

40. Over 465 companies have been certified to provide telecommunications services in Connecticut.[48] Of these certified carriers, Network Plus currently serves business and residential customers in Greenwich and Byram over its own facilities and through resale. Cablevision currently serves business customers in Greenwich and Byram over its own facilities. AT&T, WorldCom, and CTC are currently providing business services in Greenwich/Byram. Covad, Rhythms, DSL.net, and Prism are selling DSL services under interconnection agreements with Verizon-NY. Other certified carriers have interconnection agreements with Verizon-NY and provide services elsewhere in Connecticut but not in Greenwich/Byram:

- RCN, Sprint and Log On America provide residential local exchange services,
- ATG, Hyperion MFN, Qwest, and WinStar provide business services, and
- CBS, @Link, XDSL, and New Edge Networks provide DSL services.

[48] DPUC 2000 Annual Report to the General Assembly on the Status of Telecommunications in Connecticut, Docket No. 00-02-05, at 22 (Dec. 27, 2000).

41. Because competitive entry in Connecticut is so heavily facilities-based, it is irreversible.[49] Competitors have deployed at least four local voice switches and have obtained more than 25 collocation arrangements in Verizon's central office in Greenwich, giving competitors access to all of Verizon's access lines in the state. See Att. A ¶ 3. Because this facilities-based entry represents sunk facilities, it simply cannot go away. Even if individual competitors fail—which is highly unlikely given the size of major competitors such as AT&T and Cablevision—the investment remains in the ground and would inevitably be purchased and used by another competitor. And the fact that competitors are willing to invest in competing local facilities reflects the fact that they themselves believe the local market is open and will remain that way, and that any additional issues are manageable.

42. In addition to current competition in the Byram and Greenwich areas of Connecticut, there is the additional threat of entry from large, well-known telecommunications firms presently supplying services to Connecticut customers in areas other than Byram and Greenwich. These potential entrants—which could quickly serve customers in these towns through resale, the use of unbundled network elements, and the use of facilities already deployed in and near Byram and Greenwich—provide further constraint on Verizon's retail prices. Any significant deviation between Verizon's price and the cost for a retail service will entice these competitors to enter.

43. The pace at which competitive entry has occurred in New York is a particularly strong indicator that the Byram and Greenwich local exchange markets—which for all intents and

[49] Recall that approximately 550 out of more than 2,500 competitive lines are facilities-based.

purposes are just an extension of Verizon's New York market—are fully open.[50] As previously discussed, local competition has flourished in New York since Verizon entered the long distance market there.

B. There Is No Significant Risk That Verizon's Entry into the Long Distance Market Will Harm Competition.

44. Despite the incumbent long distance carriers' claims, actual market experience in New York demonstrates that there is no legitimate argument that Verizon's entry into the long distance market will harm competition. In addition to the compelling evidence in New York where Verizon is actually providing long distance service, in every other instance where BOCs have been allowed to compete in adjacent markets—including geographic corridors in which Verizon has been permitted to offer interLATA service, as well as wireless, voice-messaging services and customer premises equipment markets—prices have fallen and competition has flourished. This actual experience is surely more compelling than speculations or anecdotal claims of misdeeds. There are also sufficient safeguards already in place to provide redundant assurances that Verizon will be unable to use anticompetitive strategies in local exchange or long distance markets.

1. Actual market experience demonstrates that speculative concerns over incumbent local exchange carriers' engaging in anticompetitive conduct once allowed into the long distance market are unfounded.

45. A review of the New York long distance marketplace since Verizon began offering long distance service there demonstrates that the marketplace has not suffered from any anticompetitive conduct, but instead has thrived since Verizon gained entry. As previously

[50] That Byram and Greenwich are part of Verizon's network was recognized by the Divestiture Court when it included those exchanges in New York LATA 132.

discussed, consumers now have cheaper rates as well as more innovative service plans, including more bundled service packages, from all long distance carriers.[51] Verizon has introduced the concept of automatically enrolling customers in discount calling plans with no monthly recurring fees or usage minimums rather than subjecting them to more expensive basic rates. To compete, the major long distance carriers have begun to offer innovative bundled service plans in New York.

46. The result in New York is consistent with previous instances where Bell operating companies have entered an adjacent market and have not harmed competition. Experience in the interLATA corridors, cellular, voice messaging and customer premises equipment markets all provide relevant examples of where BOCs' entry into an adjacent market has not harmed competition.

47. As mentioned above, Verizon has provided interLATA services since divestiture under exceptions to the AT&T consent decree—the corridor service between New York City and northern New Jersey and between Philadelphia and southern New Jersey. In those markets, Verizon has offered rates below AT&T's; yet it has only a small share of this traffic, despite purported overwhelming advantages stemming from its control over local service. Some seventeen years have passed without adverse consequences for competition. When AT&T and MCI petitioned the FCC to reduce their rates on the corridors, they cited price competition from

[51] For instance, AT&T itself was forced to decrease its intrastate toll prices after Verizon entered the long distance market in New York. For calling-plan customers, it decreased its New York intrastate interLATA price from $0.14 to $0.10 per minute, and it decreased its intraLATA price from $0.08 to $0.06 per minute.

Verizon, not anticompetitive actions.[52] The FCC confirmed the effectiveness and persistence of competition when it removed these services from price cap regulation:

> As a result of the competition that has developed since the consent decree and the Telecommunications Act of 1996, price cap LECs may now be non-dominant in the provision of corridor and interstate intraLATA toll services, particularly in light of the availability of inter- and intraLATA dialing parity. Although the record in this proceeding is insufficient for us to conduct the analysis outlined in the *Dominant/Non-Dominant Order*, we do conclude that developments in the markets for interexchange services make it unlikely that price cap LECs will be able to exploit over a sustained period any individual market power in their provision of corridor and interstate intraLATA toll services.[53]

48. Similarly, local exchange carriers other than the RBOCs have entered the long-distance market without apparent damage to competition. The FCC staff developed a study that found that local exchange carriers that entered the long-distance market grew until they had about a third of the long-distance market among customers in their local service areas, and then their market shares stabilized.[54] Thus, local exchange carriers do not dominate the long-distance market, in spite of their alleged advantages.

49. Local exchange carriers have provided cellular service in their local telephone service areas since 1983. These "wireline" providers have not come to dominate the market, as would be expected if they had subsidized these services from their local telephone services or discriminated against their competitors through their control of the local telephone network. Despite a late start, non-wireline competitors (i.e., companies that obtained cellular franchises

[52] AT&T, AT&T Petition for Waiver of Section 64.1701 of the Commission's Rules, Petition for Waiver and Request for Expedited Consideration, CC Docket No. 96-26, at 3 fn. 3 (FCC filed Oct. 23, 1996); MCI Comments at 1 (FCC filed Nov. 18, 1996).

[53] Access Charge Reform, et. al., Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221, ¶ 53 (1999). The FCC goes on to list as factors ensuring the survivability of competition the ability of the major IXCs to expand capacity and their strong brand identities.

[54] J. Eisner and P. Wynns, FCC, Historical Patterns of Entry into Long Distance by Local Exchange Carriers (Sept. 1998).

without serving the area as an incumbent wireline local company) have market shares that are, on average, equivalent to those of the wireline affiliated cellular carriers.[55] In many cases, the non-wireline suppliers have the larger market share,[56] and output has grown rapidly as prices have fallen.[57] A long-time regulator has observed, “In all my years as a state regulator, there was not one instance of the non-BOC cellular license holder arguing that the BOC discriminated in favor of its cellular affiliate.”[58] AT&T sunk $12.6 billion into this market through its purchase of McCaw Cellular.[59] Further, AT&T, Sprint, a consortium of cable companies, and others spent additional billions for wireless spectrum in auctions to enable them to compete with the incumbent cellular carriers. These investments are powerful evidence that these companies do not view the supposed risk of anticompetitive exploitation of an exchange access “bottleneck” as real.

50. Local exchange carriers also have long been allowed to provide information services, and there is no evidence that competition in this market has been undermined. After the BOCs began offering voice messaging services (“VMS”), consumer welfare improved in at least two ways. First, the monthly retail charge dropped from $30 in 1990 to $5 to $15 in 1995. Second,

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[55] Estimated from Paul Kagan Associates, Inc., Wireless Market Stats, No. 72, at 6, 13 (Aug. 31, 1995).

[56] P.S. Brandon and R.L. Schmalensee, The Benefits of Releasing the Bell Companies from the Interexchange Restrictions, Managerial and Decision Economics, Vol. 16, No. 4, at 349-364 (July-August 1995).

[57] Six years ago, the lowest average rate (including monthly fees) for 500 mobile phone minutes of use in the New York metropolitan area was over $0.45 per minute—assuming at the time 212 minutes of peak usage and 288 minutes of off-peak usage. See Paul Kagan and Associates Inc., Cellular Rates (Jan. 1994). Today, three wireless providers—AT&T, Sprint, and Omnipoint—have 500-minute plans with an average usage rate of $0.10 per minute. See, e.g., Point.com Website, Find a Service Plan - New York, NY, http://www.point.com/planlist/city/7/zipcode/10128. The growth in the number of mobile phone subscribers has been equally impressive. In less than six years, the number of U.S. wireless subscribers more than quadrupled, from 24,134,000 at year-end 1994 to about 103,000,000 today. See CTIA Website, The World of Wireless Communications (Sept. 28, 2000), http://wow-com.com

[58] Southwestern Bell Telephone Company – Texas’ Compliance with Section 271 of the Federal Telecommunications Act of 1996, Declaration of Kenneth W. Gordon, ¶ 16 (Texas PUC April 17, 1998).

[59] McCaw’s Cellular One Northeast Region Becomes AT&T Wireless Services – Heralds New Era in Wireless Communications, Dow Jones Interactive (August 28, 1995).

the local exchange carriers began offering VMS to an untapped market segment—residential and small business customers. In the first five years after they received permission to enter the information services market, the BOCs' participation in this market increased from zero to over six million subscriptions; yet, competitors thrived, and the BOCs and the former GTE together accounted for just over 15 percent of total VMS revenues nationally.[60]

51. Finally, since 1984, the BOCs have been permitted to distribute customer premises equipment ("CPE"). During the subsequent decade, the average market share of each of the Bell companies was less than one percent, and CPE output rose while prices fell.[61] Consequently, the U.S. Court of Appeals observed that the CPE market "has supported competition" even though the BOCs theoretically "posses[s] an incentive to discriminate in interconnection."[62]

52. In sum, regulators need not rely on either *a priori* reasoning or discussions of regulatory rules to conclude that permitting Verizon to enter the long distance market presents no danger of ILEC anticompetitive discrimination. Actual market experience from Verizon's entry into the New York market as well as years of historical experience of the ILECs' competing in other markets provide overwhelming evidence that competition flourishes when BOCs enter a market adjacent to their local service. SBC's experience in Texas—where it signed up 1.4 million customers, all of whom benefit from SBC's low rates, during the six months following its

[60] J.A. Hausman and T.J. Tardiff, Benefits and Costs of Vertical Integration of Basic and Enhanced Telecommunications Services (Apr. 6, 1995). The authors present data on price trends and market penetration at 5, 9, and market shares at 9-10.

[61] NATA, 1995 Telecommunications Review and Forecast, Vol. 128 (1995).

[62] United States v. Western Electric Co., 900 F.2d 283, 303 (D.C. Cir. 1990), cert. denied, 498 U.S. 911 (1990).

approval to provide in-region, interLATA service in that state—provides only the most recent evidence.[63]

2. Existing safeguards are sufficient to prevent any harm to competition.

53. In Connecticut, even before the passage of the federal Telecommunications Act,[64] the Connecticut General Assembly passed Public Act 94-83 which opened all Connecticut telecommunications markets to competition and authorized the Department to:

> … regulate the provision of telecommunications services in the state in a manner designed to foster competition (§16-247f)

54. The opening of the local market largely eliminates any theoretical possibility that Verizon could impede competition through discrimination or cross-subsidy. In addition, the existing array of regulatory safeguards and its proven success at protecting against any risk of harm to competition in other adjacent markets effectively eliminate any meaningful risk of harm to long distance competition. The FCC has explicitly endorsed this view of the sufficiency of existing safeguards and affirmed that "sufficient mechanisms already exist within the 1996 Act both to deter anticompetitive behavior and to facilitate the detection of potential violations of section 272 requirements."[65]

55. The opening of the local market by meeting the Section 271 competitive checklist prevents Verizon from using its position as an incumbent local exchange carrier to impede long distance competition. If Verizon were to attempt to discriminate against competing long

[63] V. Vittore, SBC Long-Distance Progresses, Telephony (Jan. 29, 2001).

[64] See Connecticut General Assembly Public Act 94-83 §16-247f.

[65] Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order and Further Notice of Proposed Rulemaking, 11 FCC Rcd 21905, ¶¶ 13, 321 (1996); see also Implementation of the Telecommunications Act of 1996; Accounting Safeguards

distance carriers in the provision of existing access services, for example, it would merely prompt these competitors to switch to competing access providers or to accelerate their own entry into the market to bypass Verizon's local access services. Satisfying the requirements of the checklist also dramatically lowers the capital costs of local market entry and expansion by allowing competitors to enter the market using Verizon's own facilities. For example, competitors can establish an initial customer base using resale or unbundled network element platforms, then selectively build out their own network facilities supplemented with unbundled elements. Using this approach, they can mass-market their services ubiquitously while avoiding large up-front outlays of investor-supplied capital, which greatly reduces the financial risk associated with market entry and expansion.

56. Such local market competition also eliminates the unlikely possibility that Verizon could cross-subsidize its long distance entry for the simple reason that there no longer would be any service from which to extract a subsidy. Any attempt to charge prices sufficiently high in local markets to subsidize long distance would merely cause competitors to target those high-priced local exchange services.

57. In addition, the conditions in the Connecticut market make anticompetitive pricing practices unprofitable for Verizon and therefore unlikely to occur. Even if Verizon could exercise market power in an unregulated carrier access market—and, of course, carrier access services remain regulated—that ability would not translate into market power—or market advantage—downstream, in long distance markets.

Under the Telecommunications Act of 1996, Report and Order, 11 FCC Rcd 17539, ¶ 275 (1996).

58. Theoretical anticompetitive pricing practices include predatory pricing and vertical price squeezes. Predatory pricing is generally considered to entail pricing a service below the variable cost of supplying the service with the intention of driving a rival from the market. A vertical price squeeze can occur where a vertically integrated firm controls an essential input required to supply a retail service for which it competes with others. A price squeeze occurs when the margin between the integrated firm's retail price and the price of the essential input is too small—less than the difference in the incremental costs of supplying the retail service and the input—so that an equally efficient firm cannot purchase the input and still compete in the retail market. It is analytically the same as predatory pricing because the firm sacrifices profits whenever it supplies the retail service rather than the essential input.

59. For predatory pricing or a vertical price squeeze to be a successful competitive strategy, three conditions must hold: (i) the predator must be a dominant firm or likely to become one; (ii) the predator must suffer a loss (or lose profits) in order to eliminate its competitor; and (iii) the market structure must allow the predator to recoup at a later date the profits it has lost through predation. These conditions are not met in Connecticut.

60. First, the strategy requires that the predator have deeper pockets than the victims, and the "victims" in this case would be AT&T, WorldCom, and Sprint, each of which is a major national carrier that sells telecommunications services outside of Connecticut, where it would be unaffected by Verizon's pricing in Connecticut.

61. Second, the strategy would require that Verizon be able to control interLATA prices and maintain barriers to entry. Neither ability is present here. Verizon will enter the interLATA market with zero market share to compete against some of the largest telecommunications firms in the world, whose names are household words and who currently

serve a substantial majority of the market. As discussed below, such a strategy makes no sense for Verizon in Connecticut. Even if Verizon could drive the Big Three out of the Connecticut interLATA market, their capacity would remain in the market, so that other competitors could prevent Verizon from ever raising prices to recoup its lost profits. In addition, the networks of the Big Three would remain in and around Connecticut, providing services other than Connecticut interLATA toll, and all of that capacity would be poised to enter the market once Verizon attempted to raise prices. Thus, it is not plausible that Verizon could gain in the long run from setting predatorily low prices.

62. Third, federal regulations prevent anticompetitive pricing through price floors and by imputing access charges in toll rates. In particular, Section 272(e)(3) of the Act requires BOCs to purchase carrier access out of the same tariffs as their competitors and to impute those carrier access charges into their long distance prices, so that all competitors effectively pay the same price for the same carrier access services.

63. The Courts also have generally been wary of predatory pricing claims of the type that underlie the long distance carriers' arguments.[66] The reasons for that wariness lies in the fact that to be successful at predatory pricing, a vertically integrated firm that supplies both an essential input and a downstream retail service would have to price the retail service below the sum of the incremental cost of the service and the foregone contribution (price less incremental cost) from the essential input (here, carrier access). Such a pricing strategy could have the anticompetitive effect of excluding a more efficient rival from the downstream market. However, at these retail and wholesale prices, the integrated firm generally would find it more

[66] Matsushita Electric Industrial Co. v. Zenith Radio Corp., 475 U.S. 574 (1986) ("predatory pricing schemes are rarely tried and even more rarely successful").

profitable to supply the essential input than the retail service. The only circumstances in which such retail prices would ultimately be profitable are where the company engaging in the price squeeze—the predator—could be assured that it could recoup its foregone revenues. But the circumstances necessary for such strategy to succeed do not hold in current telecommunications markets in Connecticut. (Attachment E addresses the economics of these issues in more detail.)

64. Recouping lost profits would be especially difficult in the markets at issue. AT&T, WorldCom, and Sprint are large and powerful competitors with national and international networks and a host of local networks in place that can be used to provide a wide variety of telecommunications services. Whenever Verizon tired of earning less money in the interLATA toll market—the locus of its supposed predation—than it could earn merely by providing access to other carriers, it might try to raise its toll price, but it would find its competitors still in place and ready to prevent it from recouping its lost profits.

65. Nor could Verizon make up its lost profits by raising prices of its local services. As noted above, even if the prices of those services were not subject to regulatory constraints, any attempt to raise those prices would merely prompt a competitive attack.

66. Three additional regulatory safeguards protect competition from possible Verizon discrimination in favor of its long distance affiliate or cross-subsidization of long distance services from regulated local revenues. First, cross-subsidizing long distance service cannot be a profitable strategy for Verizon because price cap regulation fundamentally breaks the link between accounting costs and prices.[67] Under traditional rate of return regulation, if the

[67] The FCC employs price cap regulation of the LECs' interstate services, which eliminates their ability to cross-subsidize services from carrier access revenues. The Connecticut Department of Public Utility Control has approved an alternative regulation plan for Verizon that achieves the same result at the state level. In addition, the Connecticut plan requires "that the Company establish a price floor at a level that is no lower than total service long run incremental cost (TSLIRC), which includes a reasonable level of contribution for all services." See

regulator were unable to detect the cost-shifting from a competitive affiliate to the regulated enterprise, then Verizon theoretically could raise regulated rates to cover the shifted costs, so that regulated services would be subsidizing the competitive operation. Under price cap regulation, however, Verizon cannot raise its regulated rates if it shifts costs from the competitive affiliate to the regulated enterprise. Thus, even if Verizon were determined to engage in predatory pricing or an anticompetitive price squeeze, it could not recoup its losses from regulated local services.

67. Second, pervasive cost allocation rules separating costs between regulated and unregulated activities protect consumers from attempts to cross-subsidize. In economic theory, a service provided by a multi-service regulated company receives a subsidy if the additional revenue caused by provision of the service fails to cover the additional costs caused by supplying the service. Because regulatory costing rules first assign costs—to the extent possible—on the basis of cost-causation, the resulting cost assignments ensure that at least incremental costs are assigned to each service and thus that unregulated services are, at a minimum, not subsidized. Regulators, however, have gone much further than that minimum and have enthusiastically assigned shared fixed and common costs to unregulated services. Although economists deplore the inefficiency of such assignments of shared fixed and common costs, such rules provide redundant protection to keep prices for competitive services from being cross-subsidized.[68] Indeed, cost allocation rules—combined with decades of subsidizing

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Application of the New York Telephone Company for Alternative Rate Regulation, Decision, Docket No. 99-03-06, at 6 (Jan. 31, 2001). A price floor for competitive services eliminates cross-subsidizes for those services from any source.

[68] See, e.g., R.W. Crandall and L. Waverman, Talk Is Cheap, Washington: Brookings (1995); A.E. Kahn, The Uneasy Marriage of Regulation and Competition, Telematics at 1-2, 8-17 (Sept. 1984); A.E. Kahn, The Road to More Intelligent Telephone Pricing, Yale Journal on Regulation, Vol. 1, No. 2, at 139-157 (Spring 1984); and D.L.

residential basic exchange—imply that if there is a prevailing subsidy flow among telecommunications services, it is going the other way.

68. Third, the Act requires BOCs to provide in-region interLATA services through a separate affiliate for three years after the date it is authorized to provide interLATA services, unless the requirement is extended by the FCC. A separate subsidiary requirement exposes inter-subsidiary transactions to even greater scrutiny than the FCC accounting rules would. In addition, the FCC's interpretation of the separate subsidiary requirement prevents BOC long distance affiliates from using existing BOC intraLATA networks as part of an integrated intra- and interLATA system, and the Commission has found that this provides additional protection to prevent misallocation of long distance facilities costs to the basic ratepayers.[69]

69. The Act also contains a set of audit and non-discrimination requirements, some of which must be maintained even after the separate affiliate requirement sunsets. The Act "sunsets" the separate-affiliate requirement for BOC manufacturing and long distance service after three years, unless the Commission extends the affiliate requirement by rule or order.[70] In terms of the auditing provisions, Verizon will be required to submit to detailed audits to ensure that they are complying with the Act's affiliate transaction rules and with the FCC's accounting safeguards. Thus, in addition to the continuing oversight of federal and Connecticut regulators and competitors, the Act adds an independent auditor to the list of those who will be monitoring Verizon's activity to ensure that there will be fair competition in the interLATA

Kaserman and J.W. Mayo, Cross-Subsidies in Telecommunications: Roadblocks on the Road to More Intelligent Telephone Pricing, Yale Journal on Regulation, Vol. 11, No. 1, at 119-147 (Winter 1994).

[69] See Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order and Further Notice of Proposed Rulemaking, 11 FCC Rcd 21905, ¶¶ 16, 162 (1996).

[70] See § 272(f)(1).

market. The FCC has found that the information available to regulators will be sufficient to assure them that the prescribed structural and accounting safeguards have been implemented and are working.[71]

70. I believe that the reporting requirements of the 1996 Act and those that may be incorporated into interconnection agreements negotiated in good faith between BOCs and competing carriers will collectively minimize the potential for anticompetitive conduct by the BOC in its interexchange operations. In addition to deterring potential anticompetitive behavior, these information disclosures will also facilitate detection of potential violations of the section 272 requirements.[72]

71. There is also no risk of successful discrimination in service quality. Successful discrimination in the quality of interconnection provided to competitors would require degrading a competitor's access service to reduce service quality sufficiently for customers to notice. Such behavior would be unlikely to escape the notice of the other long distance carriers or the state and federal regulators. On the contrary, competitors would notice this degradation at least as soon as customers would, and they would certainly bring it to the attention of regulators. Firms such as AT&T, WorldCom, and Sprint have been interconnected with numerous LECs for years; they can easily compare interconnection service quality across the country and, thereby, detect discrimination. In addition to competitors, sophisticated multi-region customers also limit BOCs' ability to engage in anticompetitive actions. Such firms can compare the service quality from that BOC with the quality provided by other BOCs and use

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[71] See Implementation of the Telecommunications Act of 1996; Accounting Safeguards Under the Telecommunications Act of 1996, Report and Order, 11 FCC Rcd 17539, ¶ 199 (1996).

[72] See Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order and Further Notice of Proposed Rulemaking, 11 FCC Rcd 21905, ¶ 327 (1996).

that information to seek regulatory or legal relief. They can also track changes in service quality over time. Long distance carriers can also subscribe to BOCs in order to compare the performance of BOC retail services to their own. While other information sources provide more than sufficient avenues to track service quality, Verizon is also still required to file ARMIS reports that provide a redundant source of information. ARMIS 43-05, 43-06 and 43-07 reports include the measures of service quality of greatest concern to competitors: installation and repair intervals for interexchange access, trunk blockage, total switch downtime, service quality complaints, dial-tone response, transmission quality, and call set-up time.

72. Furthermore, service discrimination would be difficult to implement because Verizon could not degrade its competitors' service quality without harming its own. Most of Verizon's access facilities—both switches and trunks—would be used by Verizon, by its long distance affiliate, and by competing long distance carriers. In addition, to the extent that Verizon's long distance affiliate operates as a reseller, it could not degrade the access service provided to long distance carriers without risking the degradation of its own long distance services.

73. Notwithstanding its lack of incentives to discriminate, Verizon has submitted a Performance Assurance Plan to the Connecticut DPUC and has committed to make available its New York Change Control Assurance Plan to all CLECs serving in its Connecticut territory. On April 11, 2001, the DPUC approved that plan and ordered that any modifications to the New York Plan be incorporated automatically into the Connecticut Plan.[73] These plans provide the same degree of protection from discrimination that Verizon provides to CLECs in New

[73] Application of New York Telephone Company Pursuant to Section 271 of the Telecommunications Reform Act of 1996, Decision, Docket No. 97-01-23 (Apr. 11, 2001).

York, and the amount of penalties at risk under the plans is the same—per access line—as in the New York plans. These Plans establish specific carrier-to-carrier service quality measurements and standards, statistical scoring methods to determine whether service quality meets these standards, automatic bill credits if Verizon fails to meet the standards and monthly reporting requirements to track the outcomes.

74. Finally, if discrimination were detected, competing long distance carriers are not limited to relief from regulators or the courts. As noted above, under the pro-competitive initiatives of the Connecticut Department of Public Utility Control, the Act, and the FCC, the actual and potential competition for the total package of communications services purchased by residential and business customers in Connecticut described in Section III.A above puts immediate pressure on Verizon's carrier access service prices and quality. In Connecticut carrier access markets, it is inconceivable that discrimination by Verizon—even if it could occur—could disrupt or distort the competitive process in the market for long distance services.

C. Conclusion

75. For all the reasons outlined above, Verizon's entry into the long distance business in Connecticut will produce substantial public interest benefits with no significant risk of harm to competition in any market.

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

Executed on April __, 2001

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William E. Taylor