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

In the Matter of Application by Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), and Verizon Global Networks, Inc., for Authorization To Provide In-Region, InterLATA Services in Massachusetts	)))))))))))	CC Docket No. _______

DECLARATION OF WILLIAM E. TAYLOR

EXECUTIVE SUMMARY

1. From an economic perspective, Verizon's[1] entry into the interLATA long distance business in Massachusetts 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 Massachusetts will raise no significant risk to competition in local exchange or long distance markets.

2. Verizon's entry into the Massachusetts 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 incumbent long distance carriers — AT&T, WorldCom and Sprint (the "Big Three").* 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

[1] On June 30, 2000, Bell Atlantic Corporation completed its merger with GTE Corporation, creating Verizon Communications. Since Bell Atlantic is now Verizon, I will refer to the company as Verizon whether we are talking about something that occurred before or after the merger was completed. Any quotations that refer to Verizon by its former name will remain unchanged.

companies. Consumers 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, 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*. 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. The current degree of competitive activity and actual market experience shows that the local exchange market is open, and competitors have entered — and are continuing to enter — on a large scale.

a. In the four and half years since the Telecommunications Act of 1996 ("the Act") was passed, the number of lines served by competitive local exchange carriers in Massachusetts has grown to 676,000. This figure amounts to approximately 13 percent as many local lines as Verizon itself serves in Massachusetts.

b. Local entry in Massachusetts has been heavily facilities-based and dispersed widely across the state. Competitors are supplying more than half of their lines using their own facilities, excluding those that use unbundled loops. This investment is hardly surprising. Competitors have demonstrated their own belief that the local market is open by voting with their wallets, investing enormous sums in competing facilities. This entry is irreversible. Once a competitor makes these sunk investments, the competing facilities are in place and available for use to provide competing service even if some individual competitors decide to exit the market.

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 demonstrate that these speculative concerns are unfounded.

5. In sum, Verizon's entry in the long distance market in Massachusetts 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, Massachusetts 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 Massachusetts.

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I. BACKGROUND AND CONCLUSIONS

1. 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.

2. 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 D. Verizon has asked me — as an economist — to assess the public interest implications of its proposed entry into the long distance market in Massachusetts.

3. Verizon's entry into the interLATA long distance business in Massachusetts 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.

4. 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 Massachusetts 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.

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

5. As a major new facilities-based competitor, 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 observed, "the entry of the BOC interLATA affiliates into the provision of interLATA services has the potential to increase price competition and lead to innovative new

services and marketing efficiencies."[1] 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 Massachusetts long distance market.

6. Verizon is a more formidable competitor than any other potential long distance entrant in Massachusetts. Verizon differs from other potential entrants in that it has a considerable customer base and market presence within its region. 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 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 . . . .[2]

7. In addition, Verizon has the size and resources to deploy and operate a facilities-based long distance network in Massachusetts to challenge the incumbent long distance market

[1] *Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area*, FCC, Second Report and Order in CC Docket No. 96-149 and Third Report and Order in CC Docket No. 96-61, released April 18, 1997, ¶ 92.

[2] *Policy and Rules Concerning the Interstate, Interexchange Marketplace Implementation of Section 254(g) of the Communications Act of 1934, as amended*, FCC, Notice of Proposed Rulemaking, CC Docket No. 96-61, 11 FCC Rcd 7141; 1996 FCC Lexis 1472, FCC 96-123, Adopted: March 21, 1996, Released: March 25, 1996, ¶ 81, footnote omitted.

leaders — AT&T, WorldCom, and Sprint — who compete on a facilities basis in national and global long distance markets. And Verizon has the customer base and market presence in its local service areas to counter the equally strong customer base and market presence enjoyed by AT&T, WorldCom, and Sprint.

8. 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 Massachusetts 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. 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. *See* Breen Decl. ¶¶ 12-14. According to the Telecommunications Research & Action Center ("TRAC") — an independent consumer group that, among other things, compiles information about long distance rates — there is a Verizon calling plan in New York cheaper than any AT&T, WorldCom or Sprint New York calling plan for all levels of customer usage, except for high volume callers. *Id.* These high volume callers, constitute only 10 percent of the total number of customers. *Id.* Additionally, a more recent TRAC study, released on September 6, 2000, found that consumer savings for consumers who switched to Verizon's long distance was between more than $46 million and $120 million. *Id.* ¶ 11.

9. 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* Breen Decl. ¶ 8. 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.[3] *Id*. Before the price reductions associated with the recent Coalition for Affordable Local and Long Distance Service ("CALLS") order took effect,[4] the interstate direct-dialed bills of 94 percent of AT&T's residential customers in New York would have been lower under Verizon's Timeless calling plan than under the most cost-effective of the available AT&T calling plans.[5] For these customers, Verizon rates averaged 35 percent less than the best of AT&T plans. Confirming expectations that Verizon's entry into the long distance market in New York would especially benefit low-usage customers, the principal customers who would have paid less under Verizon's rates than the most cost-effective of AT&T's plans are those with less than 200 interLATA minutes a month.

10. In August 2000, AT&T adjusted its rates as required by the CALLS order. Since the FCC required AT&T to discontinue its $3 monthly minimum usage charge for basic-rate customers, and required both AT&T and Verizon's local exchange service to discontinue their carrier line charges, customers with zero usage had the same bill from both companies — $0. Most of AT&T's residential customers with some usage would reduce their bills by

[3] Verizon has additional calling plans with lower rates. For example, its e-Values plan, customers who sign up on the Internet, pay $0.09 per minute Monday through Friday and $0.05 per minute on weekends.

[4] In the CALLS proposal, major local exchange carriers, AT&T, and the FCC agreed to cut interstate access charges substantially, eliminate the carrier line charge (both the local exchange carrier charge to interexchange carriers and the interexchange carrier charge to customers), and increase the subscriber line charge. The CALLS proposal required AT&T to eliminate the $3.00 minimum monthly charge assessed to basic-rate customers, create a new calling plan with no minimum charge and no subscription fee, and inform basic-rate customers of their options.

[5] This analysis uses data on residential calling patterns from PNR and Associates, Inc., *MarketShare Monitor*™, Version 2.0, April 23, 1999. For Verizon, my calculations are based on the $0.10 per minute rate for interstate calls under its Timeless plan, a $1.47 carrier line charge, and a 5.877 percent universal service charge. For AT&T, my calculations account for its carrier line charge of $1.53 per month and its universal service charge of 8.6 percent. The calculations also account for the $3 minimum usage requirement for basic-rate customers and for AT&T's One Rate plan customers. I allocate monthly calling plan subscription charges in proportion to each customer's interstate and intrastate minutes. For each customer, my calculations pick the plan yeilding the lowest

choosing Verizon. Of AT&T's residential customers with some interstate direct-dialed minutes, 77 percent could have a lower interstate bill by choosing Verizon's Timeless plan than by choosing the most cost-effective of AT&T's current plans.[6] Also, notwithstanding the CALLS order, low volume customers — *i.e.* those spending $10 or less per month on long distance calls — still save more under Verizon's Timeless calling plan than under AT&T's cheapest flat rate plan called "AT&T One Rate Basic." *See* Breen Decl. ¶ 15. 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.[7]

11. In fact, the difference in price between Verizon's initial interstate rates in New York and what AT&T's customers were actually paying last year 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.[8] 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 Massachusetts long distance market would provide Massachusetts consumers with competitive alternatives to incumbent long distance carriers' higher-prices.

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interstate bill among AT&T's One Rate plan, One Rate 7 Cents Plan, and One Rate 5 Cents Plan. I then compare that lowest bill with what Verizon-NY's Timeless plan rate would yield.

[6] This analysis uses calling data from *MarketShare Monitor*™, *op. cit*. and available calling plans from both Verizon and AT&T (as of September 10, 2000). The analysis is similar to the pre-CALLS analysis, except that it omits AT&T's $3.00 monthly minimum charge imposed on basic-rate customers and it omits carrier line charges. The analysis adds an AT&T calling plan charging $0.16 per minute, and it updates AT&T's basic rates.

[7] Telecommunications Research and Action Center, "A Study of Telephone Competition in New York," September 6, 2000; *see* Breen Decl. Att. A.

[8] This analysis is based on calling and billing data from *MarketShare Monitor*™, *op. cit*. My calculations include per-minute rates, carrier line charges ($1.47 for Verizon and $1.51 for AT&T), universal service charges,

12. 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 $4.95 to $8.95. This means that subscribers actually pay far more per minute than the advertised per-minute rate. *See e.g.* Breen Decl. ¶¶ 16-17. Additionally, due to these monthly subscription fees or minimum usage charges, most of the Big Three's calling plans are 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 $4.95.[9] Nearly three-quarters of AT&T's residential customers in Massachusetts —customers having the lowest toll usage — would increase their interstate long distance bill by shifting to AT&T's One Rate 7 Cents plan.

13. While comparisons between current Verizon and Big Three long distance prices are useful, a more important comparison is between long distance prices before and after Verizon's entry in New York. 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").[10] 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.

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monthly minimum usage charges and calling plan subscription charges (allocated between interstate and intrastate minutes).

[9] AT&T Press Release, "AT&T Delivers Simplicity and Savings with Two New Plans," August 30, 1999, http://www.att.com/press/item/0,1193,630,00.html.

[10] Cable News Network Financial, *Market Coverage*, Lauren Thierry, "Telecom Sector Analysis," interview of Michael Mahoney, head of telecom investing at Dresdner RCM, August 9, 1999.

14. Verizon's provision of long distance service in the northern New Jersey/New York and Camden/Philadelphia corridors provides a second 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 divestiture in 1984.[11] 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.[12] 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.[13]

15. 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, now also offers long distance service. Thus, it 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

[11] 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).

[12] 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, p. 107.

[13] AT&T, Petition for Waiver and Request for Expedited Consideration, *AT&T Petition for Waiver of Section 64.1701 of the Commission's Rules*, FCC, CC Docket No. 96-26, filed October 23, 1996, p. 3 fn. 3; MCI Comments, filed November 18, 1996, p. 1.

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.[14] 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 is provided in Attachment C.

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

16. 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 offering bundled services to the most lucrative customers in the top markets. By way of example, one article on the growing prevalence of bundling reported that:

> Any carrier will tell you: "We bundle multiple telecommunications services to provide one-stop shopping for our customers."
>
> It's an action-oriented reaction to the countless surveys that say customers are crying out for bundled services — one bill for local and long-distance phone service, wireless service, Internet access and sometimes even cable television.[15]

17. The same article observed that the 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

[14] 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* Attachment C.

[15] *See* S. Schmelling, "Bundling Takes on New Meaning," *Telephony*, July 13, 1998, p. 20.

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.[16]

18. 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 $11.5 billion), 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.[17] Similar motives have driven the MCI/WorldCom MFS/UUNet mergers and Sprint's PCS and broadband services investments.

19. Allowing Verizon into the Massachusetts 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 would help meet consumer demand for such packages. Accordingly, Verizon's entry into the Massachusetts 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.

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[16] *Id.*

[17] AT&T Press Release, "AT&T, TCI to Merge, Create New AT&T Consumer Services Unit," June 24, 1998, http://www.att.com/press/0698/980624, AT&T Press Release; "AT&T Completes TCG merger; TCG Now Core of AT&T Local Services Network Unit," July 23, 1998, http://www.att.com/press/0798/980723; "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.

As 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.

3. Verizon's entry into the long distance market would prompt still more local competition in Massachusetts.

20. Verizon's entry into the long distance market will also increase competition for local services in Massachusetts. This increase 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. 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. 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.

21. 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. As of July 31, 2000, competitors served approximately 2.5 million lines in New York. In the first six months since Verizon's entry in New York, the number of access lines served by competitive local exchange carriers has increased 72 percent, including a 163 percent increase in UNE-platform lines. There has also been a 142 percent increase in stand-alone loops, a 70 percent increase in collocation sites, and a 33 percent increase in interconnection trunks. 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.[18] 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 500,000 largely residential local customers.[19] 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. Likewise, SBC's entry into the long distance business in Texas has prompted the major long distance carriers to enter the local mass market in that state as well.

22. Given the increase in local competition in New York since Verizon entered the long distance market, it is likely that once Verizon enters the Massachusetts long distance market, local competition in Massachusetts will increase as well. Incumbent long distance carriers will have the same incentive to enter the Massachusetts local market as they did the New York local market, once Verizon can compete for their long distance customers. As discussed below, customers in Massachusetts are already starting to see the payoff of increased local competition. Competitive local exchange carriers now serve approximately 676,000 lines in Massachusetts. *See* Att. A at Table 1. AT&T now has access to 2.1 million cable subscribers in the Boston area and 38 suburbs giving it more than an 80 percent share of the

[18] *See* R. Krause, "Verizon's New York Fight Key to AT&T Challenge," *Investor's Business Daily*, August 15, 2000.

[19] *Id*.

Massachusetts cable market.[20] Earlier this year, AT&T increased its facilities-based presence in the Massachusetts local market by completing its purchase of cable provider MediaOne, which already has a facilities-based presence passing 1.6 million homes in Massachusetts. MediaOne has begun providing local phone service in addition to its cable and high speed Internet access services, and has been estimated to provide local phone service to over 20,000 Massachusetts customers.[21] AT&T is apparently making such long-term strategic investments to compete with Verizon and other BOCs:

> Indeed, MediaOne, coupled with the Comcast deal will reduce AT&T's earnings next year by 26 cents a share. Mr. Armstrong says the considerable cost is worth the risk. "***The whole strategy is to deliver a new digital world and to compete against the regional Bell operating companies***," he says.[22]

23. Additionally, WorldCom has recently identified Boston as one of the markets in which it will offer broadband fixed wireless services.[23] As in New York, therefore, the major long distance incumbents have positioned themselves for a further push into the local market once Verizon obtains long distance relief and can provide a bundle of services comparable to what the long distance incumbents can offer. Notwithstanding the competitive presence that exists in the Massachusetts local market today, if Verizon is authorized to provide its own bundle of local and long distance services in Massachusetts, the amount of local competition will undoubtedly increase.

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[20] *See* AT&T Press Release, "AT&T Closes MediaOne Merger," June 15, 2000, http://www.att.com/ press/item/0,1354,2978,00.html; *see also* P. Howe, "Area Code Wars Snag Competition", *The Boston Globe*, February 22, 2000.

[21] *Id.*

[22] R. Blumestein, L Cauley, "Ma Bell's Plan Is To Serve Up TV Phone via Cable," *Wall Street Journal*, May 6, 1999, p. B 11; *emphasis added.*

[23] *See* MCI WorldCom Press Release, "MCI WorldCom to Test Fixed Wireless' Service in Boston," March 27, 2000, http://www.wcom/about_the_company/press_releases/display.phtml?cr/20000814.

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

24. In addition to the large, immediate, and real benefits that will flow from Verizon's entry into the Massachusetts 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 Massachusetts local market has already been opened to competition. Because this entry has occurred in large measure through heavy 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 Massachusetts Local Market Is Open.

25. As demonstrated in the attached Local Competition Report, *See* Att. A, actual market activity in Massachusetts confirms that the local market is open. Competing carriers have entered the market on a large scale and are continuing to do so. Local competitors are using all three modes of entry (facilities-based, UNEs, and resale), serving both business and residential customers and serving various regions throughout the Commonwealth. More specifically, as of July 2000, competitors were serving close to 676,000 lines — at least 418,000 lines over their own facilities, approximately 11,800 over UNE platforms, and approximately 246,000 through resale. *See* Att. A at Table 1. Of the resold lines, over 32,000 are for residential customers. *Id.* ¶ 15.

26. The pace at which competitive entry has occurred in Massachusetts is a particularly strong indicator that the market is fully open. Four and one-half years after the passage of the 1996 Act, competing carriers already serve approximately 13 percent as many lines as Verizon serves and about twice that percentage in market segments they are targeting most heavily. At the time Verizon successfully applied for long distance authority in New York, competitors served just 10 percent as many lines as Verizon served.[24] Therefore, local competition is more extensive in Massachusetts now than it was in New York when Verizon applied for long distance entry. Additionally, competitors now serve about one third as many business lines as Verizon does in Massachusetts[25] and competitors are serving a substantial number (more than 120,000) of residential lines as well. *See* Att. A at Exh. 2. Similarly, the number of interconnection trunks obtained by competitors has grown 190 percent since the beginning of 1999, and 52 percent since the beginning of 2000. *Id.* ¶ 11. (In contrast, it took over 5 years from the date used by the FCC to mark the beginning of long distance competition — the April 1979 decision allowing MCI to provide switched long distance service — for competitors to capture 10 percent of the revenue in the market.)[26]

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[24] *See* William E. Taylor, Declaration on Behalf of Bell Atlantic Before the FCC, *Application by the New York Telephone Company (d/b/a Bell Company — New York), Bell Atlantic Communications, Inc., NYNEX Long Distance Company, and Bell Atlantic Global Networks, Inc., for Authorization To Provide In-Region InterLATA Services in New York*, CC Docket No. 99-295, ¶ 44.

[25] To estimate the number of facilities-based business lines, we subtracted total competitor residential lines (the sum of residential directory listings, residential UNE platforms, and residential resale lines) from the total number of competitor access lines. To estimate the ratio of competitive local exchange carrier lines to Verizon lines, we divided total competitive local exchange carrier access lines by Verizon access lines for the respective geographic areas.

[26] *See* C. Yang "Yes Virginia, There Is Phone Competition," Business Week, September 28, 1998, p. 6, reported that, according to the FCC, "Competition in the local calling market is moving faster than the 1980's battle over long distance. Two years after the Act, rivals have captured 3.5% of local phone revenues from the Baby Bells, says Merrill. In contrast, two years after the 1979 court decision letting MCI sell long distance services, carriers had won only 1.4% of that market from AT&T, the FCC notes."

27. Because competitive entry in Massachusetts is so heavily facilities-based, it is irreversible. This degree of entry is not necessary to establish that the market is irreversibly open to competition, although it clearly is sufficient. Competitors have deployed at least 22 local voice switches and at least 2,175 route miles of fiber in Verizon's service territory. *See* Att. A. ¶ 3. In addition, as of July 2000, competitors had obtained over 1,600 collocation arrangements. *See* Att. A ¶¶ 5-6. With these collocation arrangements plus the approximately 170 pending collocation arrangements, competitors have access to about 94 percent of Verizon's residential access lines and more than 96 percent of Verizon's business lines in Massachusetts. *Id.* In fact, the number of collocation arrangements in Massachusetts exceeds the number in New York at the time of Verizon's successful Section 271 application for that state, even though New York has nearly twice the number of central office switches as Massachusetts.[27] Because this facilities-based entry represents hundreds of millions of dollars invested in 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 WorldCom — 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 such significant sums 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.

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

28. 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

[27] *See* FCC, Statistics of Communications Common Carriers, 1999/2000 edition, Tables 2.3, 2.6.

long distance market will harm competition. In addition to the compelling evidence in New York where Verizon is actually providing long distance, in every other instance where BOCs have been allowed to compete in adjacent markets — including wireless, voice-messaging services and customer premises equipment — prices have fallen and competition has flourished. 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.

29. 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 discussed, consumers now have cheaper rates as well as more innovative service plans, including more bundled service packages, from all long distance carriers. 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.

30. 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 cellular, voice messaging and customer premises equipment all provide relevant examples of where BOCs entry into an adjacent market has not harmed competition. 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 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.[28] In many cases, the non-wireline suppliers have the larger market share,[29] and output has grown rapidly as prices have fallen.[30] 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."[31] AT&T sunk $11.5 billion into this market through its purchase of McCaw Cellular. 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.

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[28] Estimated from Paul Kagan Associates, Inc., *Wireless Market Stats*, No. 72, August 31, 1995, pp. 6, 13.

[29] 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, July-August 1995, pp. 349-364.

[30] 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*, January 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, for instance, 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 102,000,000 today. (CTIA website, The World of Wireless Communications, http://wow-com.com, Sept. 11, 2000.)

[31] Kenneth W. Gordon, Declaration on Behalf of Southwestern Bell Telephone Company, *Southwestern Bell Telephone Company – Texas' Compliance with Section 271 of the Federal Telecommunications Act of 1996*, before the Public Utility Commission of Texas (April 17, 1998), ¶ 16.

31. 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 – $15 in 1995. Second, the local exchange carriers began offering VMS to an untapped market segment — residential and small business customers. In the 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 Bell operating companies and the former GTE together accounted for just over 15 percent of total VMS revenues nationally.[32]

32. Finally, since 1984, the BOCs have been permitted to distribute customer premises equipment ("CPE"). The average market share of each of the Bell companies was less than one percent, and CPE output rose while prices fell.[33] 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."[34]

33. 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'

[32] J.A. Hausman and T.J. Tardiff, "Benefits and Costs of Vertical Integration of Basic and Enhanced Telecommunications Services," April 6, 1995. The authors present data on price trends and market penetration on pp. 5 and 9, and market shares on pp. 9 and 10.

[33] NATA, *1995 Telecommunications Review and Forecast*, Vol. 128, 1995.

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

competing in other markets provide overwhelming evidence that competition flourishes when BOCs enter a market adjacent to their local service.

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

34. 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."[35]

35. 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 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

[35] *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934*, as amended, FCC, First Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 96-149, released December 24, 1996, ¶¶ 13, 321; *Implementation of the Telecommunications Act of 1996: Accounting Safeguards of the Telecommunications Act of 1996*, FCC, Report and Order, CC Docket No. 96-150, released December 24, 1996, ¶ 275.

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.

36. 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.

37. In addition, the conditions in the Massachusetts 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.

38. 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.

39. 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 Massachusetts.

40. 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 Massachusetts and would be unaffected by Verizon's pricing in Massachusetts.

41. 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 Massachusetts. Even if Verizon could drive the Big Three out of the Massachusetts 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 Massachusetts, providing services other than Massachusetts 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.

42. Third, federal and Commonwealth 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. Even absent imputation, Verizon must recognize the access charges that competitors pay as an opportunity cost of supplying long distance itself: if Verizon serves the long distance customer, it gives up carrier access charges that AT&T would have paid to it if AT&T won the customer.

43. The Courts also have generally been wary of predatory pricing claims of the type that underlie the long distance carriers' arguments.[36] 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 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 Massachusetts. (Attachment B addresses the economics of these issues in more detail.)

44. 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.

45. 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.

46. 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.[37] Under traditional rate of return regulation, if the 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

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

[37] The FCC employs price cap regulation of the LECs' interstate services, which eliminates their ability to cross-subsidize services from carrier access revenues. The Massachusetts Department of Telecommunications and Energy has also approved a price performance regulation plan for Verizon that achieves the same result at the state level through capped rates, which must be reduced at specific times during the effective period of the plan.

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.

47. 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 these 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.[38] Indeed, cost allocation rules — combined with decades of subsidizing residential basic exchange — imply that if there is a prevailing subsidy flow among telecommunications services, at current prices, it is going the other way.

48. 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,

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See DPU-94-50, *The Petition of New England Telephone and Telegraph Company d/b/a Nynex for An Alternative Regulatory Plan for the Company's Massachusetts Intrastate Telecommunications Service*, May 12, 1995.

[38] *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*, September 1984, pp. 1-2, 8-17; A.E. Kahn, "The Road to More Intelligent Telephone Pricing," *Yale Journal on Regulation*, Vol. 1, No. 2, Spring 1984, pp. 139-157; and D.L. 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, Winter 1994, pp. 119-147.

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.[39]

49. 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 after three years, unless the Commission extends the affiliate requirement by rule or order. *See* 47 U.S.C. § 272(f)(1). In terms of the auditing provisions, Verizon will be required to submit to detailed audits in order 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 Massachusetts 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 market. The FCC has found that the information available to regulators will be sufficient to prevent discrimination:

We believe that the reporting requirements required by the 1996 Act, those required under state law, 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

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

potential anticompetitive behavior, these information disclosures will also facilitate detection of potential violations of the section 272 requirements.[40]

50. 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 Commonwealth 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 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

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

downtime, service quality complaints, dial-tone response, transmission quality, and call set-up time.

51. 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.

52. 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 Massachusetts Department of Telecommunications and Energy, the Act and the FCC, the proliferation of competition for the total package of communications services purchased by residential and business customers in Massachusetts described in Section III-A above puts immediate pressure on Verizon's carrier access service prices and quality. In Massachusetts 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

53. For all the reasons outlined above, Verizon's entry into the long distance business in Massachusetts will produce enormous 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 September __, 2000

____
William Taylor