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Richard C. Fipphen
Assistant General Counsel

December 9, 2010

Catrice C. Williams, Secretary
Department of Telecommunications and Cable
1000 Washington Street, Suite 820
Boston, Massachusetts 02118-6500

Re: D.T.C. 10-2 – Petition of Choice One Communications of Massachusetts Inc., Conversent Communications of Massachusetts Inc., CTC Communications Corp. and Lightship Telecom LLC for Exemption from Price Cap on Intrastate Switched Access Rates as Established in D.T.C. 07-9

Dear Ms. Williams:

Enclosed for filing in the above-referenced matter are Verizon's responses to the Department of Telecommunication and Cable's First Set of Information Requests.

Please note that these responses have been redacted to protect proprietary information. The unredacted, proprietary version of the responses is being filed with the Hearing Officer under separate cover and is being provided to those parties that have entered into Non-Disclosure Agreements with One Communications.

Thank you for your attention to this matter.

Respectfully submitted,

Richard C. Fipphen

Enclosure
cc: Lindsay DeRoche, Hearing Officer (3)
Service List

Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

Docket No. D.T.C 10-2

Respondent: Paul Vasington
Title: Director – State Public Policy

REQUEST: Department of Telecommunications and Cable, Set #1

DATED: November 22, 2010

ITEM: DTC-Verizon 1-1 Referring to pgs. 13-14 of Verizon's panel testimony, provide the relevant sections of Verizon's filings and any orders issued in the New Jersey proceeding referenced that accurately and completely reflect Verizon's position in that case.

REPLY: See attached for Verizon's public initial and reply briefs, which reflect Verizon's position in that case. Also attached is the decision of the New Jersey Board of Public Utilities in that case.

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ITEM: DTC-Verizon 1-2 Provide specific support, and, where available, citations to the relevant authority for each of the following statements:

a) "…total service long run incremental cost study of switched access service – the only appropriate basis, under Department precedent and sound economic principles – for estimating the forward-looking, incremental costs of providing switched access in the Commonwealth." Pg. 3, lns. 17-20.

b) "A forward-looking incremental cost analysis…estimates the costs that are incurred due to the provision of a particular service or increment. In other words, it is the difference between the total costs of the firm providing that service and the total costs of the firm not providing that service." Pg. 19 ln. 19 to pg. 20 ln. 2.

c) "If a carrier must incur the cost of a particular function or network element whether or not it offers a given service, then that cost cannot be said to be caused by or incremental to that service, even if the service in question makes use of the particular function or element." Pg. 20, lns. 9-12.

d) "It is causation, not use, which determines how costs are treated in an incremental study." Pg. 31, lns. 7-8.

REPLY:

a) See D.P.U. 94-185 (August 29, 1996), at 13-17.

b) See D.P.U. 94-185 (August 29, 1996), at 14: "TSLRIC is determined by taking the long-run incremental cost of an entire service and dividing it by the expected output." See also *FCC*

Local Competition Order (August 1996) at ¶ 691.

c) See D.P.U. 94-185 (August 29, 1996), at 14: "[TSLRIC] includes all forward-looking costs that are variable with the offering of a service as well as forward-looking, service-specific fixed costs …" See also *FCC Local Competition Order* (August 1996) at ¶ 691: "Only those costs that are incurred in the provision of the network elements in the long run shall be directly attributable to those elements."

d) See *FCC Local Competition Order* (August 1996) at ¶ 691: "Costs must be attributed on a cost-causative basis. Costs are causally-related to the network element being provided if the costs are incurred as a direct result of providing the network elements, or can be avoided, in the long run, when the company ceases to provide them."

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ITEM: DTC-Verizon 1-3 Referring to pg. 22, lns. 7-10 of the panel testimony, Verizon states "[t]here is widespread agreement among economists that a properly executed TSLRIC study is the most appropriate measure of determining costs because it most accurately reflects what a competitive firm would pay for providing services today." Provide support for this assertion.

REPLY: See, e.g., FCC Local Competition Order (August 1996) at ¶ 679: "Adopting a pricing methodology based on forward-looking, economic costs best replicates, to the extent possible, the conditions of a competitive market," and at ¶ 630: "We observed in the NPRM that economists generally agree that prices based on forward-looking long-run incremental costs (LRIC) give appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure." See also id. at ¶¶ 635-636. The referenced statement also is based on the experience of the witnesses.

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ITEM: DTC-Verizon 1-4 Referring to pgs. 24-25 of the panel testimony, Verizon references a cost study submitted in D.P.U. 88-33-G labeled a "marginal cost" study. Verizon states that this study was "in fact…akin to a TSLRIC study." Explain. Describe in detail any key similarities and differences between the cost study approved in D.P.U. 88-33-G and a TSLRIC study.

REPLY: The methodology approved in D.P.U. 86-33-G was similar in principle to a TSLRIC study in that it estimated the incremental cost of services over a long-run time period. The Department has already found that the study approved in D.P.U. 86-33-G is a long-run incremental cost study: "We find that NYNEX's MCS VI is a LRIC study and can serve as an appropriate basis for determining the prices and price floors for NYNEX's competitive services." D.P.U. 94-185 (August 29, 1996), at 16 (citation omitted).

Further, in its D.P.U. 86-33-G order, the Department said the following:

> The Company used an engineering-construct methodology to calculate its incremental costs. An engineering-construct methodology essentially requires the Company to treat all costs associated with its present network as sunk, and then to determine what investments it would make to meet additional demand for a determinate future period. The Company then calculates the costs associated with the investment and the expenses associated with the investment, including depreciation, taxes, repair, and maintenance. Order at p. 389.

This study involved demand projections, judgments about technology and replacement in a construction plan, estimated changes in expenses, and capital cost and depreciation assumptions – based on up to a 25-year study period. The MDTE further noted that the "engineering-construct" methodology requires that the regulated company: "(1) treat all costs associated with its present network as sunk; (2) estimate additional demand for a determinate future period; (3) identify the costs associated with alternative technologies, including start-up investment and plant investment, along with a return on the investments and any associated expenses such as taxes and maintenance; (4) determine the lowest-cost means, in terms of total present-value costs, to meet the additional future demand in terms of timing of capacity additions and the type of technology to be added; and (5) estimate on a present-value basis the average unit incremental cost to the Company of each such investment." Order at 435.

One key difference is that the cost study approved in D.P.U. 86-33-G measured direct costs only, whereas TSLRIC studies commonly account for forward-looking joint and common costs.

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Docket No. D.T.C 10-2

Respondent: Ann Amalia Dean
Title: Senior Consultant

REQUEST: Department of Telecommunications and Cable, Set #1

DATED: November 22, 2010

ITEM: DTC-Verizon 1-5 Referring to pg. 27 of the panel testimony, Verizon notes that the NUCA model does not include a study period, demand projections, or estimated changes in expenses as the "marginal cost" study did in D.P.U. 88-33-G. Describe the impact of omitting these elements from the NUCA model. Provide examples of these elements as used in approved forward-looking incremental cost studies in this or other jurisdictions.

REPLY: First, the NUCA model omits a study period and demand projections. This does not result in a forward-looking incremental cost study. In contrast, an industry standard TSLRIC cost study would produce forward-looking investments based on the construction of a modeled network built to serve the predicted demand over a study period. TSLIRC requires the modeling of the "long run" and "total service". One Comm's switch investments are not modeled to future demand. One Comm's forward-looking model construct should be based on traffic studies for each of One Comm's switches in Massachusetts. Instead One Comm's engineers identified both the existing Lucent 5ESS and the Metaswitch arrangement located in Springfield, Massachusetts as the 'model' offices they believed best captured their 'forward-looking' design thereby inflating the costs of switch usage.

Second, One Comm's cost study treats all booked expenses (wholesale and retail) as shared and then allocates to minutes of use. The NUCA model does not adjust expenses to account for future inflation and productivity changes or do remove current anomalies. The NUCA model does not produce forward-looking incremental costs.

An example of a forward looking incremental cost study that used study period, demand projections for modeling the network, and estimated changes in expenses was Verizon's NJ Docket No. TX08090830 Cost Study submitted in response to One Comm's Data Request 4.1.

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DATED: November 22, 2010

ITEM: DTC-Verizon 1-6 Referring to pg. 36, lns. 6-8 of the panel testimony, Verizon states that "One Comm simply ignores the plain fact that the loop is a necessary and incremental cost solely of providing local exchange service." Does Verizon assert that the loop is not a shared cost of usage and basic network access? If so, explain.

REPLY: Yes. Verizon asserts that in conducting incremental cost studies, the loop should be considered a direct cost of basic network access, not a shared cost. The loop would not exist without basic network access, yet it could exist without usage. For example, if a customer does not use her phone in a given month, the cost of the loop is still incurred and she is still billed for network access for that month.

The Department has found that the loop should be treated as a direct cost of basic network access, as noted in Verizon's Direct Testimony at 40-41.

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DATED: November 22, 2010

ITEM: DTC-Verizon 1-7 Referring to pg. 37, lns. 3-6 of the panel testimony, Verizon states that "[i] t is important to remember, however, that the separations process is a component of fully-allocated cost methods, *not* the incremental cost methods One Comm claims to use here. So the process of assigning loop costs through separations says nothing about the appropriate way to characterize loop costs in an incremental cost study." (emphasis in original). Describe how and why the treatment of loop costs should differ between a fully-allocated cost method and an incremental cost method. Provide complete and detailed documentation of your answer.

REPLY: The treatment of loop costs in a fully-allocated cost method must be conducted in accordance with FCC separations rules, in which the loop is treated as a shared cost. This does not mean that it *has* to be treated as a shared cost even in a fully-allocated cost study, only that the loop is considered a shared cost under current separations rules. It would be feasible to conduct a fully-allocated cost study with the loop considered as a direct cost of basic network access.

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Docket No. D.T.C 10-2

Respondent: Ann Amalia Dean
Title: Senior Staff Consultant

REQUEST: Department of Telecommunications and Cable, Set #1

DATED: November 22, 2010

ITEM: DTC-Verizon 1-8 Referring to pg. 52 of the panel testimony, Verizon argues that billing costs should be excluded from the shared and common cost factor calculation because it is an activity relating to retail services. Is Verizon's position that no billing costs are incurred in the provision of wholesale services? If not, what, if any, billing costs does Verizon believe are incurred in the provision of wholesale services. Provide complete and detailed documentation of your answer.

REPLY: No. Verizon proposes One Comm remove from factor development only retail specific billing costs.

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Docket No. D.T.C 10-2

Respondent: Ann Amalia Dean
Title: Senior Staff Consultant

REQUEST: Department of Telecommunications and Cable, Set #1

DATED: November 22, 2010

ITEM: DTC-Verizon 1-9

Referring to pgs. 62-63 of the panel testimony, Verizon asserts that One Communications, by using both the Capitalized Software Factor and including specific expenses, is recovering twice for the same costs. Provide complete and detailed documentation for this assertion, indicating how Verizon determined that these specific costs are included in the Capitalized Software Factor.

REPLY:

To develop its Capitalized Software factor One Comm examined its continuing property records and determined that **BEGIN PROPRIETARY** [redacted] **END PROPRIETARY** of its Total Capitalized Software is attributed to direct cost (network) functions. That amount was divided by Switching and Circuit investments to arrive at the Capitalized Software Factor.

Verizon asserts One Comm is recovering twice for investments identified as right to use (RTU) software and Metaswitch software because proper accounting treatment demands these costs be treated differently than circuit and switching costs. Verizon assumes, then, that the RTU software and Metaswitch software are included in the **BEGIN PROPRIETARY** [redacted] **END PROPRIETARY** Total Capitalized Software amount identified in One Comm's factor module.

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Respondent: Ann Amalia Dean
Title: Senior Staff Consultant

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ITEM: DTC-Verizon 1-10 Referring to pgs. 63-64 of the panel testimony, Verizon asserts that One Communications, by using both the Telco Installation cost factor and specific capitalized engineer, furnish and installation costs ("EF&I"), is recovering twice for the same costs. Provide complete and detailed documentation for this assertion, indicating how Verizon determined that these specific EF&I costs are included in the Telco Installation cost factor.

REPLY: One Comm developed its Switching Telco Installation Factor by dividing the amount booked to account 15500, Capitalized Labor, Switch by the Switching Investment balance net of Capitalized Labor. Verizon assumed the labor identified in pages 63-64 of panel testimony would have been charged to One Comm's account 15500. If this assumption is valid, One Comm's cost model improperly recovers twice for these amounts.

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ITEM: DTC-Verizon 1-11 Referring to pgs. 18-19 of the panel testimony, Verizon asserts that One Communications effective rate may be different from the Department established cap rate for intrastate switched access and provides what Verizon terms the "effective rate" Choice One has billed Verizon Business entities for service in Massachusetts for August and September 2010. Provide complete and detailed documentation, and explanation of the calculation and supporting data Verizon used to calculate this figure.

REPLY: The attached file shows the billed rate and usage quantities for Verizon Business's access bills from Choice One in July through September 2010. The amounts billed were divided by the number of minutes in order to derive the Average Cost Per Minute of $0.0044.