Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

July 3, 2001
Annual Access Tariff Filings

OPPOSITION OF VERIZON[1]
TO PETITION OF AT&T CORP.

AT&T is the only party that filed an opposition to Verizon's 2001 Annual Access Tariff Filing, and it is "*déjà vu* all over again." AT&T raises the same arguments that the Commission already rejected when AT&T raised them in previous annual filings. First, it questions Verizon's calculation of the exogenous cost changes for excess deferred taxes and investment tax credits, as it did in the 1991, 1998, and 1999 annual filings, where the Commission implicitly or explicitly rejected all of AT&T's arguments. Second, AT&T presents the same arguments that the Commission rejected last year that Verizon should have included only a fraction of the minutes of use associated with meet-point billing in calculating the "average traffic sensitive" rate. This is particularly unreasonable since AT&T, as a sponsor of the "CALLS" plan, agreed to a formula for the average traffic sensitive rate that specifically includes full meet point billing minutes. AT&T's failure to even respond to Verizon's previous rebuttals to its arguments may explain why AT&T continues to present the same flawed arguments year after year. Verizon has performed these calculations in precisely the same manner as it has in past annual filings, and as approved by the

[1] The Verizon telephone companies ("Verizon") are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in Attachment A.

Commission. The Commission should reject AT&T's petition and allow Verizon's tariffs to go into effect as scheduled.

I. Verizon's Exogenous Cost Adjustments For Excess Deferred Taxes and Investment Tax Credits Are Consistent With The Commission's Rules, As They Have Been In Every Previous Annual Filing For The Last 10 Years.

Once again, AT&T attacks Verizon's exogenous cost adjustments for excess deferred taxes ("EDT") and investment tax credits ("ITC"), despite the fact that Verizon followed exactly the same methodologies that it has applied in every annual filing for the last 10 years and despite the fact that the Commission has repeatedly endorsed these methodologies in the face of AT&T's repeated criticisms. In the 1991 annual filing, the first under price caps, the Common Carrier Bureau rejected AT&T's arguments that Verizon (then NYNEX) had miscalculated the EDT exogenous adjustment. ***See*** *Annual 1991 Access Tariff Filings,* 6 FCC Rcd 3792 at ¶¶ 40, 43 (1991). In 1998, the Bureau rejected AT&T's request to investigate both the EDT and ITC adjustments. ***See*** Reply of Bell Atlantic to Comments on Tariff Review Plan (filed Apr. 27, 1999), pp. 2-6 & Attachment; *1998 Annual Access Tariff Filings*, 13 FCC Rcd 13977 (1998). In 1999, AT&T filed the same arguments against the EDT and ITC adjustments that it had filed in 1998, and the Bureau again rejected its request for an investigation. ***See*** Opposition of Bell Atlantic to Petitions To Reject, Suspend and Investigate, pp. 2-6 (filed June 28, 1999*); Protested Tariff Transmittals Actions Taken*, 14 FCC Rcd 13102 (1999).

This year, AT&T does not claim that there is any flaw in Verizon's calculations, it simply complains that the size of the exogenous adjustments are out of line with AT&T's expectation that they will decrease each year and be similar to the adjustments of the other price cap carriers.

See AT&T at 18-22. These arguments merely illustrate AT&T's continuing misunderstanding of the nature of these adjustments.

For example, AT&T argues (at 18) that "[o]ver time, as the accumulated tax reserve declines, the total impact of each year's exogenous cost change should decline." This is incorrect. The exogenous adjustments represent the <u>differences</u> in the amounts of ITC and EDT tax benefits that are amortized from one year to the next.[2] They do not represent the absolute amount of ITC or EDT that is amortized in a given year. If a carrier amortized exactly the same amount of ITC and EDT every year, there would be no exogenous adjustment until the final year after all of the amounts have been amortized, at which time the carrier would have a relatively large exogenous adjustment to reflect the loss of the entire annual tax benefit. When a carrier amortizes a smaller ITC or EDT amount in a given year than in the previous year due to asset retirements, the tax benefit is smaller in that year and the carrier experiences an exogenous cost increase. However, this will reduce the size of the final exogenous adjustment when all of the EDT and ITC balances are amortized. The fact that some carriers have not filed exogenous cost changes for EDT does not mean (as AT&T assumes) that the carrier's EDT balance has already gone to zero. It may mean that the carrier is amortizing the same amount of EDT each year, so there is no year-to-year change that would generate an exogenous cost change.

AT&T claims (at 18), without support, that the accumulated tax reserve, and hence the EDT exogenous cost change, should be at or near zero at this time. However, Verizon's latest

[2] ***See*** Exhibits 1 and 2. EDT accounts for the effect of the Tax Reform Act of 1986, which changed the maximum federal corporate tax rate from 46% to 34%, on the amount of deferred taxes in the carriers' accounts for the difference between regulatory tax liability and actual tax liability. ITC represents the pre-1986 investment tax credits that are deferred for rate setting purposes and amortized over the booked life of the property that initiated the credit.

unamortized balances are nowhere near zero. The 2000 unamortized balances are $241 million for ITC and $135 million for EDT. ***See*** ARMIS 43-02, Account 4320; company records. The exogenous adjustments will not end until these unamortized balances (and thus the current amortizations) for EDT and ITC go to zero.

AT&T also argues (at 18-19) that Verizon East's "share" of total industry EDT and ITC exogenous costs changes is too large, and that there is no reason that EDT and ITC should vary substantially among the large price cap carriers. Neither argument is valid. First, Verizon's exogenous cost changes as a percentage of total industry cost changes since price caps began are consistent with the percentage of total industry EDT and ITC that Verizon had going into price caps. As is shown in Exhibit 5, Verizon East entered price caps with approximately 27 percent of total large carrier ITC balance, and its exogenous adjustments have been approximately 27 percent of the large carrier total.[3]

Second, the amount of EDT and ITC that each carrier will amortize in a given year will vary due to differences among the carriers in retirements and depreciation of particular equipment. As assets in various vintages are retired or reach full book depreciation capacity, all remaining EDT and ITC amortization in these vintages is triggered. There is no reason to expect carriers to have uniform retirement and depreciation rates.[4] In addition, carriers that have detailed

[3] A similar comparison cannot be done at this time for EDT because there is no ready source of the unamortized balances at the beginning of price caps. However, there is no reason to believe that the result would be any different for EDT than for ITC.

[4] In the original price cap order, the Commission decided not to allow depreciation changes as an exogenous adjustment, because it found that "it is not this Commission, but the carrier, through its decisions on when to deploy and retire equipment, that primarily controls the rate at which plant investment is translated into depreciation expense." ***See*** *Policy and Rules Concerning Rates for Dominant Carriers*, 5 FCC Rcd 6786, ¶ 182 (1990).

records by vintage of equipment (like Verizon) may retire equipment acquired during EDT/ITC vintage years more quickly than carriers that use various allocation methods, since all remaining EDT/ITC associated with a particular vintage is triggered when it reaches its end of life. For these reasons, the carriers will not have the same amount of change in EDT and ITC amortization from year to year, and will not file similar exogenous cost changes.

For example, Exhibits 3 and 6, pages 1 and 2 show that a large part of Verizon East's ITC change in the 2001 annual filing is generated in Pennsylvania and Maryland, where several equipment vintages within accounts 2421.1, 2422.1, and 2423.1 have reached the end of their depreciable lives (*i.e.*, fully depreciated). The end of depreciation means the end of ITC current amortization. Similarly, Exhibit 4 and page 3 of Exhibit 6 show that the EDT change this year is also related to end of life in certain vintages in accounts 2212.1, 2351.1, 2421.1, 2422.1, and 2423.1 in New Jersey and Maryland.

AT&T presents selective data to make it appear that Verizon East's EDT and ITC exogenous cost changes are unusually large compared to the rest of the industry by showing only Verizon's changes as a percent of industry in the last two annual filings. ***See*** AT&T at 19 and Exhibit 6. In fact, every carrier's "share" of EDT and ITC changes, as well as the absolute amount of its exogenous cost changes, has varied from year to year, and Verizon East has often had below-average exogenous cost changes for these elements relative to other carriers. As is shown in Exhibits 7 and 8, Verizon East's "share" has been as low as 15 percent, while other carriers' "shares" have similarly gone up or down in any given year. All carriers show exogenous adjustments that double one year and decline in another. Any carrier's percentage of the total in a particular year is irrelevant. Further, the Verizon East percentage of industry that AT&T shows is consistently overstated. For example, Exhibit 8 shows that Verizon East's percent of EDT in the

2000 Annual Filing was 66.70%, not the 81.65% that AT&T shows in its Exhibit 6, page 1. To a lesser degree other amounts are similarly misstated. More importantly, AT&T makes it appear that Verizon East is out of line in comparison to other companies by consolidating the former Bell Atlantic and NYNEX results. As is shown in Exhibits 7A and 8A, the percentages for each of these former Bell operating companies separately are lower in many cases than those of the other regions.

AT&T claims (at 19) that Verizon East failed to provide any cost support for its EDT and ITC changes. This also is incorrect. Verizon has provided the same cost support in the 2001 filing that it submitted in the previous filings, and that the Commission has found sufficient to reject AT&T's previous challenges. ***See*** Exhibits 3 and 4, which reproduce Workpapers 5 and 4, respectively, in the annual filing. In Exhibits 1 and 2, Verizon provides additional backup information for those workpapers to provide further proof that its calculations are accurate.

AT&T also argues that the changes from year-to-year in Verizon East's ITC exogenous cost changes are inconsistent with its ARMIS data, which allegedly show a "fairly constant" rate of change in ITC from year to year. ***See*** AT&T at 19-20 and Exhibit 6, p. 2. AT&T is mixing apples and oranges. The data in the ARMIS reports show the *actual* amount of ITC balances. ITC exogenous cost changes are based on the difference between the ITC *forecast* in the previous annual filing to the ITC *forecast* in the current annual filing. This reliance on forecasts stems from the Commission's original decision to provide exogenous cost treatment for amortization of ITC because the ITC tax benefit caused rates going into price caps to be too low. ***See*** *Policy and Rules Concerning Rates for Dominant Carriers,* 6 FCC Rcd 2637, ¶ 72 (1991). The initial price cap rates were based on forecasts of the ITC benefit. Therefore, the exogenous change is based on the difference in ITC forecasts from one annual filing to another. In addition, the data in

AT&T's exhibit is calendar year, while the exogenous cost change in the annual filing is based on a comparison of the 2000/2001 and 2001/2002 tariff period forecasts. Even ignoring the difference between calendar year and tariff year, the data in AT&T's exhibit only goes up to year 2000, which is irrelevant to the reasonableness of the forecast 2001-to-2002 ITC balance.

II. Verizon Correctly Counted Meet-Point Billing Minutes In Calculating Its Average Per-Minute Traffic Sensitive Rate.

AT&T repeats its argument from last year that Verizon and the other price cap carriers have miscalculated their average traffic sensitive ("ATS") rates by including the minutes of use on meet-point billing arrangements.[5] AT&T argues that they should have included only a fraction of its billed meet-point minutes, since they only bill for part of the meet-point facility. These arguments have no more merit today than they did last year, when bureau decided that they did not warrant investigation. ***See*** *2000 Annual Access Tariff Filings*, 15 FCC Rcd 11741, ¶¶ 4-6 (2000).

The Commission's rules clearly state that the price cap carriers must calculate the ATS rate by dividing their proposed transport sensitive revenues by all transport minutes of use, including those on meet-point billing arrangements. AT&T was a sponsor of the CALLS plan and agreed to the definition of the ATS rate as a measure of average *revenues* per minute, not average *rates* per minute.[6] The Commission incorporated this proposed definition in its rules.

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[5] ***See*** AT&T at 20-22. The only new gloss AT&T puts on the argument this year is to claim that the same should be done for all "jointly-provided" services, such as connections to a wireless carrier or to a competitive local exchange carrier.

[6] ***See*** CALLS Modified Plan ¶ 3.1.1 (filed March 8, 1999).

See *Access Charge Reform*, 15 FCC Rcd 12962, ¶ 142 & n. 302 (2000). It is too late now for AT&T to disavow this plan.

AT&T's argument contradicts both the letter and the spirit of the Commission's rules. The ATS rate is not a measure of the carriers' traffic sensitive rates – it is a measure of their average traffic sensitive *revenues*, developed by dividing the carrier's proposed revenues by total minutes of use. The ATS target rate did not change the underlying premise of price caps; *i.e*. rate levels are still regulated by the Commission's price cap limits. It simply is used to determine when a carrier's X factor will be set equal to the GDP-PI for the common line, traffic sensitive, and trunking baskets, at which time no further switched access rate reductions are required. It is a separate trigger based on the total amount that a carrier will bill under its proposed traffic sensitive rates for the services it provides, whether on a meet point-billed circuit or on a solely-provided circuit. In this regard, meet-point billing arrangements are no different than any other circuits in that the revenues for each circuit will depend on the distance provided, which will vary from circuit to circuit.

Section 61.3(e)(1)(ii) of the Commission's price cap rules states that the transport component of the ATS rate is calculated by dividing proposed transport revenues by transport base period minutes of use, "including meet-point billing arrangements for jointly-provided interstate access by a price cap local exchange carrier and any other local exchange carrier." Section 61.3(e)(2) further explains that "all the relevant revenues and minutes" should be included. 47 C.F.R. § 61.3(e)(2) (emphasis added). The rules could not be more clear. AT&T's request to count only a fraction of meet-point billed minutes is a request for a change in the rule, which could only be done in a rulemaking proceeding. Indeed, AT&T does not dispute the fact that Verizon counted all of its minutes of use on meet-point arrangements. AT&T wants Verizon to *alter* its base period demand by adjusting these minutes downward. This would be a direct violation of the Commission's rules.

In meet-point billing arrangements, one local exchange carrier provides switched transport from the central office to the meet-point, and the other carrier provides transport from the meet-point to the point of presence of the interexchange carrier. Each local exchange carrier bills its portion of the mileage component of switched transport, using the billing percentages in NECA Tariff 4 billing percentages. These billing percentages are used to adjust distance, so that each local exchange carrier can collect the amount of transport charges that is appropriate for the amount of transport services it provides. The NECA billing percentages are based on distance, not time, and they cannot and should not be used to factor down minutes of use in the calculation of the average traffic-sensitive rate, as AT&T proposes.

The demand quantities shown in Verizon's calculation of the actual price index for each interoffice mileage rate element include the actual number of miles billed, which go no farther than the meet-point. ***See*** Workpaper TRK Rate Detail. This is the same way that the actual price index has been calculated in every annual access tariff filing. In developing the average traffic-sensitive rate, Verizon included all of its transport revenues associated with entrance facilities, direct trunked transport, and tandem switching (usage elements and trunk ports) necessary to route traffic to interexchange carriers. Those revenues must be divided by total minutes of use, including full meet-point billing minutes, to accurately develop the proposed average traffic-sensitive rate. To include <u>all</u> of Verizon's revenues, but only <u>part</u> of the meet-point billing minutes, as AT&T proposes, would significantly and unjustifiably overstate Verizon's average traffic-sensitive rate. The same holds true for switched access MOUs delivered to/from a wireless provider's premises that are routed to an interexchange carrier via Verizon's switched transport facilities. The associated transport revenues and minutes of use are and should be included in the transport component of the ATS rev/MOU calculation.

AT&T argues (at 23) that Verizon East (GTOC) and Verizon East (GSTC) failed to adequately document its development of the calculations used to approximate the amount of meet-point traffic. Verizon (GTOC) and Verizon (GSTC) were able to obtain from the carrier access billing system ("CABS") the actual minutes of use associated with jointly provisioned switched dedicated trunking for which Verizon is not the end office. Therefore, no calculations were utilized to approximate the amount of meet-point traffic in these situations and no further documentation is necessary. AT&T also argues (at n.58) that carriers should exclude minutes associated with services provided under contract from the ATS rates. However, Verizon's year 2000 base period demand does not include any contract services, which can only be provided in areas where it has been granted Phase I or Phase II pricing flexibility. Verizon did not receive pricing flexibility until March 2001.

Conclusion

The Commission should reject AT&T's petition, which raises the same arguments that the Commission has already rejected on more than one occasion.

Respectfully submitted,

By: __________________________

Joseph DiBella
1320 North Court House Road
Eighth Floor
Arlington, VA 22201
(703) 974-6350
joseph.dibella@verizon.com

Attorney for the Verizon
telephone companies

Of Counsel
Michael E. Glover
Edward Shakin

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ATTACHMENT A

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.