Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Verizon Telephone Companies	)	Transmittal No. 214
	)	

AT&T CORP. PETITION TO REJECT OR SUSPEND TARIFF

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Pursuant to Section 1.773 of the Commission's Rules, 47 C.F.R. § 1.773 and the Commission's *Third NRO Order*,[1/] AT&T Corp. ("AT&T") hereby requests that the Commission reject, or suspend for five months and investigate, the above-captioned tariff filing by Verizon seeking $75 million in alleged exogenous extraordinary costs incurred for the implementation of thousands-block number pooling.

INTRODUCTION AND SUMMARY

On June 17, 2002, Verizon filed a thousands-block number pooling tariff (Transmittal 207) that was grossly excessive and utterly failed to comply with the Commission's strict criteria on pooling cost recovery. AT&T reviewed Transmittal 207 under the streamlined tariff schedule and demonstrated that Verizon's pooling tariff was *prima facie* unlawful.[2/] Verizon waited only a few

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1/ *In the Matter of Numbering Resource Optimization*, Third Report and Order and Second Order on Reconsideration in CC Docket No. 96-98 and CC Docket No. 99-200, FCC 01-362, rel. December 28, 2001 ("*Third NRO Order*").

2/ *See Sprint Local Telephone Companies, Transmittal 200, Verizon Telephone Companies, Transmittal 207*, AT&T Corp. Petition to Reject or Suspend Tariffs (filed June 24, 2002) ("AT&T June 24 Petition"). Although AT&T recognizes that the timing of filings is not necessarily a matter of strategy or even within the control of the carrier, Verizon appears to be engaging in an unreasonable amount of gamesmanship. For example, on making its June 17 filing, Verizon presumably knew that interexchange carriers ("IXCs") had only until June 24 to file petitions to

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days after AT&T filed its petition to reject or suspend Transmittal 207 before it requested and received approval to withdraw the tariff and to submit another one.[3/]

Although Verizon makes no effort in Transmittal 214 to explain the differences between the first and second tariffs, AT&T has determined that Transmittal 214 is virtually identical to Transmittal 207 except for the removal of certain Operations Support Systems ("

maintenance costs and "time value of money" adjustments for state-directed pooling activities. AT&T therefore finds puzzling Verizon's June 28 assertion that "[m]

arguments are moot, because Verizon has addressed them in its revised exogenous adjustment filed today in Transmittal No. 214."[4/] Indeed, Transmittal 214 suffers from (almost all) the same deficiencies that warranted the rejection of Transmittal 207.[5/] Accordingly, as discussed below, the Commission should reject, or at the very least, suspend and set for investigation Transmittal 214.

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reject or suspend Transmittal 207, which just happened to be the date on which IXCs were required to respond to Qwest's direct case on its pooling tariff, Sprint's re-filed pooling tariff, and five SBC pooling tariffs, as well as the annual access charge tariffs of every price cap carrier in the country. Verizon then waited until *after* AT&T personnel had devoted seven days (and many nights) to reviewing Transmittal 207 to request permission from the Bureau to withdraw the tariff and then immediately to file a new pooling cost recovery tariff. Not surprisingly, AT&T's deadline to respond to Transmittal 214 is July 5, a day after a federal holiday and coming at the end of a week in which many workers, including those at AT&T, are on vacation.

3/ *See Verizon Telephone Companies, Transmittal 207*, Opposition of Verizon to Petitions To Reject, Suspend and Investigate (filed June 28, 2002) ("Verizon Opposition").

4/ Verizon Opposition at 3.

5/ In light of the material similarity between Verizon's two pooling tariffs, AT&T incorporates herein by reference its June 24 Petition.

It is clear on the face of the instant filing that it fails to comply with the Commission's orders and, accordingly, it should be rejected.[6/] At a minimum, the tariff raises substantial questions of lawfulness that cannot be dispelled in the highly abbreviated "streamlined" process afforded by this proceeding.

Although AT&T believes that the Commission's decision to allow incumbent local exchange carriers ("ILECs") to recover pooling costs through access charges is unfair and anticompetitive,[7/] its concerns were somewhat alleviated by the *Third NRO Order's* insistence that the amounts involved in any such recovery would be minimal, if there were any at all.[8/] Yet, Verizon's second filing to recover number pooling costs, totaling approximately $75 million,[9/] certainly does not seek recovery of minimal, extraordinary costs. Nor could inclusion of this amount as an exogenous cost adjustment to access charges pass as a competitively neutral cost recovery mechanism. These requests for exogenous adjustments are particularly striking given the Commission's presumption that no additional recovery for thousands-block number pooling is

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6/ A tariff is subject to rejection when it is *prima facie* unlawful, in that it demonstrably conflicts with the Communications Act or a Commission rule, regulation, or order. *See, e.g., American Broadcasting Companies, Inc. v. AT&T*, 663 F.2d 133, 138 (D.C. Cir. 1980); *MCI v. AT&T*, 94 F.C.C.2d 332, 340-341 (1983). Suspension and investigation are appropriate where a tariff raises substantial issues of lawfulness. *See AT&T, Transmittal No. 148,* Memorandum Opinion and Order, 56 RR2d 1503 (1984); *ITT (Transmittal No. 2191)*, 73 F.C.C.2d 709, 716, n.5 (1979) (*citing AT&T (Wide Area Telecommunications Service))*, 46 F.C.C.2d 81, 86 (1974).

7 47 U.S.C. § 251(e)(2) ("the cost of establishing telecommunications numbering administration arrangements and number portability shall be borne by all telecommunications carriers on a competitively neutral basis as determined by the Commission.").

8 *Third NRO Order* ¶¶ 25, 38-41.

9 AT&T estimates that almost $25 million of Verizon's $75 million exogenous cost claim, if permitted to go into effect, will be recovered through multi-line PICC and carrier common line MOU access charges.

justified.[10] As the Commission made abundantly clear, the presumption could be rebutted only if extraordinary pooling implementation costs met a stringent three-part test and exceeded all the savings generated through pooling. Verizon's filing does neither. The most striking deficiencies of Transmittal 214 are set forth below:

- *Timing.* Verizon continues to argue that 1998-2000 costs belong in this federal tariff notwithstanding that they were incurred years before the Commission mandated thousands-block number pooling. Verizon, however, has now assigned the "time value" of these pre-2001 costs to the states. By doing so, Verizon all but acknowledges the lack of merit of its request for exogenous treatment for its alleged early pooling expenditures.

- *Two-year annuity adjustment.* While the price cap rules allow Verizon to adjust advancement costs to present values, they do not allow Verizon to add interest to the adjusted exogenous costs to take into account the two-year recovery period. *No other price cap carrier has done this.*

- *OSS, shared industry, methods and procedures, and project management costs.* Although Verizon has removed some OSS maintenance costs, it continues to include OSS costs for systems that are used to manage and report on telephone numbers at the thousands-block level. In addition, Verizon seeks recovery for software purchases that were required for number portability. Since the system upgrades were necessary to comply with the Commission's other number administration and number portability requirements, the costs were not incurred "but

- *Cost savings from deferred NPA relief.* The only costs that are *understated* in Verizon's tariff are the costs it incurs to implement area code relief. Ironically, Verizon appears to be remarkably efficient in comparison with its fellow Regional Bell Operating Companies ("RBOCs") when the costs in question are used as an *offset against recovery*. Verizon also improperly chooses to exclude 18 NPAs from its calculation despite the fact that the need for area code relief in those markets will be delayed through pooling.

- *Costs savings from deferred NANP expansion.* There is no merit to Verizon's contention that the Commission should ignore the effect of pooling on the potential exhaust North American Numbering Plan ("NANP") because it is too difficult to figure out what savings it will enjoy through deferred expansion of the NANP. AT&T presents below a very simple and very conservative formula to arrive at Verizon's carrier-specific cost savings.

[10] *Third NRO Order* ¶ 39; *see also BellSouth/Qwest Suspension Order,* ¶ 5; *Sprint Suspension Order*, ¶ 2.

Verizon's tariff contains numerous, unambiguous violations of the Commission's rules, and does not address the specific issues identified by AT&T in its June 24 Petition. Accordingly, there is no reasoned basis for the Commission to depart from its existing rules and allow this facially deficient tariff to go into effect.

COST ANALYSIS

Like Transmittal 207, the cost support in Transmittal 214 is woefully inadequate to permit a full assessment of the reasonableness of Verizon's proposed exogenous cost adjustments. Nevertheless, it remains clear that Verizon continues to seek recovery for costs that are not eligible for recovery under the Commission's three-prong test.[11/] Similarly, Verizon includes costs in its tariff that are associated with non-recoverable numbering administration or LNP functions – potentially setting the stage for double recovery.[12/] In addition, Verizon significantly understates the savings it will enjoy through deferred area code relief, and has omitted altogether any savings from deferred expansion of the NANP. These readily apparent defects in Transmittal 214 demonstrate that Verizon's proposed rate increases far exceed the costs that might appropriately be recovered under the *Third NRO Order*.

11/ *See* AT&T June 24 Petition at 6-8 (citing *Third NRO Order* ¶ 43-46) ("First, only costs that would not have been incurred 'but for' thousands-block number pooling are eligible for recovery. Second, only costs incurred 'for the provision of' thousands-block number pooling are eligible for recovery. Finally, only 'new' costs are eligible for recovery."). *See also* Exhibit 1; Verizon Costs Improperly Included in its Transmittal No. 214.

12/ *See Third NRO Order* ¶ 46.

Given that AT&T had only a few days to review and respond to this tariff, it is likely that the deficiencies it has discovered are only the tip of the iceberg. Indeed, the economic circumstances confronting the long distance carriers as compared to the RBOCs, combined with the expedited tariff review process, puts IXCs at a severe disadvantage in defending against ILEC over-recovery. Accordingly, it is incumbent upon the Commission to fulfill its obligations under the Communications Act to protect ILEC customers either by rejecting Verizon's tariff outright or by suspending it for five months and setting it for investigation.[13/]

I. TIMING

In Transmittal 214, Verizon retains its pooling cost claims for the years 1998-2000 and offers a very curious argument in response to AT&T's demonstration that it would be unlawful for the Commission to give exogenous treatment to costs that were incurred long before the Commission mandated thousands-block pooling, much less established the technical parameters upon which pooling must be implemented.[14/] Specifically, Verizon acknowledges that the *Third NRO Order* disallowed recovery of pre-national pooling implementation costs that were incurred

[13/] As discussed above, however, it would be wholly inappropriate for the Bureau to commence a tariff investigation, require participation by interested parties on an expedited basis, only to permit Verizon to withdraw the tariff and re-file a new one that does not begin to address the legitimate concerns that were raised in the proceeding. In the past three months, AT&T has had to comb through hundreds of pages of spreadsheets, charts, and other documentation associated with seven pooling tariffs for just four carriers. BellSouth, Sprint, and Verizon each have withdrawn and resubmitted their tariffs in rapid succession, and the Commission recently granted approval for Qwest to withdraw its first tariff after the tariff had been designated for investigation and after AT&T had responded to Qwest's direct case. Qwest is likely to re-file its pooling tariff in the near future, triggering yet another streamlined pleading cycle. These actions make a mockery of the tariff review process and of the Commission's role as a rate regulator, as well as wholly undermining the rights of the entities that are required to bear the ILEC costs.

[14/] *See* AT&T June 24 Petition at 11-15.

“to advance deployment at the state level,”[15/] but it then contends that the Commission only meant to exclude from national recovery the “time value of money attributable to the advancement of [16/] Through this convoluted logic, Verizon has decided it is appropriate to keep the costs themselves in the federal tariff but to assign the adjustment it has made to those costs (essentially interest) to the states.

Verizon’s analysis makes no sense. If the costs are attributable to the federal jurisdiction, then the “time value” of those costs must belong in the same place. Conversely, if the time value of the costs is attributable to the states, then the costs themselves must belong in the states. What this fuzzy math demonstrates is that Verizon knows full well that these early costs are not “new costs;” that they were not incurred “for the provision of” national pooling; and that they were not incurred “but for” national pooling. As such, they are not properly included in Transmittal 214. Rather, they are attributable to the various states in which Verizon was required to participate in pooling and, as the *Third NRO Order* makes abundantly clear, Verizon must seek recovery in those jurisdictions.[17/]

Verizon does make a weak attempt to show that it actually incurred “some [national pooling] costs as early as December 1998” by citing a 1998 letter in which the Chief of the Common Carrier Bureau asked the Chairman of the North American Numbering Council (“NANC”) to provide the Bureau with a report that was sufficiently detailed to support a

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15/ *See Third NRO Order*, ¶ 29.

16/ Verizon Opposition at 5.

17/ *Third NRO Order*, ¶ 29.

nationwide system of pooling by December 1999.[18/] Verizon's contention, however, that this letter somehow compelled it to embark on a pooling spending spree is highly implausible.

First, a *letter* from a Bureau Chief requesting a *report* does not constitute a "rule, rule waiver, or declaratory ruling" that either "permit[s]" or "require[s]" an exogenous cost change under Section 61.45(d) of the Commission's rules. Rather, it is simply a letter asking for a report. Second, the letter was directed to the *NANC*, not to carriers. Even under the most liberal interpretation, this letter cannot be deemed a mandate that would convert expenditures by carriers into exogenous costs. Third, even if a rational, publicly traded corporation would begin spending its shareholders' money in anticipation of a supposedly "*expected* mandate,"[19/] Verizon has yet to explain how it managed to spend *tens of millions of dollars* before the Commission even told it what technical specifications it should build to.[20/] Finally, this Bureau letter, which is not a rule, rule waiver, or declaratory ruling, and which does not direct carriers generally, or Verizon specifically, to do anything or incur any costs, extraordinary or otherwise, is the *only* evidence Verizon has supplied to support its 1998-2000 cost claims. On this basis alone, the Commission should reject Verizon's proposal to recover early costs – and, therefore, Verizon's Transmittal 214 altogether.

As AT&T explained in its June 24 Petition, the most reasonable date on which the

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[18/] Verizon Opposition at 4 (citing Letter from A. Richard Metzger, Chief, Common Carrier Bureau, FCC, to Alan C. Hasselwander, Chairman, NANC, dated March 23, 1998).

[19/] Verizon Opposition at 4.

[20/] Verizon's claim that it began incurring costs for national pooling implementation in 1998 is especially questionable given the various pooling activities underway at that time. Specifically, in 1998, the industry was attempting to agree on standards for pooling in connection with ordered state trials in New York and Chicago. Two separate standards were chosen, neither of which was implemented until well into 1999. Notably, the "port-on-demand" standard used in New York –

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Commission should allow recovery to begin is the date the National Thousands-Block Pooling Administrator was appointed; June 18, 2001.[21] While the Commission may have ordered thousands-block pooling in the *First NRO Order*,[22] it plainly did not anticipate that carriers would start to incur costs until the Administrator was appointed. Specifically, in the *First NRO Order*, the Commission stated: "We believe based on the readiness of thousand block number pooling standards and technical requirements, that thousands-block number pooling can be implemented on a national level within nine months of the selection of a national thousands-block number Pooling Administrator."[23] The selection of the Administrator should, therefore, be construed as the beginning of a Commission mandate or the implicit date that a Commission rule "permitted" the potential of cost recovery.[24]

Alternatively, the absolute earliest date recovery could be allowed by the Commission is July 17, 2000, the effective date of the pooling mandates adopted in the *First NRO Order*.[25] In

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the only trial in which Verizon participated – was not the standard from which the national pooling standard ultimately was derived.

21 *Federal Communications Commission's Common Carrier Bureau Selects NeuStar, Inc. as National Thousands-Block Number Pooling Administrator,* CC Docket No. 99-200, News Release (rel. June 18, 2001) ("NeuStar News Release").

22/ *Number Resource Optimization*, Report and Order and Further Notice of Proposed Rulemaking, 15 FCC Rcd 7574 ¶ 116 (2000) ("*First NRO Order*")

23/ *First NRO Order* ¶ 156.

24/ NeuStar News Release (stating that the rollout of national pooling would commence in March 2002).

25/ *See* 65 Fed. Reg. 37, 703 (2000). *See also Number Resource Optimization*, CC Docket No. 99-200, Notice of Proposed Rulemaking, FCC 99-122, ¶ 158 (rel June 2, 1999), in which the North American Numbering Council ("NANC") estimated that all required preliminary tasks and thousands-block number pooling implementation could be achieved within ten to nineteen months from a Commission Order. Nineteen months from mid-2000 was January 2002, three months prior

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fact, as AT&T already pointed out, BellSouth, whose thousands-block number pooling cost recovery was recently allowed to go into effect, cited mid-year 2000 as the appropriate date to begin allowing exogenous cost recovery for thousands-block number pooling.[26/]

Even with removal of pre-2001 "time of money" claims, Verizon seeks recovery of approximately $50 million dollars or 67 percent of its total costs before the pooling administrator was selected and approximately $28.5 million dollars or 38 percent of it total costs before the *First NRO Order* was effective and technical standards were established. The inclusion of these materially significant costs – some two years prior to the absolute earliest date allowable for cost recovery – warrants rejection of Verizon's exogenous cost recovery tariff.

II. TWO-YEAR ANNUITY ADJUSTMENT

Verizon's proffered justification for converting its exogenous costs into a two-year annuity using an 11.25 percent interest rate likewise does not pass muster.[27/] Indeed, Verizon does not even attempt to explain how inflating its costs in this manner is consistent with the Commission's price cap rules. Instead, Verizon simply says that "it was the Commission, not Verizon, that decided to spread recovery of these costs over a two-year period."[28/]

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to the mandated commencement of national thousands-block number pooling. Verizon (then Bell Atlantic) was an active participant on the NANC when these estimates were created.

[26/] BellSouth asserted that proper cost recovery begins mid-year "after the Commission announced that [] pooling would be mandatory." Reply of BellSouth Telecommunications, Inc., *In the Matter of Bell South Tariff FCC No. 1 Transmittal No. 629*, filed May 7, 2002, ¶ 7. Importantly, BellSouth's standard mid-year accounting convention fails to exclude costs before the Commission's mandate became effective or was released.

[27/] Verizon inflates its costs by approximately $7.6 million. Verizon Transmittal 214, D&J, Section 1.5.3, WP Exogenous Cost-East and WP Exogenous Cost-West.

[28/] Verizon Opposition at 9.

As the second largest price cap carrier in the country, Verizon should know that it does not matter who picked the cost recovery period, or even how long that period is. The Commission's price cap rules specify exactly how extraordinary expenditures are to be treated and they do not permit carriers to charge interest during the recovery period. While Verizon is correct that carriers may apply a time value of money factor to reasonable advancement costs (those costs incurred *before* the tariff goes into effect), once costs are adjusted to today's dollars and are designated as exogenous costs, the only increase in the price cap ceilings allowed under the price cap rules is an increase *equal* to the exogenous costs.[29/] It is therefore conceivable that ILECs may over or under-recover their exogenous costs over a given period of time due to changes in demand and other factors, but such considerations play no part in price cap formulas.[30/]

Simply put, ILECs may not treat exogenous costs as a debt that is owed to them by their customers. Accordingly, Verizon's unlawful inflation of its recoverable thousands-block number pooling exogenous costs – for Verizon-East by \$6.8 million and Verizon-West by \$765,019 – violates the price cap rules requiring Transmittal 214's rejection.[31/]

III. OSS, SHARED INDUSTRY, METHODS AND PROCEDURES, AND PROJECT MANAGEMENT COSTS

29/ *See* 47 C.F.R. 61.45 (d).

30/ Verizon contends that "it could have calculated the exogenous adjustment at the present value as of the mid-point of each tariff year, again using the cost of capital" and that "[t]his would be similar to the method of calculating other exogenous adjustments, which are included as fixed amounts that are added to the price cap index but which are calculated in the first instance as projections of costs to the mid point of the tariff period." Verizon Opposition at 10. Verizon's claim is flatly wrong. Almost all exogenous costs under price caps are calculated at their base year value. Moreover, on the rare occasions when exogenous costs are calculated at their next rate period value (*e.g.*, Excess Deferred Tax costs), the cost of money has never been allowed to be added to the fixed costs.

31/ Verizon Transmittal 214, D&J, Section 1.5.3; WP Exogenous Cost-East and WP Exogenous Cost-West.

Although Verizon has appropriately removed from its tariff OSS costs associated with modifying billing and maintenance systems, it continues to seek recovery of OSS, shared industry, methods and procedures, and project managements costs that do not appear to be eligible for exogenous treatment. AT&T has to use the "do not appear to be" qualifier in this instance because it is impossible to tell from Verizon's cursory "Description and Justification" and other supporting information exactly which systems have been affected or the extent to which the claimed changes may have been required as a result of number pooling. Verizon apparently expects the Commission and AT&T to take it at its word that "the remaining OSS costs unquestionably fall within the Commission's [*Third NRO Order*] requirement[s]."[32/] When an ILEC is asking to recover $45.5 million just for OSS changes, however, much of which will appear in the access charges AT&T pays, AT&T is not satisfied with back-of-the-envelope approximations and a "just [33/] Rather, AT&T wants to see, and has the right to see, hard data and detailed

[32/] Verizon Opposition at 8.

[33/] Even with a longer time period in which to review Verizon's tariff, neither AT&T nor the Commission could properly "scrutinize" the tariff's sentence or two descriptions of OSS changes to determine whether a multi-million dollar recovery is warranted. For example, with regard to its BACAS modification, Verizon offers only the following:

Modification to support the management of telephone numbers at the thousands-block level required by number pooling.	Changes provide Verizon with 1) a mechanized process to track the request and assignment of thousands-blocks; 2) the capability for handling increased frequency of processing data in a number pooling environment; and, 3) the functionality to electronically transmit and receive data among Verizon, NPAC administrator and the Pooling Administrator. **Without these modifications, Verizon would not have a process for requesting thousands-blocks of numbers, tracking requests, and providing internal Verizon notification associated with thousands-block activity within the Verizon region. As a result of these modifications, Verizon has the ability to donate and receive thousands block data and implement in the provisioning process.**

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descriptions. Absent this basic information, allowing Verizon's Transmittal 214 to go into effect would be arbitrary and capricious, and an abdication of the Commission's obligation to ensure that ILEC rates are just and reasonable.

Exhibit 1 (attached hereto) provides a list and description of some of Verizon's more questionable OSS and network cost claims, including:

- *Implementation of NPAC Release 3.1.* This release contained no pooling functionality, but rather was a through-put enhancement that was needed to prioritize messages in both a porting and pooling environment. Therefore, costs for the implementation of NPAC Release 3.1 were not incurred "but for" pooling or directly "for the provision of" pooling. It is also likely that Verizon's costs for this release were already recovered via the LNP end user charge.

- *Establishment of Administration Centers to manage telephone numbers.* It is not clear why Verizon needs to establish work centers for processes that already exist – number administration and porting. But, even if some small portion of these centers are devoted to pooling, the vast bulk of the costs already have been recovered via price caps or in the LNP line item.

- *ASMS & LSMS OSS modifications.* Verizon's description says that the modifications it made to these systems enabled the use of NPAC 3.0 and 3.1 to receive telephone number blocks from the Pooling Administrator. As discussed above, implementation of NPAC Release 3.1 was necessary to prioritize both porting and pooling messages from the Administrator so that carriers' networks would not be overloaded. Verizon's statement, therefore, that "[n]either of these modifications would have been necessary absent number

- *Number Management and Provisioning System OSS changes.* Verizon seeks recovery of millions of dollars in costs allegedly incurred in making changes to dozens of database and provisioning systems associated with telephone numbers. While Verizon now contends that it did not include in its tariff any general number administration or porting costs associated with upgrading two of these systems (TN Tracker and SWITCH),[34/] it provides no explanation for how it separated the eligible costs from the ineligible costs. Nor does

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With only this meager description, no level of analysis could help the Commission or carriers determine what Verizon actually did to BACAS and whether the costs for whatever changes it made are eligible for recovery.

34/ Verizon Opposition at 8-9.

> Verizon provide any information regarding the total cost of the upgrades and how much has been allocated to pooling. And, apart from the TN Tracker and SWITCH upgrades, Verizon does not even assert that it has attempted to exclude porting or administration costs (for example, it is unclear whether the MARCH feature that allows LiveWire to handle "snap backs" of telephone numbers is also used for porting snap backs). Therefore, it is impossible for either the Commission or AT&T to tell whether the vast bulk of Verizon's claimed OSS costs are legitimate.

In Transmittal 214, Verizon does no better than it did in Transmittal 207 at establishing that the OSS and other costs it seeks to recover are incurred only for narrowly defined thousands-block number pooling functions as provided for by the Commission's three-part test. Verizon, therefore, fails to overcome the rebuttable presumption against exogenous treatment of these costs and, thus, rejection of Transmittal 214 is appropriate.

IV. COST SAVINGS

A. Cost Savings from Deferred NPA Relief

In response to AT&T's demonstration that Verizon's estimated costs of area code relief are five times lower than the average area code relief costs acknowledged by BellSouth and Qwest, Verizon argues that its costs are lower than the "average RBOC" because the former GTE companies, which are now part of Verizon, do not have the primary burden of implementing splits or overlays.[35/] Verizon then contends that most of the NPAs in which it will enjoy savings through pooling are in the Verizon-West territory, which are the former GTE markets.[36/]

As with its timing arguments, Verizon applies faulty math and a defective logical analysis to this issue. First, even if inclusion of the GTE markets does lower Verizon's costs across the board somewhat, the reduction would not amount to *four-fifths* of the other RBOCs' costs. This is especially the case since, even though there are more NPAs in the Verizon-West territory subject

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35/ Verizon Opposition at 6.

36/ Verizon Opposition at 6.

to pooling savings, there are 40 percent more *NXXs* in the Verizon-East territory (counting only the initial relief NPAs).[37/] Therefore, under Verizon's own NXX-based formula, the higher costs from the former Bell Atlantic markets should outweigh the reduced GTE costs.

Second, Verizon says that it developed its "average total cost per type of relief plan" based NPA relief projects in the Northeast region," where "labor and implementation costs are higher . . . than elsewhere in the country."[38/] Verizon did not say it was discounting, and presumably did not discount, the total average relief costs to take into account the lower GTE costs. It thus appears that there is little, if any, basis in fact for Verizon's GTE-based rationale (discussed above) for having much lower NPA relief costs than other RBOCs.

Third, Verizon's purported comparison of its per-NXX relief costs with the per-NXX relief costs of BellSouth is so misleading that it borders on misrepresentation.[39/] Specifically, Verizon states that BellSouth's per-NXX cost for a multiple-NPA overlay in Georgia is $3,397, while Verizon's per-NXX cost for the same type of relief is $3,581.[40/] But, the only multiple-NPA projects that Verizon lists on its worksheets are deemed to be "subsequent overlays," which Verizon contends only cost it $765 per NXX.[41/] Thus, for a subsequent overlay in an NPA with

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37/ *See* Verizon Transmittal 214, Appendix A, B1 and B2, WP NPA Relief Costs-East and WP NPA Relief Costs-West. AT&T did not include in this analysis the NPAs in which Verizon says only subsequent overlays are necessary based on Verizon's claim that the costs for that type of relief are so much lower. Had it done so, however, the ratio of the NXXs in Verizon-East and Verizon-West would be 65/35, respectively.

38/ *See* Verizon Transmittal 214, D&J, Section 1.3.2.

39/ Verizon Opposition at 7.

40/ It is not clear where Verizon gets the figure for its own per-NXX cost. Its WP NPA Relief Cost Components Worksheet has two separate overlay costs, neither of which is $3,581.

41/ *See* Verizon Transmittal 214, Appendix A, B1 and B2, WP NPA Relief Costs-East and WP NPA Relief Costs-West; WP NPA Relief Costs Components-East.

844 NXXs, BellSouth's stated cost of $2.8 million must be compared with Verizon's purported cost of $645,660, almost a five-fold difference.

Finally, Verizon provides no support for its statement that subsequent overlays only require about one-seventh the investment of initial overlays.[42/] While AT&T agrees that the price tag is likely to be lower the second time around, there is no reason to believe that the costs are as negligible as Verizon contends. Indeed, Verizon would have to be extremely efficient – a condition not borne out by the rest of its tariff filing – to be able to add a new area code to Montgomery County, Maryland (which contains 514 NXXs) for only $393,031.[43/]

The bottom line is that Verizon has provided no credible justification for why its area code relief costs – on either a per-NPA or per-NXX basis – are so much lower than BellSouth's and Qwest's. The most logical explanation is that Verizon has deliberately understated these costs because they are used as an offset against the pooling costs Verizon hopes to recover.

Moreover, it appears that Verizon has incorrectly omitted certain NPAs from its list based solely on the Commission's statement in the *First NRO Order* that NPAs forecasted to exhaust within 12 months or less of their pooling implementation date are not likely to benefit as much from pooling as other NPAs.[44/] While the Commission (and a number of commenters, including AT&T) believed this to be the case in March 2000, dozens of state trials since that time have shown that pooling, even when a code is in jeopardy, can extend the life of the NPA for many years. Indeed, in establishing its national thousands-block pooling schedule in April 2002, the Commission mandated implementation of pooling in the top 100 MSAs without regard to the

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42/ Verizon Opposition at 6.

43/ *See* Verizon Transmittal 214, Appendix A, B1 and B2, WP NPA Relief Costs-East.

44/ Verizon Transmittal 214, D&J, Section 1.3.1.

forecasted NPA exhaust date.[45/] Accordingly, Verizon should be required to include as an offset to its exogenous cost claims the savings that it will enjoy from delayed area code relief in the 18 NPAs it improperly excluded.[46/]

[45/] *Numbering Resource Optimization*, CC Docket No. 99-200, Order, DA 02-948 (rel. April 24, 2002).

[46/] Verizon does not contend that these 18 NPAs have scheduled relief projects that are currently underway. In fact, Verizon left 17 other NPAs off its list for this reason, stating that the relief efforts in those markets will not be affected by the introduction of pooling.

B. Cost Savings From Deferred NANP Expansion

In its Opposition, Verizon rejects AT&T's call for it to include savings from deferral of NANP exhaust based on the arguments that (1) the costs are so far out into the future that the effects could not be estimated, and (2) the cost saving figures provided by AT&T were societal totals rather than carrier specific. As discussed below, however, even using conservative assumptions about costs and deferral, pooling will result in significant savings to Verizon that should not be ignored.

Although precise estimates of the cost of expanding the NANP are not available, it *is* possible to construct a plausible, conservative estimate based on the known costs of LNP and NPA relief. First, it is the general opinion of industry experts that NANP Expansion (NANPE) will be far more expensive than LNP. This follows logically from the fact that expanding the format of the telephone number from 10 to 12 (as proposed by the industry) digits touches every system that uses phone numbers in a way that was not necessarily the case with LNP.[47/] Thus, it is appropriate to consider the cost of LNP as one component of the cost of NANPE. The RBOC LNP cost recovery tariffs suggest that a figure of $500 million for Verizon's cost for this component would err on the conservative side.

NANPE, however, involves not only network element changes like LNP, but also requires conversion of every existing number in every NPA and educating the public in a way similar to (but considerably more complicated than) that required for an area code split or overlay. Since the customer education and translation changes are required in every NPA, it is reasonable to use

[47/] For example, although LNP changes the way in which the number to be routed on is derived (the LRN isused instead of the dialed number), it does not change the basic mechanism of routing on the first 3 or 6 digits or the central offices to which those prefixes are assigned for routing purposes. Likewise, LNP does not alter the format of directory listings.

Verizon's NPA relief costs as a basis for approximating a component of Verizon's costs of NANPE. Verizon's territory currently includes 115 NPAs, although there will undoubtedly be more at the time of NANP exhaust. While, as discussed above, Verizon's stated overlay or split costs are grossly understated, AT&T promised that its assumptions for NANPE costs would be conservative. Accordingly, for these purposes only, AT&T accepts Verizon's claims and uses its average cost of $290,000 per NPA, which results in a total additional cost of $33 million.

Together, therefore, the LNP and NPA relief components (which are based on submitted costs for changes much less fundamental than NANPE) suggest a minimal NANPE cost to Verizon of at least $530 million.

In 1999, the FCC's designated NANP Administrator (the "NANPA") predicted exhaust of the NANP in the 2007-2012 timeframe, revising this to between 2012-2018 in 2000, and taking into account pooling in its 2001 projection, to 2025 with a range between 2024 and 2038. [48/] Taking the midpoints of the 1999 and 2000 predicted ranges (2010 and 2015, respectively) and comparing them to the baseline year 2001 projection (2025) yields an estimate of NANPE deferral of 10-15 years.

The savings derived from deferring the costs of NANP Expansion can be determined by comparing the net present value ("NPV") of the cost of NANPE (as calculated above) based on exhaust without pooling to the NPV based on the exhaust date with pooling and applying the discount rate of 11.25 percent per year. If the NANPE were to exhaust in 2015 without pooling, as projected by NANPA, the NPV of the $530 million cost would be $132 million. If, instead, pooling delays exhaust until 2025, the NPV is $45 million, for a savings of $77 million.

48/ http://www.atis.org/pub/clc/inc/nanpe/020107029.doc

Even much more modest assumptions than the NANPA's about the effect of pooling on the life of the NANP yield non-negligible savings. For example, assuming NANP exhaust without pooling would be as late as 2020, and deferral by pooling would only be four years (until 2024), it would still yield a savings of $28 million. Thus, it is possible to obtain a conservative estimate of carrier specific savings resulting from deferral of NANP exhaust and there is absolutely no reason these savings should be ignored in determining the permissible level of cost recovery.

Finally, with regard to Verizon's argument that it would be inappropriate for the Commission to take into account any savings from deferral of NANPE because the NANPE costs would be treated as exogenous, AT&T can only say that Verizon's expectation that it will remain a price capped, regulated monopoly 20 years hence accurately reflects Verizon's attitude toward opening up its markets to competition.

CONCLUSION

For the reasons stated above, the Commission should *reject* or, at a minimum, suspend and investigate Verizon's Transmittal 214.

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Of Counsel

July 5, 2002

CERTIFICATE OF SERVICE

I, Thomas Waddell, do hereby certify that on this 5th day of July, 2002, a copy of the foregoing "AT&T Corp. Petition to Suspend or Reject Tariff" was served by facsimile and U.S. First Class Mail, postage prepaid, on the party named below.

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