

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)
)
Revisions by the Verizon)
Telephone Companies to Tariffs)
F.C.C. Nos. 1 and 11,)
Transmittal No. 232)

**SUPPLEMENT TO
PETITION TO REJECT
OR, ALTERNATIVELY,
TO SUSPEND AND INVESTIGATE**

On August 16, 2002, Covad Communications, by its counsel, filed a petition to reject, or alternatively, to suspend and investigate the following: (1) the revisions to Section 16.9 of Tariff F.C.C. No. 1 filed by the Verizon Telephone Companies (“Verizon”) in Transmittal No. 232 on August 9, 2002; and (2) the revisions to Section 17.4 and Section 31.17.4 of Tariff F.C.C. No. 11 filed by Verizon in Transmittal No. 232 on August 9, 2002. Collectively, these tariff revisions will be referred to herein as the “PARTS tariff.”¹ These tariff revisions are currently scheduled to become effective September 4, 2002. Pursuant to a request from Commission staff, Covad herewith provides a supplement to its petition filed August 16, 2002, addressing specific deficiencies in the costs developed by Verizon to support its PARTS tariff.

¹ As described in Verizon’s PARTS tariff, the acronym PARTS stands for Packet At Remote Terminal Service.

As WorldCom and Covad have both argued, the rates in Verizon's proposed PARTS tariff are so excessive that they virtually ensure that competitive services utilizing PARTS local loop facilities will be subject to a price squeeze vis-à-vis Verizon's retail services offered over the same facilities. Indeed, Verizon provides wholly insufficient support for the proposed rates. The cost study suffers from serious gaps and deficiencies, which prevent the Commission from determining that Verizon has not overstated the costs and rates for PARTS.

1. Verizon does not explain why its cost study includes cost data from the Verizon West (former GTE) territory, even though its filed tariff revisions apply only to the Verizon East (former Bell Atlantic) states. Moreover, Verizon fails to provide all of the annual cost factors ("ACFs") for Verizon West that underlie its calculations; at most, it merely provides various cost of capital, depreciation, and overhead ACFs.² By contrast, Verizon provides the entire range of ACFs that it used for the Verizon East investment. Consequently, the Commission simply cannot replicate and verify Verizon's annual cost calculations for approximately one-third of the PARTS costs (*i.e.*, the proportion attributable to Verizon West).

2. Verizon does not provide the investment costs for equipment underlying PARTS. Rather, it provides per-unit investment costs, without detailing how it developed them. Similarly, Verizon's cost study does not disclose exactly what equipment Verizon will use in its PARTS offering. The Commission has no idea what make or model of equipment Verizon will use for the Next Generation DLC, the DSL line card, or the optical concentration device ("OCD"). As a result, the Commission

² See Workpaper 8.

cannot tell what network architecture Verizon's cost study assumes for PARTS. Verizon leaves the Commission to guess whether the network architecture employed is the most efficient one for this type of service. For example, the Commission cannot tell whether the cost study is based upon providing permanent virtual circuits ("PVCs") to CLECs over shared transport, which is much more efficient than dedicating DS-3 or OC-3 facilities to each CLEC.³

3. Likewise, the Commission cannot verify the massive \$260 non-recurring rates for provisioning PARTS services. Verizon does not provide either the provisioning functions it must perform for PARTS services, the labor rates of the technicians who will perform them, or the amount of time that its cost study assumes such tasks will take to complete. In an efficient network architecture, the PVCs and OCD ports would be provisioned electronically. Although Verizon does not explain how a PARTS-enabled local loop will be provisioned, it is clear from the \$260 rate that Verizon's cost study assumes the use of manual, rather than electronic, processes. There is no reason (certainly none provided by Verizon) preventing it from using electronic processes in the future (if it does not do so already). Verizon is a price cap local exchange carrier. If the Commission approves rates based upon inefficient manual processes and Verizon actually employs much more efficient electronic systems, Verizon simultaneously will pocket the cost savings and raise the costs of its rivals. The Commission should not permit that kind of abuse.

³ However, it is apparent that Verizon uses embedded costs in calculating the \$32 rate for the distribution portion of the loop. Setting aside the differences between TELRIC and the rate setting methodology applicable to this case, that rate is more than 300% higher than the average distribution sub-loop rates set by the state commissions in Verizon's territory.

4. Not surprisingly, Covad has been unable to replicate the math behind Verizon's proposed PARTS rates. Although Verizon provides some of the algorithms, it plainly does not provide all of them or fully explain the circumstances where it departs from them. Similarly, Verizon does not explained its methodology for marking up the alleged PARTS costs to arrive at the proposed rates.

Conclusion

In conclusion, Verizon fails to establish that its proposed PARTS rates are just and reasonable and do not discriminate unreasonably against Verizon's carrier customers. Accordingly, Covad urges the Commission to conclude that the PARTS tariff is facially unlawful in violation of Sections 201(b) and 202(a) of the Act, or in the alternative, to suspend and set for investigation Verizon's proposed revisions so that their lawfulness and anti-competitive effect can be evaluated more thoroughly.

Respectfully submitted,

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September 3, 2002