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July 25, 2008

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48909

Subject: In the matter of the Commission's own motion, to review the total element long run incremental costs and the total service long run incremental costs for Verizon North Inc. and Contel of the South, Inc., d/b/a Verizon North Systems, to provide telecommunications services
MPSC Case No. U-15210

Dear Ms. Kunkle:

Enclosed for filing is an electronic copy of Verizon North Inc. and Contel of the South, Inc. d/b/a Verizon North Systems' (collectively "Verizon North") **Final Reply Comments.**

Verizon North's confidential version of its final reply comments is being filed today in a separate Confidential Filing. The confidential documents are being filed in accordance with the protective orders issued in the case and § 210 of the Michigan Telecommunications Act.

If you have any questions, please contact me.

Sincerely,

A. Randall Vogelzang

Digitally signed by A. Randall Vogelzang
DN: cn=A. Randall Vogelzang, c=US, o=Verizon, email=randy.vogelzang@verizon.com
Date: 2008.07.25 14:10:53 -05'00'

A. Randall Vogelzang
Enclosures

# VERIZON NORTH COST PROCEEDING
# MPSC CASE NO. U-15210

# VERIZON NORTH FINAL REPLY COMMENTS
# PUBLIC VERSION

# JULY 25, 2008

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**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

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## VERIZON NORTH FINAL REPLY COMMENTS

In accordance with the schedule established by the Michigan Public Service Commission ("Commission") in its January 29, 2008 Order, Verizon North Inc. and Contel of the South, Inc. d/b/a Verizon North Systems' (collectively "Verizon North") submits its final reply comments. In addition to these comments, Verizon North relies upon its direct testimony, exhibits, and cost studies filed on August 31, 2007 as well as its reply testimony and exhibits filed on June 26, 2008. Despite a complete and detailed filing from Verizon North, the CLECs and Attorney General ("AG") once again ignore the detail provided to them and continue to make unsupported adjustments. While much of what was included in their latest comments is a repeat of their first round of comments, Verizon North will respond to them and other issued raised. Thus, Verizon North provides the following final reply comments supporting its cost studies.

## I. PROCEDURAL BACKGROUND

On February 27, 2007, the Commission commenced this proceeding to examine the total service long run incremental costs ("TSLRIC") and total element long run incremental costs ("TELRIC") for Verizon North Inc., and Contel of the South, Inc.,

d/b/a Verizon North Systems (collectively "Verizon North") to provide telecommunications services. The order directed Verizon North to file updated cost studies by August 31, 2007. In compliance with that order, Verizon North filed an application and direct testimony in support of its updated cost studies. On September 25, 2007, the Commission issued an order scheduling a prehearing conference for October 11, 2007 and establishing the following procedural schedule for this case:

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|---|---|
| October 11, 2007 | Prehearing Conference |
| January 3, 2008 | Initial Comments Due |
| February 4, 2008 | Staff Initial Comments Due |
| March 20, 2008 | Reply Comments Due |
| April 21, 2008 | Final Reply Comments Due |

Although the order noted that any extensions could be granted by the administrative law judge for good cause shown that was not within the control of the party requesting the extension, the Commission urged the parties to work diligently to ready the case for presentation to the Commission no later than May 11, 2008.[1]

Prior to the prehearing conference Notices of Intent to Intervene or Participate were filed by the Attorney General, AT&T and several CLECs, including Clear Rate Communications, Inc.; TelNet Worldwide, Inc.; ACD Telecom Inc.; TC3 Telecom Inc.; JAS Telecom Inc.; Michigan Access Inc.; Daystarr LLC; and CynergyComm.Net Inc. Subsequent to the prehearing conference, Arialink Telecom LLC, Neutral Tandem, AARP, and American Broadband and Telecommunications Company each filed a Notice of Intent to Participate. On October 24, 2007 and October 29, 2007, Verizon North filed responses opposing the intervention of these parties. A hearing was held on October 31, 2007 to address the intervention of the latest parties, which Administrative Law Judge ("ALJ") Stump granted.

[1] Order at 2.

On December 21, 2007, TelNet Worldwide, Inc., ACD Telecom, Inc., TC3 Telecom, Inc., Michigan Access, Inc., JAS Networks, Inc., DayStarr, LLC, Clear Rate Communications, Inc., Arialink Telecom, Inc., and American Broadband and Telecommunications Company (collectively the "CLECs") filed a motion to extend the schedule, arguing that they needed an extension of the schedule in order to adequately review and prepare comments on Verizon North's cost study. On January 3, 2008, Verizon North filed a response opposing the CLECs' motion to extend the current procedural schedule. A hearing was held on January 8, 2008 to address the CLECs' motion. Except for granting an additional four day extension to the current schedule, ALJ Stump denied the CLEC motion, stating that the Commission would need to determine whether to grant an extension exceeding the May 11, 2008 target date noted in the February 27, 2007 order.

On January 10, 2008, the CLECs filed an application for leave to appeal the ALJ's determination, and request the Commission to extend the schedule. On January 15, 2008, Verizon North filed a response opposing the CLECs' appeal while the Staff and Attorney General filed responses supporting the CLECs' appeal. On January 29, 2008, the Commission issued an order granting the CLECs' appeal to extend the schedule and adopting the following revised procedural schedule:

| | |
|---|---|
| April 7, 2008 | Initial Comments Due |
| May 12, 2008 | Staff Comments Due |
| June 26, 2008 | Reply Comments Due |
| July 25, 2008 | Final Reply Comments Due |

On January 25, 2008, the AARP filed its initial comments and the CLECs filed a statement concerning the progress of their initial comments. On January 31, 2008, Bion C. Ostrander filed direct testimony on behalf of the Attorney General.

On March 5, 2008, American Broadband and Telecommunications Company filed a notice to withdraw from participation in the case.

On April 7, 2008, the CLECs filed their initial comments and the initial testimony of Dr. Robert Loube. On May 12, 2008, the Staff filed its initial comments. On June 26, 2008, Verizon North, the AG, and the CLECs each filed their reply comments and/or reply testimony.

## II. VERIZON NORTH'S COST MODEL COMPLIES WITH THE LAW

Verizon North's cost studies satisfy all Michigan Commission orders, except where more recent FCC TELRIC principles require otherwise. As explained in the direct testimonies of Verizon North's witnesses, the cost studies presented are not based on Verizon North's embedded costs; rather, they identify the costs that would be incurred in a long-run, forward-looking, network that uses the least cost and most efficient facilities currently available to serve the total customer demand. Further, Verizon North's cost studies comply with the cost principles adopted by the Commission. In Case No. U-10620 the Commission adopted nine cost principles, as follows:

- **Principle No. 1**: Long-run implies a period long enough that all costs are avoidable.
- **Principle No. 2:** Cost causation is a key concept in incremental costing.
- **Principle No. 3:** The increment being studied should be the entire quantity of the service provided, not some small increase in demand.
- **Principle No. 4**: Any function necessary to produce a service must have an associated cost.

- **Principle No. 5:** Common overheads are not part of a long run incremental study. Recovery of those costs is a pricing issue.

- **Principle No. 6:** Technology used in a long run incremental cost study should be the least-cost, most efficient technology that is currently available for purchase. This assumes existing locations of structural facilities, but allows for replacement with the most efficient, least-cost technology.

- **Principle No. 7**: Cost should be forward looking.

- **Principle No. 8:** Cost studies, at a minimum, should be performed for the total output of specific services and preferably at the level of basic network functions from which services are derived.

- **Principle No. 9:** The same long run incremental cost methodology should apply to all services, new and existing, regulated and non-regulated, competitive and non-competitive.

There are distinctions between the FCC's TELRIC methodology and the Commission's costing principles above. The Order in Case No. U-10620 was adopted on November 10, 1994, prior to the adoption of the Telecommunications Act. The cost principles adopted in Case No. U-10620 can be defined as a "TSLRIC". That is, a forward-looking cost approach, studying the increment of the total output of the "service" in question.

In the FCC's First Report and Order, released August 8, 1996,[2] the FCC coined the term TELRIC, or "Total Element Long-Run Incremental Cost" of an element as "the forward-looking cost over the long run of the total quantity of the facilities and functions that are directly attributable to, or reasonably identifiable as incremental to, such element,

[2] See Paragraph 678.

calculated taking as a given the incumbent LEC's provision of other elements."[3] The FCC also adopted various pricing principles, where the price of the UNE was to be set at its forward-looking economic cost, defined as the TELRIC plus a reasonable allocation of forward-looking common cost (47 C.F.R. § 51.505). Although, the details associated with implementing the FCC's TELRIC methodology at the state level have been disputed, the terms TSLRIC and TELRIC are generally distinguishable mainly by the item of study. That is, the former refers to services and the latter to the unbundled network elements, or distinct network facilities, as defined by the FCC. Verizon North's cost study complies with these requirements.

## III. COMPARISON OF VERIZON NORTH'S COSTS TO AT&T COSTS IS INAPPROPRIATE

Mr. Ostrander's testimony is replete with comparisons between AT&T's and Verizon North's costs. He, once more, asks that the Commission ignore simple physics, simple economics and simple geography; Verizon North's costs per line are higher than AT&T's costs, because Verizon North serves a much less dense network than does AT&T and it costs more to provide local service in Verizon North exchanges just as it does in other rural exchanges. A comparison between certain UNE or PBLES rates of Verizon North and AT&T, as Mr. Ostrander makes in his direct and reply testimony, is an "apples-to-oranges" comparison and is not only inapt, but irrelevant.

There are, of course, patent reasons why Verizon North's proposed UNE rates are higher than AT&T's UNE rates. First, AT&T's service areas are generally low-cost urban areas, whereas Verizon North serves predominately high-cost rural areas. Indeed, the Commission has recognized that "[Verizon North's] service territory is more far flung

[3] FCC 96-325, Appendix B, B-30.

and has a larger proportion of its customers in areas that cannot be expected to benefit as much from economies of scale." In that respect, it is not at all surprising that AT&T's costs to serve its low-cost areas are lower than the costs Verizon North incurs to service its high-cost territory.

Other parties recognize the difference in cost between Verizon North and AT&T. For example, Dr. Loube in his initial testimony recognizes that Verizon North serves predominately high cost rural areas as compared to AT&T's low cost urban areas. In developing his capital structure proposal for Verizon North, Dr. Loube averaged the capital structures of five telecommunications carriers that he felt were similar to Verizon North.[4] In support of his proposal, Dr. Loube stated:

> These carriers are similar to the Verizon Michigan wireline company because these companies' market values are not inflated by wireless sales and because **these carriers, in general, serve more rural areas of the country.**" [Emphasis added]

There is a second factor that also makes a comparison between AT&T cost studies and Verizon North cost studies inapt. The two carriers use different methodologies for cost recovery of certain lines of investment. Either approach is lawful so long as it meets the fundamental goals of avoidance of double recovery, imposition of cost on the cost-causer, and recovery of investment on an appropriate split between recurring and nonrecurring charges. Since both models presumably achieve those goals, it is inappropriate to look at single elements or single rates, without qualifying the extent of the comparison. For example, an "amp/hour" of Verizon North power may be priced differently than an "amp/hour" of AT&T power, but even cursory examination discloses

[4] As noted in Dr. Vander Weide's reply testimony, Verizon North does not agree with Dr. Loube's capital structure proposal or with the five telecommunications carriers he chose to compare with Verizon North.

that the two are not comparable. Verizon North recovers different aspects of its investment than AT&T, and their nonrecurring rate structures differ substantially. The same distinction holds true throughout their respective models, and it is simplistic and disingenuous to take random elements from one model or the other and attempt to compare them. The Commission should, instead, focus on the evidence before it, rather than the results of a model expressly *not* before it. Because AT&T rates, both wholesale and retail do not inform the present proceeding, they should not be looked to as a comparator to Verizon North's.

## IV. VERIZON NORTH'S COSTS AND COMPETITION

Several times in their comments, usually when they have no other argument to support their positions, the CLECs and the AG state that regardless of what Verizon North's costs actually are, they should be lowered because the costs could have a negative impact on competition. This argument fails to take into account the real status of competition in Verizon North's service area over the last few years, and indeed, is precisely the arbitrary or capricious decision making methodology proscribed by state law. Verizon North's rural service area is less dense than the urban service area of AT&T, and it costs more to provide service in areas Verizon North serves on a demand unit basis. This is true for the competitors who desire to provide communications service there as well as for Verizon North. However, many competitors are finding ways to compete effectively with Verizon North using Verizon North's network or resold services – and more are succeeding spectacularly without using any of Verizon North's network elements or reselling Verizon North's service. To say Verizon North's costs are somehow impeding competition is to demand that the Commission ignore the relevant

facts of its own statutory investigative report documenting successful market-penetration by Michigan competitors.

As noted in the Commission's most recent report on the *Status of Telecommunications Competition in Michigan,* for 2007 the total number of wirelines in Michigan decreased 6.8% from the previous year, while over the same period the competitive providers' market share has increased from 18.3% to 20.7%. The report further shows that Verizon North has lost approximately 28% of its access lines since 2001,[5] and that "the competitive market is rebounding in Michigan, largely due to the investment in infrastructure of the competitive providers."

The report also indicated that while competitive providers can offer service to customers through a variety of methods that use the incumbent providers' networks, in 2007 there was a large increase, from 14.8% to 25.1%, in the percentage of competitive lines served via the competitive providers' own facilities. The report also states that the number of wireless subscriptions in Michigan continues to increase as does the number of reported VoIP connections in Michigan. As the Staff points out, "approximately 57% of CLEC served lines are business lines."[6] If the Commission were to mandate retail price floors above the TSLRIC for business services, this would invite additional uneconomic facility bypass of Verizon North's facilities and result in uneconomic competition. Such an action would improperly (and uneconomically) enhance the CLECs' ability to "cherry pick" high value customers and not bring service to all customers in Michigan.

The reality of robust competition in Verizon North exchanges is evident by the hundreds of thousands of customers who have already moved from Verizon North to

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5 See Exhibit A (TRD-7) of Mr. Dye's Reply Testimony.

6 Staff initial comments at 17.

other providers, including to those who claim in this proceeding that they cannot compete. To claim that Verizon North's costs should be artificially reduced because competitors cannot compete in Verizon North's service areas is an unsupported argument that should be rejected.

## V. VERIZON NORTH'S VZCOST MODEL

### A. VzCost is a State-of-the-Art Cost Model.

Certain witnesses contend that Verizon North's cost model, the internet-based, fully transparent VzCost, is too complex for Commission use. Their arguments simply ignore the benefits of the model, and the complexity needed for a real-world application that best models a hypothetical network. While earlier models are simpler to operate, they also yield results that are (1) more difficult to manipulate; (2) less accurate; and (3) more opaque as to their operations. Here, presented with the state of the art, Dr Loube's and to a lesser extent, Mr. Ostrander's reply testimony and Staff's initial comments, simply demand a return to older, less appropriate modeling methodologies.

However, if this criticism was credible, Verizon North would have expected questions from the parties and requests for training or demonstrations. As Mr. Hinton stated in his reply testimony, Verizon North has not received any request for training, assistance, or demonstrations in operating Verizon North's cost model, including Mr. Ostrander of the AG. Though Mr. Ostrander laments the excessive amount of time required to learn the model, Verizon North is unaware of any attempts on his part to produce costs using VzCost. While Dr. Loube's reply testimony is in tune with Staff's comments, he, of course, was able to use and modify the model to support the preparation and filing of his testimony in this case. In previous cases, other then a few

demonstrations and informational phone conversations, Dr. Loube required little training to use and modify VzCost. Though he would likely counter the assertion, because of his ability to produce cost results from VzCost, Dr. Loube would certainly qualify as an "experienced VzCost user".

VzCost is a state-of-the-art cost model, and it is very granular. As such, it is very accurate and more precise than older models. If VzCost were not so detailed and precise, parties would criticize it because it was not adequately accurate. Cost models are by their nature complex systems, and they are intended to be operated by cost experts. Dr. Loube and other parties may complain, but VzCost is not too complex for cost experts similarly qualified to produce analytical results.

**B. Further VzCost Safeguards Or Incentives Are Unwarranted.**

Dr. Loube insists that if VzCost is used, all changes to it must be documented. This was, of course, will be done. In its initial filing, Verizon North provided all assumptions and support data. Any compliance filing will provide the same level of detail. Given this, it makes no sense for Dr. Loube to recommend further safeguards or "incentives to correct its model" before VzCost can be adopted by the Commission. Also, because a compliance filing would be made with VzCost and shared with all parties, both filings will be viewable on-line. All parties will be able to conduct on-line comparisons or download any revised file and compare with the original studies. Further, as is consistent with Commission practice in Michigan, when Verizon North makes its compliance filing based on the Commission's final order, it will contain detailed explanations of how changes were made in order to comply with the order.

Equally unavailing are assertions that VzCost is an embedded, rather than a forward-looking, model. Several witnesses addressed this point. For example, the switching investment and demand inputs in VzCost are clearly forward-looking, not embedded. As mentioned in Ms. Fong's direct testimony, a forward-looking end office switch is constructed for use in the switching cost studies (Fong Direct at 7) and Verizon North's network modeled in the cost study is more technologically advanced than Michigan's actual network (Fong Direct at 9). Loop components such as terminals, cables and remote terminals are sized based on current demand and the investment for them is developed based on contracts currently in force for material and labor (Lawler Reply Testimony at 41).

**C. Other Parties' Cost Filing Expectations**

Verizon North's filing is consistent with both the Michigan Telecommunications Act ("MTA") and the underlying order that opened this proceeding. Staff, Dr. Loube and Mr. Ostrander contend that, in all respects, Verizon North must conform its cost study to what was ordered in Case No. U-11832. As discussed in Verizon North's reply testimony, that is not a realistic position and the supposition that unfounded, additional adjustments (20% to operating expenses, plus 20% to common costs and 20% off final cost numbers[7]) should be made to account for the U-11832 order seeks a decision that would be the very definition of arbitrary and capricious ratemaking. Verizon North has the burden of proof in Case No. U-15210 and put forth its cost studies and supporting documentation in a way that allows the Commission to render an order based on the

[7] Though Dr. Loube supports staff recommendation regarding a 20% reduction in operating expenses he does note if ordered cost adjustments match the 20% reduction recommended by staff for plant specific expenses, further adjustments are not necessary. Common costs and the final cost results should still be reduce by an additional 20%.

forward-looking facts, data and state of the art modeling methodology available today, not eight years ago in a different proceeding.

Needless to say, Verizon North fully complied with the Commission's order and reconciled costs between Case No. U-11832 and its Case No. U-15210 filing. No parties took issue with this reconciliation. Further, in responding to Question 7 of the AG's Second Set of Data Request,[8] Verizon North provided sensitivity on the recommended Case No. U-11832 adjustments. There, Verizon North explained that certain of the adjustments are no longer appropriate given the modeling utilized by Verizon North in this filing. It also shows the impact of doing those adjustments appropriately using Verizon North's costing tools, not making some arbitrary, baseless, bottom-line adjustment.

## VI. VERIZON NORTH'S LOOP COSTS

### A. Development of Verizon North's Loop Costs

#### 1. Total Company Costs

Verizon North properly allocates loop costs, notwithstanding Dr. Loube's spurious contentions regarding allocation of certain costs to DSL service.[9] (Lawler Reply Testimony at 5) Dr. Loube and Staff misunderstand or misrepresent the nature of and provisioning requirements for DSL service. DSL is an add-on service which requires a loop, but the loop is purchased as a separate item. The demand for all loops is included in the Verizon North cost study whether or not the customer subscribes to the DSL service. The cost of a loop with DSL is no different from the cost of a loop without DSL.

[8] See confidential Attachment 1.
[9] Dr. Loube Reply Testimony at 4.

By including all loop demand in the cost study, Verizon North captures the appropriate economies of scale.

Additional equipment may be needed in the outside plant specifically to serve DSL service, such as remote DSLAMS. These plant investments are attributable directly to the DSL service and have nothing to do with the loop. They were not calculated because the costs and rates are not subject to the Commission's jurisdiction. The fibers needed to serve remote DSLAMS have already been included in the fiber allocation to non-loop services (Lawler Reply Testimony at 9). Likewise, Verizon North's model sizes fiber cable for both POTS and non-POTS services; however; only the POTS portion, which is 50% of fiber cable and related structure cost in this study, is assigned to the loop. The remainder is assigned to non-voice services, and includes adequate capacity to accommodate all current demand for interoffice trunks and fiber-based customer demand in addition to providing DSL service to every remote terminal.

Because investments for DSL-specific equipment and fiber are not required to provide loops, they have been excluded from the loop cost, and there is no need for any further allocations.

**2. Modeled Network Design**

Verizon North's network, as modeled in its next-generation model, VzCost, is fully TELRIC complaint and state of the art (Lawler Reply Testimony at 9-15). On page 5 of his reply testimony Dr. Loube asserts that Verizon's Model creates a network design with an excessive number of SAIs and DLCs and recommends a 20% adjustment. Dr. Loube's adjustment is unsupported in fact or law.

Verizon North's network design is created using information from the existing network because minimum-distance road routes cannot reflect all the constraints encountered in provisioning a real-world telephone-plant network built over time, and use of real-world topography is itself consistent with the TELRIC method. Verizon North also presented investment and cost results based on an alternative hypothetical network using road-based, scorched-node routing in fulfillment of Staff's request for suggestions on internal or external adjustments to the model. Unlike Dr. Loube's run of the Synthesis Model, it is transparent, verifiable, and based on work papers and documentation that have been provided and are of record. These results should be construed as lower-bound estimates, if the Commission does not agree with Verizon North's filed forward-looking costs. The Commission should use its judgment in determining where the final costs lie between the filed costs and the hypothetical RBMS costs. While a lower bound, such data serve as a much better gauge than any arbitrary "post-model adjustment" in the form of an unsubstantiated factor as proposed by Dr. Loube.

**3. Structure Sharing**

**a. Percent Structure Sharing With Other Parties**

Verizon North has proposed realistic, forward-looking, and appropriate structure sharing percentages in conjunction with its filing (Lawler Reply Testimony at 20-23). Dr. Loube and Staff, with one exception, have not. On Page 73 of his initial testimony, Dr. Loube recommends "that the Commission adopt structure sharing percentages that require the telephone company to share poles, trenches and conduits with the electric company and with one other utility in all wire centers." He repeats this recommendation in his reply testimony (Dr. Loube Reply Testimony at 8). Staff's recommendation of

25% sharing (resulting in a 12.5% reduction in structure cost and CLECs' recommendation of 100% sharing among three parties (a 67% reduction in cost) are both unachievable in the real world. An exception is poles, for which Verizon North's sharing already exceeds Staff's recommended level.

Dr. Loube's expression of his recommendation as 33%, that is, Verizon North retains only 33% of the cost of structure, attempts to reduce the apparent difference from Staff's recommendation, when, in fact, his proposal is identical to the AT&T proposal rejected in Case No. U-11832.[10] Verizon North shares 76% of the poles it uses with electric utilities. Ownership-based sharing with other communications carriers (CATV and CLEC) is infeasible because the tariff rates for leasing provide those carriers a disincentive to ownership. Sharing of buried facilities is limited to new construction, because only then do Verizon North and other parties have a requirement to build simultaneously. Conduit sharing is not limited by simultaneity, but very little conduit has been leased despite its being freely available under tariff rates for several years. An assumption that future trends in sharing would substantially differ from the last few years is unreasonable. More importantly, and as Ms. Lawler pointed out, it would be inconsistent with the FCC's mandate that TELRIC faithfully estimate the costs incumbents expect to incur and with the requirement that UNE rates be economically efficient (Lawler Reply testimony at 22).

**b. Underground and Buried Shared Feeder/Distribution**

Ms. Lawler demonstrates why Dr. Loube's adjustment is wrong in her reply testimony (Lawler Reply Testimony at 58). Structure sharing between feeder and

[10] Michigan Public Service Commission Opinion and Order in Case No. U-11832 dated May 3, 2000, pg. 14.

distribution is unlikely in buried structure because the cables may be placed at different times, and is generally kept separate to improve feeder security, including placement at different depths. Distribution structure sharing in the underground is unfeasible because terminals would be relatively inaccessible and subject to submersion. Even if some distribution is routed through the conduit, that does not actually reduce the amount of structure required for distribution because the structure for the terminals themselves must still be separate.

**4. Drop Lengths**

Verizon North uses appropriate drop lengths. On pages 8-9 of his reply testimony, Dr. Loube appears to accept Staff's recommended drop length in place of his estimate. There is however, no data to support it. In her reply testimony, Ms. Lawler demonstrates why Verizon North's drop length inputs are more reasonable than either Staff's or Dr. Loube's proposal (Lawler Reply Testimony at 23-24). In fact, Verizon North's estimate of drop lengths is conservative compared to the actual deployments identified both in this case and in Case No. U-11832. By comparison, both CLECs' and Staff's recommendations are inadequate values proffered with no real-world support.

**5. Fill Factors**

**a. Cable Fills - Copper Feeder and Distribution Sizing**

Verizon North properly applies fill factors in its cost model. Dr. Loube erroneously recommends a residential sizing factor calculated on the demand to living unit ratio (Dr. Loube Reply Testimony at 11) rather than Verizon North's distribution fill factor, which is based on 2.5 lines per residential and business living unit.

Ms. Lawler amply demonstrates why the Staff and CLECs' recommendation for both feeder and distribution fills are completely unreasonable and unachievable (Lawler Reply Testimony at 27-29). Distribution fills are circumscribed because cables may only be purchased in fixed sizes. That is, to say, regardless of actual need, the cost model automatically takes the first smallest size available in the industry, which sometimes necessitates excess capacity even if more than would otherwise be required. Further, however, engineers generally choose to allow a relatively large amount of spare capacity in the distribution because it is very difficult to predict where growth may occur, and the cost penalty for spare capacity is small compared to the expense necessary to perform rearrangements. Rarely is penny-wise, pound foolish more apt than in the choice to put excess capacity in the ground now, or dig everything up to add additional capacity later.

Staff's recommendation for copper feeder is patently unreasonable (and contrary to all industry norms) because it potentially creates "choke points" in the network with a mere 2% of spare capacity. From a feeder perspective, the CLEC recommendation to allow no spare capacity in fiber feeder strains credulity. A zero-spare capacity network endangers service if as little as a single remote terminal requires replacement (Lawler Reply Testimony at 8).

**b. IOF – Fill Factors**

Verizon North properly proposes interoffice facility fill factors, and has made that fact clear; yet Dr. Loube's testimony repeats his contention that "Verizon North's proposed factor is based on the actual utilization factor of a selected group of Verizon companies." This is the same statement he made in his initial testimony and unfortunately he continues to get it wrong. Nowhere in Verizon North's testimony,

workpapers, or data request responses did Verizon North state that its IOF utilization factors were based on actuals, and likewise, nowhere, does Dr. Loube explain where or why he came to that conclusion.

Relatedly, in her direct testimony , Ms. Clark explained "Interoffice transport circuits typically must pass through one or more levels of multiplexing to be carried on the high capacity transport network. As is the case with all network capacity, the multiplexing equipment, including DCS, cannot be operated at 100% of capacity. Consequently, a reasonable utilization level must be estimated for these elements. Interoffice facility growth, churn, equipment breakage, and administrative spare must all be reflected in the utilization level. A similar situation exists for high capacity loops (Clark Direct Testimony at 22).

Ms. Clark further justified Verizon North's proposed utilization factor in her reply testimony. Verizon North's Interoffice Facility ("IOF") equipment investments are calculated using the engineered capacity of the network that is designed in each of the IOF models. The resulting investment reflects the maximum engineered capacity attainable. Verizon North's proposed IOF average utilization factor of **[VERIZON NORTH PROPRIETARY BEGINS]** [redacted] **[VERIZON NORTH PROPRIETARY ENDS]** is indicative of IOF equipment utilization that would be used in a forward-looking network.[11] A Bidirectional Line Serving Ring ("BLSR") design is physically limited to 24 DS3's in each direction around the ring to provide and maintain protection paths and 50 ms self healing capabilities. Another justification of the proposed utilization

[11] Verizon North's HiCap capacity utilization percentage is **[VERIZON NORTH PROPRIETARY BEGINS]** [redacted] **[VERIZON NORTH PROPRIETARY ENDS]** and the IOF capacity utilization percentage is **[VERIZON NORTH PROPRIETARY BEGINS**] [redacted] **[VERIZON NORTH PROPRIETARY ENDS]**. The difference is due to HiCap customer demand.

is that the investment is purchased and installed in large increments. If a system were filled to capacity, the utilization would obviously be 100%. When a new system is placed in the same network, it would be available but initially would have a 0% fill. Thus, the average of one full and one empty system would result in a 50% average utilization (Clark Reply Testimony at 2-4).

#### 6. UDLC vs. IDLC

The record continues to suggest some confusion about use of Universal Digital Loop Carrier ("UDLC") and Integrated DLC ("IDLC") in a wholesale-provisioning network. UDLC is essential to the provision of non-switched services, including unbundled loops and retail special services. The FCC's belief that non-switched lines may be unbundled from an IDLC system is based on its misinterpretation of evidence regarding obsolete embedded systems. By using a mix of IDLC and UDLC for unbundled loops, Verizon North gives CLECs the cost benefit of the shared system. Only the plug-in card is entirely UDLC. A system that is 100% IDLC cannot serve the entire demand on the network, and violates Michigan Cost Principles Nos. 3 and 8. By not reflecting any UDLC terminations, no nonswitched loops can be provided, including 2-wire UNE loops.

### B. Verizon North UNE Loop vs. Retail Loop Costs

#### 1. The Differences Between Verizon North's UNE and Retail Loop Costs Are Justified.

In its initial comments, Staff makes a basic differentiation between the UNE loop and the retail loop (business and residential) classifications and associated costs. This differentiation is entirely consistent with the FCC's distinction between the TELRIC methodology and the traditional TSLRIC methodology. Consistent with the FCC's

directive, Verizon North calculates UNE loop costs and other "network elements" based on the entire quantity of the network element provided.[12] On the other hand, Verizon North calculates conventional retail residential and business service costs based on the customer characteristics inherent to each service.

Staff errors, however, in its unsupported notion that "a loop is a loop;" i.e., suggesting that wholesale and retail loop costs need to be identical. This suggestion fails to develop the requisite TSLRIC cost floors for specific retail tariffed service offerings offered to specific customers segments. Likewise, Mr. Ostrander proposes a burdensome – and legally groundless – imputation analysis that would be applied to Verizon North's largest customers (Ostrander Reply Testimony at 14-16).

If TELRIC and TSLRIC methodologies were identical, the FCC would not have created TELRIC in contradistinction to TSLRIC. It is clear the FCC, in coining the term "TELRIC," intended its version of the costing methodology to be applied to elements, while TSLRIC would continue to be utilized for conventional services. As the FCC stated, "Depending on what services are the subject of a study, TSLRIC may be for a single service or a class of services. TSLRIC includes the incremental costs of dedicated facilities and operations that are used by only the service in question."[13] Clearly, if a service classification does not utilize the facilities or utilizes the facilities in different quantities, these cost differences are to be recognized in the development of the TSLRIC for the service.

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12 First Report and Order, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, (CC docket No. 96-98), and *Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, CC Docket No. 95-185, FCC 96-325, August 8, 1996, ¶ 690 ("Local Competition Order").

13 Local Competition Order at ¶ 677.

Staff suggests that Verizon North's rational approach to developing a TSLRIC for a class of service as somehow disadvantaging the CLECs and as anticompetitive. The AG seems to agree. Both misapply the law. Indeed, at page 17 of its initial comments, Staff correctly notes that the MTA refers to the TSLRIC of a service as the price floor of providing a service. Thus, the TSLRIC is clearly intended to provide the cost of the same service reflected in the price. In other words, the price floor for a business one-party service should be the TSLRIC for the business one-party service, not the TSLRIC for some other service. But as Verizon North's witness Mr. Dye testified, the Staff and the AG are attempting to replace the clear costing standard for establishing retail price floors (TSLRIC) with an imputation standard (where the price floor is based, not on the TSLRIC of the service, but the imputed price, or TELRIC of the element). The current TSLRIC costing standard contained in the MTA may not be circumvented by improper costing assumptions that will result in uneconomic pricing constraints. The TSLRIC price floors for retail services should reflect the attributes of the service for which rates are being established. To do otherwise will result in retail price floors for some business services being established above the TSLRIC, inviting additional uneconomic facility bypass of Verizon North's facilities and result in uneconomic competition

Similarly, the AG recommends that Verizon North identify all states where this type of costing approach (identifiable costs for wholesale, retail business and retail residential) has been used and explain the related rationale, explain how this approach is consistent with FCC costing policy, and explain why the approach is not anti-competitive and not discriminatory (Ostrander Reply Testimony at 11). While other states' positions should be irrelevant to the Michigan Commission, Verizon North knows of no other jurisdiction that does not recognize the fundamental cost distinction between wholesale, retail business and retail residential.

Such a distinction was, of course, approved by this Commission in Verizon North's previous two cost case (Case Nos. U-11832 and U-11281).

Moreover, the distinction is consistent with competitive bidding for specific customer contracts; retail markets operate very differently than wholesale regulated ones. Indeed, the market signals which underlie the TELRIC methodology are necessary so that the proper pricing signals are sent to CLECs in order for them to make economical build/buy decisions. See First Report and Order, ¶ 630 ("[E]conomists agree that prices based on forward-looking long-run incremental cost (LRIC) give appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure."). Contrary to being anti-competitive, such an approach leads to efficient competition (See Dye Reply Testimony at 8-9).

**2. Spare Capacity Allocation to Shared for Retail Loops**

There are other invalid criticisms of VzCost in this proceeding. For example, on page 6 of his reply testimony, Dr. Loube asserts that in the retail studies significant amounts of cable are treated as shared investment. However, in the UNE study, there is no shared cable investment. This result is exactly what the FCC expected in putting the "E" in TELRIC. For instance, in ¶678 of the FCC's First Report and Order it explained, "By contrast, the network elements, as we have defined them, largely correspond to distinct network facilities. Therefore, the amount of joint and common costs that must be allocated among separate offerings is likely to be much smaller using a TELRIC methodology rather than a TSLRIC approach that measures the costs of conventional services."

Total cost (Direct plus Shared) is defined consistently for Retail and UNE loops. The additional Shared cost in the Retail loops should be considered in the definition of the price floor in any future rate proceeding.

**C. Dr. Loube's Deaveraging UNE Loop Proposal Should be Rejected.**

Verizon North correctly models fiber and copper loops for both UNE and retail applications. Dr. Loube asserts that an 18,000 foot maximum copper loop is appropriate for 2-wire analog loops (Dr. Loube Reply Testimony at 7). His opinion is, of course, against the great weight of the evidence, the industry standard, and the findings of several other commissions. Verizon North's use of the carrier-serving area ("CSA") standard of 12,000 feet maximum copper length from the central office or beyond the remote terminal has been endorsed by the FCC Wireline Competition Bureau in the Virginia Arbitration Order, by the California Public Utilities Commission, and the Washington Utilities and Transportation Commission, all of which have been cited by Dr. Loube in his testimony.

Indeed, Staff agrees that "Use of a 12,000 foot copper loop length is the appropriate forward looking standard" and that "FCC rules do require the TELRIC network to take all ILEC services into account. This standard is required to provide the kinds of advanced services that ILECs currently provide, regardless of whether they are required to unbundle the elements of those services or not." (Staff Initial Comments at 18).

In his reply testimony, Dr. Loube continues to advocate for a 2-wire analog loop rate structure that is based on technology or types of facilities, not geographic density. His proposal specifically recommends the establishment of a separate, copper-only rate

based on loop length (Dr. Loube Reply Testimony at 7). As Mr. Dye testified in his reply testimony, Loube's proposal is improper (Dye Reply Testimony at 5-6). Calculating copper-only loop costs does not conform to Michigan Cost Principle No. 3 because it is not based on the entire quantity of service. Dr. Loube's proposal is also contrary to federal law. The Code of Federal Regulations prescribe:

> State commissions shall establish different rates for elements in at least three defined **geographic** areas within the state to reflect **geographic** cost differences. (emphasis added) *See* 47 C.F.R § 51. 507(f).

The Commission has already fulfilled this obligation by establishing three geographic de-averaged rate zones, A, B, and C (Dye Direct Testimony at 16).

Dr. Loube supports his unfounded approach by arguing that "CLECs would be forced to pay for fiber facilities and DLC equipment that is designed to provide products CLECs cannot purchase" (Dr. Loube Reply Testimony at 7). Of course, this tacitly supposes that CLECs are uninterested in serving customers who do not want DSL, since non-DSL compliant loops are not limited by the use of DLC. This is a business decision by any individual CLEC that has nothing to do with Verizon North's obligations to provide wholesale services. It is also untrue, since there are unbundled loops in service today that are served on fiber-fed DLC facilities purchased from Verizon North. Additionally, while the forward-looking network is used to determine the cost of service, unbundled loops will be provisioned on the embedded network. Copper loops that are DSL-compliant may well be available up to 18,000 feet.

Dr. Loube's technology de-averaging proposal, beyond being contrary to federal law, would result in cross subsidization and an opportunity for arbitrage. Moreover, it does not include the additional costs for administering such a rate structure. As Mr. Dye

testified, the Michigan de-averaged zones are based on CLLI codes that identify specific Verizon North central offices. To build a new zone structure in Michigan based on loop length and serving technology would be a mammoth undertaking, costing hundreds of thousands of dollars and requiring some 18 to 24 months to implement (Dye Reply Testimony at 7).

All rate structures based on averages within the population sharing a rate provide intrinsic subsidies from low-cost customers to high-cost customers. If Dr. Loube's recommended structure were adopted, wholesale customers purchasing shorter loops would be exempted from contributing to the costs for the loops which are further from the central office. However, there is no complementary rate for the longer loops. Dr. Loube simply proposes a statewide average rate for the longer wholesale loops. Under that premise, the wholesale customers served by longer loops would benefit from the subsidies that only retail customers would be required to provide. And to administer such a proposal, Verizon North will have to modify its various ordering and billing systems. Such costs, which should truly be assigned to the "cost causer" of UNE loops, have not been identified by Dr. Loube.

Put simply, the FCC mandated a geographically-deaveraged zone system to address the cost differences between provisioning different groups of customers. While there is some "considerable play in the joints," *AT&T v. Illinois Bell*, 349 F.3d 402, 405 (7th Cir. 2003) there is no freedom to create methodologies that expressly violate federal law.

## VII. VZCOST INPUTS

### A. Depreciation

Verizon North properly uses financial lives for its depreciation. Depreciation is one of the two factors expressly clarified by the FCC in the *TRO* (along with cost of capital) in the portion of that order that was not later overturned on appeal. The FCC made clear that, without specifying a particular methodology, ¶ 690,

> 690. We clarify that under our "economic depreciation" requirement, a carrier may accelerate recovery of the initial capital outlay for an asset over its life to reflect any anticipated decline in its value. For example, an approach that accelerates cost recovery based on an index showing that equipment prices are declining over time may be consistent with our requirement to use economic depreciation. Recovering more of the initial capital outlay for the asset in the early years would enable a carrier to recover less in later years, thereby allowing it to compete with carriers that have purchased new, lower-priced equipment in those later years
>
> Id. at ¶ 690.

Both Dr. Loube and Mr. Ostrander disregard this key directive from the FCC. On pages 10-11 of his reply testimony, Dr Loube recommends that the Commission reject Verizon North's proposed use of financial depreciation and instead adopt the current FCC-approved service lives and net salvage values. On page 27 of Mr. Ostrander's reply testimony, the AG recommends the Commission adopt minimum depreciation rates at the low end of the FCC prescribed depreciation range, largely because of Verizon North's supposed lack of investment in advanced technology. As discussed immediately below, their arguments confuse advanced technology with fiber-based ones; the superfast 7MB DSL service available in portions of the state – and the high speed DSL services available in many other parts of the state, are advanced services by any contemporary definition. Mr. Dye, in his reply testimony addresses Verizon's North broadband deployment in

Michigan (Dye Reply Testimony at 13-14). His point, consistent with FCC "clarification," and forward-looking in a way that Loube's and Ostrander's testimonies are not, is that a rapidly-evolving, technologically intensive enterprise, especially one constrained to use the most modern technology available, cannot reasonably be expected to compete using traditional long-life depreciation methodologies. The artificially short life spans created by TELRIC are appropriately reflected in the more realistic financial lives used by Verizon in its SEC-regulated (and investor-monitored) financial accounting than in the decade-old lives prescribed by the FCC in another context.

**1. Verizon North is Actively Deploying Broadband Services in Michigan.**

Mr. Dye noted that although the issue of broadband services deployment is not relevant to this proceeding, the statements made by the AARP, the AG, and Staff that Verizon North is not actively investing in and implementing advanced technology in Michigan are simply incorrect. As Mr. Dye testified, Verizon North recently introduced its ultra-fast high speed Internet service (7 Mbps) in Michigan, which more than doubles the download speed of Verizon's current fastest digital subscriber line, or DSL, to parts of Dowagiac, Hesperia, Muskegon and South Haven.[14] Verizon North is also in the process of expanding its High Speed Internet service to more than 26,000 eligible customers in Bath, DeWitt, Fitchburg, Grand Ledge, Grass lake, Laingsburg, Munith, Onondago, Parma, Stockbridge, Wacousta, Webberville, and Williamston, which is expected to be completed this summer.[15]

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[14] See Verizon news release dated April 3, 2008 available at: http://newscenter.verizon.com/press-releases/verizon/2008/eligible-consumers-in-four-mic.html.

[15] See Verizon news release dated May 12, 2008 available at: http://newscenter.verizon.com/press-releases/verizon/2008/lansing-area-customers-to-have.html.

Even in its most recent Report and Order on the Deployment of Advanced Telecommunications Capability,[16] the FCC recognized that 200Kbps is a "tier one" advanced service, still providing useful high-speed interconnectivity to many Americans, and that the speeds now available to many Michiganders in the Verizon territory are at the upper-band of "tier two" services, as that term is used in the Report and Order.

As explained by Mr. Dye, during November 2007, Verizon North upgraded its existing network in Michigan to allow small- and medium-sized business customers to order a Static IP address for use with their high speed internet service.[17] This service enables a business to make company information available for telecommuters, host Web sites and e-mail servers, and conduct webcasts. The witnesses' confusion between fiber-based FiOS service and copper-based DSL is not atypical, but it is clear that Verizon North does offer its residence and small business customers high-speed, broadband internet service, as well as DIRECTV service in order to serve the information and entertainment needs of its customers.[18] In short, it is simply not true that Verizon North is not investing in advanced technology in Michigan

Mr. Williams demonstrates why Verizon North's current depreciable lives and salvage values are the best inputs for computing forward-looking depreciation expense (Williams Reply Testimony at 8-14).

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16 Fifth Report and Order, *In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, FCC 08-88, GN Dkt No. 07-45 (rel. Jun. 12, 2008).

17 See Verizon news release dated November 6, 2007 available at: http://newscenter.verizon.com/press-releases/verizon/2007/verizon-introduces-static-ip.html.

18 See Verizon news release dated July 11, 2006 and December 6, 2006 available at: http://newscenter.verizon.com/press-releases/verizon/2006/page.jsp?itemID=29669745 and http://newscenter.verizon.com/press-releases/verizon/2006/verizon-offers-small-2.html.

Critically, Verizon North's cost studies do not use depreciation expense from either its GAAP or Regulatory set of accounting records (or "books"). Depreciation rates are calculated in the VzCost model to recover newly placed plant over its useful life. The rates are applied to the forward looking investments in order to arrive at depreciation expense. Depreciation expense reported on Verizon North's GAAP and PSC books use the traditional remaining life methodology to recover the remaining service value of the embedded plant over its remaining life (Williams Reply Testimony at 14). Depreciation expense in VzCost is not meant to, nor will it ever, equal Verizon North's depreciation expense on its books.

Likewise, any discussion around "GAAP" vs. "ARMIS" is not relevant. The AG claims Verizon North uses a "mix and match depreciation method to arrive at the elevated depreciation costs" (Ostrander Direct Testimony at 94) and that Verizon North is trying to use this so called "mix and match" method specifically to inflate depreciation costs (Ostrander Reply Testimony at 28). These accusations are merely a smoke screen that ignores the real issues.

**2. Service Lives**

Verizon North's service lives are consistent with past Commission orders and with recent orders in the California UNE proceeding. Moreover, Verizon North's service lives are within the FCC ranges in most cases except for the cable accounts where it is clear that FCC ranges are too long. Table I shows a comparison of service lives:

**Table 1 – Comparison of Verizon North Service Lives**

| Account | Account Title | Verizon Proposed U-15210 | Verizon Approved U-11832 | CA Approved 93-04-003 | FCC Prescribed Low | FCC Prescribed High |
|---|---|---|---|---|---|---|
| 211200 | Motor Vehicles | 8 | 8 | 8 | 7.5 | 9.5 |
| 211400 | Special Purpose Vehicles | 12 | 10 | 12 | 12 | 18 |
| 212100 | Buildings | 45 | 30 | 31 | na | na |
| 212200 | Furniture and Fixtures Summary | 15 | 10 | 15 | 15 | 20 |
| 212300 | Office Equipment & Official Comm Equip | 8 | 10 | 8 | 6 | 15 |
| 212400 | Computers - Co and Non-Co Related | 5 | 5 | 5 | 6 | 8 |
| 221200 | Digital Switching | 11 | 10 | 12 | 12 | 18 |
| 222000 | Operator Systems | 10 | 10 | 10 | 8 | 12 |
| 223200 | Circuit Equip Summary: Digital & Analog | 9 | 8 | 8 | 11 | 13 |
| 236200 | Other Terminal Equipment | 8 | 5 | 8 | 5 | 8 |
| 241100 | Pole Investment | 30 | 25 | 30 | 25 | 35 |
| 242110 | Aerial-Copper Cable | 16 | 15 | 15 | 20 | 26 |
| 242120 | Aerial-Fiber Cable | 20 | 20 | 20 | 25 | 30 |
| 242210 | Underground-Copper Cable | 17 | 15 | 16 | 25 | 30 |
| 242220 | Underground-Fiber Cable | 20 | 20 | 20 | 25 | 30 |
| 242310 | Buried-Copper Cable | 18 | 15 | 17 | 20 | 26 |
| 242320 | Buried-Fiber Cable | 20 | 20 | 20 | 25 | 30 |
| 244100 | Conduit | 50 | 40 | 50 | 50 | 60 |

The AG's argument of using low end depreciation rates to inflate depreciation expense lacks substance. In order to use financial asset lives, the Commission did not require that Verizon North prove it is deploying a so-called advanced network nor did it require AT&T to prove it was deploying an advanced network in Case No. U-13531. Instead, the Commission focused on the correct analysis and found, just as the *TRO* suggests, ¶ 688, that increased Michigan competition warranted shorter asset lives than those prescribed by the FCC ten years ago.

### 3. Cost of Removal

The AG acknowledges the cost of removal is "usually significant" but inexplicably calls for Verizon North to exclude the cost from its depreciation factors. The AG loses sight of the economic issues around cost of removal in its discussion of

terms such as “FAS 143”, “GAAP Books”, “FCC Books”, “FASB” and others (Ostrander Direct Testimony at 93-94).

Both GAAP and FCC reporting rules recognize that cost of removal can be a significant expense. The difference between the two methods of reporting is that under GAAP cost of removal expense is recognized when the asset is removed from service. Under regulatory reporting, the cost of removal expense is included in the depreciation rate as a negative salvage value. The difference lies, then, in when the expense is reported and where it appears on the company’s financial statements, not whether it is included. Indeed, failure to include it would constitute a taking, requiring Verizon North to incur an expense whose costs it may not recover.

The AG demands that Verizon North exclude the cost of removal from salvage value inputs but provides no alternate approach to where or how Verizon North recovers the cost of removal in its cost studies. Verizon North is entitled to recover this “usually significant” expense, which is not accounted for elsewhere in any expense amounts in Verizon North’s cost studies.

In other words, adjusting salvage values is the most straightforward approach to recover cost of removal expense. Whether this approach is GAAP compliant is simply not relevant, as this is a regulatory proceeding not a public accounting one. Verizon North’s cost model is used to derive economic costs, not to produce results that mimic Verizon North’s general ledger.

**B. Cost of Capital**

In his reply testimony, Dr. Loube continues to advocate an 8.45% cost of capital, notwithstanding both the Staff’s 10.6% proposal and the use of that same figure by the

Commission in recent cost proceedings. He claims that his figure is based on more recent data and is consistent with the FCC's *TRO* methodology, but the record supports neither contention.

### 1. Dr. Loube's recommendation is inconsistent with FCC Rules and *TRO Guidelines.*

Dr. Loube is once again simply incorrect in his assertion of compliance with the relevant FCC rules. The *TRO*, with which he claims to comply, requires that the cost of capital in UNE cost studies reflect both competitive market risk and the risks of the cost model assumptions (Vander Weide Reply Testimony at 15–24). Dr. Loube's model recommendations are based on the assumption that Verizon North instantaneously replaces its network every time a new technology becomes available. This is *not* a requirement for cost-modeling, and, in fact, as Dr. Vander Weide noted, leads to a non-optimized result: the Dr. Loube approach means equipment can never be properly amortized; and inefficient, rather than optimal investment, is mandated. Just as a car buyer need not replace the family car every time a new feature is introduced by the manufacturer, keeping (or updating) recently provisioned technology is often a better investment than simply replacing it entirely.

Moreover, Dr. Loube's cost of capital recommendation does not reflect the risks Verizon North would face if it operated under this cost model assumption. Those risks, which are expressly recognized by the FCC, *TRO* ¶ 681-683, include the risks of sunk investment and loss of the wholesale customer base. Dr. Vander Weide's testimony explains those risks, as well as the lease-cancellation risk, that looms over every UNE investment. Dr. Loube blithely ignores the very real "competitive risk" addressed by the FCC, and as such, is plainly not adhering to its rules.

### 2. Wireline Competition Bureau Methodology

Dr. Loube's testimony also fails to apply the Wireline Competition Bureau's Virginia Arbitration Order methodology. As Dr. Vander Weide explained, the FCC's Wireline Competition Bureau recommended a WACC equal to 13.068% based on a 7.86% cost of debt, a 14.37% cost of equity, and a capital structure containing 20% debt and 80% equity (Vander Weide Reply Testimony at 34). Even facially, Dr. Loube's recommendation is inconsistent with the FCC's Wireline Competition Bureau's recommendation, because the interest rate on A-rated bonds has only declined by 155 basis points since the Virginia Arbitration Order (7.86% to 6.30%), whereas Dr. Loube's recommendation is ***462 basis*** points less than the Wireline Competition Bureau's recommendation (13.068% – 8.45%).

Moreover, Dr. Loube's method for estimating the cost of equity differs from the Wireline Competition Bureau's recommendation with regard to: (i) the risk-free rate (Vander Weide Reply Testimony at 38–41); and (ii) the risk premium on the market portfolio (Vander Weide Reply Testimony at 41–42).

Dr. Loube's recommended capital structure is also inconsistent with the Wireline Competition Bureau's recommendation in the Virginia Arbitration Order, because Dr. Loube used the average capital structure of a group of highly-leveraged telecommunications companies, whereas the Bureau used the average capital structure of the RHCs (Vander Weide Reply Testimony at 25–27). The unusually high leverage in Dr. Loube's proxy telecommunications companies' capital structures is reflected in their low debt ratings (Vander Weide Reply Testimony at 26–27). Unlike the RHCs, which have A-rated bonds, most of Dr. Loube's proxy companies have junk bond ratings.

Indeed, most startlingly, if Dr. Loube had genuinely applied the Bureau's method in the Virginia Arbitration Proceeding, he would have obtained a WACC of 10.6% (Vander Weide Reply Testimony at 44).

Likewise, Dr. Loube did not use consistent inputs in his WACC calculation for his group of highly-leveraged telecommunications companies. If he had used costs of debt and equity estimates that were consistent with his proxy companies' highly-leveraged capital structure and low bond ratings, he would have obtained a WACC equal to 10.8% (Vander Weide Reply Testimony at 34).

### 3. Verizon's Current Actual Capital Structure is not a Realistic Representation of a Forward-Looking Capital Structure.

Mr. Ostrander claims that Verizon's current actual capital structure (September 30, 2007) of 53% equity/47% debt is a more realistic representation of a forward-looking capital structure because Verizon North's forecast of a capital structure as high as 77.55% in the prior case, and 75% equity in this case, has, in his opinion, not been achieved. Mr. Ostrander further states that a cost of capital ranging from 9.41% to 10.187%, both using a capital structure of 53% equity and 47% debt, should be adopted.

Mr. Ostrander's testimony fails under even summary analysis, because it does not distinguish between market value and book value capital structures, a critical distinction for forward-looking investment modeling purposes. Verizon North recommends a 75% equity/25% debt market value capital structure in this proceeding because financial and economic theory require the use of market value weights to calculate the weighted average cost of capital (Vander Weide Reply Testimony at 54); indeed, market value capital structures are the only capital structures consistent with the FCC's forward-looking economic cost principles (Vander Weide Direct Testimony at 25–26, Reply

Testimony at 56); and Verizon and the RHCs have had average market value capital structures containing more than 75% equity and less than 25% debt over the last five years (Vander Weide Direct Testimony at 44-45).

Mr. Ostrander claims to point, actually bears out Verizon North's point. Verizon has achieved its recommended 75% equity/25% debt capital structure. In addition to having an average capital structure containing more than 75% equity over the last five years, its most recent capital structure contains 79% equity and 21% debt (Vander Weide Reply Testimony at 56). This closely comports with the Michigan Commission recognition of the need to use market value capital structures to estimate the weighted average cost of capital when it adopted a 75% equity/25% debt market value capital structure for SBC in Case No. U-13531.

In contrast, Ostrander's recommended 53% equity/47% debt capital structure is the *book* value capital structure for Verizon North at September 30, 2007. Mr. Ostrander's recommended book value capital structure is inherently backward looking because it reflects the historical costs of Verizon North's assets (Vander Weide Reply Testimony at 53) and reflects significant amounts of debt issued by GTE prior to its merger with Bell Atlantic (Vander Weide Reply Testimony at 54). Mr. Ostrander's recommended book value capital structure is also inconsistent with the Michigan Commission's policy of excluding short-term debt in the capital structure (Vander Weide Reply Testimony at 54).

Put simply, Mr. Ostrander's comparison of Verizon North's recommended market value capital structure to Verizon North's book value capital structure at September 30,

2007, is disingenuous and inconsistent with both Commission practice and fundamental financial principles and should be rejected.

Dr. Vander Weide explained in his reply testimony that an average of averages approach is often used as a check on the reliability or credibility of proposed figures or values. Using that methodology, the Staff's recommended WACC is at the low end of a zone of reasonableness (Vander Weide Reply Testimony at 61–64), but Mr. Ostrander's proposal to use market value capital structure is not.

## VIII. COMMON COSTS

### A. Two Sets of Common Costs

Verizon North is not double-recovering its common costs. Dr Loube recommends at page 4 of his reply testimony that the Commission require Verizon North to confirm that it is not attempting to recover common costs twice, once from the wholesale side and once from the retail side (Williams Reply Testimony at 2). Verizon North is not attempting to recover common costs twice – the two factor sets are mutually exclusive; that is, no costs are included in the wholesale common costs data that are in the retail one, and *vice versa*. Further, there are only two differences between Verizon North's wholesale and retail cost studies. First, the wholesale studies include a risk premium in the weighted average cost of capital. Second, there is some retailing expenses removed from the wholesale factors. Verizon North removed retail sales/marketing expenses from its wholesale cost studies. All sales/marketing expenses are properly included in retail TSLRIC cost studies as those expenses are total company expenses.

As Mr. Williams points out, pursuant to FCC rulings in the First Report and Order on Local Competition[19] and in the Triennial Review Order,[20] Verizon North is obligated to develop TELRIC costs under the assumption that Verizon North is a wholesale company only (Williams Reply Testimony at 6). Under this TELRIC scenario, common costs, like direct and shared, are different than costs developed under a TSLRIC scenario, which assumes that Verizon North sells both retail and wholesale services.

Since the costs studies are based on total demand, the costs can *only* be recovered once. The facilities will be used to ***either*** supply wholesale services ***or*** retail services, not both. The facilities to supply the demand will not be used to supply both a retail service and a wholesale service; therefore, the costs associated with the facilities, including the associated common costs, will only be recovered once. Verizon North removes certain retail expenses in wholesale studies, however it does not remove retail investments. In this manner when the facilities are used to supply a wholesale service only the wholesale costs are recovered, but again the costs are only recovered by either supplying a wholesale service or a retail service and not both.

**B. Reliance of Embedded Data**

Dr. Loube urges the Commission to set aside its lawful inquiry into Verizon North's costs and simply make a reduction of Verizon North's direct expenses and shared and common costs ***in addition to*** the 20% reduction in Verizon North's total UNE costs that he recommended in his initial testimony (Dr. Loube Reply Testimony at 39). As

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19 I*n the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 ,* CC docket No. 96-98, *and Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers,* CC Docket No. 95-185, First Report and Order, FCC 96-325, August 8, 1996, ¶¶ 678 and 694 ("Local Competition Order").

20 *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, CC Docket Nos. 01-338, 96-98, and 98-147, FCC 03-36, August 21, 2003, ¶ 680 ("TRO Order").

amply demonstrated in this proceeding, Verizon North does not rely on embedded data, and the Commission cannot arbitrarily apply reductions to affect a CLEC-desired result.

## C. Inflation and Productivity Factors

### 1. Inflation

Verizon North properly uses the Consumer Price Index as the best, and most standard, bellweather index of inflation. Contrary to Mr. Ostrander's assertion, CPI is the most reasonable factor and Ostrander provides no reason why the CPI for the general market basket should not be used. Indeed, Mr. Ostrander's testimony appears to misperceive the manner in which Verizon North actually utilizes the CPI factor; Verizon North does not inflate investments, but it inflates expenses. The expenses Verizon North used the CPI to inflate include things like computer maintenance, product advertising, computer programming, which are not "telecommunication services."

### 2. Productivity

Mr. Williams demonstrated why the non-farm index published by the BLS is an appropriate productivity factor (Williams Reply Testimony at 17-18). Dr. Loube's assertion that telecommunications companies have a greater level of productivity than the rest of the economy is based on dated and conflicting information. Indeed, it is no small irony that testimony awash in allegations of failure to use forward-looking data, bases its productivity argument on a unique time in American technology in which monumental telecommunications advances created networks and increased efficiencies in a manner never before seen (and likely never again repeated). Dr. Loube's recommendation for increasing the productivity factor by 2% is not supported by any current relevant data on productivity gains experienced by Verizon North or by other ILECs in Michigan. Even

Staff posits the more reasonable approach of removing both inflation and productivity from the studies.

**D. Effect of MCI Acquisition**

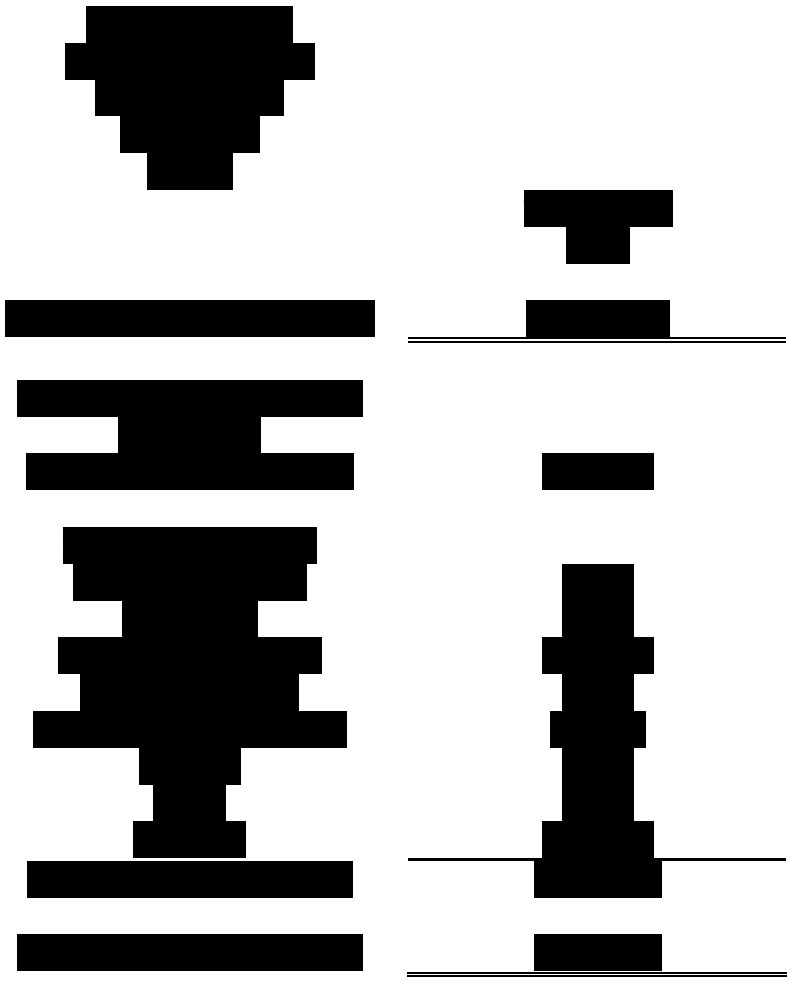
The Verizon Communications Inc. acquisition of MCI, Inc. had no material effect on Verizon North, and no effect on this cost proceeding. Dr. Loube recommends a 12% reduction to expenses due to the MCI Acquisition. This is unsupported by the record. As Mr. Williams noted in reply testimony, at the telephone operating company level, the savings due to MCI acquisition is negligible (Williams Reply Testimony at 20-21). Contrary to Dr. Loube and Mr. Ostrander's allegation, extrapolations from the parent company annual report support no reduction, much less the arbitrary 12% amount they demand.

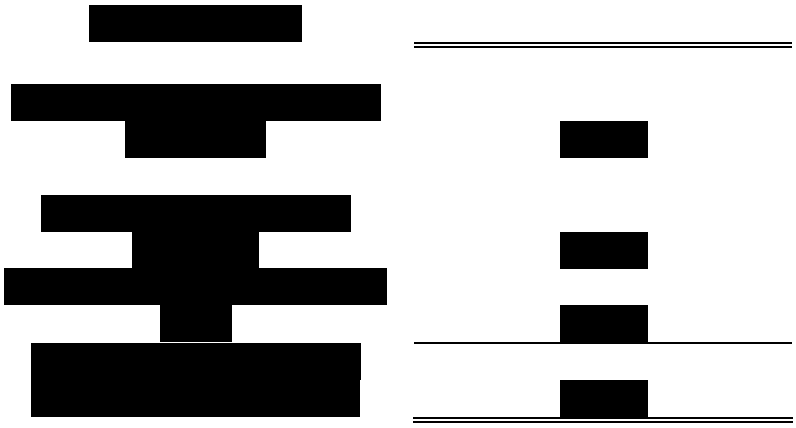
The acquisition of MCI by Verizon was driven by Verizon's desire to capture a larger portion of the Enterprise markets and the business customers (retail and wholesale, US and non-US based) that MCI supported. This was recognized by the United States Department of Justice, in its Advisory Opinion, noting that ". . . have focused on different sectors of the enterprise services market. MCI is a leading supplier to national customers that require long distance and complex or merged services. Verizon is a regional provider of local voice and traditional data services."

Through the acquisition, synergy savings have been achieved through reduced headcount, optimization of transport and long-haul networks, automation of the billing and services systems for business customers, and other expenses reductions. The vast majority of these synergy savings are directly associated with the business customer marketplace.

Verizon Business carefully tracks MCI Merger savings and costs by project. During the merger, each department identified merger savings and costs which were assigned into projects which were identified to benefit Verizon Business, Verizon Telecom and/or Verizon Wireless. The projects that were deemed to provide expense synergies to Verizon Telecom primarily related to workforce reductions. Some examples of the projects that had workforce reductions savings were Human Resources- Training, Domestic Telecom Wholesale, Communications, Information Technology, Finance, Legal and Network Services. The following table shows the synergies ascribed to Verizon North.

**[VERIZON NORTH PROPRIETARY BEGINS]**





**[VERIZON NORTH PROPRIETARY ENDS]**

The total impact to Verizon North's cost studies relating to the Verizon /MCI merger is **[VERIZON NORTH PROPRIETARY BEGINS]** [redacted] **[VERIZON NORTH PROPRIETARY ENDS].** Total company costs used to develop Verizon North's ACF's were **[VERIZON NORTH PROPRIETARY BEGINS]** [redacted] **[VERIZON NORTH PROPRIETARY ENDS]** in its Retail and Wholesale UNE cost studies, respectively. The impact is seven hundredths of one percent of total company costs. Under any reasonable analysis, such impact on Verizon North's costs is "negligible."

**E. CLEC Uncollectibles**

The AG suggests that all CLEC uncollectibles be removed from Verizon North's studies (Ostrander Reply Testimony at 19). As Mr. Williams pointed out on page 23 of his reply testimony, uncollectible expenses are real expenses to Verizon North and are properly included in its cost studies. All businesses incurring uncollectible expenses pass the expense along to customers who pay their bills – in the same way retailers pass along shrinkage due to theft or obsolescence to customers who do not steal and insurance

companies pass along the cost of fraud to policy holders who do not defraud. Mr. Ostrander asserts that a CLEC should not have to reimburse Verizon North for other CLECs' failure to pay. Under this reasoning, Verizon North would never recover the uncollectible expense incurred serving a class of customers that it neither is permitted to choose from among, nor toward whom it may act in a discriminatory fashion. While most businesses (or consulting witnesses) may choose whether to provide their services to customers whom they determine are sufficiently creditworthy, Verizon North's options in this regard are much more limited. The wholesale UNE uncollectible rate of fifty-seven hundredths of one percent is reasonable and appropriate to include in Verizon North's wholesale UNE cost studies.

The AG continues to suggest that Verizon North's uncollectible expenses should be adjusted so that a "CLEC that continues to pay Verizon for UNEs should not have to pay the debts/write-offs for other CLECs that failed to pay Verizon" (Ostrander Direct Testimony at 110 and Ostrander Reply Testimony at 10). This is an overly simplistic and naïve way to approach this issue. Verizon North doesn't know in advance which CLEC customers will pay their bills. And even if Verizon North had such an ability to foretell the future it would be bound by regulatory requirements to serve the CLEC customer anyway.

As pointed out by Mr. Williams on page 23 of his reply testimony "Under this reasoning, Verizon North would never recover the uncollectible expense incurred serving a class of customers that it neither is permitted to choose from, nor toward whom it may act in a discriminatory fashion."

## IX. VERIZON NORTH'S TRANSPORT COSTS

### A. Verizon North's Transport Costs are not Excessive

While Verizon North invested the resources to perform the required analysis of cost, the CLECs and other participating parties have decided to forego analysis and strive to force rates upon Verizon North using only comparisons and jargon. Opposing parties mix rates and costs for networks that are either fictitious or related to companies with extremely different cost structures.

Mr. Ostrander begins the analysis of Verizon North's Michigan transport costs with reference to the CLECs' recommended proposed rates and a comparison to AT&T rates from the 2004 filing under Case No. U-13531. First, the CLECs have a vested interest in setting low rates since they are proposing the rate they would be required to pay for using a network built and maintained by Verizon North. The concern of the CLECs is low cost for using another company's network to make profit without building a network or accepting other risks in the market place. Second, Mr. Ostrander failed to perform any type of analysis to ensure that he was performing an "apples-to-apples" comparison of costs, when comparing Verizon North and AT&T transport costs. The rates used in Mr. Ostrander's comparison may not be cost based. Rates are often set using non cost related regulatory adjustments and constraints. In addition, the transport rate structure for AT&T may be different than Verizon North. Finally, as noted earlier in these comments, it is inappropriate to set Verizon North's costs based solely on a comparison to another company's costs.

While participating parties do not offer working models nor analysis of Verizon North's cost model, Mr. Ostrander suggests burdening Verizon North with additional

imputation analysis.The AG's position that Verizon North should be required to perform an imputation test for its largest customers would simply not allow Verizon North to correctly develop the TSLRIC cost floors for specific retail tariffed service offerings offered to specific customer segments. It is clear the FCC, in coining the term "TELRIC," intended its version of the costing methodology to be applied to elements, while TSLRIC would continue to be utilized for conventional services. As the FCC stated, "Depending on what services are the subject of a study, TSLRIC may be for a single service or a class of services. TSLRIC includes the incremental costs of dedicated facilities and operations that are used by only the service in question." (See Local Competition Order at ¶ 677). Clearly, if a service classification does not utilize the facilities or utilizes the facilities in different quantities, these cost differences should be recognized in the development of the TSLRIC for the service.

On page 17 of its initial comments, Staff correctly notes that the MTA refers to the TSLRIC of a service as the price floor of providing a service. That is, the TSLRIC is clearly intended to provide the cost of the same service reflected in the price. In other words, the price floor for the transport services to Verizon North's largest retail customers would be the TSLRIC for those customers, not the TELRIC for the transport function furnished in some other fashion to other customers. What the AG is attempting to do is replace a clear costing standard for establishing retail price floors with an imputation standard (where the price floor is based, not on the TSLRIC of the service, but the imputed price, or TELRIC of the element). The current TSLRIC costing standard contained in the MTA should not be circumvented by improper costing assumptions that will result in uneconomic pricing constraints.

Mr. Ostrander provides a summary of Verizon North's proposed transport costs to Verizon North's transport costs adopted in Case No. U-11832 (Ostrander Reply Testimony at 14). As Mr. Ostrander's Table BCO-1 shows, Verizon North's transport costs have decreased substantially (35 to 80% reductions) for both fixed and variable rate elements. Ms. Clark explains in her direct testimony the reasons for the significant drop in transport costs, which includes evolution and increased competition of the telecommunications industry that has resulted in deployment of new systems to provision IOF services and develop IOF investments. (Clark Direct Testimony at 19-21). Even though Verizon North's transport costs have significantly decreased from the transport costs the Commission previously adopted for Verizon North, the AG amazingly concludes that Verizon North's proposed transport costs are excessive.

Another fact that influences transport costs is a change in access lines. As shown in Table II below, FCC ARMIS report 43-08 reflects a Verizon Michigan (Verizon North) access line loss (-13%) between 2003 and 2007. Line loss results in lower utilization and higher average cost. Capital investment recovery is made over a lower customer based resulting in a higher cost per unit.

**Table II – FCC ARMIS Report 43-08**

| Total Access Lines | | | | |
|---|---|---|---|---|
| ARMIS 43-08 | 2003 | 2007 | Change | % Chg |
| VZ Michigan | 844,338 | 733,267 | -111,071 | -13.2% |
| VZ MI / MI Bell | 12.7% | 9.7% | -3.0% | |
| Michigan Bell | 6,638,597 | 7,526,891 | 888,294 | 13.4% |

AT&T (Michigan Bell) 43-08 data for the same time period reflects a growth in total access lines (+13.4%). The same data reflect the fact that a comparison of AT&T Michigan and Verizon Michigan are not a comparison of similar networks. Verizon

Michigan is only 9.7% the size of AT&T (Total Access Lines). Again Mr. Ostrander is making an "apple" to "oranges" comparison. Even an uninformed observer would expect the exchange sizes, economies of scale and the resulting network analyses to be dramatically different for such a variation in size. While Verizon North's parent is a large national company the cost of establishing and maintaining many small offices in Michigan is not comparable to the cost of the large offices owned and operated by AT&T in the state of Michigan.

Mr. Ostrander suggests that the use of multiple vendors may not reflect the most efficient cost for a network; however, using a single vendor would exacerbate the possibility since competition among vendors can result in reductions for one specific vendor. The blend captures the cost of investment across vendors thus reflecting the market. The vendor investment costs used by Verizon North are appropriate because they reflect the cost of contracts with vendors based on Verizon's national presence and multi-year agreements.

Mr. Ostrander refers to the use of Verizon North's "wire center complexity" as a distinction for cost or rate zones. The assumption is incorrect. Rate zones may be established using various criteria including density, distance and resulting cost. Zones are not always an assemblage of homogenous offices. Rather, they reflect considerable variance between offices' characteristics. Since Verizon North is not proffering de-averaged costs for transport, it is appropriate to weigh results together for statewide costs.

Before cost decisions are made, competition should be reviewed by observing line gain and loss within providers that include CLECs, cable companies and all available carriers. Verizon North should not be burdened by costs reflective of another unrelated

or non-existent company or network. The Telecommunications Act of 1996 was established to promote competition and to promote the build of networks by new entrants. Continued rate making supported by fictitious costs and assumptions will not result in a strong market driven by competition. Companies unduly burdened with providing a network for all users without the ability to recover the cost of the network will eventually cease to exist.

**B. CC/BC Ratios**

On page 26 the AG recommends that CC/BC ratios be removed. Verizon North only uses CC/BC ratios to bring five non-network investments from historical to current costs. The CC/BC ratios are appropriate. In fact, if Verizon North were to remove CC/BC ratios, certain investments (e.g., computers) actually increase. Verizon North's CC/BC ratio decreases the computer investment since computer prices are decreasing.

**C. IOF Route to Air Mileage Factor**

In his initial testimony, Dr. Loube proposed the same route to air mileage factor for DS1 and DS3 transport that he proposed for DS1 loops. In its discovery responses and reply testimony, Verizon North explained that it is inappropriate to use the same route to air ratio for both the loop and IOF networks. Specifically, the IOF model does not model specific routes, while VzLoop models an entire loop network, including routes that use control points, Digital Loop Carriers ("DLCs"), Serving Area Interfaces ("SAIs"), and terminals as nodes for routing purposes. As a result, a much smaller route-to-air mile factor is required for VzLoop. The routes used to provision loops do not require redundant and diverse routing. IOF networks are built for ultimate sustainability. In order to guarantee connectivity at the prescribed 99.999% quality and reliability, the

IOF network includes ring topology to maintain route diversity and survivability. Because a ring is required for adequate IOF design, the route to air mile factor used by Verizon North is the minimum and not the maximum distance.

High capacity systems often require diverse routing; but by design, IOF rings *must* provide diverse paths. The diverse path must maintain separation from the primary path. If the primary route to air mile distance is less than the rise plus the run, then the diverse path could easily exceed the distance while maintaining separation. In addition to the obvious topology of the network, landscape features such as lakes, rivers, airports, and right-of-way constraints clearly affect total route distance. Verizon North has amply justified its IOF route to air mileage factor.

**D. Multiplexing Costs**

The Commission should adopt Verizon North's proposed DS1 to Voice Grade Multiplexing costs of $529.67. Dr. Loube provides an inaccurate comparison of AT&T's and Verizon North's multiplexing costs. Dr. Loube makes two arguments related to Verizon North's DS1 to voice grade multiplexing costs.[21] First, he suggests that "since multiplexing costs will be primarily based on labor and equipment costs, there is no reason for Verizon North's cost to differ so dramatically from AT&T's."[22] He provides no backup that details AT&T's labor costs, or for the equipment used to develop its costs. Verizon North, on the other hand, provides detailed backup for its proposed costs, which substantiates the accuracy of its proposed multiplexing costs. Dr. Loube also fails to explain whether AT&T's Commission-approved multiplexing costs were cost-based and proposed by AT&T or adjusted by the Commission.

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[21] Although Verizon North also filed DS3 to DS1 multiplexing costs in this proceeding, Dr. Loube does not refute the accuracy of its cost.

[22] Dr. Loube initial testimony at 103, lines 19-21.

Dr. Loube also argues that TelNet Worldwide obtained a quote for multiplexing equipment and that "AT&T's MRC of $280.24 would be more than adequate to recover the *****Confidential***** [redacted] *****Confidential*****."[23] To determine the reasonableness of Dr. Loube's unsubstantiated claim, Verizon North used its DS1 to Voice Grade Multiplexing study and simply substituted the TelNet provided investment for its equipment, which calculated a MRC of $820.93.[24] The results of the study show that not only would AT&T's rate of $280.24 not recover the TelNet multiplexer investment, neither would Verizon North's proposed $529.67 cost.

Beyond lack of any financial analysis, Dr. Loube's testimony suggests gross unfamiliarity with the equipment requirements of providing a DS1 to Voice Grade Multiplexing service. In a discovery request, Verizon North asked whether AT&T's $280.24 rate included the "investment costs of MDF terminations, the multiplexer, and the LGX terminations, and installation costs at an appropriate utilization level." Dr. Loube's response was that it was unclear whether all these costs should be recovered under Verizon North's multiplexing MRCs, and if they should, the AT&T charge of $280.24 per month would still be adequate to recover such investment. Dr. Loube's "analysis," such as it is, ignores the equipment required to provide DS1 to Voice Grade Multiplexing. All the equipment noted above is required and is recovered in Verizon North's proposed multiplexing cost of $529.67 (the only MRC that Verizon North proposed to charge for this service).

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[23] Dr. Loube initial testimony at 103, lines 24-26.

[24] Verizon North assumed the confidential investment was an installed price and the equipment has a capacity of 24 DS0s.

## X. NON-RECURRING COSTS

Charges for nonrecurring costs are intended to cover the nonrecurring, one-time costs that Verizon North incurs to fill a CLEC's order for a UNE. *See* Notice of Proposed Rulemaking, *Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements*, WC Docket No. 03-173, FCC 03-224 (rel. Sept. 15, 2003)("FCC TELRIC NPRM") at ¶ 14. The FCC's pricing rules for UNEs require, "as a general rule, that incumbent ILECs' rates for interconnection and unbundled elements must recover costs in a manner that reflects the way they are incurred". First Report and Order, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996,* CC Docket No 96-98, 11 FCC Rcd 15,499 (rel. Aug 8, 1996*).* Thus, Verizon North recovers its installation or "set-up" costs incurred in processing and provisioning a competitive LEC order for a UNE through NRCs, or one-time charges when Verizon North processes and provides a CLEC order. Under FCC rules, the same network assumptions that are used to establish recurring TELRIC costs of unbundled elements are to be used to establish NRCs. FCC TELRIC NPRM at ¶ 17. The FCC did not authorize random or arbitrary NRCs that are not cost-based.

Dr. Loube, and Mr. Ostrander parrot each other claiming that Verizon North's NRC cost study is excessive and should be rejected. However, neither provides any cost-based criticism or analysis of Verizon North's costs for their conclusions. Each has only a single paragraph to reach the conclusion and discuss what the Staff has previously presented. Indeed, both would have the Commission simply pick an arbitrary number instead of relying on a cost analysis.

For example, Dr. Loube's conclusion that Verizon North's proposed cost-based NRCs are too high is based solely on a comparison of Verizon North's new proposed NRCs and Verizon North's current NRCs. A fatal flaw in such analysis is that the previously set NRCs were not found in any cost study. In other words, the current NRCs are not cost-based. They never reflected Verizon North's NRC costs. They were arbitrary rates pulled out of thin air by the Commission in the previous cost case. As Mr. Richter states in his reply testimony, the comparison of Verizon North's NRCs in its most recent cost study to rates picked out of the blue that are not cost-based is an improper comparison (Richter Reply Testimony at 4).

A proper comparison of NRCs would be an "apples to apples" comparison. If the proposed NRCs are compared to anything in the past, at a minimum, they should be compared to what Verizon North submitted in its last cost case (Richter Reply Testimony at 5). But, in any event, comparing naked numbers is not the appropriate way to set costs. NRC costs should be based on a provider's specific activities, labor, and materials needed to provide the service.

Verizon North has provided overwhelming support for the NRCs that it filed in this proceeding, and its cost analysis is uncontroverted. Verizon North's forward-looking NRC cost study took all work activities for the NRCs into consideration as well as any anticipated improvements in productivity that would impact the costs in the foreseeable future (Richter Direct Testimony at 13 and Richter Reply Testimony at page 3 and pages 6 – 8). In creating this cost study, Verizon North used the best available means to capture the work time required to perform the functions necessary in providing a service or product (Richter Direct Testimony at 10 and Richter Reply Testimony at 2). This cost

study is the only NRC cost-based support presented in this case; and it justifies Verizon North's proposed NRCs. No other party offered any cost-based documentation to support its contrary conclusion. No one challenged the work times or work activities in Verizon North's study. Indeed, no other party presented any documentation showing that even one work activity from Verizon North's cost study was not necessary to perform the service. Conclusory opinions are not cost support. Verizon North's NRC cost study shows the activities that must be performed in order to deliver the services requested and it fully supports the related costs for those activities.

Dr. Loube does not dispute the content of Verizon North's NRC cost study. However, he represents his clients' desire that Verizon North's costs be lower. Presumably because he was unable to challenge Verizon North's study, he proposes that the Commission simply ignore it. He would have the Commission set Verizon North's new proposed NRC costs based upon a comparison to the NRCs of another carrier – AT&T. However, even if comparing the NRC costs of one carrier to another had any relevance for setting either of the carrier's NRC costs, which it does not, AT&T's NRCs are not cost-based. They were not found in any cost study. Thus, it is not reasonable for Dr. Loube to compare arbitrary, non-cost based rates to actual cost-based-rates to set cost-based rates. But even if AT&T's NRCs were based on a cost study, it is not correct to compare an AT&T cost study to a Verizon North cost study. AT&T and Verizon North do not use the same cost study methodologies.

Dr. Loube also states at page 9 of his reply testimony that Verizon North's NRC costs are mostly labor and occur within individual wire center office buildings. This statement is only partially true. In fact, Verizon North has ordering and provisioning

centers that are not located in wire centers, and field technicians are often required to make premise visits to connect the Outside Plant Facilities to the customers' premises. Most of these work activities are, however, labor intensive. But since these work activities are labor intensive, and given that labor rates are continually increasing, it is not unreasonable to conclude that the related costs for this activity would increase. The only contribution that Verizon North can make to offset an increase in cost is to provide an automated way of providing the requested services. Verizon North does this in various ways, from automated ordering to technicians using electronic means to communicate when they perform their activities. Productivity improvements such as these are factored into the study.[25] (Richter Direct Testimony at 13 and Richter Reply Testimony at 6-8)

The fact is many of Verizon North's costs have increased over time. Even if it were lawful to set Verizon North's NRCs without basing them on a cost study, it would be arbitrary, unreasonable and unfair not to adjust them to reflect increased costs over time. Most of Verizon North's current NRCs were set around 1997.[26] The costs for many of Verizon North's work activities are higher than in the past, no matter what analysis is used. Even at an intuitive level, it is not credible to argue that Verizon North's costs have not increased at all for the last 12 years. Labor, IT, equipment and basic operational costs have all increased since then. Gasoline prices alone have increased at least 100% since the 1990s. Unlike a mostly urban provider such as AT&T, most of Verizon North's smaller central offices are not manned, requiring travel to complete work orders. A large portion of the proposed NRCs support the labor and transport costs

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[25] For example, the study shows a 29.2 percent reduction since 1997 for processing manual orders and a 33.2 percent reduction in costs for electronic orders due to automation or other efficiencies.

[26] Verizon North filed its cost study on January 21, 1997, and the Commission set many of the NRCs in effect today at that time. Verizon North also filed a cost study in January 21, 1998, but there was no material change to the NRCs.

to send employees out for central office work and to customer premises to connect outside plant facilities.

Although inflation since 1997 has not been as high as in the 1980s, there has still been inflation. For example, the general consumer price index has increased more than 30% since 1997.[27] Even if Verizon North's NRCs in this proceeding were again set at the current rates, which are based on 1997 levels (and Verizon North does not suggest that current rates are the proper level), even current rates are not the same in real terms. To retain those 1997 level rates in real terms, they must be increased *by at least 30 % just to stay even with inflation.* If the Commission were to arbitrarily set Verizon North's NRCs again it must at least factor into the new NRCs the inflation changes that have occurred since the NRCs were set more than a decade ago. However, Verizon North does *not* propose that the Commission arbitrarily set Verizon North's NRCs. Verizon North has filed cost studies and they should be the basis for the revised costs.

**A. Routine Network Modification Costs**

Some parties claim that Verizon North would double recover its routine network modification costs under the NRC cost study, but as Mr. Richter explained in his reply testimony, that is incorrect (Richter Reply Testimony at 8-12). Although Verizon North's modeled network does not include load coils as a cost, it is incorrect that Verizon North cannot recover load coil removal costs.

The FCC in its TRO Order recognized that CLEC-requested removal of load coils is neither routine, nor easily undertaken. It therefore ordered that ILECs should be compensated for the work necessary to accomplish this task. The FCC's First Report and

[27] The Detroit CPI, which has been the index used for local service rates, has increased from 155.4 in 1997 to 207.593 in 2008, or approximately 33%. *See* http://data.bls.gov/PDQ/servlet/SurveyOutputServlet.

Order at paragraph 382 required ILECs to "take affirmative steps" where feasible to condition the network for CLECs. The Order also stated that:

> As discussed above, some modification of incumbent LEC facilities, such as loop conditioning, is encompassed within the duty imposed by section 251(c)(3).829 The requesting carrier would, however, bear the cost of compensating the incumbent LEC for such conditioning.[28]

The FCC also made clear in its Line Sharing Order (FCC 99-355) that the ILEC has the right to charge for conditioning of the loop. The Order stated:

> Finally, consistent with our conclusion in the *Local Competition Third Report and Order*, we conclude that incumbent LECs should be able to charge for conditioning loops when competitors request the high frequency portion of the loop.

In its Third Report and Order (FCC 99-238), the FCC again made clear the ILEC will be compensated when conditioning is requested.

> 192. In the Local Competition First Report and Order, the Commission also stated that requesting carriers would compensate the incumbent LECs for the cost of conditioning the loop.
>
> 193. We agree that networks built today normally should not require voice transmission enhancing devices on loops of 18,000 feet or shorter. Nevertheless, the devices are sometimes present on such loops, and the incumbent LEC may incur costs in removing them. Thus, under our rules, the incumbent should be able to charge for conditioning such loops.[29]

In addition, the Commission's Costing Principles Nos. 2 and 4 make clear that activities necessary to perform a service will have a cost. Verizon North has identified these costs and should be compensated for work performed as the FCC recommends.

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[28] FCC 96-325 First Report and Order, August 8, 1996, paragraph 3.

[29] FCC 99-238 *Third Report and Order and Fourth Further Notice of Proposed Rulemaking*, November 5, 1999, para 192-3.

As a result, Verizon North's NRC cost study includes separate loop conditioning nonrecurring charges that would be assessed when a CLEC requests removal of load coils from a loop. Mr. Richter also stated in his direct testimony at pages 21-23 that in order to avoid double recovery of load coil removal costs, Verizon North removed load coil removal costs from its expense factors, which were used to develop its proposed monthly recurring loop costs. As a result, Verizon North's proposed monthly recurring loop costs do not recover anticipated CLEC load coil removal costs, assuring no double recovery of these costs exists in Verizon North's costing proposal.

Finally, Mr. Richter in his reply testimony at pages 10-12 explained that load coil removal is not a significant occurrence in the provisioning of DSL service by CLECs. When Verizon North places modern equipment (DLCs) within its outside plant facilities, Verizon North routinely removes impediments (e.g., load coils, repeaters, etc.) to DSL and other digital services within its cable routes where engineering requirements allow these changes to be made. Most of Verizon North's customers whose loops fall within the parameters of DSL capable, have a loop that is clear of any impediments for DSL service. In fact, of all the loops that fall within the parameters of being DSL capable, only an extremely small number of loops have load coils existing on the loop. Also, not all CLEC customers who fall within the DSL parameters will actually request DSL, regardless of whether their assigned loop is capable of providing the service with (or without) additional loop-modification.

This is not to lessen the costs associated with the removal of load coils or bridged tap when it is necessary to condition the loop. The work involved is extensive, labor intensive, and Verizon's NRC for this would only apply if the work occurs. Since

Verizon has no other method to recover its costs for this work they are properly included as an NRC.

**B. Clear Channel Capability Costs**

Mr. Iannuzzi challenged Verizon North's costs for Clear Channel capability. However, in pages 12 – 15 of his reply testimony, Mr. Richter further explained the basis for Verizon North's Clear Channel capability costs and that the Commission had approved costs for this capability in another cost proceeding. He explained that there are more costs to this capability than just pushing a button. To provide Clear Channel capability for a DS1 circuit, for example, central office technicians must first review the circuit layout and ensure that all equipment locations in the circuit are programmed for Bipolar Eight Zeros Substitution ("B8ZS"). Mr. Richter explained that there are numerous cards in the total circuit layout between central offices and an end user's location that must be reprogrammed and tested. This includes reprogramming all of the circuit equipment within the new circuit, including regenerators and equipment at the customer's end of the circuit. Modification of a circuit for Clear Channel capability requires a total redesign of the circuit. In effect, the current circuit is disconnected and a new circuit with the requested options is installed with the B8ZS capability.

Moreover, once the new circuit is established and the equipment optioned for B8ZS, testing of the new circuit equipment is required. The central office technician runs a series of tests to make sure that all equipment is working correctly. For B8ZS, a sequence of tests is performed to ensure that the circuit will perform as requested by the end user customer. The work times in Verizon North's cost study for Clear Channel capability capture the necessary work time of the central office technician to review the

circuit layout, properly option all equipment within the circuit, and perform all the necessary tests to ensure the circuit will pass data as the customer has requested.

The Commission has found similar costs associated with Clear Channel capability for other providers, and there is no reason not to recognize such costs for Verizon North.[30]

In short, Dr. Loube and Mr. Ostrander offer only their opinions as to the level of Verizon North's NRC costs, neither of which is substantiated by work papers or cost studies. Verizon North has presented a valid and comprehensive NRC cost study detailing the work activities, including average work times and labor rates required to perform the work. Verizon North's cost study fully supports the costs that it presented in this proceeding. No party has shown that Verizon North's actual cost analysis is incorrect. The Commission should actually examine the study, not ignore it simply because the results show higher costs than the arbitrary rates set in 1997. The Commission is required to set Verizon North's NRCs based on Verizon North's costs, not by a comparison to other rates, especially when they are not cost-based. Verizon North's cost study shows true and actual work activities supporting the stated costs and it is based on sound costing principles, which have not been challenged on their merits. Thus, Verizon North's cost study should be accepted as filed.

## XI. COLLOCATION COSTS

Verizon North proposed over 90 collocation rate elements. Dr. Loube determined that only the DC power costs appeared to be out of line, and recommends the Commission reject Verizon North's proposed DC power costs and simply adopt the lower

[30] See Exhibit A of MPSC Opinion and Order dated January 25, 2005 in Case No. U-13531.

Commission-approved AT&T DC power rates. Dr. Loube made at least three major calculation errors in developing his DC power cost comparison between Verizon North and AT&T. Comparison of the Verizon North proposal, and the approved AT&T collocation tariff disclose these key distinctions. They include:

- The cost difference between AT&T charging at a "fused" capacity as opposed to Verizon North charging at a "load" capacity;
- AT&T requires that CLECs pay a NRC and multiple MRCs for their DC Power related requirements; and
- Failing to include the total costs that AT&T charges for DC power through the use of multiple rate elements, such as for "Power Consumption – AC Usage", HVAC (Per 10 amps of DC power), and Power Delivery – 40 Amps, Cable Racking, and Grounding Cable.

In addition to billing at the fused capacity, AT&T fuses at two times the requested drain, therefore, a CLEC would have to order more power to achieve the comparable power it would order and be billed for from Verizon North.

AT&T calculated its costs differently than Verizon North and therefore charges differently for those costs as well. Verizon North recovers all of its DC power costs through two monthly recurring rate elements. AT&T charges both nonrecurring and multiple monthly recurring rate elements. Also, AT&T recovers its DC power costs via six rate elements, while Verizon North only has two. Those rate elements for AT&T are:

- Power Consumption
- AC Usage
- HVAC
- Power Delivery
- Grounding Cable
- Cable Racking

Verizon North's proposed DC power costs also differs from AT&T's existing power costs, because AT&T was forced to base its rates using the CCM Model. Other

jurisdictions, have recognized not only that the CCM model contains several inaccuracies, but that it should not be used to recover DC power rates. In a 1998 New York proceeding, Verizon determined that AT&T's ***own*** power costs were drastically higher than the power costs included in the CCM model. In addition, Verizon uncovered several omissions and errors with the CCM model's costs including the model was based on information obtained from a Canadian manufacturer that grossly understated power costs; the model consisted of several non-supportable costs for power components, such as the microprocessor, power distribution service cabinet, power distribution board, automatic breakers, and the emergency stand-by generator; and the model simply omitted costs for emergency lighting and conduit and for the transportation, warehousing, and rigging required to install a power plant.

Although former AT&T/MCI filed the CCM model in New York in 1998, the *exact* same costs and similar errors existed in its 2004 Michigan filing. In Michigan, AT&T did not correct any of its missing investments or installation costs. Indeed, the only AT&T DC power consumption investment of any substance that changed from its 1998 New York filing to its 2004 Michigan filing was the generator and fuel tank installed investment. Although AT&T increased its amount by 22%, that figure falls far short of what the change should have been. In fact, the New York proceeding suggests that AT&T was missing an additional 300% related to the installed investment of the fuel tank and stand-by generator category.

In addition to the missing components discussed above, it is ludicrous to compare any of Verizon North's copper cable costs contained in the 2004 CCM model. The 2004 CCM model has the same copper cable costs as it did in its 1998 New York filing.

Copper costs have increased dramatically since 2004 and certainly since 1998. As Ms. Clark explained in her reply testimony, in February 2004, Verizon North paid $4.32 per foot for a standard 750 MCM - in June 2008, the same 750 MCM cable is $12.15 per foot – an increase of approximately 300%. This is the same size power cable that Mr. Turner uses in the CCM model to connect the power plant to the BDFB (Clark Reply Testimony at 28).

In addition to missing equipment and investments, Verizon North and the CCM Model use different size power plants. Verizon North's model is based on five power plant sizes while, the CCM model contains only two power plant sizes. Verizon North's two largest sizes are 2667 and 4036 amp plants, while the CCM model's plants sizes are a 2500 and 4000 amp power plant.[31] The model sizes are two of the largest size power plants that an ILEC would place and size to support larger size central offices, not the typical smaller size of a Verizon North central office. By placing larger size power plants, the CCM model contains the best possible economy of scale scenario; this is appropriate only when enormous loads are needed, and not when cost recovery is based on suburban or rural power plants. Power plants are sized based on the requirements of the central office. While it is self-servingly advantageous for the CLEC to base DC power costs on large size power plants, it is extremely uneconomical (and unrealistic) to place power plants that are too large for the requirements of a central office. If Verizon North only uses its two power plants sizes that are closest to the ones in the CCM model (2667 amp and 4036 amp), then its average DC power cost would be $20.42 per amp. Thus it is apparent how the inclusion of smaller size power plants, which reflect the

[31] The power plant sizes are the same in AT&T's New York, Pennsylvania, and Maryland proceedings as well.

majority of what should be used in Verizon North's central offices, impact the average DC power per amp cost.

Verizon North's DC Power cost study more than demonstrates that it adequately represents the full range of investments necessary to construct a complete DC Power plant. It utilizes the actual investments for real power plant components and should be adopted.

## XII. RESALE

Dr. Loube is also wrong in his assessment of Verizon North's avoided cost study. He claims that Verizon North's avoided cost study shows that 66.16% of Sales Expense is avoided rather than the 100% he has seen in other proceedings. Also, he states that Verizon North has not sufficiently explained how it determined the reduction in this account to less than 100% (Loube Initial Testimony at 105). In fact, Verizon North's avoided cost study shows exactly how the avoided sales expenses were calculated and that it includes certain account management functions necessary to maintain a wholesale business and thus are not avoided costs (Williams Reply Testimony at 25). Further, it is unreasonable to expect that Verizon North may never revisit prior avoided cost calculations or refine its studies (Williams Reply Testimony at 26) as new and better information becomes available.

Verizon North's avoided cost study shows that 54.15% of Customer Service Expense is avoided. Dr. Loube objects to this avoided Customer Service expense result. He does not object to the calculation but merely takes issue with the number calculated stating: "Verizon has now drastically reduced the percentage of account 6623 that it contends is avoidable" (Dr. Loube Initial Testimony at 106). However, in Mr. Williams

reply testimony, Verizon North explains exactly how the avoided Customer Service expense is correctly calculated.[32]

Both Staff and Dr. Loube express concern that Verizon North specifically excluded interstate revenues from the discount calculation (Dr. Loube Initial Testimony at 107 and Staff Initial Comments at 46). But Verizon North's resale calculation considers revenue associated with all retail services. However, certain revenues are excluded from the resale calculation because they are not retail tariffed services and therefore are not eligible to be purchased by a CLEC under Verizon North's resale discount in Michigan. These revenues include, but are not limited to:

- Non-regulated services such as voicemail, inside wire and maintenance charges, national directory assistance charges.
- End-user surcharges
- Switched and special access charges
- 3rd party billing and collection fees
- Intrastate access toll
- Payphone

Thus, all revenues associated with services subject to resale are included in Verizon North's resale discount calculation. Only revenue pertaining to services not eligible for Verizon North's resale discount in Michigan were excluded from the resale discount calculation. Interstate revenues are excluded from the discount calculation, not specifically because of their interstate designation but because they are from services not subject to resale (Williams Reply Testimony at 29).

[32] The amount is shown in Verizon North's avoided cost study that is contained on confidential revised CD No. 2 of Exhibit A__(TRD-1).

Dr. Loube is simply wrong in his contention that certain indirect expenses should be avoided (Loube Initial Testimony P. 106). Under the Eighth Circuit "avoided cost" standard, indirect expenses – executives, computers, tables and furniture – are not avoided on resale, because, unlike direct costs, no indirect costs are eliminated when "customer-facing activities" are performed by a CLEC rather than Verizon North (Williams Reply Testimony, P. 27).

Verizon North agrees with both Dr. Loube and Staff that a portion of retail uncollectibles should be avoided. Verizon agrees that adding 2.06% (the uncollectible rate Verizon North uses in its retail cost studies) to the previously filed discount rates is appropriate. No other adjustments are warranted to Verizon North's avoided cost study. Verizon North submits confidential Attachment 2 which shows the calculation of the revised resale discount rates of:

- **10.44%** if the reseller uses Verizon North OS/DA functions, and
- **12.76%** if the reseller uses its own platform to provide OS/DA functions.

## XIII. THE VERIZON NORTH PROPOSED COSTS THAT WERE NOT CONTE STED BY OTHER PARTIES SHOULD BE ADOPTED.

While many of the points in this case have been vigorously contested, much of Verizon North's case has had no responsive testimony filed by any party. As an example, the switching costs proposed by Verizon North, which include line ports, trunk ports, usage calling, and switch vertical features are forward-looking, reasonable and consistent with Cost Principle Nos. 3, 4, 5, 7, and 9 which state the following:

- "Any function necessary to produce a service must have any associated cost;"

- The total quantity of the output be studied;

- Exclusion of common overheads from a TSLRIC study;
- The costs are forward-looking; and ,
- All services should have the same long run incremental cost methodology applied.

SwitchMod 3.0, the investment model used in the switching cost studies, develops the total switch investment. The One Model, a separate spreadsheet module also used in the switch cost studies, calculates the forward-looking unit and total investments based on the SwitchMod representative model office investment outputs and Michigan-specific forward-looking parameters. Both models are sound and reliable.

The cost inputs used such as: 1) Access line split; 2)Lines provisioned using IDLC versus UDLC; 3) Line concentration ratio of 4:1 at the remote terminal for GR-303 DLC; and, 4) Switch Discount are forward-looking and would be utilized if Verizon North were to construct a forward-looking telecommunications network today.

## XIV. CONCLUSION

Verizon North has provided more than adequate support for its costs. A good portion of them have not been disputed or challenged by the other parties. To the extent other parties have disagreed, they often proposed to ignore the study and simply argue that cost-based results should not be used. Other criticisms of Verizon North's cost studies do not withstand scrutiny on the merits and the arguments have proved to be flawed. Verizon North's cost should be based on cost studies and the results of its cost studies filed in the proceeding should be adopted by this Commission.

Respectfully submitted,

VERIZON NORTH INC. and CONTEL OF THE SOUTH, INC. d/b/a VERIZON NORTH SYSTEMS

By A. Randall Vogelzang

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Dated: July 25, 2008

ATTACHMENT 1

VERIZON NORTH RESPONSE TO QUESTION NO. 7
OF THE ATTORNEY GENERAL
FIRST SET OF DISCOVERY TO VERIZON

3 PAGES

CONFIDENTIAL – SUBJECT TO PROTECTIVE ORDER
ISSUED FEBRUARY 27, 2007 IN CASE NO. U-15210

ATTACHMENT 2

VERIZON NORTH
REVISED RESALE DISCOUNT
1 PAGE

CONFIDENTIAL – SUBJECT TO PROTECTIVE ORDER
ISSUED FEBRUARY 27, 2007 IN CASE NO. U-15210

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| In the matter of the Commission's own motion, to review the total element long run incremental costs and the total service long run incremental costs for Verizon North Inc. and Contel of the South, Inc., d/b/a Verizon North Systems, to provide telecommunications services. | ) | Case No. U-15210<br><br>E-File/Paperless |

**PROOF OF SERVICE**

STATE OF TEXAS )
) ss
COUNTY OF DALLAS )

Patty A. Nelson, being first duly sworn, deposes and says that on July 25, 2008, a copy of Verizon North's **Final Reply Comments** (**Public & Confidential Versions)** was served upon those parties listed on the attached service list via e-mail.

Patty A. Nelson

Digitally signed by Patty A. Nelson
DN: cn=Patty A. Nelson, o=Verizon, ou, email=nelson.patty@verizon.com, c=US
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Patty A. Nelson

Subscribed and sworn to before me
this 25th date of July 2008.

Digitally signed by Graci M. Scott
DN: cn=Graci M. Scott, c=US, o=Verizon, email=graci.scott@verizon.com
Date: 2008.07.25 14:01:07 -05'00'

Graci M. Scott, Notary Public
Dallas County, Texas
My Commission Expires: April 20, 2010

**Service List**
**MPSC Case No. U-15210**

| | |
|---|---|
| **Administrative Law Judge:**<br>Hon. Barbara A. Stump<br>ALJ Division<br>Michigan Public Service Commission<br>6545 Mercantile Way, Suite 14<br>P.O. Box 30221<br>Lansing, MI 48911<br>bstump1@michigan.gov<br><br>**VZ Final Reply Comments (Public & Confidential Versions)** | **Commission Staff:**<br>Steve D. Hughey<br>Assistant Attorney General<br>Public Service Division<br>6545 Mercantile Way, Suite 15<br>P.O. Box 30221<br>Lansing, MI 48911<br>hugheys@michigan.gov<br><br>**VZ Final Reply Comments (Public & Confidential Versions)** |
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