

# A SURVEY OF UNBUNDLED NETWORK ELEMENT PRICES IN THE UNITED STATES

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## Introduction

Unbundled network elements (UNEs) are in the midst of a transition. Under current FCC rules, switching will no longer be available as a UNE after March 2006. This will effectively mean the end of the unbundled network element platform (UNE-P), which requires the combination of unbundled switching with loop, port and transport elements. The FCC established a twelve-month transition period within which competitors providing service by means of UNE-P can transition their customers to some other permanent service arrangement, such as resale, UNE-P at commercially negotiated rates, or UNE-Loop in combination with the competitor's own switching facilities. During this transition period, no new UNE-P customers can be added, and UNE-P providers can raise the existing price of UNE-P by one dollar.<sup>(1)</sup> However, even after the demise of the unbundled switching element, unbundled loop, port and transport elements will continue to be available at state-established rates.<sup>(2)</sup>

In spite of the upheaval and uncertainty over the past year, UNE rates have remained relatively stable. One of the most surprising findings of this most recent survey is that not all carriers have imposed the one dollar increase in UNE-P prices allowed by the FCC transition rules. In addition, even though the average price for UNE-P has risen, the price of UNE Loops has actually declined. **Since February 2005, the basic UNE-P price has increased by 2.4%, from \$16.71 per month to \$17.11 per month. During the same period, the national average unbundled loop price has decreased by 0.3%, from \$13.69 per month to \$13.65 per month.**<sup>(3)</sup>

States have continued to review and modify UNE rates. Between February 2005 and August 2005, fourteen states changed rates for at least one UNE.<sup>(4)</sup> However, unlike past years, few states currently have ongoing proceedings concerning UNEs. As a result, it appears that any price changes in the near term future will occur pursuant to the FCC's transitional rules on UNE pricing and availability. Although the use of UNE-P at TELRIC prices appears to have a limited future, individual UNE's - especially unbundled loops - will continue to play an important role in providing competitive telecommunications services to consumers. States will continue to have an oversight role in establishing prices for individual UNEs.

## Background

The Telecommunications Act of 1996 (the Act) envisioned three paths to local service competition: resale of an incumbent's service, overbuild of separate competitor facilities, and leasing of unbundled elements of the incumbent's network.<sup>(5)</sup> Under the Act and FCC regulations, states were empowered to arbitrate disputes between carriers concerning prices for

UNEs.<sup>(6)</sup> Most states rendered initial UNE pricing decisions in the 1997-1998 time period. Subsequent FCC decisions on geographic de-averaging of UNE loop prices<sup>(7)</sup> and Section 271 proceedings on RBOC requests to provide interLATA services resulted in reexamination of UNE rates in many states.

In order to compare the results of state oversight of UNE pricing, in the spring of 2001 a survey was conducted of UNE prices in all fifty states and the District of Columbia. Data contained in the survey came from state commission, FCC and RBOC Web sites, supplemented with phone and e-mail contacts with state commission and phone company personnel.<sup>(8)</sup> The survey has been conducted twice a year since then. The UNE prices presented in the survey are for the incumbent RBOC in each state, except where noted.<sup>(9)</sup> This survey has been updated to incorporate changes in UNE rates and end-user charges as of August 2005.

Table 1 presents the actual UNE rates and their billing basis: per line, per minute, per mile, etc. Rates are presented for unbundled loops, switching, line port and transport. Where a state has de-averaged loop prices into geographic zones, these zone prices are presented along with a statewide average loop price. States which have changed UNE rates since the last survey update, and the rates which were changed, are indicated in bold type on Table 1. This table also shows the number of access lines served by the RBOC in each state. These access line counts came from the latest Universal Service submission to the FCC by the National Exchange Carrier Association.<sup>(10)</sup>

State transport rates were the most difficult to present in an easily comparable manner. Transport rate structure varies widely from state to state, and the need for particular transport elements depends on the network architecture in an area served by a competitor. In order to present complete information and reduce complexity at the same time, the transport rate column was typically limited to rates for tandem switching and common transport.

Table 1A presents the different UNE rates for loops and ports when these elements are combined, as in a UNE-P. These lower combination rates exist in most BellSouth states, and are used in the UNE-P comparisons presented on Table 2, Table 3 and Table 4.

In order to translate the different rates in different states to a common basis for comparison -- in other words, to present an apples-to-apples comparison -- the UNE rates for loop, switching and line port for each state were converted to monthly dollar amounts and added together to derive a monthly per line basic UNE-P price.<sup>(11)</sup> Per minute switching rates were converted to dollar amounts by assuming monthly switching usage of 1000 minutes per line. In states with on-peak/off-peak switching rates, or originating/terminating switching rates, the 1000 minutes were allocated 50/50. In states with day/evening/night switching rates, the 1000 minutes were allocated 50/30/20. In states with per call or set-up rates, it was assumed there were 100 calls per month.<sup>(12)</sup>

Table 2, Table 3 and Table 4 compare the total monthly basic UNE-P price in each state to three different benchmarks of the local market in that state. Table 2 compares the total monthly UNE-P price in each state to the average monthly per line revenue in that state. The per line revenue is limited to local service revenues and end-user charges<sup>(13)</sup> and is taken from the latest

state revenue report included in the FCC's *Trends in Telephone Service*.<sup>(14)</sup> In the last column for each state in Table 2, the total UNE-P price is expressed as a percentage of the average per line revenue in that state. In states with de-averaged loop or port prices, the percentage changes for each cost zone.

Table 3 compares the total monthly basic UNE-P price in each state to the average monthly per line residential rate in that state. These residential rates are taken from the latest FCC rate survey<sup>(15)</sup> and are adjusted for changes in monthly rates caused by changes in the subscriber line charge (SLC) and federal universal service fund (FUSF) surcharges effective August 1, 2005.<sup>(16)</sup> In the last column on Table 3, the total UNE-P price is expressed as a percentage of the residential rate in that state.<sup>(17)</sup>

Table 4 compares the total monthly UNE-P price in each state to the average monthly per line business rate in that state. These business rates are also taken from the latest FCC rate survey<sup>(18)</sup> and adjusted for changes in the SLC and FUSF. The rates shown are generally monthly flat rates. However, in states which offer only measured service, the business rates shown combine the monthly line charge with the cost of 200, five-minute daytime calls. In the last column on Table 4, the total UNE-P price is expressed as a percentage of the business rate in that state.

Appendix 3, page 1 shows the derivation of basic UNE-P prices for the RBOC in each state using weighted average rates for loops, ports and switching, and assuming 1000 minutes of use per month.<sup>(19)</sup> Page 1 also shows the weighted national average rate for each element. The weighting is based on the number of access lines served by each RBOC, as reported in the NECA Universal Service submission. Appendix 3, page 2 sorts the data for basic UNE-P shown on page 1 of Appendix 3, using assumed switching usage of both 1000 and 2000 minutes of use (MOU), and it also ranks stand-alone loop rates from Table 1. The average loop rates and basic UNE-P rates for the RBOC in each state are ranked from highest to lowest cost.

A listing of the national average UNE prices for loops, port, switching and UNE-P reported in each update of this UNE survey since January 2002 is set forth in Appendix 4, along with a graphic depiction of the changes in this price data. Since January 2002, rates for unbundled stand alone loops and UNE-P have generally moved together. However, since February 2005 the two trends have diverged: UNE-P prices have increased while UNE-Loop prices have decreased.

State commissions that change UNE prices - or anyone who detects erroneous information in any of the tables in this survey - are urged to contact Billy Jack Gregg at [bjgregg@verizon.net](mailto:bjgregg@verizon.net) or 304-562-3507.

## Useful Web sites

### AT&T/BellSouth

AT&T/BellSouth Tariffs and Notifications

<http://cpr.bellsouth.com>

AT&T/BellSouth CLEC Contracts

[http://cpr.bellsouth.com/clec/docs/all\\_states/index7.htm](http://cpr.bellsouth.com/clec/docs/all_states/index7.htm)

AT&T Wholesale - Southeast Region

<http://wholesale.att.com/>

AT&T/BellSouth UNE Zones

[http://wholesale.att.com/reference\\_library/become\\_a\\_clec/deaverage.html](http://wholesale.att.com/reference_library/become_a_clec/deaverage.html)

### AT&T/SBC

SBC Tariffs

<http://www.search.att.com/search/tariffs.jsp>

AT&T Regulatory and Legal Documents

<http://www.att.com/gen/public-affairs?pid=3181>

### Qwest

Multi-State Negotiation Interconnection Agreement

<http://www.qwest.com/wholesale/clecs/sgatswireline.html>

Qwest Tariffs

[http://tariffs.qwest.com:8000/Q\\_Tariffs/index.htm](http://tariffs.qwest.com:8000/Q_Tariffs/index.htm)

Qwest SGATs

<http://www.qwest.com/about/policy/sgats>

Qwest UNE Zones

<http://www.qwest.com/wholesale/guides/geozone.html>

### Verizon

Verizon Wholesale Resources

<http://www22.verizon.com/wholesale>

Verizon Tariffs

<http://www22.verizon.com/tariffs/>

Verizon UNE Zones

[http://www22.verizon.com/wholesale/searchportal/index.jsp?datapath=http://www22.verizon.com/wholesale/&ip\\_text=density&category](http://www22.verizon.com/wholesale/searchportal/index.jsp?datapath=http://www22.verizon.com/wholesale/&ip_text=density&category)

## **Federal Communications Commission**

Wireline Competition Bureau Statistical Reports

<http://www.fcc.gov/wcb/iatd/stats.html>

1. The FCC directed that during the transition period the UNE-P price shall be the higher of (a) the price under which the competitor leased the UNE-P existing on June 16, 2004, plus one dollar; or (b) the rate established by the state commission for UNE-P between June 16, 2004, and the effective date of the FCC Order. *Order on Remand*, ¶5.
2. The FCC Order, however, established certain restrictions on the availability of high-capacity interoffice transport elements. *Id.*
3. However, even with recent price increases, UNE rates are generally lower than they were several years ago. As shown in Appendix 4, since January 2002 average loop rates have fallen 3.7%, from \$14.18 per month to \$13.65 per month, while UNE-P rates have fallen by 9.7%, from \$18.95 per month to \$17.11 per month. Within the UNE-P, switching costs have shown the biggest decline, dropping 56.4% since January 2002, from \$2.36 per month to \$1.03 per month for 1000 minutes of use. A large portion of the drop in switching costs results from states adopting port rates which include unlimited switching. In addition, most of the UNE-P price increases under the transition rules have been applied to the port rate.
4. Arkansas, California, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Texas, and Wisconsin.
5. 47 USC 251.
6. 47 USC 252; 47 CFR §51.501 - 51.515.
7. 47 CFR §51.507(f); *In re: Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration (rel. Nov. 2, 1999) at ¶120.
8. A listing of useful Web sites is set forth at the end of this report.
9. A list of acronyms used in the survey is presented in Appendix 1 at the end of the survey.
10. Universal Service 2004 Submission to FCC, National Exchange Carrier Association (Oct. 1, 2004), Table 6.

11. While in most instances it is necessary to also purchase unbundled transport in order to have a basic UNE platform capable of supplying local service, state transport rates were too variable to reduce to monthly dollar figures. **The reader is cautioned that the total monthly UNE prices presented in Appendix 3 and Tables 2 - 4 do not contain a cost for transport.**

12. Several parties have argued that the 1000 minutes of use (MOU) used in this survey for switching cost are too low to give an accurate measure of the cost of a basic UNE-P. It is pointed out that the national average monthly MOU is approximately 1400 MOU, and that several states have average MOU in excess of 2000 MOU per month. In order to present the impact of assuming a larger amount of switching usage, page 2 of Appendix 3 presents a ranking of the cost of basic UNE-P in the states based on both 1000 MOU and 2000 MOU. However, the UNE-P costs presented in Tables 2 - 4 continue to assume 1000 MOU.

13. While it can be argued that winning a line will provide a competitor with access to all of the revenues produced by that line -- such as long distance and internet revenues B these other revenue sources were not included since costs to provide these other services were not considered in the survey.

14. Tables 7.2 and 15.7, [Trends in Telephone Service](#), FCC Wireline Competition Bureau, IAD (June 2005).

15. Table 1.3, [Reference Book of Rates, Price Indices and Household Expenditures for Telephone Service](#), FCC Wireline Competition Bureau, IAD (May 2005). Rates for RBOCs in twelve states were not included in the FCC's rate survey: Delaware, Idaho, Iowa, Kansas, Nevada, New Hampshire, North Dakota, Oklahoma, South Carolina, South Dakota, Vermont and Wyoming. Rates for these states were taken from local service tariffs, and include the applicable SLC and FUSF.

16. The ceiling for residential and single-line business SLCs was increased to \$6.50 per month on July 1, 2003, although 33 states have SLCs below the cap. The average SLC is \$5.70 per month. FUSFs charged by local carriers now average 584 per month, and are subject to quarterly adjustment. The FUSF surcharge and SLC for each company are shown in Appendix 2.

17. It should be noted that most of the cities used in the FCC's rate surveys are larger cities, typically falling in the lowest cost UNE loop zone in each state. It would be useful to augment the survey with representative residential and business rates for areas falling in the higher cost zones in each state.

18. Table 1.10, [Reference Book of Rates, Price Indices and Household Expenditures for Telephone Service](#), FCC Wireline Competition Bureau, IAD (May 2005).

19. The weightings are based on the number of access lines in each UNE zone.