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BEFORE THE ARIZONA CORPORATION COMMISSION

Docket No. T-00000D-00-0672

DIRECT TESTIMONY OF

DON PRICE

WORLD.COM, INC.

JUNE 28, 2002

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DIRECT TESTIMONY OF DON PRICE
ON BEHALF OF
WORLD.COM, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, TITLE AND QUALIFICATIONS.

A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin, Texas 78701. I am employed by WorldCom, Inc., in the Western Region Public Policy Group as Senior Manager -- Competition Policy. I have more than 20 years experience in telecommunications, most of which is in the area of public policy. I have been in various public policy positions with WorldCom, through the merger with MCI, for nearly 16 years. Prior to that, I was on the Staff of the Public Utility Commission of Texas for three years during the period immediately following divestiture. I began my career in telephony in 1979 with the GTE operating company in Texas (General Telephone Company of the Southwest) after receiving my Master of Arts degree from the University of Texas - Arlington. During my five years with GTE, I worked in various positions of increasing responsibility in the group whose function was the planning of central office and outside plant facilities. In my present position, I have broad responsibilities in developing and coordinating WorldCom's regulatory and public policy initiatives, requiring that I work closely with many different organizations in the company, including regulatory organizations, organizations responsible for the company's network, and those who sell services to customers across all market segments.

1 Over the past several years, my job responsibilities have brought me into day-to-
2 day contact with the business and policy issues arising out of the market-opening
3 provisions of the 1996 Telecommunications Act. As examples, I was closely involved in
4 negotiations of the first-generation interconnection agreement between MCImetro and
5 Southwestern Bell Telephone Company, and have testified before various state
6 commissions regarding various policy-related aspects of interconnection, access to
7 unbundled network elements, and the requirements of §271 of the Act. My detailed
8 qualifications, including all of the proceedings in which I have filed testimony, are
9 included in Attachment 1 to my testimony.
10

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12
13 **Q. HAVE YOU PREVIOUSLY TESTIFIED?**

14 **A.** Yes.
15
16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 **A.** The purpose of my testimony is to address the issues set out in the May 21, 2002
19 Procedural Order in this proceeding. In particular, I will address the public policy
20 implications of allowing Qwest to charge above-cost switched access rates for
21 interexchange traffic originating and terminating within the State of Arizona, when that
22 traffic is carried by traditional interexchange carriers.¹ My testimony is organized into
23
24

25 ¹ The focus of my testimony is on issues pertaining to the need to lower Qwest's intrastate access rates
26 prior to Qwest obtaining the right to provide retail long distance services in Arizona, and I address the other
ILECs only in Section VI of my testimony.

1 five sections. The first section presents a background discussion providing a baseline for
2 the recommendations I am making. Each of the subsequent sections focuses on the
3 specific issues to be addressed in this proceeding as set forth in the above-referenced
4 Procedural Order. For ease of reference, the electronic version of my testimony includes
5 each of these sections as major headings, such that, by simply “clicking” on the section
6 heading in the “Document Map” view the reader can go directly to that portion of my
7 testimony.
8

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11 **I. BACKGROUND FOR WORLDCOM’S POSITIONS**

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13 **Q. WHAT IS THE CONTEXT WITHIN WHICH THIS PROCEEDING SHOULD BE**
14 **HANDLED BY THE COMMISSION?**

15 **A.** To establish the appropriate context for this proceeding, it would be helpful to recall the
16 famous line from the British television comedy show, *Monty Python’s Flying Circus*:
17 “and now, for something completely different.” Although the issues in this proceeding are
18 quite serious, the Commission should recognize that the environment in which the
19 telecommunications industry is operating in the 21st Century is radically “different” from
20 the general trends of the past century. This is the case for at least three reasons. First, the
21 policy objective established by Congress in passing the Telecommunications Act of 1996
22 expressly provided that the means of accomplishing those objectives was “by opening all
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1 telecommunications markets to competition.”² Second, traditional regulatory tools were
2 not designed to further pro-competitive goals. Third, and this is where the “completely
3 different” notion comes into play, to accomplish the benefits of opening all
4 telecommunications markets to competition, new tools must be utilized by regulators in
5 place of the traditional tools used in the past. To achieve their intended purpose, these
6 new tools must seek to eliminate the competitive distortions resulting from ILEC rates that
7 exceed the associated “economic cost.”
8

9
10 **Q. PLEASE EXPLAIN TO THE COMMISSION WHAT YOU MEAN WHEN YOU**
11 **USE THE TERM “ACCESS SERVICES.”**

12 **A.** Access services are those services provided by a local exchange carrier (“LEC”) for other
13 carriers’ use in providing telecommunications that extend beyond the local calling area.
14 Said differently, access services are LEC-provided services used by an interexchange
15 carrier (“IXC”) in providing long distance services either originating from or terminating
16 to the IXC’s end user customer. There are generally two classes of access services:
17 switched access and special access.³ Switched access services involve the use of the
18 LEC’s switch in originating or terminating a call to/from the IXC’s network. For example,
19 when an end user customer places a typical long distance call, the LEC’s switch at the
20 originating end of the call must switch that call to a trunk connecting to the network of the
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24 ² Conference Report (To accompany S. 652), 104th Congress 2d Session, House of Representatives
25 Report 104-458, opening paragraph.

26 ³ Special access is sometimes referred to as “dedicated access,” and is functionally the same as “private
line” service.

1 end user's IXC.⁴ Incumbent LECs maintain tariffs for their access services at both the
2 federal and state levels. Although the same equipment is utilized and the same
3 functionality is provided by the LEC without regard to the "jurisdiction" of the call, the
4 switched access rates are typically much higher for in-state calls than interstate calls.
5

6
7 **Q. YOU EARLIER REFERRED TO HOW THE OBJECTIVES OF THE 1996**
8 **TELECOMMUNICATIONS ACT REQUIRED THE "OPENING ALL**
9 **TELECOMMUNICATIONS MARKETS TO COMPETITION." WHAT IS THE**
10 **SIGNIFICANCE OF OPEN MARKETS TO THE ISSUES IN THIS**
11 **PROCEEDING?**

12
13 **A.** By that reference, I intended to highlight the dramatic policy shift away from the historic
14 regulation of monopoly providers to a pro-competitive emphasis. The history of
15 telecommunications in the U.S. was throughout most of the 20th century a history of legal
16 monopoly, where there was no competition whatsoever for telecommunications services or
17 equipment.⁵ The beginnings of change in this monopoly-based system occurred over
18 several decades beginning with competitive inroads into what we now know as the market
19 for customer premises equipment (CPE) and later, thanks to the U.S. government's
20 massive anti-trust action against the Bell System, in the long distance market.⁶
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23 ⁴ Conversely, at the terminating end of the call, the call is switched by the LEC from the incoming trunk
from the IXC to the line connecting the end user's premises.

24 ⁵ The U.S. history is somewhat unique, because the vast legal monopoly held by the Bell System (and
25 other relatively miniscule companies) was operated by a private corporation. This is in contrast with most
other countries where telecommunications services were provided by an arm of the government.

26 ⁶ By this cursory statement, I do a terrible injustice to the lengthy struggles that characterized the efforts by
competitors to pry open these markets. In both the CPE and long distance markets, competitors faced

1 Eventually, the markets both for CPE and long distance services demonstrated the
2 effects of competition. That is, consumers faced a sometimes dizzying array of potential
3 choices, and prices fell dramatically. The experience of the U.S. became the envy of
4 policymakers world-wide, who sought to introduce market-opening moves in their own
5 countries in hopes of mimicking the U.S. experience. Likewise, the passage of the 1996
6 Telecommunications Act signals an attempt by U.S. policymakers to inject competition
7 into the last bastion of monopoly -- the local exchange market.
8

9
10 **Q. YOU STATED ABOVE THAT TRADITIONAL REGULATORY TOOLS WERE**
11 **NOT DESIGNED TO FURTHER "PRO-COMPETITIVE GOALS." PLEASE**
12 **EXPLAIN.**

13
14 **A.** In the historic model of regulation, the monopoly's prices were deemed reasonable so long
15 as they were "just and reasonable." Importantly, however, the "reasonableness" of rates
16 did not include consideration of the competitive implications. The historical model was
17 succinctly described by the Supreme Court in a recent Opinion, as follows:

18 The traditional regulatory notion of the "just and reasonable" rate was aimed at
19 navigating the straits between gouging utility customers and confiscating utility
20 property.

21
22 lengthly legal battles simply to establish the principle that they had the right to compete with the Bell
23 System. See, for example, Judge Harold Greene's ruling in the antitrust case, where he stated that "The
24 efforts of various arms of government to introduce true competition into the telecommunications industry
25 have been ... feeble. The anti-trust suit brought by the Department of Justice in 1949 ended in 1956 with a
26 consent decree which imposed injunctive relief that was patently inadequate. It took from 1968 when the
Carterfone decision was handed down by the FCC to 1978 when the United States Court of Appeals
decided *Execunet II* to establish even the very principle of competition so that it was beyond dispute by [the
Bell System]." *US v. American Tel. and Tel.*, 552 F. Supp. 131 (1982) (hereinafter referenced as "AT&T"),
at 170.

⁷ *Verizon v. FCC et al*, slip opinion at 8.

1 A key question in the states' considerations of rate setting issues was whether the utility's
2 retail rates furthered the objective of promoting universal service. Again citing the
3 Supreme Court:

4 Indeed, regulated local telephone markets evolved into arenas of state-
5 sanctioned discrimination engineered by the public utility commissions
6 themselves in the cause of "universal service."⁸

7 There are numerous examples of the sort of "state-sanctioned discrimination"
8 referenced by the Court. For example, state commissions have traditionally set business
9 local rates higher than residential rates even though the services are virtually
10 indistinguishable, using the rationale that the "value of service" was greater to the business
11 than to the residential user. Also, rates in smaller communities were typically set lower
12 than the rates in urban areas -- again, on a "value of service" concept -- even though the
13 cost of providing such service in smaller communities could be higher because of lower
14 density of customers served. Further, regulators have traditionally allowed the regulated
15 monopolies to charge higher rates to users of optional features (typically referred to as
16 "custom calling features"), rates that are many times over the monopoly's "cost" of
17 providing those features. And when access charges were established in the mid-1980s,
18 those rates were set above cost, as discussed in more detail in section V of my testimony
19 below. All of these pricing arrangements evolved over the years in the context of
20 traditional rate-setting proceedings where the commissions' focus was on limiting price
21 increases to residential customers in pursuit of universal service objectives. The
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26 ⁸ Id., at 7.

1 implications of these pricing decisions on competitive entry were rarely, if ever, taken into
2 account.

3
4 **Q. YOU USED THE PHRASE “SOMETHING COMPLETELY DIFFERENT”**
5 **ABOVE. WHAT IS IT ABOUT THE INJECTION OF COMPETITION INTO THE**
6 **EQUATION THAT WOULD THROW THESE TRIED AND TRUE PRINCIPLES**
7 **OF REGULATORY PRICING OUT THE PROVERBIAL WINDOW?**
8

9 **A.** To answer this requires a brief introduction to the characteristics of markets. In
10 competitive markets, firms try to gain market share either by reducing the costs of
11 production so as to charge lower prices to consumers for the products or services, or by
12 providing some added value to distinguish their products or services from those of their
13 competitors. But this process cannot function when one of the firms controls a significant
14 element of production for the other firms competing in the same market. A case in point is
15 telecommunications, where the incumbent continues to control virtually all the lines
16 connecting end users to the public switched telecommunications network. In that instance,
17 the incumbent possesses what is sometimes referred to as “bottleneck” control over an
18 element of production, to which access is needed by all other service providers.⁹ In the
19 words of the Supreme Court:
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22 It is easy to see why a company that owns a local exchange (what the Act calls
23 an “incumbent local exchange carrier,” 47 U.S.C. §251(h)), would have an
24 almost insurmountable competitive advantage not only in routing calls within
25 the exchange, but, through its control of this local market, in the markets for
26 terminal equipment and long-distance calling as well. A newcomer could not

⁹ In its Opinion, the Supreme Court noted that “some facilities ... are very expensive to duplicate.” *Verizon* at 38, fn 7.

1 compete with the incumbent carrier to provide local service without coming
2 close to replicating the incumbent's entire existing network, the most costly and
3 difficult part of which would be laying down the "last mile" of feeder wire, the
4 local loop, to the thousands (or millions) of terminal points in individual houses
5 and businesses.¹⁰

6 In other words, the control of the bottleneck facility provides "an almost
7 insurmountable competitive advantage" to incumbent providers such as Qwest.¹¹
8 Recalling that protecting consumers from gouging by the monopoly is no longer the
9 paramount regulatory objective, the challenge to the Commission is how to neutralize this
10 "almost insurmountable competitive advantage" that Qwest possesses as other carriers
11 seek to compete in the areas where it has enjoyed a historic monopoly. In other words, the
12 regulatory focus must shift from consumer protection via monopoly price regulation to
13 consumer protection through promoting competition in previously monopolized markets.
14

15 **Q. HOW DOES THIS RELATE TO YOUR STATEMENT ABOVE, THAT PRICING**
16 **PRACTICES ALLOWING THE ILEC TO CHARGE RATES ABOVE**
17 **ECONOMIC COST CREATE COMPETITIVE DISTORTIONS?**

18 **A.** This is the heart of the issue before the Commission in this proceeding. As I will show in
19 the following section, permitting Qwest to charge switched access rates that exceed
20 Qwest's economic cost of providing the functionality of switched access provides to
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24 ¹⁰ Id., at 18.

25 ¹¹ The Supreme Court's conclusion that ILECs possess an "almost insurmountable advantage" is sufficient
26 reason to disregard Qwest's gratuitous statement at page 11 of its "Response to Staff's Information Request" filed March 11, 2002, disagreeing with the premise that an ILEC "could exert monopoly power in the access service market."

1 Qwest an artificial advantage in competing against traditional IXCs in the retail long
2 distance market. It is to that discussion that I now turn.
3
4

5 **II. WHETHER IXCS MAY BE AT A COMPETITIVE DISADVANTAGE IF ACCESS**
6 **CHARGES ARE NOT REFORMED**

7 **Q. IS IT WORLDCOM'S POSITION THAT TRADITIONAL INTER-EXCHANGE**
8 **CARRIERS ARE DISADVANTAGED ABSENT PROMPT MOVEMENT BY THE**
9 **COMMISSION TO MODIFY EXISTING SWITCHED ACCESS CHARGES?**

10 A. Yes, for the simple reason that existing switched access rates are above the relevant cost of
11 providing the service, and continuation of such above-cost rates threatens the
12 Commission's policy objective of furthering the rise of competition in telecommunications
13 markets. That objective cannot be achieved so long as Qwest is able to charge wholesale
14 rates that exceed the economic cost it incurs in providing the facilities and network
15 functions on which other carriers rely.
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19 **Q. PLEASE EXPLAIN WHY ABOVE-COST SWITCHED ACCESS RATES**
20 **THREATEN THE COMMISSION'S POLICY OBJECTIVE OF FURTHERING**
21 **COMPETITION IN TELECOMMUNICATIONS MARKETS.**

22 A. There are at least four reasons why this is true. First, the public policy rationale
23 underlying use of above-cost pricing to interexchange carriers has been rejected in the
24 federal statutes as a means of providing whatever subsidies are required for purposes of
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1 universal service.¹² Second, there are severe competitive implications associated with
2 such a funding mechanism when Qwest is permitted to compete for customers' retail long
3 distance services. Third, the effects of those competitive implications is contrary to the
4 pro-competitive thrust of recent decisions by the Commission. Fourth, technological and
5 competitive developments are providing substitutes for traditional IXC-provided long
6 distance services and will enjoy an artificial advantage over traditional IXC-provided long
7 distance services unless the cost disparities are eliminated.
8

9
10 **Q. PLEASE EXPLAIN FURTHER YOUR OBSERVATION THAT THE FEDERAL**
11 **STATUTE REJECTS THE USE OF ABOVE-COST SWITCHED ACCESS**
12 **CHARGES AS A MEANS OF FUNDING UNIVERSAL SERVICE.**

13
14 **A.** Historically, regulators pursued the objective of universal service via a variety of
15 mechanisms, as noted above. At the divestiture of the Bell Operating Companies from the
16 Bell System (AT&T) in 1984, one such mechanism was the setting of switched access
17 charges -- the charges paid by interexchange carriers for use of the local phone networks to
18 originate and terminate long distance calls -- without regard to the cost of providing those
19 originating and terminating network functions.¹³ In this manner, end users placing long
20 distance calls provided revenues that arguably were used to "subsidize" below-cost pricing
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24 ¹² Recall that the historic reason for pricing certain "non-basic" services above cost was in pursuit of a
universal service objective.

25 ¹³ As Qwest noted in its "Response to Staff's Information Request," filed March 11, 2002, ("Qwest
26 Response," hereinafter), "The current patchwork of Inter-carrier compensation mechanisms, including
access, are based on pre-divestiture and pre-Telecommunications Act regulatory schemes that no longer
further the policies of recent law of this Commission." (pp. 1-2). See, also, discussion at p. 26, *infra*.

1 of certain services in support of the policy goal of universal service.¹⁴ In this manner, the
2 interexchange carriers acted as the conduit for funneling revenues to the ILECs, and it has
3 become almost universally accepted that those revenues vastly exceeded the ILECs costs
4 of providing access and egress into their local networks. Over the past several years,
5 regulators have begun to recognize both the inefficiency of this mechanism and the
6 inequities associated with having one class of telecommunications services provider
7 contribute above-cost funding for the benefit of a separate class of provider. One obvious
8 example in Arizona is this Commission's Decision No. 63487 to phase down Qwest's
9 intrastate switched access charges.
10

11 In contrast with the existing inefficient and inequitable mechanism, the
12 Telecommunications Act provides that contributions should be "equitable and non-
13 discriminatory" among carriers. For the reasons discussed below, the current system of
14 "implicit subsidies" cannot be said to meet these standards.¹⁵
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17 **Q. YOU STATED A SECOND REASON INVOLVING WHAT YOU TERMED**
18 **SEVERE COMPETITIVE IMPLICATIONS OF CONTINUING THE EXISTING**
19 **ABOVE-COST SWITCHED ACCESS RATES WHEN QWEST IS PERMITTED**
20 **TO ENTER THE RETAIL LONG DISTANCE MARKET. PLEASE EXPLAIN.**
21

22 **A.** Qwest recently filed an application with the FCC to obtain authorization to provide in-
23 region retail long distance services in certain of its states. It will likely file a similar
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25 ¹⁴ As discussed below, the term "subsidy" is often misunderstood and/or misused in regulatory
proceedings.

26 ¹⁵ See, discussion in Section III, *infra*, for a discussion of the abuses of the term "subsidy."

1 application for Arizona in the relatively near future. Absent a restructuring to bring
2 switched access charges closer to their economic costs, Qwest would have the ability to
3 engage in an anticompetitive price squeeze against other long distance carriers because it
4 would be both a retail provider of long distance services and a wholesale provider of
5 access services to other carriers.
6

7 The competitive distortions can be described very simply. When Qwest is
8 permitted to compete for customers' retail long distance services, it will provide those
9 services using the same network components other interexchange carriers utilize in
10 originating and terminating interexchange traffic. And the relevant cost to Qwest for using
11 those network components is its economic cost.¹⁶ But the cost to other carriers is the
12 access rate charged by Qwest. To the extent that Qwest's access rates exceed the
13 economic costs of the network components, Qwest will enjoy an artificial, but powerful,
14 price advantage over other providers of retail long distance services. Such an advantage
15 would operate to the detriment of Arizona consumers and the competitive process because
16 Qwest could compete with other carriers on price even if it were the less efficient service
17 provider. This advantage can be shown by example, as in the following table.
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26 ¹⁶ See discussion at section III, *infra*.

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Table 1: Example of Competitive Advantage if Switched Access Prices Remain Above Cost

	Per-Minute "Cost"	Per-Minute Revenue	Margin
Qwest ¹⁷	\$0.001	\$0.10	\$0.099
IXCs	\$0.066	\$0.10	\$0.034

Q. YOU STATED THAT SUCH A RESULT WOULD BE CONTRARY TO THE PRIOR MARKET-OPENING DECISIONS OF THIS COMMISSION. WHAT DO YOU MEAN BY THAT?

A. Recent decisions by this Commission demonstrate a recognition of the need to restructure Qwest's wholesale rates.¹⁸

Q. YOU STATED A FOURTH REASON INVOLVES TECHNOLOGICAL AND COMPETITIVE DEVELOPMENTS PROVIDING SUBSTITUTES FOR

¹⁷ Qwest's "cost" is approximated at 1/10th cent, as discussed below in this section of my testimony. The IXCs' "cost" on the other hand is the tariffed rate they must pay for the use of Qwest's network for intrastate calls, as discussed below.

¹⁸ Notwithstanding recent positive moves by this Commission in the area of Qwest's UNE rates, (A.C.C. Decision No. 64922) WorldCom believes that those rates remain excessive, effectively precluding entry into the broad residential and small business local services markets in the State.

1 **TRADITIONAL IXC-PROVIDED LONG DISTANCE SERVICES. WHAT DO**
2 **YOU MEAN BY THAT?**

- 3 A. Other widely available services act as substitutes or “replacement” technologies for long
4 distance services provided by traditional interexchange carriers. Even though some such
5 technologies also use the ILECs facilities to originate or terminate interexchange traffic --
6 and thus impose the same costs on the ILECs as traditional IXC-provided long distance
7 service – not all such substitute technologies are subject to the same compensation
8 requirements imposed on interexchange carriers. Rather, such technologies are permitted
9 to use the same or similar facilities for the same or similar purposes at rates far below the
10 switched access charges to which IXCs are subject.

11
12 Examples include both telecommunications services such as mobile wireless, as
13 well as non-telecommunications services such as Internet email and instant messaging. As
14 regards the compensation paid by wireless carriers, the FCC, by its ISP Compensation
15 Order, told the ILECs they must be willing to accept a quid pro quo.¹⁹ That is, if the
16 ILECs want to be charged by other carriers at the lower ISP rates established in that Order,
17 the ILECs must offer to exchange all traffic with wireless carriers at those rates. Thus, the
18 FCC has set terminating access rates for wireless carriers at ISP rates (1/10th cent, or
19 \$0.001) for the period through June 30, 2003.²⁰ These rates apply to both interstate *and*
20 *intrastate* traffic over the wireless carriers’ networks. It should be obvious that these

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¹⁹ *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of*
24 1996, CC Docket No. 96-98, *and Intercarrier Compensation for ISP-Bound Traffic*, CC Docket No. 99-68;
25 Order on Remand and Report and Order, released April 27, 2001.

26 ²⁰ After June 30, 2003, the 1/10th cent rate changes to \$0.0007 through June, 2004, and ostensibly
 changes to bill and keep thereafter.

1 existing disparities in rates and rate structures for various carriers providing substitutable
2 services using different technologies provide an artificial but powerful economic
3 advantage over traditional wire-line long distance service.
4

5
6 **Q. WHAT DO YOU MEAN BY USE OF THE PHRASE “ARTIFICIAL YET
7 POWERFUL DISADVANTAGE” IN THIS CONTEXT?**

8 **A.** This can easily be explained by examining the charges IXCs incur when an end user in
9 Qwest’s service territory places a typical long distance call within Arizona, and contrasting
10 that with the costs that providers of substitutes incur for use of Qwest’s network facilities.
11 When a typical intrastate interLATA call is handled by an IXC, the compensation due to
12 Qwest for the use of Qwest’s local network facilities is approximately 6.6¢ per minute.²¹
13 As noted above, certain substitutes such as email and instant messaging would pay no
14 compensation whatsoever for the use of the Qwest network. In the instance of a wireless
15 carrier, the compensation due to Qwest for such a call would be the 1/10th cent rate
16 mentioned above. This massive disparity between charges of over 5¢ per minute and
17 either 1/10th cent per minute (or zero) constitutes a significant competitive disadvantage to
18 the IXC who must pay the significantly higher rate as a cost of competing for the
19 customer’s business. And because there is no valid economic rationale for such a
20 disparity, it is clearly “artificial.”²²
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22

23
24 ²¹ That figure includes the rates for “local end office switching,” “carrier common line,” and
25 “interconnection” based on Qwest’s Arizona Access Service tariff (Sect. 6, pp. 128 and 134 and Sect. 3, p.
26 11). Although the IXC would also have to pay compensation to Qwest for transport and entrance facilities,
I have not included those elements in my calculation.

²² I used the phrase “artificial price advantage” above in comparing Qwest’s situation with that of other
IXCs once Qwest is permitted to offer retail long distance services in Arizona. That advantage, like the one

1
2 **Q. WHAT ARE THE IMPLICATIONS OF THE EXISTENCE OF THESE**
3 **SUBSTITUTES AS TO THE COMMISSION'S PRIOR PRACTICE OF USING**
4 **HIGH SWITCHED ACCESS CHARGES TO SUPPORT A UNIVERSAL SERVICE**
5 **OBJECTIVE?**
6

7 **A.** The most important implication for this proceeding is that the current framework is not
8 sustainable, because consumers should be expected to seek out the lowest priced service(s)
9 to meet their communications needs. As that natural process unfolds, alternatives that are
10 not burdened with the high intrastate switched access charges will continue to take market
11 share from traditional long distance providers, because of the significant, but artificial,
12 economic advantage such alternatives, including "free" long distance service from mobile
13 wireless carriers, voice over the internet, e-mail or instant messaging, possess over
14 traditional wire-line long distance services. And as the traditional long-distance market
15 continues to shrink, the "subsidies"²³ that were seen as desirable in the past will continue
16 to face erosion.
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23 discussed here, is artificial because it is not based on an economic rationale. That is, Qwest will use the
24 same network components in precisely the same manner as IXCs in providing its retail service.

25 ²³ As discussed in more detail below, even if a rate for one service or function is set above Qwest's
26 economic cost, it does not necessarily follow that the margin above cost represents a "subsidy." Rather, to
arrive at that conclusion the inquiry must also determine whether the service or function ostensibly
receiving a subsidy is covering its costs via the rates charged for that service.

1 **III. WHETHER TRANSFERRING COST RECOVERY RESPONSIBILITY FROM**
2 **IXCS THROUGH CCL CHARGES TO END USERS RESULTS IN END USERS'**
3 **SUBSIDIES OF ILEC-PROVIDED TOLL SERVICES**

4 **Q. PLEASE OUTLINE YOUR TESTIMONY ON THIS ISSUE.**

5
6 **A.** First, I will discuss the notion of subsidy and provide a baseline for the remainder of my
7 testimony on this topic. Second, I will explain that the question of whether subsidy flows
8 exist, and if so, in what direction, is exceedingly difficult to answer. Furthermore, an
9 answer is not needed to resolve the matters at issue in this proceeding.

10
11
12 **Q. WHAT IS MEANT BY THE TERM "SUBSIDY?"**

13 **A.** Although I am not an economist, in the plain language meaning of the term, a service (or
14 function) is receiving a subsidy if the price is below the "direct cost" of providing the
15 service (or function). Although there are various definitions of "cost," the relevant cost for
16 purposes of this discussion are what are termed forward-looking economic costs. As the
17 FCC explained in its "Local Competition Order:"

18
19 Incremental costs are the additional costs (usually expressed as a cost per unit)
20 that a firm will incur as a result of expanding the output of a good or service by
21 producing a additional quantity of the good or service. Incremental costs are
22 forward-looking in the sense that these costs are incurred as the output level
23 changes by a given increment. The costs that are considered incremental will
24 vary greatly depending on the size of the increment. For example the
25 incremental cost of carrying an additional call from a residence that is already
26 connected to the network to its end office is virtually zero. The incremental cost
of connecting a new residence to its end office, however, is the cost of the loop.
Forward-looking incremental costs, plus a portion of the forward-looking joint
and common costs, are sometimes referred to as "economic costs." Embedded
or accounting costs are costs that firms incurred in the past for providing a good
or service and are recorded as past operating expenses and depreciation. Due to

1 changes in input prices and technologies, incremental costs may differ from
2 embedded costs of that same increment. In competitive markets, the price of a
3 good or service will tend towards its long-run incremental cost.²⁴

4 Although the above discussion is a bit lengthy, the key point for our purposes is that, in a
5 competitive market, the price for a good or service will tend toward its long-run
6 incremental cost. As to the meaning of the term "subsidy," if the price of the service
7 covers the long-run incremental cost of providing the service, it cannot be said to be
8 subsidized.²⁵ In my experience, this is the same definition that ILECs have often used in
9 seeking regulatory approval for pricing of services deemed (by the ILEC) to be
10 "competitive."

11
12 **Q. YOU HAVE DEFINED WHAT IT MEANS FOR A SERVICE TO NOT BE**
13 **RECEIVING A SUBSIDY. WHAT CAN BE SAID ABOUT WHETHER A**
14 **SERVICE IS PROVIDING A SUBSIDY?**

15
16 **A.** This is a difficult problem for the regulator, because there is not a simple answer. As a
17 matter of simple logic, unless the Commission has established that one or more services is
18 *receiving* a subsidy, it cannot reach the conclusion that any service is *providing* a subsidy.
19 And as discussed above, to confirm that a service is receiving a subsidy requires an
20 analysis of the long-run incremental cost of providing the service. It is not sufficient for
21 our purposes that a service is priced below its embedded or accounting costs, because such
22 costs are not relevant.
23

24
25 ²⁴ FCC Order 96-325, (Local Competition Order) at ¶1675.

26 ²⁵ Qwest's position on this point appears to be in agreement with my testimony. See, Qwest's March 11, 2002 "Response to Staff's Information Request," at 5.

1 I would note in this regard that ILECs have long claimed that local service prices
2 are “subsidized.” However, other than the frequent claim to that effect, I have seen little in
3 the way of demonstrative evidence.²⁶ In a related vein, Qwest’s “revenue neutral”
4 proposal does not claim as a basis any alleged “subsidy,” but is rather supported only by
5 Qwest’s stated desire to earn a targeted rate of return.²⁷
6

7
8 **Q. IS IT NECESSARY TO RESOLVE THE QUESTION OF WHETHER SUBSIDIES**
9 **EXIST FOR PURPOSES OF THIS PROCEEDING?**

10 **A.** No, it is not.

11
12 **Q. WHY NOT?**

13 **A.** As noted above, and as explained in WorldCom’s Comments in the earlier phase of this
14 proceeding, the task of trying to quantify implicit subsidies would be extraordinarily
15 difficult. For the purposes of this proceeding, the relevant question is the extent to which
16 switched access rates exceed long-run incremental costs, and what is the likely impact on
17 the Arizona long distance market once Qwest is allowed to begin providing retail long
18 distance services. The answers to these questions should result in an immediate lowering
19 of Qwest’s switched access to levels approximating its economic cost, as proposed in
20 WorldCom’s comments and discussed further below.
21
22

23
24 ²⁶ It may be true that **some** local service prices in **some** low-density areas are below the ILEC’s long-run
25 incremental cost of providing such service, but the claims of the ILECs are usually couched in broad terms
26 without specifics.

²⁷ Qwest’s “Response” at 15.

1 As to the difficulty of quantifying subsidies, I have included as Table 2 a
2 demonstrative example of the pricing versus the costs for Qwest in the aggregate.

3 Table2: Example of Revenues versus Costs
4 (in \$\$ millions)

5

	Aggregate LRIC ²⁸ (A)	Revenues (B)	Excess Revenues above LRIC (A minus B)
6 Switched Access	\$20	\$120	\$100
7 Local Services	\$100	\$ 90	\$(10)
8 Vertical Features & 9 Other Services	\$ 10	\$ 60	\$ 50
10 Total	\$130	\$270	\$140

11

12

13

14 The example demonstrates that even with information about broad classes of
15 service, the Commission would still be left with an unresolved question -- namely, which
16 of the services generating monopoly rents provides the "subsidy" and which are merely
17 contributing to Qwest's profitability. Even more important is that there can be no
18 objective answer to this question. Imagine a joint checking account where the incomes of
19 both the husband and the wife are regularly deposited. How can it be determined which of
20 the spouse's income was used to pay the electric bill versus the mortgage payment?
21

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25 ²⁸ By "aggregate LRIC," I mean the sum of the long-run incremental costs of each offering in the service
26 category for all of the "units" of service(s) provided.

1 **Q. PLEASE EXPLAIN HOW THE ABOVE DISCUSSION RELATES TO THE**
2 **QUESTION OF WHETHER REFORM OF SWITCHED ACCESS**
3 **CHARGES WOULD SOMEHOW RESULT IN END USERS GENERATING**
4 **A “SUBSIDY” TO ILEC-provided TOLL SERVICES.**

5
6 **A.** A precondition for such a result would be a Commission finding that ILEC-provided toll
7 services were priced below the ILEC’s economic cost (i.e., long-run incremental cost) of
8 providing such services. For the reasons discussed above, however, even if the
9 Commission were to make such a finding, it would be nearly impossible to attribute the
10 subsidy to the prices paid by a particular customer group, whether end users,
11 interexchange carriers, or CLECs.
12

13
14
15 **IV. WHETHER TRANSFERRING COST RECOVERY RESPONSIBILITY FROM**
16 **IXCS TO END USERS RESULTS IN END USER BENEFITS**

17
18 **Q. DO YOU AGREE WITH THE STATEMENT OF THIS ISSUE AS SET FORTH IN**
19 **THE PROCEDURAL ORDER?**

20 **A.** No, because the statement presumes facts that have not been established. Specifically, as I
21 discuss below in the context of WorldCom’s proposal in this proceeding, a significant
22 portion of the intrastate access revenues generated by Qwest in Arizona have no cost basis
23 whatsoever. There can be no “transfer” of such cost recovery if there are no costs being
24 recovered.
25
26

1 Having said this, there are significant customer benefits that would result from a
2 lowering of Qwest's switched access charges.
3

4
5 **Q. RESTATING THE ISSUE, IS IT YOUR TESTIMONY THAT END USER**
6 **BENEFITS WOULD RESULT FROM A LOWERING OF IN-STATE SWITCHED**
7 **ACCESS TO LEVELS APPROXIMATING LONG-RUN INCREMENTAL COST?**

8
9 **A.** Yes. First, as previously noted, the policy conclusion underlying the 1996
10 Telecommunications Act was that competitive markets are good for consumers.
11 Therefore, this issue has already been decided as a matter of national telecommunications
12 policy. The explosion of new technology in the customer premises equipment market (as
13 well as the deep reductions in prices for such equipment), and the significantly lowered
14 prices for consumer long distance services bear out the *potential* for significant consumer
15 benefits in the local services markets. However, notwithstanding the passage of six years
16 since the Act took effect, this Commission is still grappling with questions of how to
17 ensure that Qwest's local telecommunications market remains open as required by the Act.
18 In short, actions such as that proposed by WorldCom in this proceeding are necessary if
19 such consumer benefits are to be realized in the long distance market once Qwest is
20 permitted to provide retail long distance services in conjunction with the underlying access
21 capabilities it is providing today to IXCs.
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1 **V. WHAT CONSIDERATIONS MAKE ACCESS CHARGE REFORM IN THE**
2 **PUBLIC INTEREST AND WHAT CONSIDERATIONS MAKE WORLDCOM'S**
3 **PROPOSED ACCESS CHARGE REFORM PLAN IN THE PUBLIC INTEREST**

4 **Q. PLEASE OUTLINE WORLDCOM'S PROPOSED ACCESS CHARGE REFORM**
5 **PLAN.**

6
7 **A.** WorldCom proposes that the Commission enter an order requiring Qwest immediately to
8 implement the following reforms:

- 9
- 10 - eliminate its intrastate Carrier Common Line ("CCL")
 - 11 - eliminate its intrastate Residual Interconnection Charge ("RIC"), and
 - 12 - lower its intrastate "local switching" element in the Arizona switched access
13 tariff to the same level as the corresponding rate in its interstate access tariff.
- 14

15
16 **Q. WHAT IS THE BASIS FOR WORLDCOM'S PROPOSAL?**

17 **A.** The steps outlined in WorldCom's proposal would have the effect of an immediate
18 lowering of Qwest's intrastate switched access rates to levels approximating Qwest's
19 economic cost of providing those functions. This is in the public interest for the reasons
20 discussed above, given the likelihood that Qwest will soon be competing in Arizona as
21 both a retail provider of long distance services and a wholesaler of access functions to
22 other carriers who have no alternatives to Qwest's bottleneck facilities.
23
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1 **Q. PLEASE EXPLAIN THE RATIONALE FOR ELIMINATING THE IN-STATE**
2 **CCL AND RIC CHARGES.**

3 **A.** This can be explained with a brief background discussion on the history of these rate
4 elements. The carrier common line ("CCL") rate was set at divestiture (1984) without
5 regard to the "cost" of any particular element in the network. Rather, the CCL was
6 established to replace a portion of the *revenues* that were "lost" when the pooling and
7 division of revenues systems went away.²⁹ More recently the residual interconnection
8 charge ("RIC," but also known by other names) was created in the context of the
9 restructuring of the ILECs' transport rates as a revenue replacement mechanism for certain
10 "lost revenues." In other words, there is no "cost" associated with either the RIC or the
11 CCL.
12

13
14
15 **Q. PLEASE EXPLAIN THE RATIONALE UNDERLYING WORLDCOM'S**
16 **PROPOSAL TO HAVE QWEST'S SWITCHED ACCESS RATE SET AT THE**
17 **SAME LEVEL AS THE INTERSTATE COUNTERPART.**

18 **A.** Unlike the CCL and RIC rate elements where there are no underlying costs to be
19 recovered, the local switching function does have an underlying cost. The underlying cost
20 does not, however, vary with whether the use of the switch is to handle an intrastate call or
21 an interstate call.
22

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25 ²⁹ See, for example, Arizona Corporation Commission Decision No. 54843, dated January 10, 1986, in
26 Dockets E-1051-84-100, et al, at pp. 53-54, stating that the basis for the rates established was to
"compensate Mountain States during 1984 ... as if the previous separations and settlements agreements
between ATTCOM and Mountain States had remained in effect."

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Q. WHY DO YOU CLAIM THAT THE COSTS DO NOT VARY WITH JURISDICTION?

A. First, long-run incremental costs are defined in functional terms, and the “function” provided by Qwest is the same in switching a call from Tucson to Phoenix as from Tucson to Austin, Texas.³⁰

Second, examination of the way ILECs’ costs are allocated under the jurisdictional separations process reveals that the process achieves the same cost per unit for switching. The reason for this is that an ILEC’s traffic volumes represent the factor by which the costs are allocated to the interstate versus intrastate jurisdictions.³¹

³⁰ Indeed, the function is likewise the same for a call handled by Qwest from between two customers located in the same city.

³¹ The term “jurisdictional separations” describes the process whereby ILECs, pursuant to Part 32 of the FCC’s rules, are required to make allocations of their embedded costs for ratemaking purposes between the interstate and state jurisdictions.

1 The following example will perhaps help clarify this point. In Table 3 below, I
2 demonstrate how the separations process results in identical unit costs.

3
4 Table3: Example of Unit Switching Costs via the
5 Jurisdictional Separations Process

6

	Minutes of Use (A)	Percent of Total Use (B)	Allocated Cost to Jurisdiction (C) (\$100 * B)	Unit Cost (C) A)
Interstate	70,000	70%	\$70	0.1¢
Intrastate	30,000	30%	\$30	0.1¢
Total	100,000	100%	\$100	

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14 The example assumes the ILEC has a total cost for switching of \$100. Because the
15 jurisdictional separations process is usage driven, as the example shows, the unit costs that
16 result mathematically will be identical in both the interstate and state jurisdictions, for a
17 per-minute switching cost of 1/10ths cent (\$0.001).

18
19
20 **Q. ARE THERE OTHER REASONS WHY WORLDCOM IS SUGGESTING THAT**
21 **THE COMMISSION LOOK AT QWEST'S INTERSTATE SWITCHED RATES AS**
22 **APPROXIMATING ITS ECONOMIC COST?**

23 **A.** The primary reasons are administrative efficiency and the ability rapidly to put in place
24 switched access rates eliminating the competitive distortions and artificial competitive
25 advantage described above.
26

1 Qwest's interstate rates represent a reasonable proxy for intrastate switched access
2 rates for the following reasons. First, the ILECs' interstate rates have been the basis of
3 annual review under the "price cap regime" in place since the early 1990s.³² The starting
4 point for each ILEC's rates was the ILEC's historic, embedded interstate costs (i.e., the
5 company's regulated costs, as assigned to the interstate jurisdiction through the
6 jurisdictional separation process).³³ The resulting interstate access rates were subject to an
7 annual review each July, and adjusted as appropriate. Pursuant to a recent decision by the
8 FCC approving a proposal by a number of ILECs and IXC's (the "CALLS proposal"), the
9 large price-cap ILECs will be lowering their interstate switched access rates to a "target"
10 rate level reflecting an approximation of the ILECs' forward looking economic costs of
11 providing those switched access functions. That "target" results in an effective per-minute
12 rate slightly above ½ cent per minute (\$0.0055). In approving the proposal, the FCC noted
13 that the target rate was agreed to by a number of parties with differing interests --
14 including the larger ILECs (e.g., Qwest and GTE) and some of the larger IXCs -- and that
15 the target was "in the ballpark" as to those ILECs' economic costs of providing the various
16 functions.³⁴

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19
20 With this in mind, we find that the rate established at the federal level for local
21 switching is below ¼ cent (\$0.0022490). When that interstate rate is compared with the
22

23 ³² The FCC's "price cap" regulations are applicable to the largest ILECs, including Qwest (formerly US
24 West) and Verizon (formerly GTE).

25 ³³ As Qwest stated in its Response (p. 6), such a costing methodology is "outdated" and "not appropriate
26 for use in intrastate access ratemaking."

³⁴ The target rate excludes the CCL which, under the plan was to be brought to zero. Thus, Qwest
currently has an interstate CCL rate of zero.

1 current intrastate rate of \$0.0173 for local switching, we see that the Arizona intrastate rate
2 is nearly 8 times as high as the price charged to IXCs for the local switching function for a
3 minute of traffic originating or terminating out of state.³⁵ And because economic costs do
4 not vary by artificial classifications such as traffic jurisdiction, there is no basis for an
5 argument that intrastate switching costs exceed the interstate rate.
6

7 Furthermore, as noted above, Qwest has agreed to charge a rate of 1/10th ¢ per
8 minute to wireless carriers for the local switching function. This strongly indicates that
9 Qwest's economic cost to provide local switching is only a small fraction of a penny per
10 minute, in comparison to the nearly 2 ¢ per minute that is charged to IXCs under the
11 Arizona switched access tariffs. Another comparison is the UNE switching rate
12 established by the Commission, which is about ¼ ¢ per minute.³⁶ Again, this rate is
13 significantly closer to the 1/10th ¢ per minute rate at which Qwest has agreed to perform
14 switching functionality for wireless carriers, indicative that it is much closer to Qwest's
15 economic costs than the current intrastate switched access rate of nearly 2 ¢ per minute.
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24 ³⁵ As discussed above, this is only a fraction of the roughly 7 cents per minute charged by Qwest under its
25 existing access tariff for intrastate traffic.

26 ³⁶ The rate reflected in Qwest's Arizona SGAT is \$0.0028. SGAT Exhibit A, p. 10 of 15 (9.11.7), taken
from <http://www.qwest.com/about/policy/sgats/AZ.html>, accessed June 25, 2002.

1 **VI. COMMENT ON OTHER ISSUES**

2
3
4 **Q. PLEASE PROVIDE WORLDCOM'S COMMENTS REGARDING ANY OTHER**
5 **ISSUES IT BELIEVES THE COMMISSION SHOULD CONSIDER IN THIS**
6 **PROCEEDING.**

7
8 **A.** The one significant upcoming event that should color the way this proceeding is handled is
9 the likely approval of Qwest request for 271 relief. At that time, Qwest will be positioned
10 to provide retail long distance services in competition with the traditional IXCs. As
11 discussed at length herein, WorldCom believes the focus of this proceeding should be on
12 eliminating the potential anticompetitive effects of Qwest's above-cost switched access
13 rates.

14
15
16 **Q. DO YOU HAVE ANY COMMENTS ABOUT THE SWITCHED ACCESS RATES**
17 **OF OTHER ILECS OPERATING IN ARIZONA?**

18 **A.** By far, the most significant public policy issue before the Commission is the fact that
19 Qwest continues to possess enormous market power in the local exchange market in
20 Arizona. As a result, the fact that its existing intrastate switched access rates are many
21 times greater than its economic cost(s) means that it will possess a marked, artificial cost
22 advantage once it obtains the right to provide retail long distance services in Arizona.
23 That cost advantage could permit Qwest to engage in an anticompetitive price squeeze
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26

1 relative to other retail long distance service providers that can be avoided by reducing its
2 switched access costs to levels approximating its economic cost.

3
4 In contrast, the other ILECs operating in Arizona control relatively miniscule
5 markets, with little potential to abuse their market power in the long distance market. For
6 this reason, WorldCom sees little urgency in moving forward with switched access reform
7 for ILECs other than Qwest. However, if the Commission believes that it is necessary to
8 proceed with reform of the other ILECs' access charges, WorldCom strongly recommends
9 doing so in a phased manner, with the focus of the initial part of the proceeding on
10 Qwest's switched access rates.

11
12
13 **Q. DO YOU HAVE FURTHER COMMENTS ON THE POSITIONS TAKEN IN**
14 **QWEST'S PREVIOUSLY FILED "RESPONSE" ON ACCESS CHARGE ISSUES?**

15 **A.** Yes. One comment in Qwest's Response that was particularly troublesome was its
16 statement implying that carriers have numerous choices in transport facilities.³⁷ It is
17 WorldCom's experience that such choices only exist in a small fraction of circumstances
18 even in the most competitive markets, e.g., New York City. As a general rule, IXCs have
19 limited alternatives to the ubiquitous transport networks the ILECs have constructed over
20 the decades using captive ratepayer funds. Furthermore, Qwest's statement is contrary to
21 the above-cited conclusion by the Supreme Court that ILECs have an "insurmountable
22 competitive advantage" in competing with other carriers. The Commission should dismiss
23 Qwest's statement as not supported by any fact.
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Q. DO YOU HAVE OTHER COMMENTS ON QWEST'S PROPOSAL?

A. Yes. At page 8 of its Response, Qwest makes the statement that the "FCC requires that the provision of local service is a prerequisite for the purchase of UNEs because UNEs have been established to encourage local competition." This is incorrect. In its UNE Remand Order, the FCC discussed the issue of use restrictions at some length:

Section 251(c)(3) of the Act requires incumbent LECs to provide to requesting carriers access to unbundled network elements "for the provision of a telecommunications service" In the *Local Competition First Report and Order*, the Commission found that section 251(c)(3) "permits interexchange carriers and all other requesting carriers, to purchase unbundled elements for the purpose of offering exchange access services, or for the purpose of providing exchange access services to themselves in order to provide interexchange services to consumers." In particular, the Commission found that its conclusion not to impose restrictions on the use of unbundled network elements was "compelled by the plain language of the 1996 Act" because exchange access and interexchange services are "telecommunications services." Moreover, in the *Local Competition First Report and Order*, the Commission found that "the language of section 251(c)(3), which provides that telecommunications carriers may purchase unbundled elements in order to provide a telecommunications service, is not ambiguous." This conclusion that the Act does not permit usage restrictions was codified in Rule 51.309(a), which provides that "[a]n incumbent LEC shall not impose limitations, restrictions, or requirements on request for, or the use of, unbundled network elements that would impair the ability of a requesting telecommunications carrier to offer a telecommunications service in the manner the requesting telecommunications carrier intends." That rule was not challenged in court by any party.³⁸

³⁷ Qwest's Response at 6-7.

³⁸ *In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Third Report and Order and Fourth Further Notice of Proposed Rulemaking, FCC Order No. 99-238

1 The FCC went on to state that:

2 ... interexchange carriers are entitled to use unbundled dedicated transport from
3 their POP to a serving wire center in order to provide local telephone exchange
4 service. Such carriers are entitled to obtain such dedicated transport links
5 pursuant to the unbundling standard discussed above. The fact that such carriers
6 may also provide exchange access over those facilities does not alter our
7 conclusion.³⁹

8 Beyond the fact that the sort of use restriction that Qwest implies is unsupported by the
9 FCC's rules, such restrictions are contrary to the "equitable and non-discriminatory"
10 principles discussed above. Taken to their logical conclusion, Qwest's implication would
11 mean that one set of facilities would be used to provide local services, and separate
12 facilities would be used to provide other services, including long distance -- a result that is
13 completely contrary to traditional network engineering principles. Engineering principles
14 would encourage efficiency in network operations rather than forcing a fragmentation of
15 services over discrete network components. In short, the only rationale behind restricting
16 use of UNEs for local services only would be to drive up CLECs' and/or IXC's costs of
17 competing with Qwest, so as to preserve an artificial cost advantage to Qwest in the
18 marketplace. Qwest's statement, for these reasons, is incorrect both as a matter of the
19 FCC's rules and as a matter of sound public policy, and should be disregarded.
20

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22
23 **A.** Yes, it does.
24

25 in CC Docket 96-98, released November 5, 1999 ("UNE Remand Order"), at ¶ 484. (Footnotes internal in
the Order omitted.)

26 ³⁹ Id., at ¶488,

EXHIBIT I

**DON PRICE
ACADEMIC AND PROFESSIONAL QUALIFICATIONS, AND
TESTIMONY PRESENTED BEFORE
REGULATORY AGENCIES**

Academic Background:

My academic background is in the social sciences. I received my Bachelor of Arts degree in Sociology from the University of Texas at Arlington May of 1977 and was awarded a Master of Arts degree in Sociology by the University of Texas at Arlington in December, 1978.

Professional Qualifications:

From January, 1979 until October, 1983, I was employed by the Southwest telephone operating company of GTE where I held several positions of increasing responsibility in Economic Planning. In those positions I became acquainted with such local exchange telephone company functions as the workings and design of the local exchange network, the network planning process, the operation of a business office, and the design and operation of large billing systems.

From November 1983 until October 1986, was employed by the Public Utility Commission of Texas. I provided analysis and expert testimony on a variety of rate design issues including setting of rates for switched and special access services, MTS (toll), WATS, EAS, and local and general exchange services. In 1986 I was promoted to Manager of Rates and Tariffs, and was directly responsible for staff analyses of rate design and tariff issues in all telecommunications proceedings before the Texas Commission.

I have been with WorldCom (formerly MCI WorldCom, and MCI Telecommunications Corporation prior to the merger) for nearly sixteen years, during which time all of my experience has been in the regulatory and public policy arena. Since 1993 with MCI's acquisition of Western Union Access Transmission Services, the focus of my activities has been in areas relating to local competition, including contract negotiations and presentation of testimony on the company's policy positions for state arbitrations. In

my present position as Senior Regional Manager, Competition Policy, I have broad responsibilities in developing and coordinating WorldCom's regulatory and public policy initiatives for the western portion of the company's domestic operations. Those responsibilities require that I work closely on a day-to-day basis with WorldCom's regulatory teams in both the state and federal arenas, as well as with all of the Company's business units.

While with WorldCom, I have appeared as a panelist before various professional and trade associations and public seminars, including the Texas Society of CPAs, the University of Texas Department of Electrical and Computer Engineering Telecommunications Conference, the Alabama Telephone Association, the Arkansas Telephone Association, and the National Association of Regulatory Utility Attorneys.

I have testified before a number of commissions, including the Federal Communications Commission, the Arizona Corporation Commission, the Public Service Commission of Arkansas, the California Public Utilities Commission, the Public Service Commission of Florida, the Georgia Public Service Commission, the Kansas Corporation Commission, the Public Service Commission of Kentucky, the Louisiana Public Service Commission, the Missouri Public Service Commission, the Public Utilities Commission of Nevada, the North Carolina Utilities Commission, the Corporation Commission of the State of Oklahoma, the Public Utility Commission of Oregon, the Public Service Commission of South Carolina, the Tennessee Regulatory Authority, the Public Utility Commission of Texas, and the Washington Utilities and Transportation Commission. A list of those proceedings in which I have furnished testimony is provided below.

Testimony Presented:

FCC

CC Docket No. 00-4: In the Matter of Application by SBC Communications, Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Texas

Arkansas

Docket No. 91-051-U: IN RE IMPLEMENTATION OF TITLE IV OF THE AMERICANS WITH DISABILITIES ACT OF 1990

Docket No. 92-079-R: IN THE MATTER OF A PROCEEDING FOR THE DEVELOPMENT OF RULES AND POLICIES CONCERNING OPERATOR SERVICE PROVIDERS

Arizona

Docket No. T-00000A-97-238: IN THE MATTER OF U S WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH SECTION 271 OF THE TELECOMMUNICATIONS ACT OF 1996

California

APPLICATION 01-01-010: APPLICATION BY PACIFIC BELL TELEPHONE COMPANY (U 1001 C) FOR ARBITRATION OF AN INTERCONNECTION AGREEMENT WITH MCIMETRO ACCESS TRANSMISSION SERVICES, L.L.C. (U 5253 C) PURSUANT TO SECTION 252(B) OF THE TELECOMMUNICATIONS ACT OF 1996

RULEMAKING R.93-04-003, INVESTIGATION I.93-04-002: ON THE COMMISSION'S OWN MOTION TO GOVERN OPEN ACCESS TO BOTTLENECK SERVICES AND ESTABLISH A FRAMEWORK FOR NETWORK ARCHITECTURE DEVELOPMENT OF DOMINANT CARRIER NETWORKS; INVESTIGATION ON THE COMMISSION'S OWN MOTION INTO OPEN ACCESS AND NETWORK ARCHITECTURE DEVELOPMENT OF DOMINANT CARRIER NETWORKS

Florida

Docket No. 941272-TL: IN RE: SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY'S PETITION FOR APPROVAL OF NUMBERING PLAN AREA RELIEF FOR 305 AREA CODE

Docket No.950696-TP: IN RE: DETERMINATION OF FUNDING FOR UNIVERSAL SERVICE AND CARRIER OF LAST RESORT RESPONSIBILITIES.

Docket No. 950737-TP: IN RE: INVESTIGATION INTO TEMPORARY LOCAL TELEPHONE NUMBER PORTABILITY SOLUTION TO IMPLEMENT COMPETITION IN LOCAL EXCHANGE TELEPHONE MARKETS.

Docket No. 950984-TP: IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NON-DISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR RESALE INVOLVING LOCAL EXCHANGE COMPANIES AND ALTERNATIVE LOCAL EXCHANGE COMPANIES PURSUANT TO SECTION 364.162, FLORIDA STATUTES.

Docket No. 950985-TP: IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NON-DISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR INTERCONNECTION INVOLVING LOCAL EXCHANGE COMPANIES AND ALTERNATIVE LOCAL EXCHANGE COMPANIES PURSUANT TO SECTION 364.162, FLORIDA STATUTES.

Docket No. 000649-TP: IN RE: PETITION OF MCIMETRO ACCESS TRANSMISSION SERVICES, LLC AND MCI WORLDCOM COMMUNICATIONS, INC. FOR ARBITRATION OF CERTAIN TERMS AND CONDITIONS OF PROPOSED AGREEMENT WITH BELLSOUTH TELECOMMUNICATIONS, INC. CONCERNING INTERCONNECTION AND RESALE UNDER THE TELECOMMUNICATIONS ACT OF 1996.

Georgia

Docket No. 5548-U: IN RE: INVESTIGATION INTO THE FUNDING OF UNIVERSAL SERVICE.

Docket No. 6537-U: IN THE MATTER OF: MCIMETRO PETITION TO ESTABLISH NONDISCRIMINATORY RATES, TERMS AND CONDITIONS FOR UNBUNDLING AND RESALE OF LOCAL LOOPS.

Georgia (continued)

Docket No. 11901-U: IN RE: PETITION OF MCIMETRO ACCESS TRANSMISSION SERVICES, LLC AND MCI WORLDCOM COMMUNICATIONS, INC. FOR ARBITRATION OF CERTAIN TERMS AND CONDITIONS OF PROPOSED AGREEMENT WITH BELLSOUTH TELECOMMUNICATIONS, INC. CONCERNING INTERCONNECTION AND RESALE UNDER THE TELECOMMUNICATIONS ACT OF 1996.

Kansas

Docket No. 190,492-U: IN THE MATTER OF A GENERAL INVESTIGATION INTO COMPETITION WITHIN THE TELECOMMUNICATIONS INDUSTRY IN THE STATE OF KANSAS

Louisiana

Docket No. U-17957: IN RE: INVESTIGATION OF OPERATING PRACTICES OF ALTERNATIVE OPERATOR SERVICES PROVIDERS TO INCLUDE RATES AND CHARGES.

Docket No. U-19806: IN RE: PETITION OF AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC., FOR REDUCED REGULATION OF INTRASTATE OPERATIONS.

Docket No. U-20237: IN RE: OBJECTIONS TO THE FILING OF REDUCED WATS SAVER SERVICE RATES, INTRALATA, STATE OF LOUISIANA.

Docket No. U-20710: IN RE: GENERIC HEARING TO CLARIFY THE PRICING/IMPUTATION STANDARD SET FORTH IN COMMISSION ORDER NO. U- 17949-N ON A PROSPECTIVE BASIS ONLY, AS THE STANDARD RELATES TO LEC COMPETITIVE TOLL OFFERINGS.

Docket No. U-20883: IN RE: THE DEVELOPMENT OF RULES AND REGULATIONS APPLICABLE TO THE ENTRY AND OPERATIONS OF, AND THE PROVIDING OF SERVICES BY, COMPETITIVE AND ALTERNATE ACCESS PROVIDERS IN THE LOCAL, INTRASTATE AND/OR INTEREXCHANGE TELECOMMUNICATIONS MARKET IN LOUISIANA. SUBDOCKET A: UNIVERSAL SERVICE.

Louisiana (continued)

Docket No. U-25350: IN RE: PETITION OF MCIMETRO ACCESS TRANSMISSION SERVICES, LLC FOR ARBITRATION OF CERTAIN TERMS AND CONDITIONS OF PROPOSED AGREEMENT WITH BELLSOUTH TELECOMMUNICATIONS, INC. CONCERNING INTERCONNECTION AND RESALE UNDER THE TELECOMMUNICATIONS ACT OF 1996.

Minnesota

Docket No. P-421/CI-01-1371: IN THE MATTER OF A COMMISSION INVESTIGATION INTO QWEST'S COMPLIANCE WITH SECTION 271(c)(2)(B) OF THE TELECOMMUNICATIONS ACT OF 1996; CHECKLIST ITEMS 1, 2, 4, 5, 6, 11, 13, AND 14

Missouri

Case No. TO-87-42: IN THE MATTER OF SOUTHWESTERN BELL TELEPHONE COMPANY FILING ACCESS SERVICES TARIFF REVISIONS AND WIDE AREA TELECOMMUNICATIONS SERVICE (WATS) TARIFF, INDEX, 6th REVISED SHEET, ORIGINAL SHEET 16.01.

Case No. TO-95-289, ET AL: IN THE MATTER OF AN INVESTIGATION INTO THE EXHAUSTION OF TELEPHONE NUMBERS IN THE 314 NUMBERING PLAN AREA.

CASE NO. TC-2000-225, ET AL.: MCI WORLDCOM COMMUNICATIONS, INC., BROOKS FIBER COMMUNICATIONS OF MISSOURI, INC., BROADSPAN COMMUNICATIONS, INC., D/B/A PRIMARY NETWORK COMMUNICATIONS, INC., COMPLAINANTS, VS. SOUTHWESTERN BELL TELEPHONE COMPANY, RESPONDENT.

CASE NO. TO-2001-467: IN THE MATTER OF THE INVESTIGATION OF THE STATE OF COMPETITION IN THE EXCHANGES OF SOUTHWESTERN BELL TELEPHONE COMPANY.

CASE No. TO-2002-222: PETITION OF MCImetro ACCESS TRANSMISSION SERVICES LLC, BROOKS FIBER COMMUNICATIONS OF MISSOURI, INC. AND MCI WORLDCOM COMMUNICATIONS, INC. FOR ARBITRATION OF AN INTERCONNECTION AGREEMENT WITH SOUTHWESTERN BELL TELEPHONE COMPANY UNDER THE TELECOMMUNICATIONS ACT OF 1996

Nevada

CASE NO. 01-12047: IN RE: APPLICATION OF CENTRAL TELEPHONE COMPANY - NEVADA d/b/a SPRINT OF NEVADA TO CONTINUE PARTICIPATION IN THE PLAN OF ALTERNATIVE REGULATION, INCLUDING A REQUEST TO INCREASE PRICES

North Carolina

Docket No. P-100, SUB 119: IN THE MATTER OF: ASSIGNMENT OF N11 DIALING CODES.

Docket No. P-141, SUB 29: IN THE MATTER OF: PETITION OF MCI TELECOMMUNICATIONS CORPORATION FOR ARBITRATION OF INTERCONNECTION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

Docket No. P-474, SUB 10: IN RE: PETITION OF MCIMETRO ACCESS TRANSMISSION SERVICES, LLC FOR ARBITRATION OF CERTAIN TERMS AND CONDITIONS OF PROPOSED AGREEMENT WITH BELLSOUTH TELECOMMUNICATIONS, INC. CONCERNING INTERCONNECTION AND RESALE UNDER THE TELECOMMUNICATIONS ACT OF 1996.

Oklahoma

Consolidated Dockets PUD NO. 000237: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER APPROVING PROPOSED CHANGES AND ADDITIONS IN APPLICANTS' WIDE AREA TELECOMMUNICATIONS SERVICE PLAN TARIFF; and,
PUD NO. 000254: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER APPROVING PROPOSED ADDITIONS AND CHANGES IN APPLICANTS' ACCESS SERVICE TARIFF AND WIDE AREA TELECOMMUNICATIONS SERVICE PLAN TARIFF

Consolidated Dockets PUD NO.920001335: IN THE MATTER OF THE APPLICATION OF THE OKLAHOMA RURAL TELEPHONE COALITION, GTE SOUTHWEST, INC., ALLTEL OKLAHOMA, INC., AND OKLAHOMA ALLTEL, INC. FOR AN ORDER ADOPTING THE OKLAHOMA ALTERNATIVE SETTLEMENT PLAN; and
PUD NO.920001213: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER IMPLEMENTING TERMINATING ACCESS CHARGES IN LIEU OF INTRALATA TOLL AND SURCHARGE POOLS; and
PUD NO.940000051: IN RE: INQUIRY OF THE OKLAHOMA CORPORATION COMMISSION REGARDING WHETHER THE INTRALATA TOLL POOL AND SURCHARGE POOL SHOULD CONTINUE TO EXIST IN THE STATE OF OKLAHOMA

Oregon

Docket UN 1038: IN THE MATTER OF AN INVESTIGATION INTO ISSUES RELATED TO THE COMMISSION POLICY OF POSTING SERVICE QUALITY REPORTS TO ITS WEBSITE, PURSUANT TO ORS 756.510

South Carolina

Docket No. 92-606-C: IN RE: N11 SERVICE CODES.

Tennessee

Docket No.93-07799: IN RE: SHOW CAUSE PROCEEDING AGAINST CERTIFIED IXCS AND LECS TO PROVIDE TOLL FREE, COUNTY-WIDE CALLING.

Docket No.93-08793: IN RE: APPLICATION OF MCI METRO ACCESS TRANSMISSION SERVICES, INC. FOR AUTHORITY TO OFFER LOCAL EXCHANGE SERVICES WITHIN TENNESSEE.

Docket No.94-00184: INQUIRY FOR TELECOMMUNICATIONS RULEMAKING REGARDING COMPETITION IN THE LOCAL EXCHANGE.

Docket No.95-02499: UNIVERSAL SERVICE PROCEEDING, PART 1 - COST OF UNIVERSAL SERVICE AND CURRENT SOURCES OF UNIVERSAL SERVICE SUPPORT, AND PART 2 - ALTERNATIVE UNIVERSAL SERVICE SUPPORT MECHANISMS.

Docket No. 00-00309: PETITION OF MCIMETRO ACCESS SERVICES, LLC AND BROOKS FIBER COMMUNICATIONS OF TENNESSEE, INC. FOR ARBITRATION UNDER THE TELECOMMUNICATIONS ACT OF 1996

Texas

Docket 4992: APPLICATION OF GENERAL TELEPHONE COMPANY OF THE SOUTHWEST FOR A RATE/TARIFF REVISION.

Docket 5113: PETITION OF PUBLIC UTILITY COMMISSION FOR AN INQUIRY CONCERNING THE EFFECTS OF THE MODIFIED FINAL JUDGMENT AND THE ACCESS CHARGE ORDER UPON SW BELL AND THE INDEPENDENT TELEPHONE COMPANIES OF TEXAS (Phase II).

Docket 5610: APPLICATION OF GENERAL TELEPHONE COMPANY OF THE SOUTHWEST FOR A RATE INCREASE.

Docket 5800: APPLICATION OF AT&T COMMUNICATIONS FOR AUTHORITY TO IMPLEMENT "REACH OUT TEXAS."

Docket 5898; APPLICATION OF SAN ANGELO FOR REMOVAL OF THE EXTENDED AREA SERVICE CHARGE FROM GENERAL TELEPHONE COMPANY OF THE SOUTHWEST'S RATES IN SAN ANGELO, TEXAS.

Texas (continued)

Docket 5926: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO ESTABLISH FEATURE GROUP "E" (FGE) ACCESS SERVICE FOR RADIO AND CELLULAR COMMON CARRIERS.

Docket 5954: INQUIRY OF THE PUBLIC UTILITY COMMISSION OF TEXAS INTO OFFERING EXTENDED AREA SERVICE IN THE CITY OF ROCKWALL.

Docket 6095: APPLICATION OF AT&T COMMUNICATION FOR A RATE INCREASE.

Docket 6200: PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES.

Docket 6264: PETITION OF THE GENERAL COUNSEL FOR INITIATION OF AN EVIDENTIARY PROCEEDING TO ESTABLISH TELECOMMUNICATIONS SUBMARKETS.

Docket 6501: APPLICATION OF VALLEY VIEW TELEPHONE COMPANY FOR AN AMENDMENT TO CERTIFICATE OF CONVENIENCE AND NECESSITY.

Docket 6635: APPLICATION OF MUSTANG TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES.

Docket 6740: APPLICATION OF SOUTHWEST TEXAS TELEPHONE COMPANY FOR RATE INCREASE.

Docket 6935: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO INTRODUCE MICROLINK II- PACKET SWITCHING DIGITAL SERVICE.

Docket 8730: INQUIRY OF THE GENERAL COUNSEL INTO THE MEET-POINT BILLING PRACTICES OF GTE SOUTHWEST, INC.

Texas (continued)

Docket 8218: INQUIRY OF THE GENERAL COUNSEL INTO THE WATS PRORATE CREDIT.

Docket 8585: INQUIRY OF THE GENERAL COUNSEL INTO THE REASONABLENESS OF THE RATES AND SERVICES OF SOUTHWESTERN BELL TELEPHONE COMPANY.

Docket 10127: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO REVISE SECTION 2 OF ITS INTRASTATE ACCESS SERVICE TARIFF.

Docket 11441: PETITIONS OF INFODIAL, INC., AND OTHERS FOR ASSIGNMENT OF ABBREVIATED NII DIALING CODES.

Docket 11840: JOINT PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY AND GTE SOUTHWEST, INC. TO PROVIDE EXTENDED AREA SERVICE TO CERTAIN COMMUNITIES IN THE LOWER RIO GRANDE VALLEY.

Docket 14447: PETITION OF MCI TELECOMMUNICATIONS CORPORATION FOR AN INVESTIGATION OF THE PRACTICES OF SOUTHWESTERN BELL TELEPHONE COMPANY REGARDING THE EXHAUSTION OF TELEPHONE NUMBERS IN THE 214 NUMBERING PLAN AREA AND REQUEST FOR A CEASE AND DESIST ORDER AGAINST SOUTHWESTERN BELL TELEPHONE COMPANY.

Dockets 14940 and 14943: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR INTERIM NUMBER PORTABILITY PURSUANT TO '3.455 OF THE PUBLIC UTILITY REGULATORY ACT; AND APPLICATION OF GTE SOUTHWEST, INC. AND CONTEL OF TEXAS, INC. FOR INTERIM NUMBER PORTABILITY PURSUANT TO '3.455 OF THE PUBLIC UTILITY REGULATORY ACT.

Docket 16251: INVESTIGATION OF SOUTHWESTERN BELL TELEPHONE COMPANY'S ENTRY INTO THE INTERLATA TELECOMMUNICATIONS MARKET.

Docket 16285: PETITION OF MCI TELECOMMUNICATIONS CORPORATION AND ITS AFFILIATE MCIMETRO ACCESS TRANSMISSION SERVICES, INC. FOR ARBITRATION AND REQUEST FOR MEDIATION UNDER THE FEDERAL TELECOMMUNICATIONS ACT OF 1996.

Texas (continued)

Docket 18117: COMPLAINT OF MCI TELECOMMUNICATIONS CORPORATION AND MCIMETRO ACCESS TRANSMISSION SERVICE, INC. AGAINST SWBT FOR VIOLATION OF COMMISSION ORDER IN DOCKET NOS. 16285 AND 17587 REGARDING PROVISIONING OF UNBUNDLED DEDICATED TRANSPORT.

Docket 19075: PETITION OF MCI TELECOMMUNICATIONS CORPORATION FOR ARBITRATION OF DIRECTORY ASSISTANCE LISTINGS ISSUES UNDER FEDERAL TELECOMMUNICATIONS ACT OF 1996.

Docket 21706: COMPLAINT OF MFS COMMUNICATIONS COMPANY, INC. AGAINST GTE SOUTHWEST, INCORPORATED REGARDING GTE'S NONPAYMENT OF RECIPROCAL COMPENSATION

Docket 21791: PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR ARBITRATION WITH MCI WORLDCOM COMMUNICATIONS, INC. PURSUANT TO SECTION 252(B)(1) OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996.

Docket 21982: PROCEEDING TO EXAMINE RECIPROCAL COMPENSATION PURSUANT TO SECTION 252 OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996.

Dockets 22168/22469: PETITION OF IP COMMUNICATIONS CORPORATION TO ESTABLISH EXPEDITED PUBLIC UTILITY COMMISSION OF TEXAS OVERSIGHT CONCERNING LINE SHARING ISSUES; COMPLAINT OF COVAD COMMUNICATIONS COMPANY AND RHYTHMS LINKS, INC. AGAINST SOUTHWESTERN BELL TELEPHONE COMPANY AND GTE SOUTHWEST INC. FOR POST-INTERCONNECTION AGREEMENT DISPUTE RESOLUTION AND ARBITRATION UNDER THE TELECOMMUNICATIONS ACT OF 1996 REGARDING RATES, TERMS, CONDITIONS AND RELATED ARRANGEMENTS FOR LINE SHARING

Docket 24542: PETITION OF MCIMETRO ACCESS TRANSMISSION SERVICES LLC FOR ARBITRATION OF AN INTERCONNECTION AGREEMENT WITH SOUTHWESTERN BELL TELEPHONE COMPANY UNDER THE TELECOMMUNICATIONS ACT OF 1996

Washington

Docket No. UT-003022: IN THE MATTER OF THE INVESTIGATION INTO U S WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH SECTION 271 OF THE TELECOMMUNICATIONS ACT OF 1996

DOCKET NO. UT-003013, Part D: IN THE MATTER OF THE CONTINUED COSTING AND PRICING OF UNBUNDLED NETWORK ELEMENTS, TRANSPORT, AND TERMINATION