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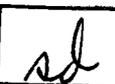
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July 24, 2001

Arizona Corporation Commission
DOCKETED

JUL 25 2001

Docket Control
Arizona Corporation Commission
200 West Washington
Phoenix, AZ 85007

DOCKETED BY 

Re: ACC Docket No. T-00000A-00-0194

Dear Docket Control:

Enclosed please find for filing the original and ten (10) copies of the *Summary Testimony of Joseph Gillan*, on behalf of AT&T Communications of the Mountain States, Inc., and WorldCom, Inc., in the above-referenced matter. If you have any questions, please contact me at the phone number, or e-mail address, above.

Very truly yours,

Davis Wright Tremaine LLP

Larry J. Weathers
Paralegal

Enclosures

cc: Mary Steele
Rick Wolters

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JAMES M. IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF INVESTIGATION)
INTO U S WEST COMMUNICATIONS,)
INC.'S COMPLIANCE WITH CERTAIN)
WHOLESALE PRICING REQUIREMENTS)
FOR UNBUNDLED NETWORK)
ELEMENTS AND RESALE DISCOUNTS)

DOCKET NO. T-00000A-00-0194

NOTICE OF FILING SUMMARY
TESTIMONY OF JOSEPH GILLAN

AT&T Communications of the Mountain States, Inc., and WorldCom, Inc.,
hereby provides Notice of Filing Summary Testimony of Joseph Gillan.

DATED this 24th day of July, 2001.

DAVIS WRIGHT TREMAINE LLP

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Summary of Joseph Gillan
AT&T/WorldCom
Docket No. T-00000A-00-0194, Phase II

The purpose of my testimony is to describe the status of local competition in Arizona and to determine to what extent Qwest's UNE prices (and other policies) have forestalled competition from developing. There is nothing in Qwest's rebuttal testimony that contradicts the central conclusion of my testimony that Qwest's excessive UNE charges preclude meaningful competition, thereby positioning Qwest to leverage its local monopoly into other areas.

Qwest's Proposed UNE Rates are Implausibly High

As a threshold observation, it is important to understand that Qwest's rebuttal testimony mischaracterizes my basic position (presumably because it was easier to respond a straw man of its own design than the points I was making). It was not my recommendation that the Commission establish UNE rates solely to promote competition, without regard to cost. Rather, my point was that cost-based rates should provide both Qwest and the entrant the *same* cost to use the existing network -- and that cost-based rates should, therefore, either enable profitable entry or Qwest should be unprofitable as well.

Even after updating my analysis to apply Qwest's revised proposed rates, however, the fundamental conclusion remains the same -- residential competition would be foreclosed in Arizona by the level of Qwest's proposed rates. Moreover, this conclusion holds true for a wide variety of customer profiles, including customers purchasing Qwest's feature-laden (and, therefore, higher priced) Custom Choice package.

Estimated Margin -- Residential Customers
(Qwest's Revised Proposed Rates - 6/27/01)

	Pure Local	"Average"	Custom Choice
Revenue/Line	\$19.37	\$22.86	\$37.06
UNE-P Cost/Line	\$31.61	\$35.70	\$35.70
Margin/Line	(\$12.24)	(\$12.84)	\$1.36

To emphasize this same point more generally, I also have conducted a second analysis to estimate what Qwest's financial results would look like (for 2000), assuming that it was required to lease UNEs to offer conventional switched services (i.e., local service and access) to both business and residential customers. Based on Qwest's actual data for 2000, I constructed an estimate of Qwest's operating income assuming that Qwest's actual levels of customer and corporate operations expense remained the same, but that its network-related costs were replaced by the cost to lease the UNE-Platform.¹

¹ Because Qwest would be leasing UNEs rather than owning the network, the analysis does

Qwest's Financial Performance if UNE-Based Carrier
(Arizona-- 2000)

	Cost/Revenue (000s)
Switched Services Revenues ²	\$1,228,025
Expenses	
UNE Lease Payments ³	\$1,267,836
Marketing Expense (Acct 6610)	\$83,544
Customer Service Expense (Acct 6623)	\$108,643
Executive and Planning (Acct 6710)	\$20,728
General and Administrative (Acct 6720)	\$207,979
Total Operating Expense	\$1,688,730
Operating Income	(\$460,705)

According to Qwest data on file with the FCC,⁴ Qwest's net operating income from its regulated Arizona operations in 2000 exceeded \$398 million. Yet, if required to lease its own network at the charges it proposes in this docket, its "UNE-self" would have run squarely in the red. If not even *Qwest* could compete in Arizona paying the UNE rates it proposes here, then how could any competitor?

The Three Myths of Local Competition

Clearly, the level of local competition that one would expect based on the above analysis would be little to none. And this is exactly what my testimony finds in Arizona. Significantly, Qwest never rebuts the facts concerning competitive market penetration, only its implication. In an effort to dismiss the significance of its (for all practical purposes) monopoly, Qwest relies on three myths concerning local competition.

Myth 1: There is no problem – alternative technologies offer strong competition. According to Qwest, the Commission should not be concerned with the status of competitive entry, because alternative technologies – in particular, cable and wireless – offer growing competition. This explanation, however, is misdirection. The central issue of this proceeding concerns Qwest's compliance at offering entrants nondiscriminatory,

not include any expense for depreciation, or any plant-related operating costs.

² Switched services revenue is the total of Basic Local, End User, Switched Access, State Access and LD Message Revenues for 2000 (ARMIS 43-03).

³ Annual UNE Lease costs are calculated by multiplying the average UNE-P cost per line times Qwest's switched access lines. It is useful to note that Qwest did not criticize my calculation of the average cost that an entrant would pay for UNE-P.

⁴ ARMIS 43-03.

cost-based access to the *existing* network. Thus, even if cable and wireless technologies were meaningful alternatives – an allegation that I would rebut if it were relevant – is immaterial. The broad competition intended by the Telecommunications Act’s unbundling requirements is clearly in serious jeopardy, and would remain so if Qwest’s proposed rates were approved.

Myth 2: Only CLECs with “bad business plans” are suffering. The collapse of the CLEC industry is not limited to only a few CLECs with “...a bad business plan, shoddy implementation, a lack of acumen, or simply bad timing.” This is a *sector-wide* collapse – affecting new and established CLECs, wireless and wireline entrants, voice and data services alike. If there is a “bad business plan,” it is the idea that entrants can compete with incumbent monopolists. There is a fundamental problem here that cannot be ignored. Qwest’s claim that “strong” CLECs like XO – whose debt is rated as a junk bond, and whose stock is currently \$1.58 per share (down 90% this year alone) – contradict my testimony, only demonstrates just how weak their response really is.

Myth 3 – The failure of some CLECs will make the remaining CLECs stronger. This is the most disingenuous myth of all. As a practical matter, CLECs do not compete with each other (they are all so individually small), they compete with Qwest. As such, CLEC failures will not make other CLECs stronger, they only make Qwest stronger.

So that I finish this summary on a note of some agreement, there is one statement in Qwest’s rebuttal testimony with which I do not (at least completely) disagree:

CLECs are afforded [by the Telecommunications Act] with unprecedented opportunities to succeed in local telecommunications. They have the opportunity to find the most effective mix of building facilities, using UNEs priced to include all the economies of scale of the incumbent, and reselling incumbent’s retail services.⁵

This, of course, is the very essence of my testimony – access to the inherited exchange network on the same terms as the incumbent itself *should have* been an unprecedented opportunity. Instead, it has simply been an unrealized opportunity – but an opportunity the Commission can correct in this proceeding.

⁵ Rebuttal Testimony of William Fitzsimmons, page 15. Emphasis added.

CERTIFICATE OF SERVICE

ACC Docket No. T-00000A-00-0194

I hereby certify that on the 24th of July 2001, the original and ten copies of the *Summary Testimony of Joseph Gillan*, on behalf of AT&T Communications of the Mountain States, Inc., and WorldCom, Inc., in the above-referenced matter, was sent for filing via FedEx, next business morning delivery, to:

Docket Control Arizona Corporation Commission 1200 West Washington Phoenix, AZ 85007

And a true and correct copy of the foregoing was sent via FedEx, next business morning delivery, to:

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And a true and correct copy of the foregoing was sent via U.S. Mail, postage pre-paid, to:

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Dated this July 24, 2001

by Jamy J. J. J.