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Transcript Exhibit(s)

Docket #(s): T-00000A-00-0194

Exhibit #: ATT/Worldcom 1, ATT/Worldcom 2



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HAND DELIVERED

August 27, 2001

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington, 1st Floor
Phoenix, AZ 85007

Re: Qwest / Cost Docket Phase II No. T-00000A-00-0194

Dear Docket Control:

We are enclosing ATT/WorldCom Exhibits Nos. 1 and 2. These exhibits were not provided to the court reporter during the hearing held in Phoenix July 16 through 31, 2001. They arrived in our office on August 24, 2001.

If you have any questions, or if we can be of any further assistance, please let us know.

Very truly yours,

Marta T. Hetzer
Administrator/Owner

Enclosures

Copy to: Lyn Farmer, Chief Administrative Law Judge
 AT&T/XO
 Legal Division, ACC
 Michael Patten, Esq.
 Sprint
 Qwest
 WorldCom

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

TESTIMONY OF JOSEPH GILLAN

ON BEHALF OF THE JOINT CASE OF

AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.

AND

WORLDCOM, INC.

MAY 16, 2001

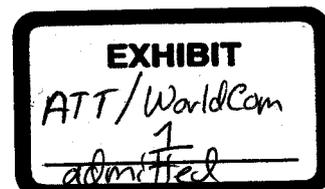


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1 **I. INTRODUCTION AND WITNESS QUALIFICATION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

3 A. My name is Joseph Gillan. My business address is P. O. Box 541038, Orlando, Florida
4 32854. I am an economist with a consulting practice specializing in telecommunications.

5 **Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND
6 RELATED EXPERIENCE.**

7 A. I am a graduate of the University of Wyoming where I received B.A. and M.A. degrees in
8 economics. From 1980 to 1985, I was on the staff of the Illinois Commerce Commission
9 where I had responsibility for the policy analysis of issues created by the emergence of
10 competition in regulated markets, in particular the telecommunications industry. While
11 at the Commission, I served on the staff subcommittee for the NARUC Communications
12 Committee and was appointed to the Research Advisory Council overseeing NARUC's
13 research arm, the National Regulatory Research Institute.

14 In 1985, I left the Commission to join U.S. Switch, a venture firm organized to develop
15 interexchange access networks in partnership with independent local telephone
16 companies. At the end of 1986, I resigned my position of Vice President-Marketing/
17 Strategic Planning to begin a consulting practice. Over the past twenty years, I have
18 provided testimony before more than 35 state commissions, four state legislatures, the
19 Commerce Committee of the United States Senate, and the Federal/State Joint Board on
20 Separations Reform. I currently serve on the Advisory Council to New Mexico State
21 University's Center for Regulation.

1 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

2 A. I am testifying on behalf of AT&T Communications of the Mountain States, Inc.
3 (“AT&T”), and WorldCom, Inc. (“WorldCom”). Although sponsored by these carriers,
4 my testimony adopts the perspective of competition more generally. The rates and
5 policies set in this proceeding will have a far-reaching impact on the level of competition
6 in Arizona, both now and well into the future.

7 **Q. PLEASE SUMMARIZE THE PRINCIPAL POINTS OF YOUR TESTIMONY.**

8 A. My testimony addresses two main areas. First, the testimony emphasizes precisely *why*
9 establishing cost-based rates for access to the existing network is so important to the
10 future telecommunications choices available to Arizona consumers. Second, the
11 testimony focuses on a number of issues specific to the unbundled network element
12 platform (“UNE Platform” or “UNE-P”), the entry strategy most likely to support mass-
13 market – which is to say, average residential and small business – competition.

14 As the Commission approaches the central issue of this proceeding – that is, determining
15 the price entrants will pay to access the existing network – a number of points are
16 important:

17 * The existing exchange network is an inherited resource, representing the
18 cumulative investment of more than a century. The sheer magnitude of
19 the existing network makes its duplication unlikely, particularly over any
20 reasonable time horizon.

21 * The fundamental role of UNEs is to assure that this inherited network
22 resource is available to multiple providers, so that it provides a
23 springboard to a competitive future defined by new and different

1 technological choices. New technologies, however, take time to deploy
2 and require capital that is best attracted by firms with existing customers
3 and experienced operations.

4 * Because local voice is a threshold requirement for almost all
5 complementary services (such as, for instance, long distance and Internet
6 access), competition in this core market will affect the degree of
7 competition in all adjacent markets as well. The drive to one-stop
8 shopping and packaged services makes it imperative that local competition
9 succeed, or competition more generally may perish.

10 Collectively, these conclusions explain why the Commission should aggressively pursue
11 UNE-based local competition – it is, after all, the only path shown capable of creating the
12 necessary baseline for a competitive future. Moreover, if the Commission applies
13 *focused* regulation here, at the wholesale level where inputs are generic ingredients, then
14 the competition that will result will likely, over time, justify *less* regulation at the retail
15 level where differentiation and innovation will be key. The starting point, however, must
16 be wholesale prices that reflect underlying costs.

17 **Q. BEFORE YOU CONTINUE WITH ADDITIONAL DETAILS, ARE THERE ANY**
18 **PRELIMINARY COMMENTS THAT YOU WOULD LIKE TO MAKE?**

19 A. Yes. Although much regulatory attention over the past five years has focused on
20 implementing the decisions of the Federal Communications Commission (FCC), it is
21 important to appreciate the much larger role of played by *State* action opening local
22 markets. Importantly, these FCC rules are national *minimums* that a State may not fall
23 below. But whether local competition ever really develops will fundamentally be

1 determined by State Commissions, acting aggressively to make sure that entrants have
2 cost-based access to the network elements – and network element combinations – needed
3 to compete. The nation’s experience over the past five years makes clear that State
4 initiatives above and beyond federal minimums will be necessary if the promise of local
5 competition is to ever become a reality.

6 Second, it is important to appreciate that the competitive sector of the
7 telecommunications industry stands at the brink of collapse, as CLEC after CLEC
8 declares bankruptcy, missed revenue targets, market curtailments and layoffs. As the
9 Wall Street Journal noted, the attempt to establish a competitive local marketplace is
10 “...shaping up to be one of the biggest financial fiascoes ever with losses to investors
11 expected to approach the \$150 billion government cleanup of the savings-and-loan
12 industry a decade ago.”¹ There is a very real possibility that this industry will be re-
13 monopolized, not simply missing the *opportunity* of local competition (as though such an
14 outcome, by itself, would not be bad enough), but also *reversing* the competitive gains of
15 the past decade in long distance and the Internet. As CBS MarketWatch observed: “As
16 incredible as it seems, we are well on our way to re-creating regional versions of the old
17 Bell System monopoly, controlled by the four giant regional Bell companies --- SBC,
18 Verizon, Bell South and Qwest/U S WEST.”² As I discuss in more detail below,
19 competitive market penetration in Arizona is trivial even today, five years after the
20 existing network was suppose to be made available to *all* providers on nondiscriminatory
21 terms. The “unthinkable” is no longer unthinkable – each State stands at a crossroads,

¹ *Telecom Industry Faces Reckoning – Buried In Debt, Firms Are Falling In Record Numbers*, Wall Street Journal, May 11, 2001.

² CBS MarketWatch, May 3, 2001.

1 between a monopoly or competitive future, with the decisions of each State's
2 Commission deciding which path its markets will follow.

3 **Q. WHAT SPECIFIC ISSUES DOES YOUR TESTIMONY ADDRESS?**

4 A. In addition to providing an overall discussion concerning the importance of UNE-based
5 entry to competition in Arizona, my testimony also addresses a number of specific issues
6 relative to the UNE Platform as the entry strategy most successful at promoting broad
7 local competition for most Arizona residences and small businesses. The UNE Platform
8 is the purchase of network elements in a combination that provides an entrant a broad
9 geographic footprint and low transactions cost (i.e., the cost to migrate a customer to a
10 new provider). These basic attributes – broad coverage and efficient migration costs –
11 are exactly what is needed to support widespread competition for typical customers.

12 **Q. WHY IS IT SO IMPORTANT THAT CUSTOMER MIGRATION – I.E.,**
13 **TRANSACTIONS COST – BE MINIMIZED?**

14 A. The introduction of local competition, and the interLATA authority that would then
15 follow, will transform the telecommunications industry. Today, customers typically
16 obtain local service from one carrier (Qwest), while obtaining long distance service from
17 another (for instance, AT&T, WorldCom, Sprint or any of a number of others). In the
18 future, however, most customers are likely to make a single choice for both products,
19 choosing a full service provider that offers all-distance service.

20 Importantly, the “transactions cost” associated with a customer’s decision to combine its
21 long distance service with its local service is trivially small because this process (i.e.,
22 changing a customer’s presubscribed interexchange carrier) has been fully automated. As
23 a result, “long distance” customers can easily migrate to Qwest for an all-distance

1 package. Only UNE-P, however, holds the near-term ability to reduce transactions costs
2 to effect a customers' decision to select any carrier other than Qwest. Restructuring the
3 market to an efficient new equilibrium requires that these migration costs not prevent --
4 much less *distort* – consumer choices, an outcome possible only with unrestricted
5 availability of UNE-P.

6 **Q. WHAT MUST OCCUR FOR UNE-P TO BE AVAILABLE?**

7 A. Significantly, for the UNE-P to be viable, it must be priced correctly and designed to
8 support mass-market application. To achieve this objective, the Commission should
9 require that Qwest offer:

- 10 * Each element necessary for UNE-P, including unbundled local switching,
11 throughout the State. Qwest is proposing to impose what it calls “market” rates
12 for local switching in some areas that are far beyond its cost, and would
13 effectively preclude competitive entry.
- 14 * Shared transport that includes the termination of all intraLATA calling, and
15 provides transit capability to other CLEC switches interconnected with Qwest.
- 16 * Operator Service and Directory Assistance (OS/DA) functions at cost-based rates
17 until a standardized “custom routing” solution that would enable entrants to use
18 alternative providers of OS and DA service is defined, priced and implemented by
19 Qwest in a manner that supports practical competition.

20 As a practical matter, competition for traditional analog voice services requires access to
21 network element combinations. Now is the time to implement this important entry
22 strategy.

1 **II. THE STATUS OF LOCAL COMPETITION IN ARIZONA**

2 **Q. WHY DOES YOUR TESTIMONY ADDRESS THE *LEVEL* OF LOCAL**
3 **COMPETITION IN A *COST* PROCEEDING?**

4 A. The reason that I begin this testimony with a discussion of the status of local competition
5 in Arizona is that fundamentally the level of UNE-based local competition is the ultimate
6 *measure* of whether nondiscriminatory conditions are actually being achieved.³ It is clear
7 that establishing a competitive local exchange market is one of the most difficult policy
8 objectives of modern times. It has been five years since the Telecommunications Act of
9 1996 (“the Act”) was passed, and yet little competition has emerged. This experience
10 shows that the path to local competition requires more than simply removing legal
11 barriers and *permitting* entry – competition must be *promoted* by providing entrants
12 nondiscriminatory access to the existing network. Nondiscriminatory access means cost-
13 based rates, efficient (and equal) OSS support, and policies intended to facilitate CLEC
14 use of UNEs, not frustrate it.

15 **Q. WHAT IS THE STATUS OF UNE-BASED COMPETITION IN ARIZONA**
16 **TODAY?**

17 A. There are a number of different ways to measure competitive activity in Arizona, but the
18 overall conclusion remains the same. Local competition – particularly local competition
19 relying on the use of network elements – has yet to achieve any significant penetration in

³ Certainly nobody could seriously suggest that local competition is failing for a lack of effort or investment. Since the Act was passed, investors have pumped more than \$56 billion into the *smaller* competitive local entrants that have attempted every conceivable entry strategy. Source: Association for Local Telecommunications Services, February 20, 2001. In addition, AT&T and WorldCom have invested billions more pursuing entry across a larger scale, including AT&T’s effort to transform cable networks to telephony.

1 Arizona. Consider the following comparison between the number of voice-equivalent
2 unbundled loops (and even resold lines) to a comparable measure for Qwest:

3 **Table 1: Estimated CLEC Market Share – Arizona**
4 **(Voice Grade Equivalent Lines)**

	VGE Lines	Share
UNE VGE Loops ⁴	22,871	0.3%
Resold VGEs ⁵	34,572	0.5%
Qwest VGEs ⁶	6,676,088	99.1%
Total	6,733,531	

5
6 Furthermore, expanding the analysis to include an estimate of total competition,
7 including customers entirely served using CLEC facilities, does not materially change the
8 result. To measure switch-based voice competition, I compared the relative level of
9 traffic originated on CLEC switches,⁷ to the level of minutes originated by Qwest
10 customers.⁸ According to this analysis, CLECs using their own switching facilities have
11 achieved only 3% of the voice market, as measured by minutes. By any measure, local
12 competition in Arizona has (thus far) been a failure.

13 **Q. ARE THERE ENTRY STRATEGIES THAT WOULD MATERIALLY**
14 **INCREASE THE LEVEL OF LOCAL COMPETITION?**

15 A. Yes. Widespread competition for average consumers requires that competitors be able to
16 access and use network elements in a simple and cost-effective manner. This means, as a

⁴ Source: Qwest response to AT&T 002-0046.

⁵ Source: Qwest response to AT&T 002-0044.

⁶ Source: Qwest VGE lines estimated by applying the regionwide VGE-to-access line ratio announced by Qwest in its 1stQ 2001 Earnings Release (Attachment C) to its Arizona access lines reported in ARMIS for 2000. Qwest was requested to supply its Arizona-specific VGE demand in AT&T 002-043, but has not yet responded.

⁷ Source: Direct Testimony of Qwest witness Brotherson, March 15, 2001, page 31.

⁸ Source: ARMIS 43-04 (2000), Dial Equipment Minutes. Originating usage was determined by assuming that Qwest customer traffic is in balance (i.e., ½ of its local minutes are originating minutes).

1 practical matter, that entrants must have access to logical combinations of network
2 elements to provide service. Although it is possible to “piece together” serving
3 arrangements using individual UNEs, the experience of the past five years demonstrates
4 that these “hand crafted” arrangements are primarily useful to serve larger business
5 customers desiring more specialized services.

6 The only way to achieve mass-market competition, however, is by providing entrants
7 with access to a UNE-based solution that has a broad geographic footprint, as well as a
8 low transaction cost to effect the customer’s decision to change local providers. When
9 loops and local switching (with shared transport) are available as combinations, these
10 critical prerequisites are satisfied. Because the existing network is used, a broad market
11 footprint is assured (assuming no unreasonable restriction on UNE-availability).

12 Furthermore, because the combination includes local switching, provisioning systems can
13 be automated, minimizing the nonrecurring cost to change carriers.

14 **Q. ARE THE ILECS WELL AWARE OF THE IMPORTANCE OF UNE**
15 **COMBINATIONS TO LOCAL COMPETITION?**

16 A. Yes. The importance of network element combinations to local competition is well
17 understood by the incumbent local telephone industry. No less ILEC-oriented
18 publication than the United States Telephone Association’s own magazine observed that
19 individual network elements are difficult to use at volume:

20 Because of their fragmentary nature, UNEs will be operationally difficult
21 to order and to provision on both sides. Product packages that comprise
22 appropriate and pre-set UNE combinations could reduce some of the
23 difficulties.⁹

⁹ *Wholesale Marketing Strategy*, Salvador Arias, *Teletimes*, United States Telephone Association, Volume 12, No. 3, 1998.

1 Moreover, whenever an ILEC confronts the same economic problem as a CLEC – i.e.,
2 how to offer competitive local exchange service on a broad scale – the answer that they
3 reach is no different than what I have discussed here: UNE-P. For instance, SBC
4 revealed during the review of its merger with Ameritech that its out-of-region entry
5 strategy was premised on the use of network element combinations to serve the
6 residential and small business market.¹⁰ Further, in Pennsylvania, Bell Atlantic was
7 ordered to file a plan to separate its operation into wholesale and retail affiliates. As part
8 of that filing, Bell Atlantic (now Verizon) proposed to use UNE-P as its principal entry
9 strategy to offer retail services.¹¹ When incumbents confront the same conditions as
10 entrants, they reach the same conclusion: Network element combinations are the only
11 practical means of offering mass-market services.

12 **Q. IS THERE QUANTITATIVE EVIDENCE THAT DEMONSTRATES THAT UNE-**
13 **P CAN MAKE A REAL DIFFERENCE, BRINGING COMPETITIVE BENEFIT**
14 **TO CUSTOMERS THAT OTHERWISE WOULD REMAIN A CAPTIVE**
15 **CONSUMER LEAVE THE ILEC?**

16 A. Yes. Although delayed by litigation, UNE-P has finally become available in a few
17 markets, first in New York and later in Texas and a few other states. Data from these
18 states confirm that the strategy can serve mass-market customers – i.e., those residential
19 and small business customers that desire conventional analog phone service. For
20 instance, Table 2 (below) contrasts the rapid expansion of local competition in New York

¹⁰ See Deposition and Testimony of James Kahan on behalf of SBC, Public Utilities Commission of Ohio, Case No. 98-1082-TP-AMT.

¹¹ See Re Structural Separation of Verizon Pennsylvania Inc. Retail and Wholesale Operations, Pennsylvania Public Utility Commission, Docket No. M-00001353.

1 achieved by UNE-P to the very limited competitive inroads that had been achieved by
2 UNE loops obtained individually.

3 **Table 2: The Growth of UNE-Based Competition in New York**

Entry Strategy	12/31/99	6/30/99	12/31/99
Individual UNE-Loops	49,442	62,817	80,000
UNE-Platform	0	75,000	400,000

4
5 There are now well over 1 million customers receiving competitive local exchange
6 services in New York from carriers using UNE-P.¹² The accelerated competition made
7 possible by UNE-P is all the more remarkable when one considers that individual loops
8 had been available in New York since before the Act was enacted. As a result, the above
9 table compares the penetration of UNE-loops after more than *five* years to the growth of
10 UNE-P at its *introduction*. The experience of UNE-P in New York drew the praise of
11 none other than Qwest itself – albeit, a Qwest that had not yet acquired U S WEST:

12 MCI WorldCom's use of the unbundled network element platform ("UNE
13 platform") in the New York local exchange market demonstrates that
14 access to the ILEC unbundled switching element is essential for CLEC
15 entry on a high volume, commercial scale.¹³

16 The ability of UNE-P to accommodate the commercial volumes necessary for mass-
17 market competition has been further validated in New York, where Verizon provisioned
18 more than 250,000 UNE-P orders in July 2000.¹⁴

¹² Application by Verizon New England for Authorization to Provide In-Region, InterLATA Services in Massachusetts, CC Docket No. 00-176, September 22, 2000, page 18.

¹³ Reply Comments of Qwest Communications Corporation, CC Docket 96-98, filed June 10, 1999, page 62.

¹⁴ Opinion 00-12, New York Public Service Commission, Case 00-C-0127, page 13.

1 **Q. IS THERE CONFIRMING DATA FROM OTHER STATES?**

2 A. Yes. For instance, even though BellSouth only began offering UNE-P in February
3 2000,¹⁵ in less than one year it had achieved the same penetration in Georgia as UNE-
4 Loops had achieved after four years.¹⁶ UNE-P is now responsible for nearly 70% of the
5 growth in UNE-based competition in Georgia, with a focus on residential and small
6 business customers.¹⁷

7 Evidence from Texas is similarly encouraging. UNE-P is supporting competitive entry in
8 Texas at a rate of more than 22,000 lines per month.¹⁸ The inescapable conclusion is that
9 implementing UNE-P is central to achieving the goal of a competitive local exchange
10 marketplace.

11 **Q. IS BROAD COMPETITION LIKELY TO DEVELOP IN THE ABSENCE OF**
12 **NETWORK ELEMENT COMBINATIONS?**

13 A. No, I do not believe that it will. The existing exchange network is massive and vast,
14 representing the cumulative investment of more than a century, much of it protected from
15 competition by government policy. This is not to say, of course, that the ILECs' network
16 *facilities* are as old as this. But competing in local markets requires more than mere
17 facilities. It also requires rights-of-way, business relationships, customer familiarity and
18 a host of other inputs that require time to develop and perfect. The ILECs' century-long

¹⁵ See BellSouth Ex Parte, Federal Communications Commission, Docket 96-98, October 13, 2000.

¹⁶ At the end of June 1999, there were BellSouth reported 26,646 unbundled loops in Georgia, with no UNE-P loops at all. In June 2000, there were 26,708 UNE-P loops, even though BellSouth had only introduced UNE-P at cost-based rates that February.

¹⁷ See PACE Ex Parte, Federal Communications Commission, Docket 96-98, January 8, 2001, page 11.

¹⁸ Source: Supplemental Joint Affidavit of Candy R. Conway and William R. Dysart, CC Docket No. 00-4, page 16. UNE-P volumes are averaged for December 1999 and January 2000, the two months of current data provided in the Affidavit.

1 head start – not to mention the scale economies achieved through a protected monopoly –
2 means that a competitive local market will not occur through happenstance or luck.

3 Nor should the Commission expect technological change to solve the competitive
4 dilemma soon, if at all. Many new technologies – advanced data services, for instance –
5 are most successful when marketed in packages combined with local voice. The fact is
6 that voice is *the* killer application, and a necessary component of any successful product
7 suite. Because UNE-P reduces barriers to this fundamental market, it holds the promise
8 of promoting competition more broadly across complementary product markets (such as
9 Internet access and long distance). Critically, however, the reverse is equally true –
10 failing to reduce barriers to the local voice market will inevitably reduce competition for
11 complementary services as well, perhaps to the point of “re-monopolization” by an ILEC
12 capable of leveraging its exchange dominance into all related markets.

13 III. IMPLEMENTING UNE-P

14 **Q. WHAT ACTIONS MUST THE COMMISSION TAKE TO ESTABLISH UNE-P**
15 **AS A VIABLE ENTRY STRATEGY IN ARIZONA?**

16 A. To begin, the Commission must establish correct rate levels for *all* unbundled network
17 elements, which would include those elements that comprise UNE-P. Cost-based rates
18 should provide the entrant a cost for facilities that is comparable to that of the incumbent.
19 Consequently, if Qwest is viable – which its financial reports clearly indicate -- then
20 other UNE-based entrants should be viable as well.

21 Second, the Commission should resolve issues needed to facilitate the use of UNE-P by

1 entrants. Actions that the Commission must take in this regard would include:

- 2 * Requiring Qwest to offer unbundled local switching throughout its
- 3 territory, without restriction.
- 4 * Shared transport should include the termination of all call types, including
- 5 calls that Qwest has labeled "toll," as well providing the transit function to
- 6 reach end-users served by CLECs interconnected with Qwest.
- 7 * Access to Operator Services and Directory Assistance (OS/DA) as
- 8 network elements should continue until a standardized "custom routing"
- 9 solution is defined, priced and implemented.

10 **Q. WOULD THE RATES FOR UNES PROPOSED BY QWEST IN THIS**
11 **PROCEEDING PERMIT ECONOMICALLY VIABLE ENTRY TO THE**
12 **RESIDENTIAL MARKET?**

13 A. No, they would not. As explained in more detail below, a comprehensive evaluation of
14 the profitability of using UNE-P to enter the residential market in Arizona demonstrates
15 that entry would not be economically viable at Qwest's proposed UNE rates. Three
16 "model" customer profiles were evaluated: a customer purchasing purely local exchange
17 service, a "typical" residential customer as described by Qwest in a earlier proceeding,¹⁹
18 and a CustomChoice (SM) customer. These profiles "bracket" the range of potential
19 customers. As shown below, however, entry is systematically precluded except perhaps

¹⁹ Source: In the Matter of the Petition of MCIMetro Access Transmission Services, Inc. For Arbitration of Interconnection Rates, Terms, and Conditions Pursuant to 47 U.S.C. § 252(b) of the Telecommunications Act of 1996, et. al., Docket No. U-3175-96-479, et. al., Direct Testimony of Geraldine G. Santos-Rach, September 25, 1996, Appendix 3. AT&T also request updated revenue information from Qwest in data request AT&T 002-049. Qwest objected to this request and did not respond. Revenue estimate for access and toll have been updated using data from Qwest's 2000 ARMIS 43-03 and 43-08 Reports.

1 for the very "highest revenue" customers.

2 **Table 3: Revenue Potential for Three Customer Profiles**
3 **(Base Rate Area)**
4

Revenue Category	Customer Profile		
	Pure Local	"Average"	Custom Choice
Local	\$14.38	\$14.38	\$32.95
EUCL	\$4.35	\$4.35	\$4.35
Features	\$2.79	\$2.79	
IntraLATA toll		\$0.27	\$0.27
IntraState Access		\$1.57	\$1.57
Interstate Access ²⁰		\$1.68	\$1.68
Subtotal	\$21.52	\$25.04	\$40.82
Discounted Revenue ²¹	\$19.37	\$22.86	\$37.06

5
6 Comparing these revenue estimates to the cost of UNE-P²² at the rates proposed by
7 Qwest in this proceeding demonstrates that UNE-P would generally not be a viable to
8 serve residential customers in Arizona irrespective of their revenue profile.²³

9 **Table 4: Estimated Margin – Residential Customers**

	Pure Local	"Average"	Custom Choice
Revenue/Line	\$19.37	\$22.86	\$37.06
UNE-P Cost/Line ²⁴	\$34.80	\$39.00	\$39.00
Margin/Line	(\$15.43)	(\$16.14)	(\$1.94)

10
²⁰ Adjusted to reflect estimated reductions under CALLS access plan.

²¹ This analysis assumes that a CLEC would need to discount the end-user's services by 10% to attract a customer. Because access charges are paid by the carrier -- and not the customer -- access revenues were not discounted.

²² It is also important to appreciate that this analysis is deliberately conservative. For example, the assumed local usage of 750 minutes effectively assumes that the customer does not use the Internet. Of course, such an assumption is unreasonable in today's market.

²³ In calculating the cost that a new entrant would pay to Qwest for the UNE-P elements, this analysis assumed that the new entrant would incur costs for 750 minutes of local usage per month, 20 minutes for intraLATA toll and 300 minutes of interLATA toll. The cost numbers are conservative because they assume no Internet usage. In addition, consistent with the revenue profile of a "pure local" customer, the analysis assumes no toll minutes for that customer.

²⁴ Average calculated using Zone distributions provided by Qwest (Millions, page 39).

1 Although the table above provides the estimated average margin statewide, an analysis
2 focuses only on entry in the lowest cost areas is no more promising. Even if an entrant
3 competed *only* in the lowest cost zone – a strategy at odds with the broad applicability of
4 an UNE-P based approach – the only product it would even *contemplate* introducing
5 would be a competitive alternative to CustomChoice. In the lowest cost zone, the UNE-P
6 cost would be \$33.12 – permitting a positive gross margin of roughly \$4.00 per month.
7 Of course, before any carrier *actually* offered such a product, the expected gross margin
8 would not only need to be positive, but sufficient to cover the CLEC’s own costs of
9 customer acquisition and service. As I explain below, these costs are significant and
10 would clearly more than absorb the miniscule margin for even a CustomChoice customer
11 in the lowest cost zone. Moreover, the above Table assumes that cost-based rates for
12 local switching are available ubiquitously, and not on a restricted basis as proposed by
13 Qwest.

14 **Q. IS IT PLAUSIBLE THAT QWEST IS LOSING MONEY BROADLY ACROSS**
15 **THE RESIDENTIAL MARKET AS IMPLIED BY TABLE 3?**

16 A. No. If Qwest’s proposed UNE rates accurately reflected Qwest’s underlying costs, then
17 this would imply that Qwest was hemorrhaging across its residential customer base.
18 Although the above analysis indicates that CustomChoice has a positive gross margin in
19 some circumstances (roughly 10%), even the fully mature Qwest incurs SG&A (sales,
20 general and administrative) costs of 22.9% (down from 25.9% last year), which makes
21 even its CustomChoice package unprofitable.²⁶ Overall, Qwest enjoys a gross margin of

²⁵ It is also important to appreciate that this analysis is deliberately conservative. For example, the assumed local usage of 750 minutes effectively assumes that the customer does not use the Internet. Of course, such an assumption is unreasonable in today’s market.

²⁶ Source: *Qwest Communications Reports Strong Fourth Quarter*, April 24, 2001.

1 over 62%. The only plausible explanation for the results presented in Table 4 is that
2 Qwest's proposed UNE rates are inflated.

3 **Q. HAS QWEST PROPOSED EVEN HIGHER RATES THAT WOULD MAKE ANY**
4 **FORM OF PROFITABLE ENTRY UNLIKELY?**

5 A. Yes. Qwest has also proposes to charge what it calls "market rates" for local switching in
6 any market where it is not "required" by the FCC to offer unbundled local switching at
7 cost-based rates.²⁷ Although Qwest has not yet proposed these "market rates" in this
8 proceeding, in other states the rate they would charge is nearly \$14.00/month. If Qwest
9 makes a similar proposal here, Qwest would be claiming that there is both a "market" for
10 local switching and it can inflate its rates by more than 950%. Precisely what kind of
11 "market" would support such pricing? Only a market where Qwest remains an effective
12 monopoly. Further, as the above margin analysis showed, an increase in the local
13 switching rate by such an amount would effectively make it impossible to serve *any*
14 customer, irrespective of its revenue profile. Abusing a line from the Wizard of OZ,
15 competition would not be "merely dead, but really, really, really dead."

16 **Q. THE ABOVE GROSS MARGIN ANALYSIS CONSIDERS ONLY THE COST OF**
17 **THE UNES NEEDED TO PROVIDE SERVICE. DO ENTRANTS INCUR**
18 **OTHER COSTS?**

19 A. Yes. The above analysis estimates only the gross margin opportunity. That is, it
20 estimates only the margin between expected revenues and what an entrant would pay (on
21 a per line basis) to the ILEC for UNE-P. Even where this relationship is positive,

²⁷ In Docket No. T-00000A-97-0238, Qwest's 271 filing, Qwest's Appendix A contains Local Switching rates - market based rates, under development.

1 however, the entrant would still incur substantial costs for customer acquisition and
2 support. As noted, Qwest's SG&A – an SG&A that would be substantially lower than an
3 entrant's because of Qwest's economies of scale, mature operation and far lower
4 customer "acquisition" costs – are nearly 25%. Even for an ILEC in the role of entrant,
5 customer acquisition costs are substantial. Indeed, because of such costs, GTE decided
6 that out-of-region entry was prohibitively costly. As GTE explained to the FCC:

7 Since its first launch into California in September 1997, GTECC [GTE's
8 "CLEC" affiliate] has learned that the assumptions upon which it built its
9 business plan were simply too optimistic. In addition to encountering
10 higher than expected costs of service delivery – i.e., order entry,
11 provisioning, billing and customer care – GTECC has learned that
12 customer acquisition costs, especially for the out-of-franchise small
13 business customers, are higher than expected. For example, in February
14 1998, GTE BD&I estimated the following average small business
15 customer acquisition costs:

	<u>In-Franchise</u>	<u>Near Out-of-Franchise</u>
3-9 Employees	\$900	\$1,600
9-50 Employees	\$1,300	\$2,300

16 GTECC's September 1998 year-to-date acquisition cost, however, was
17 much higher than any of these estimates -- \$3,309 per small business
18 customer. And since this figure includes in-franchise acquisitions – which
19 traditionally cost less – GTECC's out-of-franchise small business
20 acquisition cost is actually higher.²⁸

21 As the above demonstrates, local competition not only requires nondiscriminatory cost-
22 based rates for the UNEs needed to offer service, it *absolutely* requires such
23 nondiscrimination. This is not a situation where entrants have not tried "hard enough" or
24 where they lack the requisite skills. Even ILECs attempting out-of-region entry as
25 CLECs have failed -- Verizon ceased offering its out-of-region voice bundle last year,²⁹

²⁸ Joint Declaration of Jeffery C. Kissell and Scott M. Zimmerman, CC Docket 98-184, p. 5, (December 21, 1998).

²⁹ *Verizon to Close Irving, Texas-Based Division*, The Dallas Morning News, October 23, 2000.

1 while SBC has now placed its entry plans on hold.³⁰ Whether local competition *ever*
2 develops is a question that will be answered in proceedings such as this, where State
3 Commissions address the core fundamentals of entry.

4 **Q. WHAT DO YOU RECOMMEND?**

5 A. First, it is important that the Commission correctly establish cost-based rates for network
6 elements if it has any hope of achieving a “fully competitive” marketplace in Arizona.
7 To this end, I encourage the Commission to adopt the proposed rates of AT&T,
8 WorldCom and XO witness Michael Hydock.

9 Second, the Commission should reject Qwest’s effort to impose what it claims to be
10 market-based rates on local switching. Although FCC rules permit ILECs to withdraw
11 local switching under some circumstances,³¹ these rules do not supercede a State’s own
12 authority. Nearly 21% of the Phoenix market would be closed under Qwest’s proposal –
13 a substantial market hole that would impose yet another unnecessary barrier in the way of
14 competition.³² As a result, the Commission should reject Qwest’s proposed market rate.

15 **Q. ARE THERE OTHER ISSUES THAT THE COMMISSION SHOULD ADDRESS**
16 **AT THIS STAGE OF THE PROCEEDING?**

17 A. Yes. There is clearly a “chicken and the egg” linkage between a number of issues that
18 overlap the SGAT and this cost proceeding. Because how the Commission resolves these
19 questions may have cost consequences – and, just as importantly, may directly impact the

³⁰ *SBC Communications to Scale Back Plan to Expand Telecom Service Offerings*, The Philadelphia Inquirer, March 3, 2001.

³¹ See *In re Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket 96-98, Third Report and Order and Fourth Further Notice of Proposed Rulemaking (released November 5, 1999) (“UNE Remand Order”) at ¶ 278.

³² Source: Hybrid Benchmark Cost Proxy Model used to estimate universal service subsidy, Federal Communications Commission.

1 usefulness of network elements by entrants – the Commission should address these issues
2 here. Specifically, I recommend that the Commission direct Qwest to offer:

3 * Shared transport that includes call termination of *all* call types, including
4 calls that Qwest has labeled “toll,” as well providing the transit function to
5 reach end-users served by CLECs interconnected with Qwest.

6 * Access to Operator Services and Directory Assistance (OS/DA) as
7 network elements should continue until a standardized “custom routing”
8 solution is defined, priced and implemented.

9 **Q. WHY SHOULD QWEST BE REQUIRED TO INCLUDE INTRALATA CALL**
10 **TERMINATION AND TRANSIT SERVICE AS PART OF SHARED**
11 **TRANSPORT?**

12 A. When a CLEC leases capacity in the local switch, it is entitled to access all functionality
13 of that switch, including its routing tables. Through the normal operation of these routing
14 tables, CLEC traffic should terminate to other end-offices, including end-offices where
15 Qwest treats the call as “toll.” As explained by the FCC:

16 By requiring incumbent LECs to provide requesting carriers with access to
17 the incumbent LEC’s routing table and to all its interoffice transmission
18 facilities on an unbundled basis, requesting carriers can route calls in the
19 same manner that an incumbent routes its own calls and thus take
20 advantage of the incumbent LEC’s economies of scale, scope, and
21 density.³³

22 As is apparent from the above citation, there is no explicit or silent limitation in the
23 definition of shared transport that excludes calls that the incumbent has chosen to
24 consider “toll.”

³³ See *In re Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*,
CC Docket No. 96-98, Third Order on Reconsideration (released August 18, 1997) at ¶ 2.

1 Similarly, while most of a UNE-P purchaser's traffic terminates to subscribers served by
2 Qwest end-offices, some calls will go to customers served by other CLECs that have
3 installed their own end-office switches. To complete these calls in the most efficient
4 manner, it is important that shared transport include termination to all end-offices, Qwest
5 and CLEC alike. When shared transport terminates at a CLEC end-office, the
6 arrangement is referred to as "transit" – i.e., the call "transits" the Qwest network, and
7 terminates on the network of another LEC.

8 The essence of shared transport is providing CLECs access to the scale economies of the
9 interoffice network, with calls routed to their termination in accordance with the standard
10 routing tables in the end-office switch.³⁴ To assure that UNE-P is a viable and non-
11 discriminatory offering requires that transit be provided at cost-based rates, with the
12 entrants' traffic treated no differently than Qwest's own.

13 **Q. PLEASE EXPLAIN THE ISSUE WITH REGARDS TO OS/DA.**

14 A. The FCC has determined that competitive alternatives to the ILEC's OS and DA services
15 are available to CLECs. As a result, the FCC found that the ILECs could remove OS and
16 DA services from the list of mandatory network elements, but only if an ILEC had
17 implemented custom routing to enable CLECs to direct OS and DA traffic to alternative
18 providers.³⁵

³⁴ Notably, in the absence of custom routing, the *natural* operation of the network would provide shared transport users "transit" to all interconnected end-offices. In other words, to *avoid* providing transit in the context of shared transport would require that Qwest incur additional costs.

³⁵ UNE Remand Order at ¶ 446.

1 **Q. DO YOU DISAGREE THAT OS/DA SERVICES CAN BE OBTAINED FROM**
2 **PROVIDERS OTHER THAN QWEST?**

3 A. No, not as a theoretical matter. The issue is not whether OS and DA can be obtained
4 from alternative sources, the issue concerns whether OS and DA traffic can be efficiently
5 *delivered* to other providers so that entrants have a meaningful choice.

6 **Q. DOES QWEST PROVIDE THE NECESSARY "CUSTOM ROUTING" SO THAT**
7 **UNE-P BASED ENTRANTS CAN EFFICIENTLY DIRECT THEIR OPERATOR**
8 **AND DIRECTORY TRAFFIC TO AN ALTERNATIVE PROVIDER?**

9 A. No, it does not. To begin, the term "custom routing" in this context is something of a
10 misnomer. Generally, "custom routing" implies a request by an entrant for specialized
11 treatment of some category of traffic. There is nothing "specialized," however, with
12 respect to this application. UNE-P providers need a known, reliable and efficient
13 mechanism to deliver a specific type of traffic – OS and DA traffic – to another carrier.
14 Rather than describe, price and *prove* that it can satisfy this need for a standardized
15 "custom" routing application, Qwest has proposed to treat the arrangement on an ICB
16 basis. In other words, Qwest has provided no explanation as to how it will implement
17 custom routing, what it will cost, or whether its proposal – whatever it is -- actually
18 works.

19 **Q. WHY IS THERE SUCH A CONCERN ABOUT OS AND DA TRAFFIC?**

20 A. It is critical that the method of "custom routing" actually provide UNE-P entrants a
21 meaningful opportunity to use the services of an alternative provider. UNE-P based
22 entrants are unique (among other forms of local entrant) because they establish a
23 customer base across a *broad* geographic footprint, leasing capacity in switches across

1 the ILEC territory. This means that the UNE-P providers' OS/DA traffic is similarly
2 *distributed* throughout a region, and must be aggregated in order to use an alternative to
3 the ILEC.

4 Unfortunately, some ILECs are suggesting that UNE-P providers obtain custom routing
5 at *each* end-office – in effect, forcing the UNE-P provider to duplicate a interoffice
6 network exclusively for OS/DA traffic. Such an arrangement would preclude the UNE-P
7 provider from having an economic alternative to any provider other than the ILEC. As
8 the Michigan Commission concluded in its review of this issue:

9 The record supports the ALJ's finding regarding the infeasibility and
10 limited usefulness of the customized routing that Ameritech Michigan
11 proposes to accommodate the CLEC's OS/DA requirements. The record
12 indicates that providing this type of customized routing as the only
13 alternative to purchasing Ameritech Michigan's wholesale OS/DA
14 services at market prices (set by Ameritech Michigan) would require each
15 CLEC to establish dedicated trunks to every end office it serves. The
16 Commission finds that this alternative would be costly, inefficient and
17 burdensome.³⁶

18 Given no *practical* alternative to the ILEC's OS/DA service (at least until a viable
19 aggregation solution is implemented), the UNE-P provider must have an ability to
20 purchase these services at cost-based rates. It is critical that Qwest disclose how it
21 intends to aggregate OS/DA traffic so that Qwest's proposal may be evaluated. At
22 present, however, Qwest is using the term "individual case basis" to mask its proposal.

23 **Q. WHAT DO YOU RECOMMEND FOR OS AND DA TRAFFIC?**

24 A. The Commission should make clear that Qwest must continue to offer access to these
25 functions at cost-based rates until such time as the Commission concludes that entrants

³⁶ See Opinion and Order, Case No. U-12622, Michigan Public Service Commission, March 19, 2001, page 21.

1 have a meaningful opportunity to obtain these services from alternative sources,
2 including an economic custom routing solution that makes such alternatives practical.

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

4 **A. Yes.**

CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of the Testimony of Richard Chandler, Douglas Denney, and Thomas Weiss on behalf of AT&T Communications of the Mountain States, Inc., WorldCom, Inc., and XO Arizona, Inc. and the Testimony of Joseph Gillan on behalf AT&T Communications of the Mountain States, Inc. and WorldCom, Inc. in Docket No. T-00000A-00-0194 were sent by overnight delivery on May 15, 2001 to:

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Docket Control - Utilities Division
1200 West Washington Street
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and a true and correct copy was sent by overnight delivery on May 15, 2001 to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF INVESTIGATION) DOCKET NO. T-00000A-00-0194
INTO U S WEST COMMUNICATIONS,)
INC.'S COMPLIANCE WITH CERTAIN)
WHOLESALE PRICING REQUIREMENTS) NOTICE OF FILING SUMMARY
FOR UNBUNDLED NETWORK) TESTIMONY OF JOSEPH GILLAN
ELEMENTS AND RESALE DISCOUNTS)

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

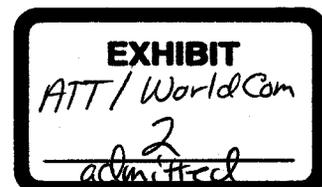
DATED this 24th day of July, 2001.

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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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