BEFORE THE ARIZONA CORPORATION COMMISSION

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.

NOTICE OF FILING

Z-Tel Communications, Inc. hereby files the attached Summary and Surrebuttal of George S. Ford.


Z-TEL COMMUNICATIONS, INC.

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SUMMARY OF TESTIMONY AND
SURREBUTTAL OF GEORGE S. FORD

SUMMARY

The purpose of my testimony is to assist the Commission in making decisions that are critical and central to the development of local exchange competition in Arizona. These same decisions also are critical to Qwest's future Section 271 application before the Federal Communications Commission ("FCC").

My testimony is divided into three parts:

First, I provide the Commission an analytical framework for establishing TELRIC compliant rates that will promote competitive entry in Arizona. Evidence in this proceeding is likely to provide a range of "TELRIC compliant rates" from which the Commission must select. As a result, the Commission will need to go beyond mere "number-crunching" and must instead provide a reasoned basis, consistent with the purposes of the 1996 Act, for selecting a rate from the TELRIC "zone of reasonableness."
The Commission should select TELRIC rates from the lower part of this range because that decision will promote the availability of new services in Arizona from new, competitive entrants.

Second, I discuss how the FCC will review the rates adopted in this proceeding in a Qwest Arizona Section 271 application. In recent Section 271 orders, the FCC has explicitly laid out the manner in which it determines whether UNE rates are TELRIC compliant. The FCC's decisions discuss how the FCC will establish the TELRIC "zone of reasonableness" for UNEs. In my testimony, I set forth this analysis in order to assist the Commission and Qwest, which undoubtedly should care whether its UNE rates will pass the FCC's analysis.

Third, I perform the FCC's "TELRIC test" for unbundled loops, unbundled local switching, unbundled tandem switching, and unbundled shared transport. This analysis reveals that Qwest's proposed rates for these UNEs will, without question, fail the FCC's
TELRIC test. Indeed, the rates for these UNEs are 30%-420% higher than the FCC’s analysis would permit. The loop and switching rates proposed by Mr. Dunkel, witness for the Commission staff, however, pass the TELRIC test and should be given greater weight by the Commission.

In addition, my discussion of unbundled loops includes a short discussion of the impact of Qwest’s proposed rate for line-sharing as well as the efficacy of Qwest’s line-sharing rate proposal. If a positive price is charged for the high frequency portion of the loop, then the rate for the low frequency portion of the loop rate must be reduced so that loop costs are not over-recovered. A simple formula that computes the loop rate reduction is provided in my testimony. Importantly, though mishandled by virtually every piece of testimony in this proceeding, line-sharing is “sharing.” Thus, if a positive price is charged for the high-frequency portion of the loop, then the rate for the low-frequency portion of the loop must be reduced to avoid the over-recovery of loop costs. When adjusting rates to account for a positive charge for line-sharing, the Commission should focus only on the unbundled loop rate, ignoring Qwest’s retail revenues.

**SURREBUTTAL**

Two Qwest witnesses responded to my testimony: William Fitzsimmons and Garrett Fleming. As discussed in detail below, Dr. Fitzsimmons’ responses to my testimony are an amalgam of misquotes and self-contradicting arguments. Mr. Fleming, while providing an excellent description of the relevance of my testimony, likewise misrepresents my position and fails an attempt to replicate the analysis contained in my testimony. The respondents will be dealt with in turn.

**Response to William Fitzsimmons**

(i) An Analytical Framework for Determining UNE Rates

First, Dr. Fitzsimmons states that I advocate “setting prices for unbundled network elements (UNEs) at levels that will ‘provide a springboard to a competitive future.’” [Fitzsimmons Rebuttal at 4] As an initial matter, this particular quote is not from my
testimony. More importantly, my testimony clearly sets forth the opinion that the Arizona Commission has a two-fold obligation in setting UNE rates: (i) UNE rates must comply with the TELRIC standard; and (ii) UNE rates should be set such that the overarching goal of the *Telecommunications Act of 1996* – promoting competition in all markets. In much of his response to my testimony, Dr. Fitzsimmons has chosen to ignore the first part of my two-part analytical framework. Once the first part of the framework is recognized, most of Dr. Fitzsimmons’ responses are rendered moot.

As an example, consider Dr. Fitzsimmons’ statement,

> Dr. Ford says that "the analysis is simple: lower UNE rates promote competition, higher UNE rates deter competition."

This facile view misses the essence of this proceeding. It is not to assist the entry of competitors with rock-bottom prices that fail to compensate Qwest for the use of its network by competitors (sentence fragment in original).

[Fitzsimmons Rebuttal at 7] Dr. Fitzsimmons’ quotation from my testimony is taken out of context and misconstrues the point. To illustrate, consider my testimony that states:

> … the TELRIC standard establishes a zone of reasonableness, not a particular rate. Once the boundaries of the ‘zone of reasonableness’ are set, the second order of business is to choose rates from that part of the ‘zone of reasonableness’ for which entry is most feasible. In some cases, it may be that costs are simply too high to induce entry, even at the low end of the ‘zone of reasonableness.’ In other cases, however, entry may feasible for some part of the ‘zone of reasonableness’ but not for others. It is imperative that this Commission consider the entry impact of the selection UNE rates. The analysis is simple: lower UNE rates promote competition, higher UNE rates deter competition.

[Ford Direct at 8]

Clearly, my testimony recommends that any rate chosen by this Commission should, at a minimum, satisfy TELRIC principles. That said, it is important to recognize that a number of UNE rates satisfy TELRIC and these rates define the TELRIC “zone of
reasonableness.” Once the TELRIC “zone of reasonableness” is determined, the second part of my analytical framework provides guidance on choosing a specific rate from within that zone. Among a choice of TELRIC compliant rates, choosing from the lower TELRIC compliant values is more conducive to competitive entry. Conversely, choosing rates from the higher part of the range demonstrates a preference for preserving the status quo at the expense of ensuring that consumers reap the benefits of competition.

The fact that Dr. Fitzsimmons has misrepresented my position is made most clear by my response to the question “Should rates be established solely to induce competitive entry?” My answer was:

No. The Act establishes two standards for rates. First, UNE rates must be set at costs, which (in practice) implies they must comply with the FCC’s TELRIC pricing rules. The establishment of rates conducive to competitive entry is the second, not the only, criterion. The FCC clearly stated that the reasonableness of rates is not determined by the business case of potential entrants (“incumbent LECs are not required ... to guarantee competitors a certain profit margin.” OK-KS 271 Order, ¶ 65). Satisfying the TELRIC standard is, I believe, the first order of business.”

However, the TELRIC standard establishes a zone of reasonableness, not a particular rate. Once the boundaries of the ‘zone of reasonableness’ are set, the second order of business is to choose rates from that part of the ‘zone of reasonableness’ for which entry is most feasible.

My two-part analytical framework is valid and clearly described in my testimony. The fact that Dr. Fitzsimmons has distorted and misstated my position is apparent and his criticisms are largely irrelevant. Most policymakers would agree that promoting competition is an important consideration in establishing UNE rates.

Dr. Fitzsimmons’ distaste for considering the effects of this proceeding on competition is particularly odd given the logic contained in his own testimony. Rather
than promoting competition, Dr. Fitzsimmons asserts the goal of policy is the “promotion of the investment and innovation (at 5 and 9).” He goes on to say, “[a] fundamental economic concept underlying the decision to transform local telecommunications into a competitive market is that competition will provide the proper incentives for more efficient investment and innovations (at 6).” Thus, according to Dr. Fitzsimmons, in order to promote “investment and innovation” we must promote competition, because competition provides the proper incentives for efficient investment and innovation. Dr. Fitzsimmons’ claim that promoting competition is “contrary to the fundamental goal of public policy,” therefore, is rejected by his own testimony.

Consistent with the misrepresentation theme of his rebuttal testimony, Dr. Fitzsimmons’ relies on an FCC Order to support his position that:

A central goal of telecommunications public policy is the promotion of the investment and innovation necessary to maintain a dynamic and modern network capable of providing high quality, ubiquitous services to consumers at affordable prices.

[Fitzsimmons Rebuttal at 5] The paragraph cited by Dr. Fitzsimmons in support of his position actually reads:

One of the fundamental goals of the Telecommunications Act of 1996 (the 1996 Act) is to promote innovation and investment by multiple market participants in order to stimulate competition for all services, including broadband communications services. In this Report, we consider the deployment of broadband capability – what Congress has called "advanced telecommunications capability."


In this paragraph, the FCC claims that the promotion of “innovation and investment by multiple market participants” will “stimulate competition for all services.” Clearly, the FCC considers the presence of multiple market participants and the stimulation of competition as important policy considerations. Further, the FCC’s
position here contradicts that of Dr. Fitzsimmons. The FCC asserts that “innovation and investment by multiple market participants” stimulates competition, not that competition stimulates innovation and investment. My two-part framework for establishing UNE rates has clear implications for the realization of “multiple market participants,” and appears to be most consistent with the FCC’s position on regulatory policy in the telecommunications industry.

There are many more misinterpretations of my testimony in Dr. Fitzsimmons’ responses. For example, he observes, “Carefully considering values for inputs and running a model with these inputs is not, as Dr. Ford suggests, a willy-nilly process.” [Fitzsimmons Rebuttal at 9] To evaluate Dr. Fitzsimmons point, consider the entire statement from my filed testimony:

It is important that the Commission have an analytical framework within which to evaluate proposed UNE rates. Without such a framework, rates will be determined willy-nilly and may bear neither a relationship to cost nor conducive to competitive entry— the dual standards of the Telecommunications Act of 1996.

[Ford Direct at 4] What is this analytical framework? My testimony states:

There are two primary elements in the analytical framework. First, as described in detail by the testimony of Qwest witness Theresa K. Million, the TELRIC standard provides one element of this analytical framework. The second element of the analytical framework— as important as the first— holds that the rates established in this proceeding should satisfy, to the greatest extent possible, the mandate of the 1996 Telecommunications Act to promote competition in all telecommunications markets.

[Ford Direct at 5] How is TELRIC determined? Again, consider my testimony:

In most cases, the input values recommended by the various parties to this proceeding will be supported by expert testimony and based, though sometimes loosely, on a reasoned analysis. There should be sufficient evidence on the
record to expose those cases where recommendations are void of any merit or are inconsistent with TELRIC.

Facing a menu of model assumptions and input values, the Commission will be forced to conclude that, in general, there is no single “right” number but a range of “right” numbers. The first step of the analytical framework defines what this range of “right” numbers is, thereby establishing the TELRIC ‘zone of reasonableness.’ This step is the first step of the analytical framework.

Clearly, it is not my position that the careful choice of inputs and algorithms for the model is a “willy-nilly process” as Dr. Fitzsimmons claims. Instead, his response to my testimony is based on a misrepresentation of my position. My testimony makes clear my position that this proceeding should be motivated by two goals: (i) setting UNE rates according to TELRIC principles and (ii) promoting competition in Arizona.

(ii) The FCC’s TELRIC Test

Undoubtedly, Qwest will use the rates established in this proceeding in support of its future 271 application for the State of Arizona. If the FCC determines that the UNE rates set in this proceeding are not TELRIC-compliant, then Qwest must “voluntarily” reduce those rates to TELRIC levels prior to approval. Such “voluntary” reductions in UNE rates were components of the Oklahoma, Kansas, and Massachusetts 271 proceedings before the FCC.

Recognizing the inextricable link between this proceeding and Qwest’s future 271 application, most of my testimony is devoted to estimating the boundaries for TELRIC compliance using methods developed and implemented by the FCC in previous 271 proceedings. As noted by Dr. Fitzsimmons: “Dr. Ford’s version of the TELRIC compliance test was derived from the test that the FCC used in negotiations with SBC and Verizon prior to granting interLATA relief in several states.” [Fitzsimmons Rebuttal]
The FCC has employed the TELRIC compliance test for the last three states receiving 271 approval, so the test's relevance is indisputable.

Nonetheless, Dr. Fitzsimmons questions the validity of my application of the TELRIC test to Qwest–Arizona. Although, he questions the cross-company comparisons made in my TELRIC test, his criticism is without merit. The FCC specifically has rejected the relevance of company-specific information in the determination of forward-looking cost for an efficient provider. Furthermore, because no Qwest state has received 271 approval, extending the information on TELRIC compliance from past 271 proceedings to Qwest seems reasonable.

Dr. Fitzsimmons also asserts that comparing rates across geographically dissimilar markets is invalid. I disagree, and the bulk of the evidence supports comparisons across markets that differ geographically. Every TELRIC model is designed to take into account geographic similarities and dissimilarities. Indeed, the recognition of state differences in costs is the motivation for the TELRIC test, which compares cost-adjusted rates across states. The FCC's Synthesis Model employs state-specific information in its calculations and adjusts the costs accordingly. If a model can compare Texas to Oklahoma and New York to Massachusetts, then it is inconceivable that the model would fail to accurately compare New York to Texas. Either the model adjusts for geography, or it does not. The FCC has concluded the Synthesis Model “provides a reasonable basis for comparing cost differences between states (OK-KS 271 Order, ¶84).” Third, the states I employed in the TELRIC test for Arizona were Texas, Oklahoma, and Kansas.

These states are the most geographically proximate to Arizona of all the 271 approved states and are the most similar in terms of the distribution of lines across density zones.2

As a third criticism, Dr. Fitzsimmons asserts, "Dr. Ford includes UNE prices from Oklahoma and Kansas in his analysis. This introduces a second order error akin to the reduction of clarity caused by re-faxing a fax." [Fitzsimmons Rebuttal at 22] He goes on to reject his own argument, however. According to Dr. Fitzsimmons only those rates that have "already been found by the FCC to be reasonable" can be included in the TELRIC test. [Fitzsimmons Rebuttal at 22] Dr. Fitzsimmons also observes,

"[a]s part of the approval process for Verizon and SBC to provide interLATA service in Oklahoma and Massachusetts pursuant to section 271 of the Telecommunications Act, the FCC applied a test to determine if the agency was satisfied that certain of the companies’ UNE price were in compliant with TELRIC."

[Fitzsimmons Rebuttal at 20-1] As Dr. Fitzsimmons admits, therefore, the FCC found the UNE rates in Oklahoma to be TELRIC compliant. It is also indisputable that the loop rates in Kansas clearly satisfied the TELRIC test. Thus, the rates in Oklahoma and Kansas are TELRIC compliant (according to the FCC) and, consequently, there is no re-faxing problem associated with the use of those rates in the TELRIC test; a TELRIC compliant rate is a TELRIC compliant rate. In any case, removing the rates for Oklahoma and Kansas from the analysis does not materially change the rates recommended for Arizona.3

Finally, Dr. Fitzsimmons concludes that my TELRIC test must be flawed because “[t]he loop rate recommended by Dr. Ford as a result of his version of the compliance test

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2 Based on the Density Zone data from the FCC's Hybrid Cost Model, the mean absolute percent error across density zones between Arizona and the five states with 271 approval are: New York (83%), Massachusetts (50%), Kansas (42.5%), Oklahoma (43%), and Texas (24.6%).

3 If only Texas is used for the TELRIC test it is not possible to establish upper and lower bounds; only a point estimate is generated from the TELRIC test with only one reference state.
is clearly below the forward-looking cost of the loop.” [Fitzsimmons Rebuttal at 23] As proof of this assertion, Dr. Fitzsimmons compares my estimate of loop cost ($13.30) to his estimate (nearly $20). Dr. Fitzsimmons conveniently ignores the estimates of loop cost by Mr. Dunkel ($12.35/$13.60) and AT&T ($10.11). His assertion that my proposed loop cost is too low hinges on one critical assumption— that his own estimate is correct. There is sufficient evidence on the record to question the validity of that assumption.

(iii) Line-Sharing and Loop Rates

Notably, no Qwest witness responds to my testimony on line-sharing, which stands as the best explanation on the record of the economic theory of pricing under joint supply in competitive markets. A related response, though not directed at my testimony, is Dr. Fitzsimmons’ observation:

To my knowledge, no intervenors in this proceeding provide
... analysis that demonstrates how amortized loop costs are
being recovered with current revenues from current customers.

[Fitzsimmons Rebuttal at 63] Whether or not “current revenues from current customers” covers amortized loop costs is entirely irrelevant to the issue of line-sharing and the price of the high-frequency portion of the loop. Qwest’s retail service offerings are immaterial to the proper treatment of line-sharing and loop charges. For the provider of unbundled elements, only two services are sold: the low-frequency and high-frequency portions of the loop. If the average total cost (including overhead and reasonable profit) of the loop is determined to be, say, $13.00, then the revenue from that loop should be $13.00. If Qwest receives $13 per loop and also receives $5 for the high frequency part of some loops (including those sold to itself), then Qwest has over-recovered the cost of the loop. Over-recovery violates the theory of joint-supply under competition, which states that the revenue from the loop (across all products provided by the loop) must equal the average (economic) cost of the loop. [See Ford Direct at 17-18] To remedy this over-recovery, the UNE loop rates must be reduced to avoid excess recovery of loop costs. The method
by which this reduction is computed is provided in my testimony. The line-sharing penetration implicit in Mr. Dunkel's allocation of line-sharing OSS costs should be used in the computation.

Response to Garrett Fleming

Mr. Fleming begins his response to my testimony by noting that my two-part analytical framework is neither required by the Act nor proposed by the FCC. Yet, Mr. Fleming observes that the "Act specifically delegates the task of setting UNE prices to state Commissions." If it is the task of the state Commission to set UNE rates, as Mr. Fleming contends, then it does not matter whether or not the Act included, or the FCC employs or recommends, my two-part framework. Indeed, the testimony to which Mr. Fleming is responding is testimony before a state Commission, and this Commission is perfectly free to consider as much or as little information as possible in setting UNE rates.

I do not argue in my testimony that UNE prices should be set at the "bare minimum" of the TELRIC range as Mr. Fleming contends. However, my testimony does make the observation that choosing lower TELRIC estimates over higher estimates certainly is more consistent with the over-arching goal of the Act and, presumably, the goal of the Commission (i.e., to promote competition). Moreover, the Commission will send a clear message that it intends to bring the benefits of competition to consumers by choosing rates from the lower end of the permissible range.

Mr. Fleming accuses me of "selectively [applying] the TELRIC test to derive his desired results." [Fleming Rebuttal at 16] Mr. Fleming's accusation is baseless. The TELRIC test is a procedure developed by the FCC in its Section 271 process. The Commission should expect that the FCC will perform this test for a Qwest Arizona application. My testimony describes the FCC calculations, reproduces those calculations for a number of states, and reports the results. There was no "desired result" other than
informing Qwest and the Commission what the FCC’s TELRIC test establishes as a reasonable range for UNE rates in Arizona.

There were five potential states that could be included in the analysis: I included three. Let me explain why certain states were selected as elements of the reference state. First, including Texas, Oklahoma, and Kansas as reference states was based on the relative geographic proximity of those states to Arizona, particularly in relation to New York and Massachusetts. Along those same lines, based on the Density Zone data from the FCC’s Hybrid Cost Model, comparing teledensity between Arizona and the five states with 271 approval suggests Kansas, Oklahoma, and Texas are more similar to Arizona in terms of teledensity than are either Massachusetts or New York. The mean absolute percent errors of line density across density zones are: New York (9.2%), Massachusetts (5.6%), Kansas (4.7%), Oklahoma (4.8%), and Texas (2.7%). Second, and perhaps more importantly, the UNE rates in New York and Massachusetts are currently under review. Recently, the Administrative Law Judge in New York proposed rate reductions for switching elements of about 50%, and those reductions likely will flow through to Massachusetts. When those cost proceedings are complete, adding New York and Massachusetts to the analysis (as recommended by Mr. Fleming) would be (in my view) a reasonable extension of the TELRIC test described in my testimony. Also, the SBC and Qwest states employ “bill-and-keep” for reciprocal compensation; Verizon does not.

Mr. Fleming further asserts that I recommend that the Commission abandon TELRIC principles for the TELRIC test. There are two problems with Mr. Fleming’s assertion. First, I did not recommend the Commission make such a substitution. My responses to Dr. Fitzsimmons on this point reflect my true position, as does the following quote from my testimony:

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4 The model fully accounts for geographic differences, so the FCC’s position on this point is a bit of mystery.
Facing a menu of model assumptions and input values, the Commission will be forced to conclude that, in general, there is no single "right" number but a range of "right" numbers. The first step of the analytical framework defines what this range of "right" numbers is, thereby establishing the TELRIC 'zone of reasonableness.' This step is the first step of the analytical framework.

Once these boundaries are established, the second part of the analytical framework is to be applied. Each input value, assumption, or resultant cost estimate should be classified according to its effect on competition. Because higher UNE rates reduce competition and lower UNE rates increase competition, assumptions and/or input values that increase the cost estimates decrease competition and those that decrease cost estimates increase competition. The final input values and assumptions accepted by the Commission should be chosen so that competitive entry is viable, i.e., from that part of the "zone of reasonableness" associated with lower costs. The second part of the framework is certainly easier to implement than the first.

[Ford Direct at 10] Clearly, I do not recommend the Commission abandon TELRIC.5

Second, while I recommend the Commission adhere to TELRIC principles, the FCC's 271 Orders clearly state that a "range" of rates is permissible and that strict adherence to TELRIC is not required. In the Oklahoma-Kansas 271 Order, the FCC observes" [w]hile the loop rates were not derived in total compliance with our TELRIC rules, this flaw is not fatal to SWBT's application. The discounts now available in Oklahoma compensate for the ALJ's use of a fill factor that was not compliant with TELRIC. ...[W]e find that the discounted rates currently available are within a range that could be obtained by using TELRIC. (OK-KS Order, ¶ 87).” The FCC makes clear that how the rates are derived is less important than whether the UNE rates “are within

5 My position that a number of inputs are reasonable is supported by the FCC's statement in the Oklahoma-Kansas 271 Order: “we have determined that standard to mean that any of a number of inputs or results from within a certain range could be appropriate (OK-KS 271 Order, ¶ 91).”
the range that TELRIC would produce (OK-KS 271 Order, ¶ 86).” Determining whether or not a UNE rate was “within the range that TELRIC would produce” was the specific task of the FCC’s TELRIC test. Thus, both the Oklahoma-Kansas and Massachusetts 271 Orders reject Mr. Fleming’s contention that the FCC requires “states to set the prices for UNEs based on TELRIC principles.” [Fleming Rebuttal at 18] Neither the loop rate in Oklahoma nor the switching rates in Massachusetts were the product of a TELRIC model. Both sets of rates, however, were deemed TELRIC compliant by the FCC based on the application of the TELRIC test to those rates.

While Mr. Fleming encourages, at times, the wholesale rejection of my testimony, Mr. Fleming makes the utility of my testimony clear when he observes:

The FCC developed the test solely as a means for assessing the reasonableness of a company’s UNE prices when those prices were based on assumptions or inputs that did not comport with the TELRIC rules. If the FCC determines that a state Commission erred in its application of TELRIC principles, the FCC uses the test to assess whether the error was so grievous as to result in a price that is outside the range that the reasonable application of TELRIC principles would produce. In other words, it is a test that the FCC uses to determine if a misapplication of TELRIC principles has resulted in prices that are outside a reasonable range.

[Fleming Rebuttal at 18]

If the FCC uses the TELRIC test “to determine if a misapplication of TELRIC principles has resulted in prices that are outside a reasonable range,” then I would think it would be extremely useful for this Commission to know now, while the proceeding is underway, the upper and lower bounds of this “reasonable range” of TELRIC prices. Providing that information is exactly the purpose of my testimony.

Mr. Fleming also argues that the rate structures among the states are too variable to allow comparisons using the TELRIC test. I disagree. First, the FCC seeks rate structures that are similar, not identical. The rate structure for loops, for example, differs hardly at all (if any) among the states. Likewise, tandem switching is not an element subject to complex rate structures. Non-recurring charges differ more substantially
across states, but my testimony does not address non-recurring charges. Second, the examples of differences provided by Mr. Fleming are irrelevant to the validity of the TELRIC test. Specifically, the TELRIC test uses statewide average rates, so the extent of deaveraging of rates is irrelevant. Observing that Arizona is the only state in the sample charging separately for the switch port and port features is indeed important, but not for the reasons Mr. Fleming asserts. These separate charges increase the cost of switching and contribute to Qwest’s gross overstatement of switching rates in Arizona. Discovering this problem is exactly the purpose of the TELRIC test. Application of the test in Arizona reveals quite clearly that a “misapplication of TELRIC principles has resulted in prices that are outside a reasonable range” – the purpose of the test agreed to by Mr. Fleming.

Differences in rate structures across states do exist. In the context of the TELRIC test, most of these differences are handled easily by creating price and cost indicia, which is the approach I adopt for unbundled end-office switching. Including multiple states in the TELRIC test so that boundaries are generated, rather than specific rates, also accounts for differences across states in rate structure.

Finally, Mr. Fleming attempts to replicate the TELRIC test and make some adjustments to the specific states included in the analysis. This effort is indeed peculiar given his admittance that he has “not been able to replicate Mr. Ford’s HCPM cost results.” [Fleming Rebuttal at 16] 6 In any event, an examination of his results shows that

6 The computation of average loop costs from the HCPM is straightforward, and the calculations and data sources were provided in Z-Tel response to WD-2-1. The HCPM files provide line count and loop cost estimates by wire center. From these two variables, the weighted average loop cost can be calculated. Overhead expense, provided in Cell C33 of the “Per Line” sheet (described as “Variable Overhead” under the heading “Annual Per-Loop Expense”) of the HCPM output file available (free of charge) from the FCC website. The overhead expenses is adjusted by the formula applied to the “Summary” worksheet of the HCPM output: \[ \frac{\text{Sum(H3:AA3)} + \text{Sum(AE3:AI3)}}{\text{CF3}} \] (as noted in WD-2-1). The FCC provided this specific calculation to me.
he did not replicate my analysis, which explains his differing results. First, in comparing
loop rates across states, Mr. Fleming has included the costs of switching components.\textsuperscript{7}
[Fleming Table 2] Obviously, switching costs are irrelevant to the determination of loop
costs. Second, if New York, Massachusetts, Kansas, and Texas are used as the reference
states, the point estimate for the loop rate in Arizona is about $14.57 (not $16.08 as Mr.
Fleming claims), with a lower bound of $13.47. If all 271 approved states are included in
the analysis, the point estimate is $14.39, with a lower bound of $12.17. Thus, the results
of the TELRIC test are not substantially altered by the inclusion of all 271 approved
states (approximately an 8\% increase in the recommended loop rate and no change in the
lower bound). As mentioned above, including New York and Massachusetts in the
analysis is perhaps unwise given that UNE rates in those states are currently under review
and most likely will change in the very near future.

Mr. Fleming’s inclusion of New York and Massachusetts in the switching cost
comparison is clearly inappropriate. Interestingly, by Mr. Fleming’s own standards,
Massachusetts should not be included because the switching rates in Massachusetts were
not the product of a TELRIC model, but were adopted from New York. Thus,
Massachusetts switching rates are subject to the same “circularity” that Mr. Fleming
contends plagues the Oklahoma loop rate.\textsuperscript{8} [Fleming Rebuttal at 27] Furthermore, in the
current cost proceeding in New York, initiated in part due to Bell Atlantic’s “careless
errors” regarding switching costs that were “distressing and disruptive of the process,”
the Recommended Decision of the ALJ mandated switching cost reduction of about 50%.
Recommended Decision by Administrative Law Judge Joel A. Linsider, Case 98-C-

\textsuperscript{7} In the HCPM, the “Total Basic Local Svc Cost” includes switching elements in addition to loop costs.

\textsuperscript{8} Interestingly, the $3.24 switching cost cited in Mr. Fleming’s testimony is based on a comparison with Massachusetts.