Transcript Exhibit(s)

Docket #(s): 1-0022A-00-0194

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

[Signature]

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 US WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH CERTAIN WHOLESALE PRICING REQUIREMENTS FOR UNBUNDLED NETWORK ELEMENTS AND RESALE DISCOUNTS

DOCKET NO. T-0000A-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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I. INTRODUCTION AND WITNESS QUALIFICATION

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

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

Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND RELATED EXPERIENCE.

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

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

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

Q. PLEASE SUMMARIZE THE PRINCIPAL POINTS OF YOUR TESTIMONY.

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

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

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

* The fundamental role of UNEs is to assure that this inherited network resource is available to multiple providers, so that it provides a springboard to a competitive future defined by new and different
Because local voice is a threshold requirement for almost all complementary services (such as, for instance, long distance and Internet access), competition in this core market will affect the degree of competition in all adjacent markets as well. The drive to one-stop shopping and packaged services makes it imperative that local competition succeed, or competition more generally may perish.

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

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

A. Yes. Although much regulatory attention over the past five years has focused on implementing the decisions of the Federal Communications Commission (FCC), it is important to appreciate the much larger role of played by State action opening local markets. Importantly, these FCC rules are national minimums that a State may not fall below. But whether local competition ever really develops will fundamentally be
determined by State Commissions, acting aggressively to make sure that entrants have
cost-based access to the network elements – and network element combinations – needed
to compete. The nation’s experience over the past five years makes clear that State
initiatives above and beyond federal minimums will be necessary if the promise of local
competition is to ever become a reality.

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

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

Q. WHAT SPECIFIC ISSUES DOES YOUR TESTIMONY ADDRESS?

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

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

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

Importantly, the “transactions cost” associated with a customer’s decision to combine its long distance service with its local service is trivially small because this process (i.e., changing a customer’s presubscribed interexchange carrier) has been fully automated. As a result, “long distance” customers can easily migrate to Qwest for an all-distance
package. Only UNE-P, however, holds the near-term ability to reduce transactions costs to effect a customers’ decision to select any carrier other than Qwest. Restructuring the market to an efficient new equilibrium requires that these migration costs not prevent -- much less distort – consumer choices, an outcome possible only with unrestricted availability of UNE-P.

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

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

* Each element necessary for UNE-P, including unbundled local switching, throughout the State. Qwest is proposing to impose what it calls “market” rates for local switching in some areas that are far beyond its cost, and would effectively preclude competitive entry.

* Shared transport that includes the termination of all intraLATA calling, and provides transit capability to other CLEC switches interconnected with Qwest.

* Operator Service and Directory Assistance (OS/DA) functions at cost-based rates until a standardized “custom routing” solution that would enable entrants to use alternative providers of OS and DA service is defined, priced and implemented by Qwest in a manner that supports practical competition.

As a practical matter, competition for traditional analog voice services requires access to network element combinations. Now is the time to implement this important entry strategy.
II. THE STATUS OF LOCAL COMPETITION IN ARIZONA

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

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

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

A. There are a number of different ways to measure competitive activity in Arizona, but the overall conclusion remains the same. Local competition – particularly local competition 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.
Arizona. Consider the following comparison between the number of voice-equivalent
unbundled loops (and even resold lines) to a comparable measure for Qwest:

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

<table>
<thead>
<tr>
<th></th>
<th>VGE Lines</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNE VGE Loops</td>
<td>22,871</td>
<td>0.3%</td>
</tr>
<tr>
<td>Resold VGEs</td>
<td>34,572</td>
<td>0.5%</td>
</tr>
<tr>
<td>Qwest VGEs</td>
<td>6,676,088</td>
<td>99.1%</td>
</tr>
<tr>
<td>Total</td>
<td>6,733,531</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

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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.
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).
practical matter, that entrants must have access to logical combinations of network

elements to provide service. Although it is possible to “piece together” serving

arrangements using individual UNEs, the experience of the past five years demonstrates

that these “hand crafted” arrangements are primarily useful to serve larger business

customers desiring more specialized services.

The only way to achieve mass-market competition, however, is by providing entrants

with access to a UNE-based solution that has a broad geographic footprint, as well as a

low transaction cost to effect the customer’s decision to change local providers. When

loops and local switching (with shared transport) are available as combinations, these

critical prerequisites are satisfied. Because the existing network is used, a broad market

footprint is assured (assuming no unreasonable restriction on UNE-availability).

Furthermore, because the combination includes local switching, provisioning systems can

be automated, minimizing the nonrecurring cost to change carriers.

Q. ARE THE ILECS WELL AWARE OF THE IMPORTANCE OF UNE

COMBINATIONS TO LOCAL COMPETITION?

A. Yes. The importance of network element combinations to local competition is well

understood by the incumbent local telephone industry. No less ILEC-oriented

publication than the United States Telephone Association’s own magazine observed that

individual network elements are difficult to use at volume:

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

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

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

A. Yes. Although delayed by litigation, UNE-P has finally become available in a few
markets, first in New York and later in Texas and a few other states. Data from these
states confirm that the strategy can serve mass-market customers – i.e., those residential
and small business customers that desire conventional analog phone service. For
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
achieved by UNE-P to the very limited competitive inroads that had been achieved by UNE loops obtained individually.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual UNE-Loops</td>
<td>49,442</td>
<td>62,817</td>
<td>80,000</td>
</tr>
<tr>
<td>UNE-Platform</td>
<td>0</td>
<td>75,000</td>
<td>400,000</td>
</tr>
</tbody>
</table>

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

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

The ability of UNE-P to accommodate the commercial volumes necessary for mass-market competition has been further validated in New York, where Verizon provisioned more than 250,000 UNE-P orders in July 2000.

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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.
14 Opinion 00-12, New York Public Service Commission, Case 00-C-0127, page 13.
Q. IS THERE CONFIRMING DATA FROM OTHER STATES?

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

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

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

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

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

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

III. IMPLEMENTING UNE-P

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

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

Second, the Commission should resolve issues needed to facilitate the use of UNE-P by
entrants. Actions that the Commission must take in this regard would include:

* Requiring Qwest to offer unbundled local switching throughout its territory, without restriction.

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

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

**Q. WOULD THE RATES FOR UNE S PROPOSED BY QWEST IN THIS PROCEEDING PERMIT ECONOMICALLY VIABLE ENTRY TO THE RESIDENTIAL MARKET?**

**A.** No, they would not. As explained in more detail below, a comprehensive evaluation of the profitability of using UNE-P to enter the residential market in Arizona demonstrates that entry would not be economically viable at Qwest’s proposed UNE rates. Three “model” customer profiles were evaluated: a customer purchasing purely local exchange service, a “typical” residential customer as described by Qwest in a earlier proceeding,

and a CustomChoice \(^{(SM)}\) customer. These profiles “bracket” the range of potential customers. As shown below, however, entry is systematically precluded except perhaps

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\(^{19}\) Source: In the Matter of the Petition of MCI Metro 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.
for the very "highest revenue" customers.

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

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>Customer Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pure Local</td>
</tr>
<tr>
<td>Local</td>
<td>$14.38</td>
</tr>
<tr>
<td>EUCL</td>
<td>$4.35</td>
</tr>
<tr>
<td>Features</td>
<td>$2.79</td>
</tr>
<tr>
<td>IntraLATA toll</td>
<td></td>
</tr>
<tr>
<td>IntraState Access</td>
<td></td>
</tr>
<tr>
<td>Interstate Access</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$21.52</td>
</tr>
<tr>
<td>Discounted Revenue</td>
<td>$19.37</td>
</tr>
</tbody>
</table>

Comparing these revenue estimates to the cost of UNE-P\(^\text{22}\) at the rates proposed by Qwest in this proceeding demonstrates that UNE-P would generally not be a viable to serve residential customers in Arizona irrespective of their revenue profile.\(^\text{23}\)

Table 4: Estimated Margin – Residential Customers

<table>
<thead>
<tr>
<th></th>
<th>Pure Local</th>
<th>&quot;Average&quot;</th>
<th>Custom Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/Line</td>
<td>$19.37</td>
<td>$22.86</td>
<td>$37.06</td>
</tr>
<tr>
<td>UNE-P Cost/Line(^\text{24})</td>
<td>$34.80</td>
<td>$39.00</td>
<td>$39.00</td>
</tr>
<tr>
<td>Margin/Line</td>
<td>($15.43)</td>
<td>($16.14)</td>
<td>($1.94)</td>
</tr>
</tbody>
</table>

\(^\text{20}\) Adjusted to reflect estimated reductions under CALLS access plan.

\(^\text{21}\) 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.

\(^\text{22}\) 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.

\(^\text{23}\) 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.

\(^\text{24}\) Average calculated using Zone distributions provided by Qwest (Millions, page 39).
Although the table above provides the estimated average margin statewide, an analysis focuses only on entry in the lowest cost areas is no more promising. Even if an entrant competed only in the lowest cost zone – a strategy at odds with the broad applicability of an UNE-P based approach – the only product it would even contemplate introducing would be a competitive alternative to CustomChoice. In the lowest cost zone, the UNE-P cost would be $33.12 – permitting a positive gross margin of roughly $4.00 per month. Of course, before any carrier actually offered such a product, the expected gross margin would not only need to be positive, but sufficient to cover the CLEC’s own costs of customer acquisition and service. As I explain below, these costs are significant and would clearly more than absorb the miniscule margin for even a CustomChoice customer in the lowest cost zone. Moreover, the above Table assumes that cost-based rates for local switching are available ubiquitously, and not on a restricted basis as proposed by Qwest.

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

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

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

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

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

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

A. Yes. The above analysis estimates only the gross margin opportunity. That is, it estimates only the margin between expected revenues and what an entrant would pay (on 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.
however, the entrant would still incur substantial costs for customer acquisition and
support. As noted, Qwest's SG&A – an SG&A that would be substantially lower than an
entrant's because of Qwest's economies of scale, mature operation and far lower
customer "acquisition" costs – are nearly 25%. Even for an ILEC in the role of entrant,
customer acquisition costs are substantial. Indeed, because of such costs, GTE decided
that out-of-region entry was prohibitively costly. As GTE explained to the FCC:

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

<table>
<thead>
<tr>
<th>Employees Level</th>
<th>In-Franchise</th>
<th>Near Out-of-Franchise</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-9 Employees</td>
<td>$900</td>
<td>$1,600</td>
</tr>
<tr>
<td>9-50 Employees</td>
<td>$1,300</td>
<td>$2,300</td>
</tr>
</tbody>
</table>

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

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

\(^{29}\) Verizon to Close Irving, Texas-Based Division, The Dallas Morning News, October 23, 2000.
while SBC has now placed its entry plans on hold. Whether local competition ever
develops is a question that will be answered in proceedings such as this, where State
Commissions address the core fundamentals of entry.

Q. WHAT DO YOU RECOMMEND?

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

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

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

A. Yes. There is clearly a “chicken and the egg” linkage between a number of issues that
overlap the SGAT and this cost proceeding. Because how the Commission resolves these
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
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.
usefulness of network elements by entrants – the Commission should address these issues here. Specifically, I recommend that the Commission direct Qwest to offer:

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

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

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

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

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

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

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

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

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

A. The FCC has determined that competitive alternatives to the ILEC’s OS and DA services are available to CLECs. As a result, the FCC found that the ILECs could remove OS and DA services from the list of mandatory network elements, but only if an ILEC had implemented custom routing to enable CLECs to direct OS and DA traffic to alternative 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.
Q. DO YOU DISAGREE THAT OS/DA SERVICES CAN BE OBTAINED FROM PROVIDERS OTHER THAN QWEST?

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

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

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

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

A. It is critical that the method of “custom routing” actually provide UNE-P entrants a meaningful opportunity to use the services of an alternative provider. UNE-P based entrants are unique (among other forms of local entrant) because they establish a customer base across a broad geographic footprint, leasing capacity in switches across
the ILEC territory. This means that the UNE-P providers’ OS/DA traffic is similarly distributed throughout a region, and must be aggregated in order to use an alternative to the ILEC.

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

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

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

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

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

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

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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:

Arizona Corporation Commission
Docket Control - Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

and a true and correct copy was sent by overnight delivery on May 15, 2001 to:

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Deborah Scott
Director - Utilities Division
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Chief Administrative Law Judge
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Phoenix, AZ 85067-6379

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Sallquist & Drummond
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* Sent Weiss testimony and exhibit THW-2 containing proprietary Qwest information.  
The information was sent to non-Qwest parties based on Exhibit A's received by AT&T.
* Sent Weiss testimony and exhibit THW-2 containing proprietary Qwest information. The information was sent to non-Qwest parties based on Exhibit A’s received by AT&T.
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Gary L. Lane  
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Scottsdale, AZ 85251

* Sent Weiss testimony and exhibit THW-2 containing proprietary Qwest information.  
The information was sent to nonQwest parties based on Exhibit A's received by AT&T.
BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET no. T-00000A-00-0194
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

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

By  
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Attorneys for AT&T Communications
of the Mountain States, Inc.
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)

<table>
<thead>
<tr>
<th></th>
<th>Pure Local</th>
<th>&quot;Average&quot;</th>
<th>Custom Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/Line</td>
<td>$19.37</td>
<td>$22.86</td>
<td>$37.06</td>
</tr>
<tr>
<td>UNE-P Cost/Line</td>
<td>$31.61</td>
<td>$35.70</td>
<td>$35.70</td>
</tr>
<tr>
<td>Margin/Line</td>
<td>($12.24)</td>
<td>($12.84)</td>
<td>$1.36</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Cost/Revenue (000s)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Switched Services Revenues</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td>$1,228,025</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>UNE Lease Payments&lt;sup&gt;3&lt;/sup&gt;</td>
<td>$1,267,836</td>
</tr>
<tr>
<td>Marketing Expense (Acct 6610)</td>
<td>$83,544</td>
</tr>
<tr>
<td>Customer Service Expense (Acct 6623)</td>
<td>$108,643</td>
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<tr>
<td>Executive and Planning (Acct 6710)</td>
<td>$20,728</td>
</tr>
<tr>
<td>General and Administrative (Acct 6720)</td>
<td>$207,979</td>
</tr>
<tr>
<td><strong>Total Operating Expense</strong></td>
<td>$1,688,730</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>($460,705)</td>
</tr>
</tbody>
</table>

According to Qwest data on file with the FCC,<sup>4</sup> 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.

---

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

<sup>3</sup> 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.

<sup>4</sup> 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.

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:

<table>
<thead>
<tr>
<th>Docket Control</th>
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<tbody>
<tr>
<td>Arizona Corporation Commission</td>
</tr>
<tr>
<td>1200 West Washington</td>
</tr>
<tr>
<td>Phoenix, AZ 85007</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Timothy Berg</th>
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<tbody>
<tr>
<td>Fennemore Craig, P.C.</td>
</tr>
<tr>
<td>3003 North Central Avenue, Suite 2600</td>
</tr>
<tr>
<td>Phoenix, AZ 85012-2913</td>
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<tr>
<th>Norton Cutler</th>
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<tr>
<td>John M. Devaney</td>
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<tr>
<td>Perkins Coie LLP</td>
</tr>
<tr>
<td>607 Fourteenth Street, NW, Suite 800</td>
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<tr>
<td>Washington, DC 20005-2011</td>
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<tr>
<th>Maureen Scott</th>
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<tr>
<td>ACC – Legal Division</td>
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<tr>
<td>1200 W. Washington Street</td>
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<td>Phoenix, AZ 85007</td>
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And a true and correct copy of the foregoing was sent via U.S. Mail, postage pre-paid, to:

<table>
<thead>
<tr>
<th>Lyn Farmer</th>
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<tbody>
<tr>
<td>Dwight Nodes</td>
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<td>Hearing Division</td>
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<th>William Mundell, Chairman</th>
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<th>James M. Irvin, Commissioner</th>
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<th>Marc Spitzer, Commissioner</th>
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<tr>
<td>1200 West Washington Street</td>
</tr>
<tr>
<td>Phoenix, AZ 85007</td>
</tr>
<tr>
<td>Name</td>
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<tr>
<td>-----------------------------</td>
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<tr>
<td>Paul Walker</td>
</tr>
<tr>
<td>Patrick Black</td>
</tr>
<tr>
<td>Eric S. Heath</td>
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<tr>
<td>Hercules Alexander Dellas</td>
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<tr>
<td>Steven J. Duffy</td>
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<tr>
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<tr>
<td>K. Megan Doberneck</td>
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<td>Thomas H. Campbell</td>
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<td>Rex M. Knowles</td>
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<td>Michael W. Patten</td>
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<td>Joan S. Burke</td>
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<tr>
<td>Caroline Butler</td>
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<tr>
<td>William Dunkel</td>
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<tr>
<td>Thomas F. Dixon, Jr.</td>
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<tr>
<td>Richard L. Sallquist</td>
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<tr>
<td>Kath Thomas</td>
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<tr>
<td>------------------</td>
</tr>
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Dated this __________________ by ___________________