

ANDERECK, EVANS, MILNE, PEACE & JOHNSON, L.L.C.

ATTORNEYS AT LAW

700 EAST CAPITOL AVENUE
COL. DARWIN MARMADUKE HOUSE

P.O. BOX 1438

JEFFERSON CITY, MISSOURI 65102-1438

TELEPHONE 573-634-3422

FAX 573-634-7822

MATTHEW M. KROHN

LANETTE R. GOOCH

SHAWN BATTAGLER

ROB TROWBRIDGE

JOSEPH M. PAGE

LISA C. CHASE

DEIDRE D. JEWEL

JUDITH E. KOEHLER

ANDREW J. SPORLEDER

KELLIE R. NILGES

OF COUNSEL:

MARVIN L. SHARP

PATRICK A. BAUMHOER

GREGORY C. STOCKARD (1904-1993)

PHIL HAUCK (1924-1991)

EUGENE E. ANDERECK

TERRY M. EVANS

ERWIN L. MILNE

JACK PEACE

CRAIG S. JOHNSON

RODRIC A. WIDGER

GEORGE M. JOHNSON

BEVERLY J. FIGG

WILLIAM S. LEWIS

VICTOR S. SCOTT

COREY K. HERRON

August 1, 2002

Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

Re: Case No. TR-2001-65

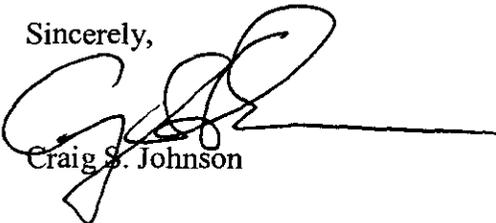
Dear Sir:

FILED³
AUG 01 2002
Missouri Public
Service Commission

Enclosed please find for filing on behalf of the MITG Companies, an original and eight (8) copies of the Rebuttal Testimony of Kent Larsen. A copy of this letter and a copy of the enclosed Testimony has been served upon all counsel of record.

Thank you for seeing this filed.

Sincerely,



Craig S. Johnson

CSJ:tr
Enc.

cc: MITG Managers
Kent Larsen
Office of Public Counsel
General Counsel
Thomas R. Parker
James M. Fischer
Mary Ann (Garr) Young
Brian T. McCartney
Carl J. Lumley/Leland B. Curtis

Carol Keith
Paul G. Lane
Sheldon K. Stock
Stephen F. Morris
Paul H. Gardner
Lisa Creighton Hendricks
J. Steve Weber
Rebecca B. DeCook

Trenton Office
9th And Washington
Trenton, Missouri 64683
660-359-2244
Fax 660-359-2116

Springfield Office
1111 S. Glenstone
P.O. Box 4929
Springfield, Missouri 65808
417-864-6401
Fax 417-864-4967

Princeton Office
207 North Washington
Princeton, Missouri 64673
660-748-2244
Fax 660-748-4405

Smithville Office
119 E. Main Street
P.O. Box. 654
Smithville, Missouri 64089
816-532-3895
Fax 816-532-3899

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

**In the Matter of an Investigation of the)
Actual Costs Incurred in Providing Exchange)
Access Service and the Access Rates to be) Case No. TR-2001-65
Charged by Competitive Local Telecommun-)
ications Companies in the State of Missouri.)**

REBUTTAL TESTIMONY

of

KENT LARSEN

on behalf of

THE MISSOURI INDEPENDENT TELEPHONE GROUP

August 1, 2002

FILED³

AUG 0 1 2002

**Missouri Public
Service Commission**

1 **Q. Please state your name and your business address.**

2 A. My name is Kent Larsen and my business address is 1000 Vermont Ave, NW,
3 10th Floor, Washington DC. 20005

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am a Senior Communications Consultant with Bennet & Bennet, PLLC assisting
7 small and rural LECs in financial and regulatory matters.

8
9 **Q. On whose behalf are you testifying?**

10 A. I am testifying on behalf of the Missouri Independent Telephone Company Group
11 (MITG). The MITG consists of seven rural high cost small Incumbent Local Exchange
12 Carriers (ILECs), being Alma Telephone Company, Chariton Valley Telephone Corp.,
13 Choctaw Telephone Company, Mid-Missouri Telephone Company, MoKan Dial Inc.,
14 Modern Telecommunications Company, and Northeast Missouri Rural Telephone
15 Company.

16
17 **Q. Are you the same Kent Larsen that filed direct testimony in this case?**

18 A. Yes, I am.

19
20 **Q. Do the witnesses in this case agree on the appropriate cost standard to apply**
21 **to the calculation of exchange access service costs?**

1 A. No, Southwestern Bell Telephone Company (SWBT) and Sprint advocate the use
2 of Long Run Incremental Cost (LRIC) as a cost standard for costing switched access
3 service. Staff's witness Johnson provides LRIC costs but does not advocate its use as a
4 method to develop exchange access costs, citing the fact that LRIC methods do not
5 account for loop costs. Staff witness Johnson predicts hypothetical costs rather than
6 actual costs requested by the Commission. I have already addressed my concern with Mr.
7 Johnson's methods in my direct testimony so my rebuttal testimony will primarily address
8 LRIC costs.

9

10 The Small Telephone Company Group (STCG) ILECs, the four ILECs represented by
11 Mr. William Warriner and Alltel agree with my testimony that FCC Part 36 and Part 69
12 rules properly develop actual exchange access service costs.

13

14 **Q. Please describe cost allocation issues in general.**

15 A. In this case, the Missouri Public Service Commission (Commission) is seeking to
16 investigate all of the issues associated with the cost of exchange access service. Since
17 exchange access service shares costly network facilities that are also used to provide other
18 telecommunications service, the Commission correctly seeks to first determine the cost of
19 the network that is used by exchange access service. With this information the
20 Commission can subsequently determine actual rates to be charged, or establish
21 maximum rates that would be presumed lawful for the service.

1

2 Referring to Staff witness Ben Johnson's testimony, cost allocation theory embraces
3 numerous methodologies that are each suitable to identify relevant costs. Average,
4 marginal, fully distributed, forward looking and incremental cost analysis are all used and
5 useful to a firm or a regulator when scrutinizing cost or prices. What is important to the
6 Commission is whether the correct cost analysis is used to respond to the Commission's
7 objective in this case: to investigate all of the issues affecting exchange access service in
8 order to establish a long-term solution which will result in just and reasonable rates for
9 this service.

10

11 The problem with efforts to identify the cost of a specific telecommunications service is
12 that the majority of the costs of any telecommunications network are comprised of shared,
13 common or joint costs. Today, the vast majority of regulatory bodies that continue to set
14 exchange access rates based upon costs continue to use actual costs allocated to
15 jurisdictions or services based upon *fully distributed cost methods*. Fully distributed costs
16 allocate total costs, directly matching direct costs wherever possible and allocating
17 common or shared costs across all service provided by the firm to the services that use,
18 not simply cause, the facilities.

19

20 To the extent a telecommunications firm is subject to price cap regulation, where prices
21 rather than costs or earnings are regulated, I would urge the Commission to keep three

1 key points in mind: 1) capped prices for exchange access service were set based on fully
2 distributed actual costs; 2) price cap carriers neither price nor advocate pricing exchange
3 access service at LRIC; and 3) the majority of price cap carriers continue to collect
4 exchange access service revenues based upon fully distributed costs including loop costs
5 that they now do not include in the LRIC analysis.

6

7 **Q. Mr. Larsen, would you please briefly discuss the issues associated with LRIC**
8 **as an analytical tool as it may be relevant to the Commission's investigation of the**
9 **cost of exchange access service?**

10 A. The telecommunications industry and regulators are engaged in a philosophical
11 and economic debate about, among other issues, which customer or service "caused" the
12 initial cost of the network. The argument runs that if a particular service "causes" a
13 network to be built, then all other services that the network is capable of providing and
14 their associated costs are incremental to the first, causative use. The argument continues
15 that if subsequent uses of the network are incremental, the incremental services' costs are
16 also incremental forcing the first causative service to be assigned the full cost of the
17 common or shared facility. Thus, if the "cost causer" is assigned all of the shared or
18 common costs, then that cost causer should bear all first, shared costs in rates. This logic
19 is a form of "addition by subtraction" meaning that the use of LRIC as the cost standard
20 for exchange access service "adds" to the cost recovery burden of the cost causer of the
21 shared facilities (local use) by "subtracting" the cost of shared facilities from the burden

1 of the incremental user (exchange access) where total cost must obviously be recovered
2 by the total mix of services offered.

3

4 In a regulatory environment where the Missouri Commission is seeking to understand
5 exchange access service costs that may lead to just and reasonable rates, how can
6 SWBT's argument to allocate costs using a LRIC method square with the opposing view
7 that prices cannot, or at least should not, lead to mandated LRIC-based pricing? The
8 answer is axiomatic – all rational firms want to sell at prices above LRIC but wish to
9 purchase at prices at or near LRIC. It is in the self-interest of toll providers such as SWBT
10 to argue for LRIC access rates excluding common and local loop costs. This will result in
11 exchange access cost savings to them. This is particularly unfair if their exchange access
12 rate price caps were set on a fully distributed cost basis. One can understand that those
13 advocating LRIC expect to be purchasers of LRIC-priced services but do not themselves
14 expect to be regulated by LRIC-driven pricing theories.

15

16 **Q. In your view what harm can result if LRIC pricing is utilized, ignoring the**
17 **common or shared functions of the local loop?**

18 A. The obvious harm is that local ratepayers would be required to pay the entire cost
19 of the local loop, instead of having this common cost being appropriately allocated to toll
20 or access services which also utilize the local loop. For the customers of high cost small
21 rural ILEC exchanges, this would tend to cause unacceptable local rate increases

1 producing disparate rates when compared to local rates of customers served by more
2 urban, lower-cost ILECs.

3

4 **Q. When is LRIC analysis a useful tool to the Commission?**

5 A. As an external cost analysis that might be applied by a regulator to a firm that can
6 set market prices, e.g. exchange access services, LRIC analysis is a tool that can
7 potentially identify products that are either providing or receiving a subsidy from other
8 services also produced by the firm. For example, Missouri's price cap rules applied to the
9 exchange access service rates charged by price cap ILECs insure that exchange access
10 services are not priced below LRIC in order to prohibit other telecommunications
11 services from subsidizing exchange access service. In other words, for Missouri's price
12 cap ILECs, LRIC is a test against excessively low rates, not a prescription to set rates.

13

14 Historically, LRIC has also been used to test whether new or competitive
15 telecommunications services are contributing at least some margin to offset the joint and
16 common costs of the network. Generally, use of LRIC as a regulatory tool was limited
17 prior to the 1996 Telecommunications Act (the Act). After the Act, LRIC was adopted as
18 the cost standard useful to implement local competition features of the Act. The FCC
19 determined that variations of LRIC cost concepts are appropriate in the limited case of
20 local competition pricing and in the pricing of unbundled network elements that may be
21 purchased by competitive local carriers. The FCC did not determine that LRIC was

1 appropriate to develop interstate exchange access service costs or rates. Instead, the FCC
2 relied upon the price cap rules or the rate of return rules in effect.

3
4 **Q. Are you concerned with the positions advocated by the direct testimony filed**
5 **by other parties in this case?**

6 A. Yes. In this case before the Missouri Commission, several parties advocate the use
7 of LRIC as a standard for developing exchange access service costs. Parties advocating
8 the use of LRIC methods can be identified as either believing their exchange access
9 service rates are unaffected by this investigation or as misunderstanding the application of
10 LRIC as a regulatory tool applied to a local interconnection services or rate rebalancing
11 decisions but not to exchange access service. The Commission should reject any call for
12 using LRIC as the standard for developing exchange access service costs.

13
14 **Q. What are your concerns with the direct testimony of SWBT witness Barch?**

15 A. I am concerned that Mr. Barch may have created confusion by his claim that LRIC
16 is an appropriate method for calculating exchange access cost. I believe SWBT's position
17 advocating LRIC is inconsistent with the Commission's objectives in this case. Mr.
18 Barch's testimony is internally inconsistent. SWBT's position is inconsistent with
19 industry standards that identify all costs associated with exchange access service. It
20 appears SWBT's choice to present only costs based upon LRIC analysis supports its
21 belief that LRIC is the only method the Commission may consider when investigating *all*

1 *of the issues* associated with the provision of exchange access service. I believe SWBT is
2 incorrect in this belief.

3

4 **Q. Has SWBT failed to meet the Commission’s objective in this case?**

5 A. Yes. The first paragraph of the Commission’s Order establishing Docket TR-
6 2001-65 on August 8, 2000 states:

7 “The Commission hereby establishes a case in which to investigate all of the
8 issues affecting exchange access service, including particularly the actual costs
9 incurred in providing such service, in order to establish a long-term solution
10 which will result in just and reasonable rates for this service.” (August 8, 2000
11 Order at 1, Emphasis added)
12

13 Comparing Mr. Barch’s testimony to the opening paragraph in the Order cited above,
14 “exchange access service” is the service under investigation. Mr. Barch has not
15 considered all of the cost elements of this service, specifically the function of the loop in
16 providing exchange access service. Investigating actual costs and “all of the issues” to be
17 considered but excluding loop costs is inconsistent with these objectives. SWBT’s
18 exclusive reliance upon LRIC analysis does not meet the requirements of this case.

19

20 **Q. Why should loop costs be included in the definition of exchange access service?**

21 A. Simply stated, loop costs should be included because loops are required to provide
22 the service. Many witnesses in this case agree. Staffs witness Johnson’s direct testimony
23 states:
24

1 “To reiterate, in competitive markets joint costs are never recovered entirely from
2 consumers of one of the joint products, to the exclusion of others; rather, the costs
3 are shared by both groups of consumers, with the respective proportions
4 depending upon the relative strength of demand.” (Johnson Direct, Schedule 9,
5 page 3, lines 12-16)
6

7 Mr. Johnson continues:

8 “Notwithstanding strong advocacy efforts by both local exchange and
9 interexchange carriers, most state regulatory commissions have been reluctant to
10 recover the entire cost of loops and ports as part of the price of local service. A
11 share of these costs has historically been recovered from numerous other services
12 including switched access services provided to toll carriers as well as the custom
13 calling and other ancillary services related to the line.
14

15 This broad approach to cost sharing has long been used in Missouri as well as
16 many other states. Not only is it consistent with the historic patterns in many
17 telecommunications markets, it is also consistent with the normal practice in
18 unregulated markets.” (Johnson Direct, Schedule 9, page 5, lines 3-10, emphasis
19 added)
20

21 The underlined quote from Mr. Johnson’s direct testimony cited above is important. The
22 only difference in determining the proportion of common costs shared between services
23 in regulated versus unregulated markets is which authority makes the decision, not
24 whether a decision is made. In a competitive market the prevailing market price is the
25 “authority” and the difference between the prevailing price and LRIC identifies the
26 amount of margin above LRIC that contributes to the recovery of common or shared
27 costs. In a regulated market, regulators are the authorities that determine the margin.
28

29 Ms. Barbara Meisenheimer, on behalf of the Office of the Public Counsel agrees that loop
30 costs must be included in the analysis of exchange access service costs.

1

2 “Public Counsel believes that the paramount issue in determining the appropriate
3 cost of providing access services is the proper assignment of “joint and common
4 cost” of the shared facilities and associated expenses used to provide multiple
5 services. Joint and common costs constitute the vast majority of the costs of the
6 local exchange network. To exclude consideration of these costs in determining
7 access rates would result in unjust and unreasonably low rates.” (Meisenheimer
8 direct, page 4, lines 16-21).

9
10 “...the cost of the loop is not directly attributable to any one service and should be
11 considered a shared facility.” (Meisenheimer direct, page 5, lines 22-23). Finally,

12 FCC Parts 36 and 69, the method used by MITG, STCG, the four ILECs represented by
13 Mr. William J. Warinner and Alltel, includes loop costs.

14
15 **Q. SWBT witness Barch testifies that loop costs are not a part of exchange access
16 service costs. Is this view consistent with the Commission’s Order in this case?**

17 A. No. The Commission is examining all costs associated with exchange access service.
18 Since LRIC does not consider loop costs, Mr. Barch is incorrect in his claim that LRIC is
19 the proper costing methodology for identifying the total, actual cost of exchange access
20 service. Mr. Barch claims that the Commission has “historically relied upon LRIC as the
21 standard to quantify costs for certain telecommunications services” (Barch Direct page 5,
22 lines 22-23). While that may be true for some services as I described previously, his
23 statement is unsupported in this case in that he does not cite the use of LRIC costs as the
24 Commission’s standard for identifying *exchange access service* costs or *establishing* the
25 associated rates.

26

1 He also states “it is not appropriate to allocate the loop or a portion of the loop in
2 determining the cost of exchange access service” (Barch Direct page 14, lines 13-14). On
3 the contrary, it is appropriate to allocate loop costs to exchange access service. In fact,
4 although SWBT may claim it does not believe allocating loop costs to exchange access
5 service is appropriate, its exchange access services tariff includes a charge associated
6 with loops. (See Section 3.8 of SWBT P.S.C. Mo. – No. 36, effective December 1, 2001)

7
8 **Q. How is Mr. Barch’s testimony itself inconsistent?**

9 A. First, Mr. Barch testifies that the terms “Exchange Access” and “Switched
10 Access” are interchangeable. (Barch Direct at page 4, line 19). This characterization is
11 incorrect. On page 9, lines 7 and 8 of his direct testimony, Mr. Barch clarifies his
12 definition of Switched Access by stating that SWBT’s “study identifies costs for usage-
13 sensitive and relevant dedicated transport components directly attributable to switched
14 access.” However, exchange access service includes costs that are both usage sensitive
15 (“traffic sensitive”), as well as common or shared costs that are characterized as “non-
16 traffic sensitive”, such as loops. Thus, Mr. Barch’s testimony appears to use the term
17 “Switched Access” more as a synonym for “Traffic Sensitive” as I defined the term in my
18 direct testimony. Given his incorrect characterization of what services, functions and
19 costs are included in the term “exchange access service”, the Commission should not
20 view Mr. Barch’s use of the term switched access as interchangeable with the term
21 exchange access service. Instead, the Commission should view SWBT’s definition of

1 "Switched Access" as a subset of exchange access service where the latter term also
2 includes non-traffic sensitive costs.

3

4 Next, Mr. Barch's application of terms he considers interchangeable is confusing and
5 inconsistent. Mr. Barch's definition of "exchange access service" includes a statutory
6 citation that includes the ability of a customer to "enter and exit the local exchange
7 telecommunications network in order to originate or terminate interexchange
8 telecommunications service". (Barch Direct, page 5 lines 3-6). Consumer entry and exit
9 to the telecommunications network is accomplished by the use of loops. Without loops
10 there would be no such entry or exit. His inconsistency is also belied by his description
11 of SWBT's intrastate switched access service as a service that "provides the use of
12 SWBT's common terminating, common switching and switched access transport
13 facilities" (Barch Direct, page 5 lines 8-9). SWBT's loops are also utilized when
14 customers enter or exist SWBT's network to make or receive a toll call. Thus, Mr.
15 Barch's statutory citation and his description of SWBT's exchange access service
16 apparently means that exchange access service includes the use of common facilities,
17 specifically loops, as necessary for customers to "enter and exit the local exchange
18 telecommunications network". Since Mr. Barch's citation and definition of exchange
19 access service includes loops as a necessary facility in the provision of the service, it must
20 follow that loop costs should be included in the analysis of the costs to provide such
21 service. Since SWBT's study fails to include at least a reasonable allocation of loop costs,

1 it fails to meet both the Commission's objectives and SWBT's own definition of
2 exchange access service.

3

4 From this flawed foundation, his testimony then relies upon his incorrect definition of
5 switched access to require the use of LRIC analysis without including loop costs, to the
6 exclusion of any other cost analysis. It is a critical mistake to exclude loop costs and such
7 exclusion is inconsistent with Mr. Barch's definition of exchange access service therefore
8 SWBT's approach to cost analysis does not meet the Commission's requirements in this
9 case and should be rejected.

10

11

12 **Q. Are there other reasons to be concerned with SWBT's advocacy of LRIC as**
13 **the cost standard for exchange access service?**

14 A. Yes. Mr. Barch correctly states that, from a regulatory perspective, LRIC analysis
15 "establishes the *price floor* for a service" (Barch Direct at page 6, line 19, emphasis in
16 original). However, SWBT is not regulated by price floors, but by price *caps*. The CLEC
17 access rate issue giving rise to this case was about the application of price caps to
18 Competitive Local Exchange Carrier (CLEC) exchange access rates. A LRIC-based price
19 floor would be illogical and inequitable if attempted to be utilized to establish price cap
20 rule for either ILECs or CLECs.

21

1 Mr. Barch then correctly testifies that the Commission should not assume that a
2 telecommunications service, such as exchange access service, should be priced at LRIC.
3 Therefore, if the Commission's objective is to identify all exchange access service costs
4 that would lead to the establishment of just and reasonable exchange access service rates
5 or suitable cost-based caps on the rates, then the commission must include all costs in its
6 analysis and should reject any cost analysis that does not consider all costs.

7

8 Finally, I am concerned that SWBT's advocacy for LRIC as the sole standard for
9 measuring exchange access service costs is meaningless to the Commission since SWBT
10 can not demonstrate how LRIC could even be used by the Commission in this case. In
11 terms of a goal to "establish a long-term solution which will result in just and reasonable
12 rates for...[exchange access] service", LRIC has no applicability and no relevance
13 according to SWBT. Since SWBT believes that it would not be subject to the rates a
14 LRIC cost standard would produce, then SWBT and all price cap carriers are indifferent
15 to the results of a LRIC cost standard as such standard would not be practically applied to
16 their rates. Since SWBT currently assesses an exchange access service rate to recover the
17 costs of its loops, and SWBT rates cannot be changed in this case, then SWBT is free to
18 advocate LRIC as a cost standard that excludes such costs with no risk to its existing rates
19 and revenues. In short, LRIC is irrelevant to SWBT in terms of SWBT's exchange access
20 service rates. SWBT's Mr. Barch also testifies that LRIC should be essentially irrelevant
21 to *any* telecommunications provider - he states that one cannot assume that exchange

1 access service should be priced at LRIC (Barch Direct at page 14, lines 9-10).

2

3 It appears then that SWBT is subtly advocating LRIC as the standard that would apply to
4 *other* telecommunication carriers such as its competitors even though SWBT claims that
5 no carrier should be forced to price at LRIC. In other words Mr. Barch testifies that cost
6 standards are different than rate setting standards for price cap carriers, no exchange
7 access service rates should be based upon LRIC but, notwithstanding the complete
8 unsuitability of LRIC-based rates for any carrier, the Commission should use LRIC as a
9 cost standard to establish a long term solution to exchange access service rates.

10

11 It is my conclusion and recommendation that the Commission must agree with SWBT
12 that LRIC-based cost are unsuitable for any rate determination contemplated in this
13 investigation and reject as irrelevant SWBT's analysis of exchange access service costs.

14

15 **Q. Sprint witness Farrar testifies that the FCC requires forward-looking**
16 **economic costs (FLEC) or variations of LRIC cost analysis when developing**
17 **exchange access costs. Do you agree?**

18 A. No, Mr. Farrar is incorrect. FLEC and variations of LRIC cost analysis are not
19 appropriate for exchange access service. Mr. Farrar incorrectly relied upon the FCC's
20 *Local Competition* Order where the FCC requires Total Service LRIC (TSLRIC) for *local*
21 *interconnection* and Total Element LRIC (TELRIC) for pricing *unbundled network*

1 *elements*. Neither the FCC Orders he cites nor FCC rules in Part 51 deal in any way with
2 interstate or intrastate exchange access service. FCC rules related to exchange access
3 service are found in Parts 36 and 69, the methods used by the MITG, STCG, the ILECs
4 represented by Mr. Warriner and Alltel.

5
6 Mr. Farrar also cites Missouri law that requires the use of LRIC when evaluating
7 intrastate exchange access service access *rates* for price cap companies. The use of LRIC
8 in Missouri applied to price cap ILECs is only for rate rebalancing purposes to insure that
9 access prices are not priced below LRIC costs, not to establish exchange access costs or
10 rates. All of his references citing Missouri cases involve local interconnection or rate
11 rebalancing rules and have nothing to do with establishing exchange access service costs
12 or rates.

13
14 **Q. Staff witness Johnson filed direct testimony supporting four separate cost**
15 **studies including the hypothetical costs of MITG ILECs. Please comment upon Mr.**
16 **Johnson's direct testimony.**

17 **A.** In my direct testimony, I expressed concern with the methods Mr. Johnson used to
18 develop MITG ILEC costs. My concern was based upon the cost studies submitted by
19 Staff to the Commission and to the parties prior to the filing of direct testimony. Mr.
20 Johnson's direct testimony only adds to my concern that his methods are inappropriate
21 and unreliable. I have reviewed his direct testimony and he has only briefly described his

1 use of regression techniques to develop MITG ILEC costs. He describes but does not
2 support his choice of a regression method to determine MITG ILEC costs nor does he
3 address the extremely low reliability of the regression results that I discussed in my direct
4 testimony.

5
6 Mr. Johnson provides an excellent overview of potential cost allocation techniques. Out
7 of all of the methods discussed, his choice of four methods is reasonable. He correctly
8 identifies "Stand Alone" costs and TSLRIC costs as the upper and lower boundaries for
9 pricing decisions but also testifies that these methods are not particularly suited for
10 establishing just and reasonable exchanges access rates. Most importantly, he correctly
11 advocates the idea that some portion of loop costs should be included in the definition of
12 exchange access service cost.

13
14 Other than Stand Alone and TSLRIC cost analysis, the two cost *allocation* methods
15 employed by Mr. Johnson that come closest to meeting the Commission's objectives,
16 Average Pro Rata and Average Weighted, are quite consistent with the methods utilized
17 by MITG ILECs in the cost studies submitted in this case. Mr. Johnson identifies both of
18 the Average methods as Fully Allocated. I am assuming his use of the term "Fully
19 Allocated" is interchangeable with my use of the term "Fully Distributed" cost. In any
20 case, Mr. Johnson's Average methods appear consistent with the method used by Alltel,
21 MITG, STCG and the four ILECs represented by Mr. Warriner to allocate shared and

1 common costs in a rational manner.

2

3 However, just because results based upon differing methods seem to match, the approach
4 Mr. Johnson has taken still fails to meet the condition that actual costs be analyzed. Since
5 Mr. Johnson's cost allocations are based upon hypothetical costs, I recommend that the
6 Commission 1) should reject Mr. Johnson's cost studies since they are not based on
7 "actual" costs"; 2) recognize that, notwithstanding the incorrect manner in which Mr.
8 Johnson arrived at his costs, MITG ILECs' actual costs are similar to Mr. Johnson's
9 results and 3) recognize that existing MITG ILEC cost allocation methods and existing
10 rates are still just, reasonable and lawful and continue to support other important public
11 policy goals.

12

13 **Q. Please summarize your position that LRIC is an inappropriate standard for**
14 **calculating exchange access cost?**

15 A. My direct testimony agrees with the testimony of several parties that suggests that
16 LRIC is not appropriate for establishing exchange access service costs or prices. This is
17 true because, by definition, LRIC does not account for joint, shared or common costs like
18 loops. Staff witness Johnson's testimony that loop costs must be included in the
19 definition of exchange access service is consistent with my belief. SWBT's cost analysis
20 should be rejected as irrelevant to this proceeding because SWBT's witness testified that
21 LRIC cannot be applied to SWBT rates and should not be applied to any other

1 telecommunications provider's rates. Sprint's testimony is based upon the mistaken belief
2 that LRIC is an appropriate standard for exchange access service and should also be
3 rejected.

4
5 **Q. Since this case arose out of the Commission's concern with CLEC access**
6 **rates, if the Commission determines that CLECs must continue to cap their**
7 **exchange access service prices consistent with the incumbent LEC with which the**
8 **CLEC competes, what exchange access rate would be appropriate to establish such**
9 **a cap?**

10 A. The Commission should cap CLEC exchange access rates at the maximum
11 permissible exchange access rate an ILEC is permitted to charge. Since price cap LECs
12 are authorized to adjust their exchange access rates within the confines of the price cap
13 rules up to the capped rate, the Commission has already determined that the capped rates,
14 not simply the rate actually applied by the price cap ILEC, are just, reasonable and lawful.
15 Under no circumstances should any LEC be required to cap its rates at a price floor, such
16 as the costs calculated under LRIC methodology, or at any rate less than the lawful rate
17 established for the incumbent. The lawful rate for the incumbent price cap carrier is the
18 capped rate, not the rate in effect as determined by the incumbent.

19
20 This approach insures that a CLEC can price exchange access lawfully and will permit
21 the CLEC to compete more effectively on retail rates by establishing parity between

1 CLEC and ILEC exchange access service rate. To the extent the incumbent chooses to
2 price exchange access service below the capped rate, that choice is the incumbent's to
3 make just as the incumbent can choose to price at the capped rate. Neither the ILEC with
4 which the CLEC competes nor the exchange access service customer (IXC) can claim
5 that a rate the ILEC is permitted to charge is unfair or unreasonable.

6

7 **Q. Does this conclude your testimony?**

8 **A. Yes.**