EXHIBIT NO. _____ (PBC-7T)

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Qwest Corporation to Initiate a Mass-Market Switching and Dedicated Transport Case Pursuant to the Triennial Review Order	**Docket No. UT-033044**

RESPONSE TESTIMONY OF

PETER B. COPELAND

ON BEHALF OF

QWEST CORPORATION

FEBRUARY 2, 2004

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I. EXECUTIVE SUMMARY

Q. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.

A. My response testimony addresses the fundamental differences between the economic models presented by Qwest and AT&T. In my testimony, I demonstrate that: (1) Qwest's analysis conforms with the requirements of the TRO (and thus should be relied upon); and, (2) in conjunction with the testimony of Qwest witness Richard Buckley, the analysis of AT&T is both inaccurate and inconsistent with the requirements of the TRO.

I address three main issues in my testimony:

1. AT&T's claim that an efficient CLEC would operate at a cost disparity compared to Qwest in the local service market. I show that this comparison of CLEC costs to Qwest's costs is irrelevant under the TRO and, moreover, that the method used by AT&T to make the comparison is significantly flawed.
2. Inputs to the AT&T and Qwest business case models and comparisons of key cost factors and other inputs used in the models.
3. AT&T's proposed definition of the enterprise market and their methods for developing the cross-over point for DS0 and DS1 facilities.

I also provide additional information on wire centers that are cash flow positive, but are either in an MSA that is not cash flow positive on an overall basis or are not within an MSA.

1. Cost Disparity. The FCC explicitly stated that a cost disparity analysis does not meet the requirements of the TRO and that only a business case containing a revenue/cost analysis for an efficient CLEC does. AT&T fails to present a revenue/cost business case analysis required by the FCC that examines potential discounted cash flows of a business decision. Additionally, AT&T's business model produces results that are flatly contradicted by real-world facts. As Qwest witness Richard Buckley demonstrates, the AT&T model is structured so unrealistically that it shows CLECs would lose money providing service through UNE-P.

Furthermore, the cost disparity that AT&T has attempted to identify does not exist. The assumptions that AT&T makes are flawed in two respects. First, AT&T assumes that the efficient CLEC would incur the actual costs of building network facilities when, in reality, a CLEC can lease significant network elements (e.g., transport) from Qwest at TELRIC prices, which are far lower than the cost of building those elements. This assumption significantly overstates the costs of building those elements. Second, AT&T compounds the effect of its overstatement of CLEC costs by understating the costs an ILEC incurs. It does this by erroneously assuming that the ILEC pays TELRIC to build, operate, and maintain its network. When Qwest's accurate booked costs are substituted for the understated costs assumed by AT&T, it is apparent that CLECs actually have a cost advantage, not a disadvantage. Thus,

because AT&T's cost disparity analysis is both inconsistent with the TRO and factually incorrect, it should not be relied upon by the Commission.

2. Inputs and Documentation. The second issue is the comparison of key inputs (and their documentation) utilized in the AT&T and Qwest models. AT&T's inputs are best understood when compared and contrasted to those utilized in CPRO. These comparisons include three important areas: revenues, documentation of inputs, and the internal consistency of inputs.

a. Revenue. The most critical input to BCAT is its revenue assumption. BCAT's use of discounted basic Qwest local service tariff rates clearly violates the FCC's directives to utilize likely CLEC revenues and "prevailing" prices at the time of the analysis. AT&T even ignores its own local service prices in determining its revenue input. As demonstrated in both my direct and responsive testimony, the efficient CLEC markets its services to high revenue customers and not to the average ILEC customer. In contrast to AT&T's ridiculously understated revenue input, CPRO's revenue inputs fully comply with the FCC's directions and are based on documented prices charged by CLECs in today's marketplace.

b. Documentation of Inputs. Several other critical inputs in the AT&T study are unsupported. For example, inputs such as customer churn and customer acquisition costs have a large impact in BCAT, but

AT&T has identified no real world evidence to support these key inputs. On the other hand, CPRO provides extensive objective documentation based on real world evidence to support its inputs.

c. Internal Consistency. BCAT's inputs are not internally consistent. For example, customer acquisition costs are not synchronized with the revenue assumptions. The efficient CLEC balances customer acquisition costs with revenue opportunities. This is recognized in the CPRO model inputs, which are carefully balanced and documented based on what is occurring in the marketplace.

BCAT's inputs are obviously chosen to produce a result, not to accurately portray the financial opportunities available to an efficient CLEC. CPRO, on the other hand, utilizes fully documented inputs and produces reliable results consistent with the real world.

3. Crossover Analysis. The third major issue is my testimony is a discussion of AT&T's DS1/DS0 crossover analysis. In the TRO, the FCC decided to retain the four-line cross-over point between mass market and enterprise customers, but allowed state commissions to alter the cross-over point. The rule thus requires states to assess the increased revenue opportunity at a single location that would overcome impairment and also assess the point at which multi-line customers could be served with loops higher in capacity than DS0. AT&T's study does not meet the FCC's requirements. The FCC

directed that, prior to making a change in the cross-over point, the state commissions must examine a mini-business case at customer locations. The DS0 cross-over point must consider the additional revenue opportunities that DS1 facilities provide beyond voice grade facilities. This is the revenue threshold that a CLEC utilizes in its decision to deploy DS1 facilities. This revenue opportunity should be compared to the increased cost of DS1 facilities versus voice grade facilities. AT&T's analysis fails to provide evidence that addresses these issues and thus fails to meet the requirements of the TRO.

In summary, the CPRO model is based upon sound principles of financial analysis and the model and its well documented inputs are guided by the FCC's instructions in the TRO. Based on my analysis, I conclude that AT&T's results are inaccurate and that CPRO model provides this Commission with the best tool and set of inputs to perform the analysis of economic impairment.

II. INTRODUCTION

Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes. In my direct testimony, I introduced a business case model (CPRO) that demonstrates that CLECs are not impaired without access to unbundled switching in six MSAs in Washington.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. The purpose of my response testimony is to discuss four issues that point out the fundamental differences between the economic business cases presented by Qwest and AT&T. My discussion of these issues demonstrates that: (1) Qwest's analysis conforms with the requirements of the TRO (and thus should be relied upon); and, (2) in conjunction with the testimony of Qwest witness Richard Buckley the modeling testimony of AT&T is both inaccurate and inconsistent with the requirements of the TRO. My response testimony thus focuses on the testimony presented by AT&T witnesses Denney/Starr and Baranowski.

My response testimony addresses four issues:

1. AT&T's claim that an efficient CLEC would operate at a cost disparity compared to Qwest in the local service market. I show that this comparison of CLEC costs to Qwest's costs is irrelevant under the TRO and, moreover, that the method used by AT&T to make the comparison is significantly flawed.
2. Inputs to the AT&T and Qwest business case models and comparisons of key cost factors and other inputs used in the models.
3. AT&T's proposed definition of the enterprise market and its methods for developing the cross-over point for DS0 and DS1 facilities.

4. MCI's definition of the geographic market as being the wire center and the effect of adopting the wire center as the market based on the results of CPRO.

IV. COST DISPARITY BETWEEN UNE-L AND QWEST NETWORK DESIGN

Q. PLEASE DESCRIBE HOW AT&T HAS ADDRESSED MODELING ISSUES IN ITS TESTIMONY?

A. AT&T has sponsored two pieces of testimony that purport to present the business case model required by the TRO. In reality, however, AT&T's effort is primarily focused on identifying a few cost factors that it claims place CLECs at a disadvantage compared to ILECs. This is the analysis presented by Mr. Denney and Ms. Starr relating to the so-called "DS0 Analysis Tool." AT&T witness Mr. Baranowski then presents an add-on analysis that he claims meets the requirements of the TRO. In fact, however, Mr. Baranowski's analysis is cursory at best. In the end, AT&T's analysis does little more than identify a handful of costs that it claims place it at a disadvantage. It is certainly not the rigorous business case analysis required by the TRO, as it fails to provide a meaningful comparison of the likely revenues and costs that an efficient CLEC would incur. That is the analysis required under the TRO, not an analysis of CLEC costs compared to ILEC costs.

Q. DID THE FCC ADRESS THE ISSUE OF COST DISPARITY IN THE TRIENNIAL REVIEW ORDER (TRO)?

A. Yes. The FCC was very clear that a cost disparity analysis does not meet the requirements of the TRO and that only a revenue/cost analysis for an efficient CLEC does: "State commissions should not focus on whether competitors operate under a cost disadvantage. State commissions should determine if entry is economic by conducting a business case analysis for an efficient entrant. This involves estimating the likely potential revenues from entry, and subtracting out the likely costs (accounting for scale economies likely to be achieved)."[1]

Q. DOES AT&T PRESENT A BUSINESS CASE AS DIRECTED BY THE FCC?

A. No. The net result of the two pieces of testimony sponsored by AT&T is an analysis of so-called cost disparities. AT&T fails to present a traditional business case required by the FCC that examines the potential discounted cash flows of a business decision. A rational firm considering whether to enter a market will rely on a revenue/cost analysis that produces discounted cash flows; it won't base its decision on just a comparison of its costs to the costs of another firm already in the market. AT&T's approach does not reflect how a rational firm would make an entry decision.

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[1] TRO ¶ 517 footnote 1579 (*emphasis added*).

Additionally, AT&T's business model produces results that are flatly contradicted by real-world facts. For example, the model concludes that an efficient CLEC could not operate economically in any Washington wire centers with self-provisioned switching. As the direct testimony of Mr. Reynolds (Exhibit MSR-1T) establishes, however, multiple CLECs are already serving mass market customers with their own switching in numerous Washington wire centers. If it were uneconomic for CLECs to supply their own switching, as the AT&T model purports to show, these multiple Washington CLECs would not be doing so. In addition, while no CLEC can legitimately claim that UNE-P is unprofitable, as Mr. Buckley demonstrates, the AT&T model is structured so unrealistically that it shows CLECs would lose money even if they continued to use UNE-P.

Business case models and cost models are necessarily hypothetical and therefore must be tested against real-world facts to evaluate their reliability. Here, the available real-world facts prove the unreliability of the AT&T model. In his response testimony, Mr. Buckley presents analyses of AT&T's flawed methods as well as corrected analyses of the AT&T DS0 impairment tools presented by Mr. Denney/Ms. Starr and the Business Case Analysis Tool (BCAT) presented by Mr. Baranowski.

Q. MR. DENNEY/MS. STARR CLAIM THAT EFFICIENT CLECS WOULD OPERATE AT AN ABSOLUTE COST DISADVANTAGE COMPARED TO QWEST BECAUSE OF THE DIFFERENCE

BETWEEN THE UNE-L NETWORK DESIGN AND QWEST'S NETWORK DESIGN. DO YOU AGREE WITH THEIR CONCLUSION?

A. No. The entire premise of Denney/Starr's testimony is fundamentally flawed. In their testimony (Exhibit No. DD-1T), they present two network designs, each of which assumes that both Qwest and the CLEC incur the identical cost for common network components in the two designs. In other words, Denney/Starr hypothesize that Qwest's actual cost of deploying loops and inter-office facilities is the same as the network costs incurred by the efficient CLEC that utilizes UNEs. A CLEC using Qwest's loops and inter-office network incurs the price of UNEs that are based on the FCC's TELRIC cost methodology. This methodology develops prices based on a network design that utilizes the most efficient new technology to reach known customer locations. As implemented by most state commissions, the methodology largely ignores the existing network design, with the exception of the location of switches.[2]

Q. WHAT COSTS DOES QWEST INCUR TO PROVISION LOCAL SERVICE TO RESIDENTIAL AND SMALL BUSINESS CUSTOMERS?

A. Unlike CLECs, Qwest incurs costs based on its actual network design, maintenance, and provisioning systems. Its costs are the real costs of running

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[2] First Report and Order, FCC Docket No. CC 96-98 and CC 95-185, Implementation of Local Competition Provisions of the Telecommunications Act of 1996, ¶ 685.

a real network, as opposed to hypothetical costs of a hypothetical TELRIC network. The network and its support systems were developed incrementally over many years and include many vintages of technology. That network has expanded over time to meet population growth, requiring the re-enforcement of feeder and inter-office transport routes, the replacement and expansion of end office switches, and the building of new distribution areas. The costs of these real-world activities stand in contrast to the view that many state commissions have of forward-looking TELRIC costs. In most states, including Washington, Commission-ordered TELRIC rates assume the hypothetical network is deployed in a single highly efficient construction project with the latest technology to known customer locations using the most efficient feeder and distribution designs.

Thus, the Denney/Starr assumptions are flawed in two critical respects. First, in some cases, Denney/Starr assume that the efficient CLEC would incur the actual costs of building network facilities when, in reality, a CLEC can lease certain network elements (e.g., transport) from Qwest at a cost that is much less than the cost of building those elements. This assumption significantly overstates the costs of an efficient CLEC. Second, compounding the effect of this overstatement of CLEC costs, Denney/Starr understate the costs that the ILEC incurs by failing to account for actual costs and, instead, wrongly assuming that the ILEC pays TELRIC costs to build, operate, and maintain its network. The end result is a dramatic overstatement of the so-called disparity

between the ILEC's and CLEC's costs. In his response testimony, Mr. Weber addresses some of the flawed network assumptions that contribute to this overstatement.

Q. PLEASE QUANTIFY THE DIFFERENCE BETWEEN QWEST'S INCURRED COST FOR RESIDENTIAL AND SMALL BUSINESS LOCAL SERVICE IN WASHINGTON AND THE PRICE OF THE EQUIVALENT TELRIC-PRICED UNES?

A. Table 1 displays a comparison of 2002 costs that Qwest incurred in Washington to provision local service for residential and small business customers and the state-wide average price for UNE-P.[3] UNE-P prices are utilized for comparison because the UNE-P network design is the same network design that Denney/Starr refer to as the Qwest network design. The incurred costs in Table 1 are developed from the Qwest accounting books.

TABLE 1

Qwest Local Residence and Business Service Incurred Cost Compared to UNE-P Prices

Qwest WA Res Service Incurred Cost =	$29.44
Qwest WA Bus Service Incurred Cost =	$31.95
State-wide Average UNE-P Cost =	$18.35
Qwest Cost Disadvantage Res Service =	$11.09
Qwest Cost Disadvantage Bus Service =	$13.60

[3] SGAT Exhibit A, Washington, Eighth Revised, 6th Amended dated 11/14/03.

The table demonstrates that Qwest operates at a cost disadvantage compared to CLECs that utilize UNE-P.

Q. HOW DO QWEST'S ACTUAL COST DISADVANTAGES COMPARE TO AT&T'S NETWORK DESIGN COST DIFFERENCES?

A. Denney/Starr allege a network design cost disadvantage of $10.50 per line in the Seattle LATA. Yet, Qwest's booked, actual costs exceed the average Washington UNE-P prices by $11.36 for local residential service and $14.00 for local small business service. When Qwest's accurate booked costs are substituted for the understated costs that Denney/Starr use, it becomes apparent that CLECs do not have the cost disadvantage that AT&T claims. On the contrary, an accurate comparison of costs demonstrates that Qwest is at a cost disadvantage when a CLEC uses a UNE-L network design. Again, a comparison of CLEC and ILEC costs is not appropriate under the TRO, but, having gone down that improper path, Denney/Starr have presented results that are inaccurate.

The cost disparity that AT&T has attempted to identify does not exist. It is essential to perform, as the TRO mandates, a full scale business case analysis of all costs and all revenues in order to reach rational conclusions as to whether an efficient CLEC can enter a market without unbundled switching and operate profitably. AT&T's approach falls far short of this requirement.

V. CPRO AND BCAT INPUT COMPARISON

Q. IN COMPARING CPRO AND BCAT, WHICH INPUTS ARE APPROPRIATE TO FOCUS ON?

A. Differences in the structures of CPRO and BCAT lead to some differences in the manner that inputs are utilized in the two models. Nevertheless, the results that both models produce depend substantially on several inputs that are common to both models. By comparing the values that each model assigns to these inputs, the reasons for the model's different results become clear. The most important of these inputs are revenues, customer churn, market penetration, and customer acquisition costs. Other inputs that are used in the models to develop expenses and investment need to be analyzed through an examination of model output costs. The expenses in this category include marketing and sales, customer operations, general and administrative, switch maintenance, uncollectibles, and other taxes.

Q. CAN THE INVESTMENTS IN CPRO AND BCAT BE DIRECTLY COMPARED?

A. Some investments can be compared directly, while others cannot. For example, BCAT is based on a self-provisioned transport network, while CPRO assumes the efficient CLEC would lease transport UNEs from the ILEC to connect the UNE loops with the CLEC's self-provisioned switch. Therefore, there is no common basis upon which to compare the CLEC's transport, transmission equipment, and collocation investment in the two models.

However, since both models include self-provisioned switching, these investments can be directly compared.

Q. WHAT GUIDELINES DOES THE FCC PROVIDE FOR REVENUES FOR THE BUSINESS CASE STUDY OF ECONOMIC IMPAIRMENT?

A. The FCC provides four directives related to the revenues for states to use in assessing the economic viability of additional competition in the Track Two phase of the case:

- State commissions should determine if entry is economic by conducting a business case analysis for an efficient entrant. This involves estimating the likely potential revenues from entry, and subtracting out the likely costs.[4]
- We expect states to consider prices and revenues prevailing at the time of their analysis. We believe that these are reasonable proxies for likely prices and revenues after competitive entry and will result in a more administrable standard.[5]
- State commission must consider *all* revenues that will derive from service to the mass market, based on the most efficient business model for entry.[6]
- The state must also consider the revenues a competitor is likely to obtain from using its facilities for providing data and long distance services from serving business customers. Moreover, state commissions must consider the impact of implicit support flows and universal service subsidies on the revenue opportunities available to competitors.[7]

Q. IN DESCRIBING THE REVENUES TO INCLUDE IN A BUSINESS CASE ANALYSIS, DOES THE FCC CLEARLY REQUIRE THAT

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[4] TRO ¶ 517, footnote 1579

[5] *Id.*¶ 520, footnote 1588

[6] *Id.* ¶ 519 (emphasis in original).

[7] *Id*.

REVENUES BE CALCULATED BASED ON *CURRENT* PRICES IN THE MARKET AS OPPOSED TO POSSIBLE *FUTURE* PRICES?

A. Yes. The FCC has very clearly required parties to base business case analyses on *current* prices and revenues. In fact, FCC Chairman Powell had criticized the majority decision in the TRO on the ground that it required state commissions to consider future price and revenue reductions that theoretically could result from increased competition.[8] The majority decision responded directly to this criticism by stating, "we do not direct the states to consider any such thing."[9] Instead, as stated by the majority decision:

> [A] more administratively practicable approach would be to consider prevailing prices and revenues. Accordingly, we expect states to consider prices and revenues prevailing at the time of their analyses. We believe these are reasonable proxies for likely prices and revenues after competitive entry and will result in a more administrable standard.[10]

Q. WHAT DOES THE FCC MEAN WHEN IT STATES THAT COMMISSIONS *MUST CONSIDER* THE IMPACT OF IMPLICIT SUPPORT FLOWS AND *MUST CONSIDER* ALL REVENUES BASED ON THE MOST EFFICIENT BUSINESS MODEL FOR ENTRY?

A. The FCC realizes that states have historically kept the regulated basic residential rates low, while supporting these rates with additional margins from

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[8] *Id.* ¶ 520 & footnote 1588.

[9] *Id.*

[10] *Id.*

business, feature, and intraLATA toll rates. In other words, the business, feature, and toll rates contain implicit support flows to basic residential service. This situation exists in Washington, where the basic local service residential rate is $12.50 per month and the basic business rate is $26.89. Keying off these disparities in regulated rate levels, the efficient CLEC targets the high margin residential and business customers who purchase packages of local service, features, and long distance together. In Confidential Exhibit No. PBC-4C of my direct testimony, I document multiple carriers that have entered the local market targeting the "high end" customers who wish to purchase local service, features, voice mail, wire maintenance, and long distance through a variety of package offerings.[11] This is the pricing strategy that an efficient CLEC implements in its business plan. CPRO recognizes this by utilizing MCI's Neighborhood price plans (plans clearly aimed at high revenue customers) as the basis for its revenue inputs.

Q. DOES THE FCC LEAVE ANY AMBIGUITY ABOUT THE NEED TO USE THE LIKELY REVENUES THAT AN ENTRANT WILL ACHIEVE IN THE ANALYSIS OF IMPAIRMENT?

A. No. The FCC states no less than seven times in the TRO that the Track Two business case analysis should include the likely revenue that an entrant will achieve.

[11] Confidential Exhibit PBC-4C, section 4.2.1.

- The incumbent LEC studies also used incorrect revenues, failing to use the likely revenues to be obtained by the typical customer.[12]

- [O]ur analysis must take into consideration the full range of revenues that are likely to be obtained by an entrant providing voice and related services.[13]

- [W]hether entry will be economic depends critically on the values of certain factors affecting a competing carrier's likely costs and revenues.[14]

- Likely revenues depend on the prevailing retail rate and other revenues to be gained from selling local services, including those associated with access charges and vertical features.[15]

- That market-specific data is needed is indicated by the significant variation in the costs and revenues an efficient entrant is likely to face.[16]

- State commissions should determine if entry is economic by conducting a business case analysis for an efficient entrant. This involves estimating the likely potential revenues from entry, and subtracting out the likely costs.[17]

- The cost factors listed should not be considered in isolation, but only in the context of a broad business case analysis that examines all likely potential costs and revenues.[18]

Q. DO THE CLECS IN THIS CASE IGNORE THE DIRECTION GIVEN BY THE FCC ABOUT THE REVENUES TO USE IN THE TRACK TWO ANALYSIS OF IMPAIRMENT?

A. Yes. CLEC witnesses Cabe, Lehr and Selwyn ignore the FCC's direction to

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[12] TRO ¶ 483.

[13] *Id.* ¶ 484, footnote 1497.

[14] *Id.* ¶ 484.

[15] *Id.* ¶ 484, footnote 1498.

[16] *Id.* ¶ 485.

[17] *Id.* ¶ 517, footnote 1579.

[18] *Id.* ¶ 517, footnote 1581.

use likely CLEC revenues and "prevailing" prices and revenues. They do not use likely revenues for an entrant, and they do not use prevailing prices and revenues at the time of the analysis. Rather than use the likely revenues for an entrant, as established by the revenues per line that entrants are actually achieving, they use average revenue per line earned across all customers, even customers that entrants would not choose to serve. In addition, Dr. Cabe misguidedly supports using the ILEC's revenue. And, rather than use prevailing revenues, the CLECs maintain that the revenue per line in a financial analysis of impairment should follow a downward trajectory.

Q. DO DRS. LEHR AND SELWYN ESTABLISH THE COMMON SENSE FINDING THAT AN EFFICIENT CLEC WILL NOT SERVE LOWER REVENUE CUSTOMERS?

A. Yes. Drs. Lehr and Selwyn state that "it would be unreasonable to expect a CLEC to voluntarily adopt a business strategy that requires it to cross-subsidize customers."[19] That is, rational CLECs will target customers who provide implicit subsidies and ignore customers who are recipients of implicit subsidies. As a result, rational CLECs serve above average revenue customers. By definition, therefore, they enjoy higher average revenues per line than Qwest. Furthermore, as above average revenue per line customers switch to CLECs, the average revenue per line disparity between CLECs and Qwest will

[19] Joint Direct Testimony of William Lehr and Lee Selwyn, Exhibit WHL-1T at page 24.

increase. Under the TRO, this is much more relevant to the viability of CLEC entry than a comparative cost study, and yet it is not factored in to the CLEC analysis. In fact, the CLEC analysis fails to even recognize this distinction and uses revenues for the incumbent in its analysis of entrants.

Q. WHAT REVENUES DOES AT&T'S BCAT USE FOR THE EFFICIENT CLEC?

A. Mr. Baranowski states that BCAT uses both the Qwest basic residential and basic business rates (as described above) for the starting points for the CLEC's revenues. However, in the BCAT itself, the year one basic residential local service rate of $11.25 and the year one basic business rate of $24.20 (which trends down to $13.65 in year 10) are both *a full 10 percent less than the current Qwest rates*. In other words, BCAT assumes that Qwest's basic residential and business rates will be 10 percent less a year from now than they are today. AT&T supplements the revenues from the basic residential and business rates with limited additions for features ($4.88 per line which trends down to $3.07, both for business as well as residence services), and toll ($8.51 for residence customers and $14.08 and business customers which trend down to $3.43 and $5.56 respectively).

Q. HOW DOES AT&T SUPPORT THE LOW REVENUES IT INCLUDES IN ITS BUSINESS CASE?

A. Mr. Baranowski cites a TNS Telecoms survey of customers who reside in Qwest's Washington footprint and states that this is a representative customer

sample. The fact that the TNS survey may be reflective of Qwest's current customer base is precisely the reason that these are inappropriate revenues to be considered for an efficient CLEC entering the market. Qwest has analyzed the revenue per line of its customers who have left Qwest for a competitor's local service in Washington. The average revenue per line per month of residential customers and small business customers leaving Qwest in 2003 is displayed in Highly Confidential Exhibit No. PBC-8HC. This revenue includes the basic rates, FCC subscriber line charges, features, and intraLATA toll. It does not include interLATA toll, for which there is much higher average usage than for intraLATA toll. Yet, in the face of data demonstrating that CLECs target and receive much higher than average revenues, the equivalent revenue in BCAT is $23.97 and $36.92, which are significantly understated. AT&T further understates an efficient CLEC's revenue by including limited long distance revenue, again based on the misperception that the TNS survey represents the target market for an efficient CLEC. AT&T further exacerbates this problem by limiting its inclusion of higher revenue small business lines (see discussion of market penetration levels).

Q. HOW DOES THE TNS SURVEY MISREPRESENT THE EFFICIENT CLEC'S TARGET MARKET?

A. Based on Mr. Baranowski's testimony, the TNS data provide a representative customer sample of Qwest's current customer base. A representative sample of Qwest's customer base includes a fairly large percentage of customers who

are low toll users. These low toll users hold down the average toll use of "average" customer for which AT&T is developing potential revenues. AT&T's basic mistake is that the efficient CLEC does not target its services to "average" Qwest customers. The efficient CLECs are targeting the customers who utilize above average toll usage. This target audience is readily apparent in the manner in which flat-priced products like MCI's "Neighborhood Complete" include unlimited toll and their "Neighborhood Advantage" includes 200 minutes of toll.

Q. HOW DOES AT&T WITNESS MICHAEL BARANOWSKI JUSTIFY HIS CLAIM THAT BCAT'S REVENUE INPUTS ARE CONSERVATIVE?

A. Mr. Baranowski bases this statement[20] on his claim that the BCAT revenue module "makes only a modest adjustment to reflect the impact of post-entry competition on retail revenues."[21] There is great irony in his use of the word "modest." In fact, Mr. Baranowski uses the significantly understated revenues described above as the starting point of his analysis in year one and then reduces them further for future years in direct violation of the FCC's

[20] Direct Testimony of Michael R. Baranowski, Exhibit MRB-1T at page 12, lines 10-13.

[21] The last time that I saw the word "modest" used with similar hyperbole was Jonathan Swift's A Modest Proposal. Mr. Baranowski is taking satire to similar heights with this claim. See: http://art-bin.com/art/omodest.html

requirement that state commissions must "consider prices and revenues prevailing at the time of their analyses."[22]

I have graphically described these differences in Table 2,[23] which displays BCAT's unadjusted weighted average revenue per line for years one through 10 compared to CPRO's equivalent revenue.

Table 2

Monthly Weighted Average Revenues per Line	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
AT&T BCAT	$ 34	$ 32	$ 31	$ 30	$ 29	$ 28	$ 27	$ 27	$ 26	$ 25
Qwest CPRO	$ 58	$ 58	$ 58	$ 58	$ 58	$ 58	$ 58	$ 58	$ 58	$ 58

Thus, AT&T begins low and then drops the average revenue estimate by 25 percent over the 10 year period. That is not a reasonable assumption given either Qwest's incurred cost of service or even the TELRIC UNE-P cost, neither of which includes costs for long distance or features such as voice mail. Mr. Buckley corrects the revenue inputs in the BCAT model as part of his analyses.

Q. ASIDE FROM THE DIRECT VIOLATION OF THE DIRECTION GIVEN BY THE FCC, DOES THE CLEC POSITION THAT REVENUE PER LINE WILL DECLINE MAKE SENSE?

A. No. The CLEC witnesses miss the mark for at least three reasons. First, under the FCC's required approach of using prevailing prices in the analysis of impairment, "real" prices do in fact decline. Real prices are prices adjusted for

[22] TRO ¶ 520, footnote 1588.

inflation. Because inflation is a fact of life in our economy, prices for services that remain constant over time in an analysis of impairment actually decline in relation to the overall price level in the economy. As a side point, it is also crucial to maintain consistency within a financial analysis between cost and revenues.

Second, even if prices for some services may decline, even in nominal terms, this does not mean that revenue per line will decline. Revenue per line is a product of the amount of services purchased and the prices of those services. CLEC witnesses confuse price growth with revenue growth, thereby ignoring future growth in the types and quantity of services per line. The creation and adoption of new services and revenue opportunities is part of the long history of telecommunications. It is not necessary, or possible, to predict with certainty what new services we will purchase, and perhaps find necessary, in the future, but there is little doubt that they will arise. Consider, for example, the adoption of vertical and premium services experienced in the last decade.

Finally, performing financial analysis of entry and impairment using prevailing revenues per line is a difficult enough process without entering into the contentious and highly speculative process of forecasting the dynamics of price changes and the availability and adoption of new services going forward in time. There is no evidence or reasoned expectation that establishes that

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[23] Tables 2 and Tables 4 through 6 are based the Seattle LATA, where BCAT serves the entire LATA and CPRO serves the MSAs in the LATA.

revenue per line will not remain relatively constant, and opening this issue will serve only to make the process intractable.

Q. WHAT REVENUE PER LINE IS IN LINE WITH THE FCC'S DIRECTIONS?

A. In line with the FCC's directives and proper economic analysis, the revenues per line for use in the Track Two analysis of potential competition should reflect the prevailing revenue per line received by CLECs that are currently serving these customers. These are included in the CPRO business case analysis presented in my direct testimony.

Q. DOES MR. BARANOWSKI DEVELOP OTHER TRENDS FOR RELATED INPUTS, SUCH AS COSTS OR MARKET DEMAND TO ENSURE BCAT MAINTAINS INTERNAL CONSISTENCY?

A. No. Wholly apart from the inappropriateness of assuming changes in prices and revenues, Mr. Baranowski neither changes costs nor modifies market demand to be consistent with the revenue changes he is projecting. An efficient CLEC would not reduce prices by 25 percent with no expectation of increased demand (due to demand stimulation) or a downward trend in the cost of service. Since the largest cost of local service is the loop and the labor-intensive construction costs of loops are not declining, it is unreasonable to trend costs downward. Therefore, the types of revenue reductions that Mr. Baranowski assumes, absent increased demand and reduced costs, only ensure

that the CLEC AT&T presents in BCAT never has a chance to be profitable. This is not how efficient firms develop a profitable business case.

Q. WHAT INPUT VALUE DOES AT&T'S BCAT USE FOR MONTHLY CUSTOMER CHURN AND WHAT SUPPORT IS PRESENTED TO JUSTIFY THE INPUT?

A. The BCAT uses a monthly churn value of 4.6 percent for both residence and business service. This input is described in AT&T's DAS Exhibit 2 Section 4.2 with the conclusory explanation that: "These input parameters are deemed by AT&T to be conservatively low assumptions that are reasonable to use in the impairment analysis at this time." The nature of this explanation appears to reveal that AT&T simply chose a number that it liked, as opposed to one based on meaningful data and real world experience. AT&T apparently did not base it on any objective data, including its own experience.

Q. WHAT INPUT VALUE DOES CPRO USE FOR MONTHLY CUSTOMER CHURN AND WHAT SUPPORT IS PRESENTED TO JUSTIFY THE INPUT?

A. The CPRO model uses a churn value of 3.0 percent. In section 4.3.3 of Confidential Exhibit PBC-4C, Qwest provides the justification for the input level based on its examination of data for seven CLECs and five wireless carriers. In contrast to AT&T's support, Confidential Exhibit PBC-4C fully explains the objective data and the logic that justifies its input level. Table 3

contains the churn data from Confidential Exhibit PBC-4C. All of the results presented in Table 3 come from publicly available sources.

Table 3

Monthly Churn	Allegieance	Choice One	Focal	McLeod USA	Mpower	US LEC	Z-Tel
Range Reported	1.8% - 2.8%	1.4% - 1.6%	0.80%	0.80%	4.3% -4.8% 2.4% - 3.0%	0.30%	2.30%

Q. DOES QWEST HAVE ANY FURTHER INFORMATION TO JUSTIFY A MONTHLY CHURN LEVEL OF THREE PERCENT?

A. Yes. Washington highly confidential CLEC data responses for four CLECs who supplied responses provide further support for the monthly churn input value used in CPRO. The highly confidential data verify that CPRO uses a realistic monthly churn value. Please see Highly Confidential Exhibit PBC-12HC for the churn rates reported.

Q. WHAT VALUES FOR MARKET PENETRATION ARE USED IN BCAT AND CPRO?

A. Both BCAT and CPRO use an ultimate market penetration input of five percent. However, there is a difference in the way those percentages are implemented in the models. CPRO applies the five percent penetration to both the residence lines as well as all the DS0 business lines regardless of the breakpoint between mass markets and enterprise markets. However, the AT&T BCAT unreasonably excludes 67 percent of DS0 business lines in developing what they refer to as the number of "small business" customers. AT&T assumes that the excluded lines are enterprise customers, not

addressable in this business case. AT&T's application of market penetration means that their small business customers only represent two percent of all DS0 business lines. The result of this convoluted exclusion is that small business customer revenue is understated in BCAT in contradiction to the FCC's directive for the CLEC business case to consider marketing to business customers who are the source of implicit subsidies. Qwest witness Mr. Buckley provides an analysis and correction for this calculation.

Q. WHAT LEVEL OF CUSTOMER ACQUISITION COSTS ARE INCLUDED IN THE BCAT AND CPRO?

A. BCAT uses a customer acquisition cost of $125 per customer (which equates to $107 per line), while the CPRO uses customer acquisition costs of $120 per line for years one through five and $90 per line in its steady-state operation beginning in year six. AT&T utilizes the same customer acquisition cost throughout BCAT's 10 year analysis. A comparison of the average customer acquisition cost per in-service line from both model outputs is displayed in Table 4.

Table 4

Comparison of Total Customer Acquisition Cost per In-Service line	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
AT&T BCAT	$ 13.66	$ 9.30	$ 7.84	$ 7.11	$ 6.68	$ 4.93
Qwest CPRO	$ 23.45	$ 10.13	$ 7.46	$ 6.32	$ 5.69	$ 2.70

Table 4 shows that the CPRO customer acquisition costs start higher than the BCAT and are approximately equal in year three. The early years impact the

net present value (NPV) more than later years since the NPV function discounts each year's expenses (or revenues) at 15 percent per year in developing the net present value. In year 6, CPRO reduces the customer acquisition cost to reflect the fact that the CLEC at this point is no longer buying increased market share. This points out another inconsistency in AT&T's business case. An efficient CLEC should be able to reduce its customer acquisition costs when it is merely maintaining market share and not growing it as in the first five years of the analysis.

Q. ARE THERE OTHER ISSUES ASSOCIATED WITH CUSTOMER ACQUISITION COSTS?

A. Yes. Customer acquisition costs are related to revenues. It is logical to expect that the higher the cost to obtain a customer, the higher the level of revenue generated from that customer. In other words, the efficient CLEC balances the customer acquisition expense versus the revenue that customer will generate. For example, it is inconsistent for the BCAT to include $125 per customer for acquiring a residential customer who is only expected to generate $23.97 per month revenue. No efficient CLEC would incur this level of customer acquisition cost based on this anticipated revenue stream.

Q. WHAT DOCUMENTATION DOES AT&T USE TO SUPPORT ITS CUSTOMER ACQUISITION COST?

A. AT&T does not have any documentation to support their customer acquisition cost input. Mr. Baranowski states that the value is conservative because it is

comparable to the ILEC's customer acquisition cost, but he provides no evidence to support his statement. In contrast, CPRO's customer acquisition cost is supported by section 3.1.5 of Confidential Exhibit PBC-4C, which provides public data relating to these costs for five CLECs. This section also discusses how CPRO's input value for customer acquisition cost is consistent with other default inputs values utilized in the model.

Q. HAVE YOU COMPARED OTHER EXPENSE INPUTS IN THE BCAT AND CPRO?

A. Yes. The expenses for marketing and sales, customer operations, general and administrative, switch maintenance, uncollectibles, and other taxes need to be analyzed through an examination of model output costs. Table 5 displays these expenses per in-service line are compared for year six, after both models reach their ultimate market penetration.

Table 5

Monthly Expense per Line at Year 6 (Steady State)	**AT&T BCAT**	**Qwest CPRO**
Marketing and Sales	$ 4.93	$ 2.70
Customer Operations	$ 3.55	$ 5.00
General and Administrative and Network Operations	$ 1.89	$ 2.70
Uncollectibles	$ 1.05	$ 3.46
Switch Maintenance	$ 0.49	$ 0.46
Other Taxes	$ 1.19	$ 0.15
Total	$ 13.11	$ 14.47

The marketing and sales cost in Table 5 is comprised of the customer acquisition costs shown in Table 4. CPRO reflects higher expenses than BCAT for customer operations, general and administrative, and uncollectibles than the BCAT. Switch maintenance per line is approximately the same in both models. BCAT contains much higher "Other Taxes" than the CPRO model. However, BCAT is in error in using a 5.4 percent factor to calculate "Gross Receipts" type taxes. The vast majority of these taxes are "pass through" taxes, where Qwest acts on behalf of the taxing entity. Qwest collects the tax from end users and passes it on to the governmental agency. Therefore, to properly model such taxes, there are two options: (1) do not include any gross receipts-type taxes, or (2) include gross receipts taxes as both an expense and as revenue. CPRO has chosen not to include "pass through" taxes. Other taxes in CPRO include property tax. Mr. Buckley shows the result of this correction in his testimony.

Q. HAVE YOU COMPARED CLEC INVESTMENT IN SWITCHING FOR CPRO AND BCAT?

A. Yes. Table 6 displays a comparison of the cumulative switch investment per in-service line in CPRO and BCAT.

Table 6

Cumulative Switch Investment Per In-Service Line	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
AT&T BCAT	$ 179	$ 133	$ 118	$ 110	$ 105	$ 105
Qwest CPRO	$ 431	$ 185	$ 136	$ 115	$ 101	$ 91

CPRO's switching investment per line is higher than BCAT in years one through four. In year five, the switch investments are approximately equal. In the steady state operation, year six and beyond, the CPRO investment per line is $14 lower than BCAT. This is not a significant difference.

Q. PLEASE SUMMARIZE YOUR FINDINGS CONCERNING BCAT'S INPUTS.

A. The BCATs inputs are best understood when compared and contrasted to those utilized in CPRO. These comparisons include three important areas: revenues, documentation of inputs, and the internal consistency of inputs. First, the most critical input to BCAT is its revenue assumption. BCAT's use of basic Qwest local service tariff rates clearly violates the FCC's directives to utilize likely CLEC revenues and "prevailing" prices at the time of the analysis. AT&T even ignores its own local service prices in determining its revenue input. The efficient CLEC markets its services to high revenue customers, not the average ILEC customer. Evidence supporting this supposition is presented here in my response testimony and in my direct testimony (Exhibit No. PBC-1T). CPRO's revenue inputs fully comply with the FCC's directions and are based on documented prices charged by CLECs in today's marketplace.

Second, AT&T uses many other important inputs that lack any supporting data. Inputs such as customer churn and customer acquisition costs have a great deal of impact in BCAT, but AT&T has no justification or reality checks for its data. Again, contrast the support for these inputs with CPRO, where

extensive documentation backs the inputs and their application in the real world.

Finally, BCAT does not maintain internally consistent inputs. For example, customer acquisition costs are not synchronized with the revenue assumptions. The efficient CLEC balances customer acquisition costs with revenue opportunities. This is recognized in the CPRO model inputs which are carefully balanced, based on what is occurring in the marketplace and documented as such.

What is evident in all these comparisons is that the BCAT's inputs are chosen to produce a result, not to accurately portray the financial opportunities available to an efficient CLEC. CPRO, on the other hand utilizes fully documented inputs and produces reliable results consistent with the real world.

VI. AT&T'S CROSS-OVER ANALYSIS

Q. WHAT DID THE TRO REQUIRE STATE COMMISSIONS TO DO CONCERNING THE "DS0 CROSS-OVER"?

A. The FCC found that "[a]t some point, customers taking a sufficient number of multiple DS0 loops could be served in a manner similar to that described above for enterprise customers—that is, voice services provided over one or several DS1s...."[24] The FCC also stated: "We expect that in those areas where

[24] TRO ¶ 497.

the switching carve-out was applicable, the appropriate cutoff will be four lines absent significant evidence to the contrary. We are not persuaded, based on this record, that we should alter the Commission's previous determination on this point."[25]

In the absence of significant evidence to the contrary, the FCC establishes the cross over point at four lines. This Commission is best served by adopting this cross over point, unless it is presented with a fully articulated and correct study that a different crossover point is more appropriate. There is no such study in the record. Mr. Finnegan presents the only study, and it is seriously flawed in design and implementation.

Q. DOES THE RULE ADOPTED BY THE FCC PROVIDE

[25] *Id.*

INSTRUCTIONS TO THE STATE COMMISSIONS CONCERNING THE STANDARDS THAT SHOULD BE APPLIED TO DETERMINE THE CROSS-OVER POINT?

A. Yes. The FCC rules states:

> Specifically, in establishing this "cutoff," the state commission shall take into account the point at which the **increased revenue opportunity** at a single location is sufficient to overcome impairment and the point at which multi-line end users could be served in an **economic fashion by higher capacity loops** and a carrier's own switching and thus be considered part of the DS1 enterprise market.[26]

The rule thus requires states to assess the increased revenue opportunity at a single location that would overcome impairment and also assess the point at which multi-line customers could be served with loops higher in capacity than DS0.

Q. WHAT TYPE OF STUDY IS NECESSARY FOR THE COMMISSION TO ADOPT A CROSSOVER OTHER THAN THE FOUR LINES ADOPTED BY THE FCC?

A. While the rule is not completely clear, it appears that its underlying intent is that any cross-over analysis must determine whether the revenue opportunities available to a CLEC at a customer location are sufficient for a CLEC to serve the customer with DS1 or higher capacity facilities rather than DS0 facilities. This is a non-trivial task, because it requires performing a business case

[26] 48 C.F.R. § 51.319(d)(iii)(B)(4) (*emphasis added*).

analysis of serving multi-line customers, and this entails a credible and consistent examination of expected revenues and costs. One source of complexity arises from the many different situations where DS1 facilities may be appropriate. For instance, multi-tenant residential apartments (and the thousands of variations within the group) present different revenue opportunities than multi-tenant business locations (which also have thousands of significant variations). Each of these types of locations includes different customer-specific factors, such as customer churn at the location, type of business and its use of telecommunications and data services, and location relative to other telecommunications facilities. Basically, the study must determine the potential revenue threshold that the CLECs utilize in their business decisions for their network deployment. No party in this case has presented such evidence.

Q. AT&T WITNESS JOHN FINNEGAN PROVIDES A "DS0 CROSS-OVER" STUDY. DOES IT MEET THE CRITERIA ESTABLISHED IN THE FCC'S RULES?

A. No. Mr. Finnegan's study does not meet the FCC's requirements. Mr. Finnegan described his methodology this way: "I calculate the total monthly cost to sell, install and maintain a DS1 based service at a customer's location and then I divided that result by the monthly UNE-P costs of serving that same

customer."[27] Thus, Mr. Finnegan completely ignores the requirement to analyze the potential revenue opportunities that can be derived from providing DS1 service. He likewise fails to compare those revenues to the potential voice grade revenues. His use of UNE-P costs is incorrect and inexplicable. If anything is clear under the TRO, it is that the question of impairment in these dockets relates to the financial viability of UNE-L, not UNE-P. Likewise, a cross-over point analysis that employs UNE-P costs ends up answering a question that the TRO is not asking.

In effect, the FCC directed that, prior to making a change in the cross-over point, the state commissions must examine a mini-business case at customer locations. The DS0 cross-over point must consider the additional revenue opportunities that DS1 facilities provide beyond voice-grade facilities. This is the revenue threshold that a CLEC utilizes in its decision to deploy DS1s facilities. This revenue opportunity should be compared to the increased cost of DS1 facilities versus voice grade facilities

Q. ARE THERE OTHER FLAWS IN MR. FINNEGAN'S ANALYSIS?

A. Yes. Even if you accepted the general methodology employed by Mr. Finnegan, his analysis is severely flawed.[28] The services that Mr. Finnegan

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[27] Direct Testimony of John F. Finnegan, Exhibit No. JFF-1T at page 81, lines 6–8.

[28] Mr. Finnegan's study utilizes incorrect DS1 non-recurring rates and special access rates. The study also includes unsupported equipment costs for multiplexing equipment and maintenance, as well as minor computational errors. These errors are minor compared to its major structural deficiencies.

compares do not contain symmetric elements. Mr. Finnegan compares UNE-P costs with DS-1 loop costs, backhaul costs, and customer premise equipment (CPE) costs. The UNE-P costs include switching and shared transport, which is inappropriate for this comparison. A symmetrical cost comparison includes DS0 UNE-L loop costs and the UNE-L backhaul costs in relation to the same cost structure for DS1, except for the inclusion of CPE costs.

While this solves the symmetry problem, it does not solve the problem of presenting this Commission with a sound study meeting the FCC's rules. Even a corrected version of Mr. Finnegan's study would fail to meet the requirements of the FCC rule. The type of study the Commission would need to address under the rule must identify the revenue opportunity (expressed in terms of DS0s) that drives a CLEC to deploy DS1 facilities to a customer location.

In the absence of such a study in this case, I recommend that the Commission retain the current four-line cross-over point.

VII. CPRO RESULTS FOR WASHINGTON WIRE CENTERS

Q. WHAT ARE THE MARKETS FOR WHICH QWEST PRESENTED CPRO RESULTS?

A. CPRO results have been presented for the wire centers residing in the Seattle, Tacoma, Olympia, Bremerton, Bellingham, and Vancouver/Portland MSAs.

Q. QWEST WITNESS HARRY SHOOSHAN MAKES IT CLEAR THAT WIRE CENTERS SHOULD NOT BE ANALYZED ONE AT A TIME, BUT SHOULD BE CONSIDERED TOGETHER. MCI CLAIMS THAT WIRE CENTER COSTS VARY CONSIDERABLY. IS IT POSSIBLE FOR CPRO TO CALCULATE INDIVIDUAL WIRE CENTER RESULTS WHEN ANALYZED TOGETHER?

A. Yes. It is possible to run CPRO to include the wire centers outside the markets that Qwest has defined. For example, a CPRO run for MSAs can be adjusted to include wire centers that fall outside the defined MSAs. In such a run, CPRO calculates the incremental discounted cash flow (i.e., the incremental net present value) for each wire center included in the run.

Q. PLEASE PROVIDE THE POSITIVE INCREMENTAL CASH FLOW FOR WIRE CENTERS OUTSIDE THE SIX MARKETS DEFINED BY QWEST.

A. Table 8 includes the wire centers in Washington outside the six MSA markets that CPRO demonstrates have positive incremental discounted cash flows. As Mr. Shooshan's testimony establishes, the MSA is the appropriate geographic market for evaluating impairment, which is why Qwest has focused its request for non-impairment findings in this case to MSAs. However, if the Commission were to adopt MCI's wire center definition of the relevant market, it would be necessary to expand the findings of non-impairment to some wire centers within MSAs that are not positive on an overall basis but where

individual wire centers are positive. Likewise, it would be necessary to included wire centers not within MSAs where CLECs can economically self-provide switching. Table 8 lists six additional Washington wire centers where CLECs can economically self-provision switching. The CPRO model runs that developed the incremental cash flows in Table 8 are included in Confidential Exhibit Nos. PBC-9C, PBC-10C, and PBC-11C.

Table 8

Additional WA Wire Centers with Positive Incremental Discounted Cash Flow

CLLI	Incremental DCF	Zone	Market Lines	MSA
CENLWA01	$ 17,271	4	14,791	None
SPKNWA01	$ 1,040,676	4	46,680	Spokane
SPKNWAFA	$ 343,878	4	31,780	Spokane
SPKNWAKY	$ 288,270	3	21,340	Spokane
SPKNWAWA	$ 184,669	5	56,984	Spokane
YAKMWAWE	$ 5,443	3	22,114	Yakima

VIII. CONCLUSION

Q. WHAT ARE YOUR CONCLUDING COMMENTS?

A. I have analyzed the basic methodology and inputs utilized by AT&T in its DS0 Impairment Tool and BCAT. AT&T's business case is cursory at best and does little more than identify a handful of costs that it claims place it at a disadvantage. AT&T's inputs, especially for likely CLEC revenues prevailing in the marketplace are greatly understated. Further, AT&T utilizes other inappropriate key inputs and provides no documentation for their support. Examples of such inputs are customer churn and customer acquisition charges.

AT&T's analysis is not the rigorous business case analysis required by the FCC.

Further, I have provided evidence demonstrating that AT&T's so-called cost disadvantage is a complete fallacy. I have contrasted AT&T's inputs, input documentation, and methods to CPRO. The CPRO model is based upon sound principles of financial analysis and the model and its well documented inputs are guided by the FCC's instructions in the TRO. Based on my analysis, I conclude that AT&T's results are inaccurate and that CPRO model provides this Commission with the best tool and set of inputs to perform the analysis of economic impairment.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.