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August 28, 2002

Secretary
Missouri Public Service Commission
200 Madison Street, Suite 650
P. O. Box 360
Jefferson City, MO 65102
VIA FEDEX

FILED

AUG 29 2002

**Missouri Public
Service Commission**

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

Dear Sir:

Enclosed are an original and two (2) copies each of the **HC and NP Surrebuttal Testimony of Randy G. Farrar**, and the **Surrebuttal Testimony of Dr. Brian R. Staihr**, on behalf of Sprint in the above-captioned matter. The filing category for this filing is 11 Telephone Specific Issues – Other Telephone Specific Issues. I would appreciate your filing the same and returning filed-stamped copies.

Pursuant to the Commission's Order Adopting Procedural Schedule, Clarifying the Scope of this Proceeding, and Concerning Motion to Waive Service Requirement and Motion to Compel Discovery issued on March 14, 2002 ("Order"), copies of the foregoing are being served on counsel for all represented parties in this case. This cover letter is being served on unrepresented parties pursuant to the Order, advising all unrepresented parties that you may obtain a copy of the referenced documents upon request from the filing party at no cost.

Please direct any further questions or requests to Vickie Worrel at 913-315-9135.

Very truly yours,

Lisa Creighton Hendricks

/vw

cc: Counsel for All Represented Parties of Record w/enclosures
All Unrepresented Parties of Record w/o enclosures

EXHIBIT No.:
ISSUES:
WITNESS:
SPONSORING PARTY:
TYPE OF EXHIBIT:
CASE No.:
DATE PREPARED:

ACCESS COSTS
RANDY G. FARRAR
SPRINT
SURREBUTTAL TESTIMONY
TR-2001-65
AUGUST 28, 2002

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

RANDY G. FARRAR

ON BEHALF OF

SPRINT MISSOURI, INC.

August 28, 2002

FILED

AUG 29 2002

**Missouri Public
Service Commission**

*****NON PROPRIETARY*****



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1 **I. INTRODUCTION**

2
3 Q. Please state your name, occupation, and business address.

4 A. My name is Randy G. Farrar. I am presently employed as Senior Manager -
5 Network Costs for Sprint/United Management Company. My business address is
6 6450 Sprint Parkway, Overland Park, Kansas, 66251.

7
8 Q. Did you previously provide Direct Testimony and Rebuttal Testimony in this
9 proceeding?

10 A. Yes, I did.

11
12 Q. What is the purpose of your Surrebuttal Testimony?

13 A. I will provide comments on the rebuttal testimonies of Dr. Ben Johnson, of Ben
14 Johnson and Associates (BJA), testifying on behalf of the Commission Staff;
15 Barbara Meisenheimer, testifying on behalf of the Office of the Public Counsel;
16 Robert C. Schoonmaker, testifying on behalf of the Small Telephone Company
17 Group; and Kent Larsen, testifying on behalf of the Missouri Independent
18 Telephone Group.

19
20 My testimony will:

- 21 1. Discuss the FCC's Forward-Looking Economic Cost standard, and explain
22 why it is the ideal cost standard for this proceeding.
23 2. Discuss the deficiencies in the BJA TSLRIC study.

1 3. Discuss why loop costs cannot be logically attributed to switched access

2
3 **II. FCC FORWARD-LOOKING ECONOMIC COST STANDARD**

4
5 **A. Cost Standard**

6
7 Q. What is the appropriate cost standard for this proceeding?

8 A. The Commission should adopt an incremental cost standard for all companies
9 based upon widely-accepted economic costing principles. The FCC's Forward-
10 Looking Economic Cost standard, as defined in the Local Competition Order,
11 best meets the needs of this proceeding. Contrary to the claims of some
12 witnesses, the Forward-Looking Economic Cost standard is ideal for switched
13 access because it is well defined, well documented, easily applied, widely used,
14 and widely accepted.

15
16 Q. Can the Forward-Looking Economic Cost standard be applied to small telephone
17 companies?

18 A. Yes. The Forward-Looking Economic Cost standard reflects the actual cost of
19 an economically efficient company. It reflects an efficient network, current
20 technology, and current prices. While, as a general rule, smaller companies
21 have a higher cost than do large companies, that higher cost will be reflected in a
22 Forward-Looking Economic Cost as it considers economic efficiencies.

1 **B. Definitions**

2
3 Q. Please explain what is meant by Total Service Long-Run Incremental Cost
4 (TSLRIC).

5 A. As discussed in my Direct Testimony, Paragraph 677 of the FCC Local
6 Competition Order discusses the term TSLRIC. It states,

7 The term "long run," in the context of "long run incremental cost," refers to a
8 period long enough so that **all of a firm's costs become variable** or
9 avoidable. The term "total service," in the context of TSLRIC, indicates that
10 the relevant increment is the entire quantity of the service that a firm
11 produces, rather than just a marginal increment over and above a given level
12 of production. Depending on what services are the subject of a study,
13 TSLRIC may be for a single service or a class of similar services. TSLRIC
14 includes the incremental costs of dedicated facilities and operations that are
15 used by only the service in question. TSLRIC also **includes the incremental**
16 **costs of shared facilities and operations that are used by that service as**
17 **well as other services.** (emphasis added)

18
19 Using the FCC definition, the main TSLRIC concepts include,

- 20 • Long-run is a period of time long enough that all of the firm's costs
21 become variable,
22 • The entire cost of all dedicated facilities and operations is included, and
23 • A portion of the cost of all shared facilities and operations is included.

24
25 Q. How does the FCC define TELRIC (Total Element Long-Run Incremental Cost)?

26 A. Paragraph 672 of the Local Competition Order defines TELRIC as the TSLRIC of
27 a network element.

28 In practice, this will mean that prices are based on the TSLRIC of the
29 network element, which we will call Total Element Long Run Incremental

1 Cost (TELRIC), and will include a reasonable allocation of forward-looking
2 joint and common costs.
3

4 Q. How does the FCC define Forward-Looking Economic Cost?

5 A. The FCC Local Competition Order's Final Rules (Appendix B), § 51.505(a),
6 defines the Forward-Looking Economic Cost standard as TELRIC plus common
7 costs.

8 *In general.* The forward-looking economic cost of an element equals the sum
9 of:

- 10 (1) the total element long-run incremental cost of the element ... ; and
11 (2) a reasonable allocation of forward-looking common costs
12

13 **C. Switched Access vs. Interconnection**

14
15 Q. On page 17, line 18, of his rebuttal testimony, Mr. Larsen states, "FLEC
16 [Forward-Looking Economic Costs] and variations of LRIC cost analysis are not
17 appropriate for exchange access service. Mr. Farrar incorrectly relied on the
18 FCC's *Local Competition* Order where the FCC requires Total Service LRIC
19 (TSLRIC) for *local interconnection* and Total Element LRIC (TELRIC) for pricing
20 *unbundled network elements.*" Please comment.

21 A. The purpose of this proceeding is to determine the cost of switched access. The
22 FCC's Forward-Looking Economic Cost standard can certainly be applied to
23 switched access.
24

25 Mr. Larsen would have us believe that the FCC's Forward-Looking Economic
26 Cost standard is some sort of unique cost concept applicable only to two specific

1 telecommunications applications – interconnection and UNEs; and applicable to
2 nothing else. It is, in fact, simply the FCC’s application of a set of widely
3 accepted incremental costing principles to telecommunications. The Forward-
4 Looking Economic Cost standard is applicable to any service or industry.

5
6 I have been personally involved in the development of such Forward-Looking
7 Economic Cost studies and have submitted such studies in many states. I am
8 confident that these cost principles are appropriate for switched access in this
9 docket.

10
11 Q. Do other witnesses make assertions similar to Mr. Larsen?

12 A. Yes. Both Ms. Meisenheimer (page 16, line 2, of her rebuttal testimony) and Mr.
13 Schoonmaker (page 7, line 8, of his rebuttal testimony) also erroneously assert
14 that the Forward-Looking Economic Cost standard is not appropriate for
15 switched access.

16
17 Q. Is the Forward-Looking Economic Cost of terminating local traffic
18 (interconnection) the same as for terminating switched access?

19 A. Yes. As Mr. Larsen acknowledges, the FCC’s Forward-Looking Economic Cost
20 standard applies to local interconnection, or the rate carriers charge to one-
21 another to terminate traffic on each other’s networks, i.e. reciprocal
22 compensation. Therefore, pursuant to the FCC’s Local Competition Order, the

1 Forward-Looking Economic Cost of local end office termination excludes the cost
2 of the local loop.

3
4 Functionally, local interconnection at the end office is virtually identical to
5 switched access. In other words, terminating an interoffice call at the end office
6 requires the identical switch components and switching functions, regardless of
7 where the call originates.

8
9 Thus, the cost of local interconnection is virtually identical to the cost of switched
10 access at the end office, and should not include an arbitrary allocation of loop
11 costs.

12 13 **III. REBUTTAL TESTIMONY OF DR. JOHNSON**

14 15 **A. BJA TSLRIC Study**

16
17 Q. Does the BJA TSLRIC study comply with the FCC's definition of TSLRIC?

18 A. No. Specifically the BJA TSLRIC cost study,

- 19 • Does not consider all of the firm's costs as variable, and
- 20 • Does not include a portion of all shared facilities and operations.
21 (Specifically, Dr. Johnson excludes the central processor, switch software,
22 and fiber cable facilities in their entirety, as well as other shared costs.)

1 Q. Do the BJA cost studies provide a reasonable estimate of the cost of switched
2 access?

3 A. No. The purpose of this proceeding is to determine the incremental cost of
4 switched access. None of the four BJA cost studies accomplishes this task.
5 Three of Dr. Johnson's cost methodologies do not conform to any incremental
6 cost standard, and the BJA TSLRIC, by his own admission (page 22, line 19 of
7 his rebuttal testimony), does not allow the firm to recover its costs. This is
8 because the BJA TSLRIC study excludes shared costs which vary in the long-
9 run, as discussed below in Section III.B.

10

11 Q. Does the Forward-Looking Economic Cost standard reflect the firm's total costs?

12 A. Yes. The Forward-Looking Economic Cost standard includes all costs which
13 vary in the long-run (including a portion of directly attributable shared costs) and
14 a reasonable allocation of common costs.

15

16 Q. Beginning on page 9, line 18, Dr. Johnson criticizes Sprint for not preparing an
17 "apples to apples' comparison of its recommendations with the analogous inputs
18 used in the Staff studies, as well as those relied upon by SWBT and Verizon." Is
19 this a valid criticism?

20 A. No. A Standard Protective Order has been issued in this docket. Thus, I do not
21 have access to the data of the other parties that Dr. Johnson wants me to
22 compare.

23

1 Regardless, there are valid reasons why costs vary between companies. What
2 is important is that these inputs are consistent with the Forward-Looking
3 Economic Cost standard.

4
5 Q. Continuing this theme, Dr. Johnson states, "In most cases, differences in inputs
6 are primarily a function of differences in costing philosophy or methodology – not
7 differences in the individual carriers' operations." Is this correct?

8 A. No. It is not reasonable to expect a rural telephone company such as Sprint
9 Missouri to have the same cost inputs as SWBT which serves large urban areas
10 such as St. Louis and Kansas City. Therefore, a comparison of inputs used in
11 SWBT or Verizon's cost studies is not necessary (or even relevant) to determine
12 if the inputs in Sprint's cost studies are consistent with the Forward looking
13 Economic Cost standard.

14
15
16 **B. Long-Run Costs**

17
18 Q. What is meant by long-run?

19 A. Simply put, the long-run is a period of time long enough for all costs to vary. By
20 definition, in the long-run, all inputs are variable. This is a basic economic
21 concept that can be found in virtually any introductory economics text book.

22
23 Q. Does this apply to TSLRIC studies?

1 A. Yes. The "LR" in TSLRIC stands for "Long-Run." Paragraph 677 of the FCC
2 Local Competition Order discusses the term "long-run" within the context of
3 TSLRIC. It states,

4 The term "long run," in the context of "long run incremental cost," refers to a
5 period long enough so that all of a firm's costs become variable or avoidable.
6 ... TSLRIC also includes the incremental costs of shared facilities and
7 operations that are used by that service as well as other services.
8

9 Q. Does Dr. Johnson include all costs in his TSLRIC cost study?

10 A. No. As discussed in by Direct and Rebuttal Testimonies, Dr. Johnson excludes
11 many long-run costs from his TSLRIC study, including the

- 12 • Central office processor,
- 13 • Baseload switching software,
- 14 • A portion of fiber optic terminals,
- 15 • Fiber optic cable facilities, and
- 16 • Other shared expenses.

17
18 Q. On page 11, line 4, Dr. Johnson states, "The costs he [Mr. Farrar] cites were
19 properly excluded from the TSLRIC studies, because they would not be avoided
20 if intrastate switched access were eliminated." Is this true?

21 A. No. By excluding all costs from his study, Dr. Johnson takes a short-run view of
22 costing, rather than a long-run view.

23
24 The FCC definition of TSLRIC states that "... all of a firm's costs become
25 variable" The phrase "all of a firm's costs" certainly includes the central

1 processor, fiber optic terminals, fiber cable facilities, and switch software which
2 Dr. Johnson chooses to exclude from the BJA TSLRIC study. It is quite clear
3 from this definition that TSLRIC includes the very items Dr. Johnson chooses to
4 exclude.

5
6 Q. On page 11, line 6, Dr. Johnson states, "The mere fact that certain costs may
7 vary with output over the long run isn't a sufficient basis for concluding that the
8 entire amount of those costs belongs in a TSLRIC study." Does this correctly
9 describe your testimony?

10 A. No. Dr. Johnson is incorrectly describing both the Sprint cost study and the
11 Forward-Looking Economic Cost standard. I am not suggesting that the "entire
12 amount" of a shared cost should be recovered by switched access. Rather, a
13 portion of shared costs is properly attributed to switched access. In contrast, Dr.
14 Johnson entirely excludes many shared costs from switched access.

15
16 Q. On page 11, line 9, Dr. Johnson states, "It is self-evident that all, or nearly all, of
17 the costs cited by Mr. Farrar would still be incurred if local and interstate
18 switched access services are provided, even if intrastate switched access
19 service were not offered." Have you, in fact, demonstrated that the costs in
20 question vary with demand over the long-run?

21 A. Yes, I have. My Direct Testimony gives actual facts demonstrating that these
22 costs vary in the long-run. Specifically,

- 1 • Central office processor capacity has varied over time. The only reason
2 for this capacity expansion is to meet increased demand for all
3 telecommunications services, including switched access.
- 4 • Fiber Optic Terminal capacity can be exhausted and expanded in the
5 long-run. There are a variety of fiber optic terminal capacities available in
6 the telecommunications market. Without the demand for switched
7 access, less fiber optic terminal capacity would be required.
- 8 • The amount of fiber cable facilities varies with the capacity of the fiber
9 optic terminals. Without the demand for switched access, less fiber optic
10 terminal capacity would be required, requiring fewer fiber optic facilities.
11 In addition, in the long-run, overall increased demand for
12 telecommunications services drives the need for additional fiber optic
13 facilities. (There is obviously more fiber optic cable in the ground today
14 than in the past.)

15
16 Q. On page 11, line 16, Dr. Johnson states, "If Sprint were to stop offering intrastate
17 switched access service, it wouldn't be able to eliminate, or even substantially
18 reduce its expenditure on these items." Is this correct?

19 A. No. Since these costs vary with demand over the long-run, costs would vary in
20 the long-run if switched access service was not offered. Contrary to Dr.
21 Johnson's assertion, without the long-run demand for switched access services,
22 less processing capacity, less transport terminal capacity, and fewer fiber optic
23 cable facilities would be required.

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Q. Continuing this thought on page 11, line 19, Dr. Johnson states, "The baseload switching software provides a clear example of this phenomena." Is this correct?

A. No. Even the cost of baseload software varies with demand in the long-run. The following table illustrates that smaller offices with less demand have lower software costs than do larger offices with greater demand.

***** BEGIN Highly Confidential *****

[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

***** END Highly Confidential *****

Q. On page 12, line 13, Dr. Johnson states, "Since the cost of purchasing and installing a 2 pair fiber cable is nearly identical to the cost of a 6 or 12 pair cable, it is reasonable to treat the entire cost of the cable as one which would not be avoidable" Is this statement correct?

A. No, this statement is simply not correct. The cost of installing larger size cables is not the same as for smaller size cables. The following table illustrates the variation in total installation costs for various buried cable sizes for Sprint Missouri.

1

***** BEGIN Highly Confidential *****

2



[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
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[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

3

4

***** END Highly Confidential *****

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6

While placement costs do not vary by cable size, material cost and splicing costs do vary by cable size. This demonstrates that the cost of fiber cable facilities varies in the long-run. In areas of low demand, smaller cables can be installed at lower cost. In areas of growing demand, larger cables must be installed at higher cost.

7

8

9

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11

12

Q. On page 12, line 17, Dr. Johnson states, "Bear in mind that a single pair of fibers is adequate to accommodate all of the local, interstate and intrastate traffic." Is this statement correct?

13

14

15

A. No, this statement is simply not correct. In areas of growing demand, OC-48 and OC-192 SONET transport systems are required. These systems require four (2 pair) fiber optic cables.

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IV. LOOP COSTS

A. Loop Costs Are Not Incremental To Switched Access

Q. Some witnesses in this proceeding consider loop a common cost that can be allocated to switched access? Is this proper?

A. No, for the following reasons.

- 1. Loop is a non-traffic-sensitive (NTS) cost,
- 2. Loop is not a joint cost,
- 3. Loop is not a common cost, and
- 4. Loop cost recovery is a policy-making issue (not a cost issue).

Each of these reasons will be discussed in detail.

1. Loop is a Non-Traffic-Sensitive (NTS) Cost

Q. Is the loop an NTS cost?

A. Yes. As discussed in my Rebuttal Testimony, loop is clearly an NTS cost.

Paragraph 1057 of the Local Competition Order explicitly states,

The costs of local loops and line ports associated with local switches do not vary in proportion to the number of calls terminated over these facilities. We conclude that such non-traffic sensitive costs should not be



1 considered "additional costs" when a LEC terminates a call that originated
2 on the network of a competing carrier.
3

4 The FCC properly considers loop an NTS investment.
5

6 Q. Should NTS loop costs be recovered on a traffic-sensitive basis?

7 A. No. The Local Competition Order makes it clear that NTS loop costs should be
8 recovered on a flat-rated basis. §51.509 of the FCC Rules states,

9 (a) Local Loops. Loop costs shall be recovered through flat-rated
10 charges.
11

12 Q. Does the FCC Access Reform Order consider the loop a common cost
13 attributable to traffic-sensitive rates such as switched access?

14 A. No. The FCC Access Reform Order, CC Docket No. 96-262, is consistent with
15 the Local Competition Order. The Access Reform Order makes it quite clear that
16 switched access costs do not include loop. Specifically, in Paragraph 53 of the
17 Access Reform Order specifically states,

18 In rationalizing the switched access rate structure in this Order, our primary
19 goal is to ensure that traffic-sensitive costs are recovered through traffic-
20 sensitive charges and NTS costs are recovered through flat-rated charges,
21 wherever appropriate. Because many NTS costs are currently recovered
22 through per-minute charges, the principle effect of our Order is to reduce the
23 amount recovered through per-minute interstate access charges and
24 increase the amounts recovered through flat-rated charges.
25

26 Q. Does the FCC Universal Service Order consider the loop a common cost
27 attributable to traffic-sensitive rates such as switched access?

1 A. No. The FCC Universal Service Order, CC Docket No. 96-45, is consistent with
2 the Local Competition and Access Reform Orders. The FCC's USF model,
3 HCPM (Synthesis Model), CC Docket 97-160, attributes the cost of the entire
4 loop to the cost of basic service.

5
6 Q. Is the FCC aware of the problems that arise when NTS loop costs are arbitrarily
7 allocated to switched access?

8 A. Yes. The Access Reform Order explicitly illustrates the problems that arise from
9 arbitrarily allocating NTS loop costs to switched access. Specifically, Paragraph
10 28 states,

11 For example, although the cost of the local loop that connects the end user to
12 the telephone company's switch does not vary with usage, the current rate
13 structure rules require incumbent LECs to recover a large portion of these
14 non-traffic-sensitive costs through traffic-sensitive, per-minute charges.
15 These mandatory recovery rules inflate traffic-sensitive usage charges and
16 reduce charges for connection to the network, in essence creating an implicit
17 support flow from end users that make many interstate long-distance calls to
18 end users that make few or no long-distance calls.
19

20 This Commission should not replicate the error that the FCC has recognized and
21 is attempting to correct.

22
23 Q. In a discussion beginning on page 12, Ms. Meisenheimer quotes the FCC to
24 support her position that loop cost should be allocated to switched access. Is
25 this truly consistent with the FCC's position?

1 A. No. As discussed above, the FCC has consistently treated the loop as an NTS
2 cost which is not to be allocated to traffic-sensitive rates such as switched
3 access.

4
5 Q. Is there any cost-based justification for attributing NTS costs to any usage-based
6 rate such as switched access?

7 A. No.

8

9 **2. Loop Is Not A Joint Cost**

10

11 Q. Are loop costs either a joint or common cost to all services?

12 A. No. The FCC's Local Competition Order contains standard economic definitions
13 of joint and common costs. The loop simply does not meet either definition.

14

15 Q. What is a joint cost?

16 A. According to the Local Competition Order, Paragraph 676, joint costs are

17 ... incurred when two or more outputs are produced in fixed proportion by
18 the same production process (i.e. when one product is produced, a
19 second product is generated by the same production process at no
20 additional cost).

21

22 When considering the local loop, the key phrase in this definition is "... produced
23 in fixed proportion" This condition does not exist for the local loop. Many
24 products traverse the loop, including basic service, local usage, toll usage, and
25 access usage. However, these products are clearly not "produced in fixed

1 proportion” by the production of loops. The production of loops produces loops,
2 not MOU traffic. Therefore, the local loop cannot be a joint cost.

3 4 **3. Loop Is Not A Common Cost**

5
6 Q. What is a common cost?

7 A. According to the Local Competition Order, Paragraph 676, common costs are

8 ... incurred in connection with the production of multiple products or
9 services, and remains unchanged as the relative proportion of those
10 products or services varies (e.g., the salaries of corporate managers).
11

12 When considering the local loop, the key phrase in this definition is the “...
13 relative proportion....” This condition does not exist for the local loop. Many
14 products traverse the loop, including basic service, local usage, toll usage, and
15 access usage. However, loop costs change as the relative proportion of these
16 products varies. As the number of basic subscribers increases, independent of
17 any change in usage, loop costs obviously increase. Therefore, the local loop
18 cannot be a common cost.

19 20 **4. Loop Cost Recovery Is A Policy-Making Issue (Not a Cost Issue)**

21
22 Q. If the loop is demonstrably not a cost attributable to switched access, why do
23 witnesses wish to allocate loop costs to switched access?

1 A. They are confusing cost issues with rate-making and policy-making issues. It is
2 certainly within the purview of regulators to recover the cost of the loop through
3 switched access rates for purposes of public policy.

4
5 However, this is a cost proceeding. It is of no value to contaminate cost studies
6 in an attempt to validate a rate-making or public policy position.

7
8 Sprint witness Dr. Brian Staihr will discuss this issue in more detail.

9
10 **B. Cost Causation**

11
12 Q. On page 14, Ms Meisenheimer states, "A true examination of causation would
13 reveal that the cost of the local loop as physical plant is incurred when phone
14 company executives make a decision to incur the cost of installing loop plant
15 along a particular route to satisfy some anticipated demand for
16 telecommunications services." Please comment.

17 A. Ms. Meisenheimer attempts to place cost causation on the firm, rather than on
18 the consumer. However, only consumers create demand; the firm cannot create
19 demand.

20
21 Interestingly, her question refutes her premise. As her questions states quite
22 accurately, loop plant is only installed to "satisfy some anticipated demand."

1 After all, phone company executives do not place loop plant in deserts and
2 mountaintops, in hopes that, "If you build it, they will come."

3
4 **V. CONCLUSION**

5
6 Q. Please summarize your testimony.

7 A. First, the Commission should adopt the FCC's Forward-Looking Economic Cost
8 standard in this proceeding. The Forward-Looking Economic Cost standard:

- 9
- 10 • Is well defined, well documented, easily applied, widely used, and based
11 on widely accepted economic costing principles. Therefore, it is the ideal
12 cost standard for switched access for all companies.
 - 13 • Includes a portion of all shared costs which vary in the long-run.
 - 14 • Is applicable to small telephone companies, which will generally have
15 higher costs than large telephone companies.

16 Second, the BJA TSLRIC study does not comply with the FCC's Forward-
17 Looking Economic Cost standard and should be rejected.

18
19 Finally, the cost of the local loop cannot be allocated to switched access
20 because:

- 21
- 22 • The loop is a NTS cost which cannot be logically attributed to any usage-
23 based service such as switched access.
 - The loop is neither a joint nor a common cost.

1 • Loop cost recovery is a rate-making or policy-making issue, not a cost
2 issue.

3

4 Q. Does this conclude your Surrebuttal Testimony?

5 A. Yes, it does.