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Missouri Public  
Service Commission

**Exhibit No.:**

**Issue(s):** Rate/Pricing Issues, including  
Recurring UNE Rates, Annual Charge  
Factors, Avoided Cost Discount

**Witness:** Kenneth W. Buchan

**Type of Exhibit:** Rebuttal Testimony

**Sponsoring Party:** CenturyTel of Missouri,  
LLC and Spectra Communications Group,  
LLC d/b/a CenturyTel

**Case No.:** TO-2006-0299

**Date Testimony Prepared:** April 6, 2006

**REBUTTAL TESTIMONY**

**OF**

**KENNETH W. BUCHAN**

**ON BEHALF OF**

**CENTURYTEL OF MISSOURI, LLC AND SPECTRA  
COMMUNICATIONS GROUP, LLC d/b/a CENTURYTEL**

**CASE NO. TO-2006-0299**

**Exhibit No.** K  
**Case No(s)** TO-2006-0299  
**Date** 4-12-06 **Rptr** XF

OF THE STATE OF MISSOURI

PETITION OF SOCKET TELECOM, LLC )  
FOR COMPULSORY ARBITRATION OF )  
INTERCONNECTION AGREEMENTS )  
WITH CENTURYTEL OF MISSOURI, LLC )  
AND SPECTRA COMMUNICATIONS, LLC )  
PURSUANT TO SECTION 252(b)(1) OF )  
THE TELECOMMUNICATIONS ACT OF )  
1996 )

CASE NO. TO-2006-0299

STATE OF LOUISIANA

PARISH OF OUACHITA

*AFFIDAVIT OF KENNETH W. BUCHAN*

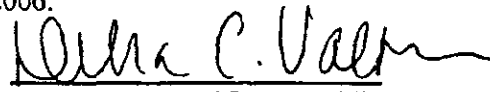
I, Kenneth W. Buchan, of lawful age and being duly sworn, state:

1. My name is Kenneth W. Buchan. I am presently Manager for Regulatory Finance for CenturyTel Service Group, LLC.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

  
Kenneth W. Buchan



Subscribed and sworn to before this 30<sup>th</sup> day of March, 2006.

  
Notary Public

My Commission expires: 6/25/09

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1                                   **REBUTTAL TESTIMONY OF**  
2                                   **KENNETH W. BUCHAN**

3  
4                   **ON BEHALF OF CENTURYTEL OF MISSOURI, LLC AND SPECTRA**  
5                   **COMMUNICATIONS GROUP, LLC d/b/a CENTURYTEL**

6   **Q.    PLEASE STATE YOUR NAME.**

7   A.    My name is Kenneth W. Buchan.

8   **Q.    ARE YOU THE SAME KENNETH W. BUCHAN WHO FILED DIRECT**  
9       **TESTIMONY IN THIS PROCEEDING?**

10 A.    Yes.

11                                   **I.**  
12                                   **PURPOSE OF TESTIMONY**

13 **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

14 A.    In my rebuttal testimony, like my direct testimony, I focus on (a) the parties' disputes relating  
15 to recurring UNE rates, including the Annual Charge Factors underlying those rates, and (b)  
16 the proper avoided cost discount that should be applied when Socket acquires  
17 telecommunications services from CenturyTel for resale. In my direct testimony, among  
18 other things, I explained the methodology by which CenturyTel derived deaveraged recurring  
19 rates for DS1 and DS3 UNE loops in Missouri, demonstrated that those recurring rates are  
20 reasonable, forward-looking, and TELRIC-compliant, and showed why the Commission  
21 should adopt CenturyTel's proposed avoided cost discounts for CenturyTel of Missouri, LLC  
22 and Spectra Communications Group, LLC. After specifically discussing Socket's apparent  
23 recurring rate position in this proceeding, I address each of these issues in turn in my rebuttal.

1 In doing so, I will attempt to minimize redundancy and repetition by not unnecessarily  
2 covering matters fully articulated and un rebutted from my direct testimony. To that end, it is  
3 important to note at the outset that Socket's case in chief on cost issues does not squarely  
4 address much of the material covered in my direct and, separately, does not satisfy its burden  
5 of proof as to the recurring rates it proposes. For these reasons, as I set forth below and in  
6 my direct testimony, the Commission should adopt CenturyTel's proposed recurring rates  
7 and avoided cost discounts.

## 8 II.

### 9 SOCKET FAILS TO JUSTIFY ITS PROPOSED RECURRING RATES

10 Q. DO ANY RECURRING RATES REMAIN IN DISPUTE?

11 A. Yes. As I explained in my direct testimony, while the parties have agreed to most of the  
12 recurring rates that will appear in their interconnection agreement, monthly recurring DS1  
13 and DS3 UNE loop rates remain in dispute.

14 Q. ARE ANY RECURRING RATES IN DISPUTE OTHER THAN FOR DS1 AND DS3  
15 UNE LOOPS?

16 A. Apparently so. Although Socket's Petition for Arbitration and accompanying attachments  
17 only revealed remaining disputes as to DS1 and DS3 UNE loops, Socket's subsequent filings  
18 indicate there may be some dispute on other recurring rates like 2-wire analog subloop  
19 distribution. Mr. Turner, for example, refers to this as a dispute in his direct testimony.  
20 (Turner Direct at 59). Because Socket did not previously include those with its Petition or  
21 otherwise, CenturyTel did not believe those rates to be in dispute or believe them to be live  
22 disputes in this proceeding.

1 **Q. DOES SOCKET IDENTIFY ITS PROPOSED RECURRING RATES FOR THE**  
2 **DISPUTED RATE ELEMENTS IN ITS DIRECT TESTIMONY?**

3 A. No. In discussing Socket's so-called "alternative proposal," Mr. Turner vaguely asserts that  
4 "[f]or most recurring rates, Socket Telecom's proposal relies on the recurring rates that were  
5 established in the GTE/AT&T arbitration." (Turner Direct at 55). As he subsequently notes,  
6 however, "CenturyTel's proposal as well relies on these rates." Exactly so; as I explained in  
7 direct testimony, the parties have agreed to most of the recurring rates, effectively adopting  
8 recurring rates from the GTE/AT&T arbitration. But that does not speak to the disputed rates  
9 elements for DS1 and DS3 UNE loops, which Socket fails to specifically address in its direct  
10 case. Nor does it speak to Socket's proposed recurring rates for 2-wire analog subloop  
11 distribution.

12 **Q. DID SOCKET FILE ANY COST STUDIES SUPPORTING ITS PROPOSED**  
13 **RECURRING RATES?**

14 A. No, Socket did not file any cost studies supporting its proposed recurring rates. Socket did  
15 not present any study or analysis showing how it determined that the recurring DS1 and DS3  
16 UNE loop rates or 2-wire analog subloop distribution rates it is proposing are appropriate for  
17 CenturyTel. Despite the somewhat limited time that Socket had to review CenturyTel's  
18 forward-looking cost studies, it is reasonable to expect Socket to produce some type of  
19 analysis in direct testimony utilizing CenturyTel-specific and industry information that is  
20 publicly available. However, Socket did not present any such analysis in or with Mr.  
21 Turner's direct testimony.

1 **Q. DID SOCKET PRESENT ANY SUPPORT FOR ITS PROPOSED RECURRING**  
2 **RATES?**

3 A. Somewhat surprisingly, not only did Socket fail to present any evidence or analysis  
4 supporting its recurring rate proposals, its direct testimony does not appear to even address  
5 Socket's proposed recurring rates for the disputed recurring rate elements at issue. *See*  
6 Direct Testimony of Steven Turner at 47-59. While chastising CenturyTel's cost studies  
7 based on Socket's misunderstandings, Mr. Turner never goes so far as to advocate specific  
8 recurring rates. Indeed, the section of his testimony labeled "Socket Telecom's Alternative  
9 Proposal" never identifies alternative recurring rates for DS1 or DS3 UNE loops or 2-wire  
10 analog subloop distribution, and never purports to offer evidentiary or analytical support for  
11 whatever those proposed alternative recurring rates may be. *See* Direct Testimony of Steven  
12 Turner at 55-59. With respect to 2-wire analog subloop distribution, for example, all Mr.  
13 Turner does is state that its proposal is somehow based on a ratio of SBC loop rates to SBC  
14 sub-loop rates, without explaining why that is appropriate here or demonstrating either  
15 methodological propriety or TELRIC-compliance.

16 **Q. ARE YOU SUGGESTING SOCKET HAS FAILED TO PROVE ITS CASE WITH**  
17 **RESPECT TO RECURRING RATES?**

18 A. Precisely. As of the filing of Socket's direct testimony, there is no evidence in the record  
19 supporting proposed recurring rates Socket advocates in this proceeding for DS1 and DS3  
20 UNE loops or 2-wire analog subloop distribution. All Mr. Turner addresses at any level of  
21 specificity are proposed non-recurring rates, for which he merely presents generic assertions  
22 that SBC-based non-recurring rates should be applied to CenturyTel. *See* Direct Testimony

1 of Steven Turner at 55-57. And in making that assertion, however, Socket fails to present  
2 any reasoned analysis as to why SBC non-recurring rates, much less recurring ones, should  
3 apply to CenturyTel. Without performing any specific studies comparing SBC and  
4 CenturyTel—or even examining CenturyTel-specific facts, Mr. Turner merely relies on  
5 unsupported assumptions as to tasks, probabilities, times, efficiencies and labor rates. *See*  
6 Direct Testimony of Steven Turner at 56-57. That is not good enough. Reviewing Socket's  
7 direct testimony, I find no evidentiary or analytical support for its proposed recurring rates  
8 for DS1 and DS3 UNE loops. Socket has, in short, failed to prove its case.

9 **Q. WHAT, THEN, SHOULD THE COMMISSION DO?**

10 A. Since Socket has failed to present evidence in its case in chief identifying and supporting its  
11 proposed recurring UNE loop and subloop rates, the Commission should reject whatever  
12 proposal Socket makes in rebuttal, at the hearing, or in any of the preliminary, non-  
13 evidentiary filings in this proceeding.

14 **III.**  
15 **DISPUTED RECURRING RATE ELEMENTS**

16 **Q. DID CENTURYTEL CONDUCT COST STUDIES TO DETERMINE THE**  
17 **APPROPRIATE RECURRING RATES FOR DS1 AND DS3 UNE LOOPS?**

18 A. Yes. In my direct testimony (Buchan Direct at 10-15) and in the Direct Testimony of Mr.  
19 Davis (Davis Direct at 7-12, 21-23), CenturyTel discussed the methodology employed by  
20 CenturyTel to develop recurring rates, identified the inputs used, and demonstrated that the  
21 resulting recurring rates are reasonable, forward-looking, and TELRIC-compliant. Because  
22 the parties agreed to most of the recurring rates, and CenturyTel did not believe subloop rates



1 to be at issue, CenturyTel's cost studies focused on the two remaining disputed recurring rate  
2 elements: DS1 and DS3 UNE loops.

3 **Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING SOCKET'S**  
4 **DIRECT TESTIMONY RELATING TO THOSE COST STUDIES?**

5 A. Yes, I do. Mr. Turner indicates that he "was only able to review the cost studies at a very  
6 high level" (Turner Direct at 53:4-5) and CenturyTel was not in a position to produce its  
7 complete recurring loop rate cost study earlier; therefore, it is understandable that his direct  
8 testimony is misguided and based on erroneous assumptions. That said, however, the  
9 Commission should recognize that Mr. Turner's direct testimony discussing CenturyTel's  
10 recurring DS1 and DS3 UNE loop rates cost studies is, by and large, inapplicable. Mr.  
11 Turner, for example, misunderstands the rate elements covered by the cost study, the inputs  
12 and factors utilized, the correlation of the cost studies to CenturyTel's proposed recurring  
13 rates, the deaveraging of rates CenturyTel performed, and the recurring rates CenturyTel  
14 proposes.

15 **Q. YOU MENTION ABOVE THAT SOCKET FAILED TO PUT ON A DIRECT CASE**  
16 **AS TO ITS PROPOSED RECURRING RATES FOR DS1 AND DS3 UNE LOOPS.**  
17 **DID SOCKET AT LEAST PUT ON A DIRECT CASE CHALLENGING THE**  
18 **NETWORK DESIGN, ASSUMPTIONS AND FACTORS UNDERLYING**  
19 **CENTURYTEL'S RECURRING LOOP RATE COST STUDIES?**

20 A. No. As Mr. Davis notes in his rebuttal testimony, Socket did not address the network  
21 designs or assumptions underlying CenturyTel's recurring DS1 and DS3 UNE loop rate cost  
22 studies in its direct testimony. Nor did Socket do so with respect to the factors CenturyTel  
23 used. Mr. Turner provides his generic opinion on factors that are used to derive UNE rates

1 (e.g., cost of equity, cost of debt, tax rates, etc.) in his testimony—that they are high—and  
2 emphasizes the importance of cost of capital (Turner Direct at 53-54), but he never offers any  
3 substantive evidence of the factors or cost of capital CenturyTel should have used. The  
4 extent of his challenge, such as it is, consists of the observation that CenturyTel purportedly  
5 “simply hard-coded the resulting final factors into its cost studies, but provided no support  
6 defining the cost of capital or any other related factors and how they were derived for use in  
7 the cost study” and his claim that the factors “are the highest [he has] ever seen.” (Turner  
8 Direct at 53-54) CenturyTel has, however, explained the genesis of the factors used in its  
9 TELRIC-compliant recurring DS1 and DS3 UNE loop rate cost studies and demonstrated  
10 that they are appropriate, reasonable and forward-looking. (e.g., Buchan Direct at 18-23;  
11 Proprietary Schedule A)

12 **Q. DID SOCKET FAIL TO SUBSTANTIVELY DISPUTE THE FACTORS**  
13 **CENTURYTEL USED IN ITS COST STUDIES?**

14 **A.** Yes. Even though CenturyTel was not able to produce the recurring DS1 and DS3 UNE loop  
15 rate cost studies until approximately one week before the filing of direct testimony, Socket  
16 completely fails to substantively challenge the factors CenturyTel used. Mr. Turner says he  
17 has “reviewed cost studies across the country for every major incumbent LEC in every part of  
18 the country” (Turner Direct at 54) and claims to have testified before the FCC and at least 32  
19 different state commissions (Turner Direct at 2). I would, therefore, expect him to have been  
20 in a position to provide direct testimony with analytical exhibits on underlying factors like

1 cost of capital, fill factors, and depreciation, among others. Socket has, at this point, failed to  
2 put on a direct case contesting the validity of these aspects of CenturyTel's cost studies.

3 **A. SOCKET ERRS IN DESCRIBING THE COST STUDY RATE ELEMENTS.**

4 **Q. ACCORDING TO MR. TURNER (TURNER DIRECT AT 48), THERE ARE FOUR**  
5 **RATE ELEMENTS BEING COVERED BY CENTURYTEL'S RECURRING RATE**  
6 **COST STUDIES. IS THAT CORRECT?**

7 **A.** No. CenturyTel's cost studies do not cover 2-wire loops, 4-wire loops, DS1 entrance  
8 facilities, and DS3 entrance facilities (Turner Direct at 48). As I explained in my direct  
9 testimony (Buchan Direct at 10-15), the cost studies support the recurring monthly rates for  
10 DS1 and DS3 UNE loops. Although the two and four wire loops are used in the calculation  
11 of the monthly recurring DS1 and DS3 UNE loops rates, the two and four wire loop monthly  
12 recurring rates themselves are not in dispute (See Article VII). As a result of the parties'  
13 good faith negotiations, two and four wire recurring loop rates were agreed upon prior to  
14 CenturyTel's development of TELRIC-compliant recurring rates for DS1 and DS3 UNE  
15 loops.

16 **Q. MR. TURNER CRITICIZES THE COST STUDIES FOR DERIVING 2-WIRE AND**  
17 **4-WIRE LOOP RATES THAT "DO NOT EVEN COME CLOSE" TO THE RATES**  
18 **TO WHICH THE PARTIES AGREED (TURNER DIRECT AT 48-50). IS THIS**  
19 **CRITICISM VALID?**

20 **A.** No. As I noted above, although CenturyTel's cost studies effectively derived 2-wire and 4-  
21 wire loop rates in the development of DS1 and DS3 recurring loop rates, in light of its prior  
22 agreement with Socket on these rates, CenturyTel is not at this time advocating the adoption  
23 of recurring rates for 2-wire and 4-wire UNE loops different than those rates to which the

1 parties agreed. If, however, the cost aspect of this proceeding is segregated or bifurcated to a  
2 later stage, CenturyTel reserves the right to revisit this issue.

3 **Q. MR. TURNER IMPLIES THAT THE AGREED UPON TWO AND FOUR WIRE**  
4 **LOOP RATES SHOULD BE USED IN THE DEVELOPMENT OF THE DS1 AND**  
5 **DS3 UNE LOOP RATES. DO YOU AGREE?**

6 A. No, utilizing those old agreed-to rates would be inconsistent with basic TELRIC pricing  
7 methodology. Those agreed-to two and four wire loop rates were developed almost a decade  
8 ago by GTE/Verizon. They were arbitrated and approved by the Missouri Commission in  
9 1997. Importantly, those rates were based on GTE/Verizon costs at that time, not  
10 CenturyTel's forward-looking TELRIC-compliant costs now. Nonetheless, during  
11 negotiations, the parties agreed to use the GTE/Verizon recurring rates for two and four wire  
12 loops. In doing so, however, CenturyTel did not agree on the underlying costs that supported  
13 those rates or that they represented CenturyTel's forward-looking costs. Just because the  
14 parties resolved a rate dispute during negotiations does not mean the rates agreed to  
15 necessarily form the basis for TELRIC studies in developing other rates. Therefore, the two  
16 and four wire loop rates agreed upon by the parties are not relevant to the development of  
17 forward-looking, TELRIC-compliant DS1 and DS3 recurring UNE loop rates.

18 **B. SOCKET'S CRITICISM OF CENTURYTEL'S INPUTS AND FACTORS IS**  
19 **MISPLACED.**

20 **Q. SOCKET TAKES ISSUE WITH THE FACTORS CENTURYTEL USED IN ITS**  
21 **COST STUDIES. IS SOCKET'S ASSERTION VALID?**

22 A. No. Presenting Socket's position, Mr. Turner's argument on factors appears to be twofold:  
23 (1) he states, without evidentiary support, that CenturyTel's factors are "the highest" he has

1       seen (Turner Direct at 54), and (2) he alleges that CenturyTel provided no support for its  
2       factors or how they were derived (Turner Direct at 53). He errs on both counts. CenturyTel  
3       thoroughly explained and supported the methodology and reasonableness of its fill factors  
4       and ACF factors in my direct testimony (Buchan Direct at 15-23), in Dr. Avera's direct  
5       testimony (Avera Direct at 14-28), and in response to Socket's data requests.

6               CenturyTel fully explains how its Annual Charge Factors ("ACFs") were computed,  
7       including noting CenturyTel's use of FCC-prescribed asset lives for depreciation and the  
8       FCC-approved rate of return. Further, Dr. Avera and I discuss at length the propriety of  
9       using the FCC-approved 11.25% return on investment in the cost studies, and I explain why  
10      CenturyTel's determination to select asset lives for depreciation from within the FCC-  
11      prescribed range of lives was appropriate. The depreciation lives used by CenturyTel for the  
12      assets needed to provision DS1 and DS3 loop service are lives within the FCC prescribed  
13      range for depreciation (Buchan Direct 20-23). Both of these components of the ACF are  
14      reasonable and conservative. Finally, the other components (*i.e.*, expense factors) of the  
15      ACF are based on verifiable CenturyTel data and, as Mr. Davis (Davis Direct at 22-23) and I  
16      (Buchan Direct at 14-15) note in direct testimony, are a good approximation to be used in a  
17      forward-looking model. In short, Socket errs in asserting that CenturyTel has not explained  
18      and supported the genesis and underlying basis for its factors.

1 Q. DID SOCKET PROVIDE ANY EVIDENCE RELATING TO THE PROPER  
2 FACTORS TO USE FOR CENTURYTEL IN DEVELOPING TELRIC-COMPLIANT  
3 RECURRING RATES?

4 A. No. Mr. Turner states that "cost of capital is a particularly important factor" (Turner, 53) and  
5 criticizes the "overall magnitude" of CenturyTel's factors (Turner, 54), but he never offers  
6 any evidence that the cost of capital, depreciation rate, asset lives, fill factors, installation  
7 factors or expense factors used by CenturyTel are in error.

8 Q. DOES CENTURYTEL AGREE WITH SOCKET'S PROPOSAL THAT THE  
9 COMMISSION SET ASIDE THE COST SUBMISSIONS AND ESTABLISH A  
10 SEPARATE COST PROCEEDING?

11 A. No. As the Commission will undoubtedly recall, at the beginning of this case Socket  
12 adamantly refused to extend the statutory deadline for this proceeding when CenturyTel  
13 originally sought a more manageable schedule. Socket now unilaterally proposes bifurcating  
14 this proceeding by postponing the cost phase into a separate proceeding to come some time  
15 later. As Socket argued in the preliminary stages of this proceeding (and the Arbitrator  
16 agreed), any such effort must, of course, fail unless all parties agree to extend the statutory  
17 deadline. Moreover, to the extent cost issues are deferred to another, separate proceeding,  
18 additional rate elements may need to be addressed. For example, although the parties agreed  
19 to recurring rates for 2-wire and 4-wire UNE loops, CenturyTel's cost study, as Mr. Turner  
20 recognizes and as I discuss herein, demonstrates that the costs actually support a higher rate  
21 than that agreed to by the parties. As I explain above, should a separate proceeding be  
22 required on costs, therefore, the scope of pricing issues to be addressed may expand.

1           In any event, seeking such an extension is no excuse for Socket's failure to put on a  
2       direct case as to factors. Due process and fundamental fairness, among other considerations,  
3       should preclude Socket from presenting an affirmative case on factors in rebuttal; while  
4       rebutting CenturyTel's direct case may be appropriate, presenting its own direct case in  
5       rebuttal does not afford CenturyTel the opportunity to offer rebuttal or otherwise adequately  
6       respond before hearing.

7   **Q.   WHAT SHOULD THE COMMISSION DECIDE WITH RESPECT TO THE**  
8   **FACTORS USED IN CENTURYTEL'S RECURRING DS1 AND DS3 UNE LOOP**  
9   **RATE STUDIES?**

10  A.   Based on the evidence in the record, the Commission should conclude that CenturyTel's  
11       factors are reasonable, forward-looking, and TELRIC-compliant. Not only has Socket failed  
12       to put on an affirmative case as to factors or challenge those proposed by CenturyTel,  
13       CenturyTel has fully demonstrated the propriety of its factors and that they are TELRIC-  
14       compliant.

15       **C.   CENTURYTEL'S COST STUDIES DIRECTLY CORRELATE WITH ITS**  
16       **PROPOSED RECURRING RATES.**

17  **Q.   IN SEVERAL PLACES IN HIS DIRECT TESTIMONY, MR. TURNER CLAIMS**  
18  **THAT CENTURYTEL IS NOT RELYING ON THE COST STUDIES FOR ITS**  
19  **PROPOSED RATES. IS HE CORRECT?**

20  A.   No. Mr. Turner errs in asserting that the cost studies do not support the recurring rates  
21       CenturyTel is proposing (Turner Direct at 48-54). To the contrary, as I demonstrate above  
22       and as Mr. Davis and I present in direct testimony, CenturyTel's cost studies directly

1 correlate to CenturyTel's proposed recurring DS1 and DS3 UNE loop rates in this  
2 proceeding.

3 **Q. DO YOU HAVE AN EXPLANATION FOR MR. TURNER'S MISUNDERSTANDING**  
4 **AS TO THE CORRELATION OF SAMPLED EXCHANGE RATES FOR DS1 AND**  
5 **DS3 UNE LOOPS TO ZONE PRICING?**

6 A. Yes. CenturyTel assigned each of the eighteen sampled exchanges to one of four scheduled  
7 rate groups (*i.e.*, Zone 1, Zone 2, Zone 3, Zone 4) based on the number of access lines. Then,  
8 CenturyTel weighted the rates developed for each of the sampled exchanges in each of the  
9 four scheduled rate groups based on their access lines to arrive at a weighted average rate for  
10 that particular scheduled rate group. (Buchan Direct at Schedule KWB-A-Supplement)  
11 Inadvertently, however, this final calculation was not included in the cost study files  
12 originally sent to Socket. That inadvertent omission, which was corrected on the next  
13 business day after CenturyTel discovered the mistake, may have led to some of the confusion  
14 expressed in Mr. Turner's direct testimony.

15 **Q. MR. TURNER CLAIMS THAT THE "COST STUDIES ARE SO**  
16 **FUNDAMENTALLY INCONSISTENT WITH THE RATES THAT WERE FOUND**  
17 **TO BE COST-BASED WHEN VERIZON WAS OPERATING THESE EXCHANGES**  
18 **THAT THE COMMISSION SHOULD FUNDAMENTALLY QUESTION WHETHER**  
19 **THERE IS ANYTHING BELIEVABLE ABOUT CENTURYTEL'S COST STUDIES**  
20 **WHATSOEVER" (TURNER DIRECT AT 49-50). DO YOU AGREE?**

21 A. No. Initially, it should be noted that Mr. Turner's conclusions in his direct testimony are  
22 mistaken based on his misunderstandings and erroneous assumptions as to rate elements,  
23 inputs, factors, and results. Further, Mr. Turner makes no effort to compare costs or  
24 methodologies beyond a simplistic, yet ill-conceived comparison of purported 2-wire loop



1 rates. Moreover, the rates that were developed by CenturyTel for DS1 and DS3 UNE loops  
2 in the cost studies were based on CenturyTel's forward-looking network design, fill factors,  
3 ACFs and investment costs. Unlike Socket's proposal, CenturyTel's rates represent  
4 CenturyTel's costs. Socket may advocate imposition of GTE or SBC-based recurring rates  
5 on CenturyTel, but the Commission should not impose another entity's forward-looking  
6 costs, especially not "forward-looking costs" (GTE/Verizon) that were developed almost a  
7 decade ago, without a showing that they are a suitable proxy—which Socket did not do in  
8 direct testimony. Consistent with a faithful application of TELRIC methodology, CenturyTel  
9 is entitled to develop DS1 and DS3 recurring rates that are CenturyTel-cost based and should  
10 not be saddled with rates that are below its costs. Therefore, the GTE/Verizon rates to which  
11 Mr. Turner refers are not relevant in determining the appropriateness of CenturyTel's  
12 recurring DS1 and DS3 UNE loop rates.

13 **Q. IS CENTURYTEL RELYING ON ITS COST STUDIES TO SUPPORT RATES FOR**  
14 **ENTRANCE FACILITIES?**

15 **A.** No. CenturyTel provides cost studies solely supporting its proposed deaveraged recurring  
16 DS1 and DS3 UNE loop rates for CenturyTel of Missouri, LLC, and Spectra  
17 Communications Group, LLC. Entrance facilities are not unbundled network elements and  
18 can be ordered from the tariff.

1 Q. IN YOUR DIRECT TESTIMONY, YOU MENTIONED DISCOVERING AN ERROR  
2 AS TO THE FILL FACTORS USED IN THE COST STUDIES. HAS CENTURYTEL  
3 DISCOVERED ANY ADDITIONAL ERRORS?

4 A. Yes. In reviewing the cost studies, I discovered that CenturyTel inadvertently utilized the  
5 wrong figure for fiber cost. CenturyTel is not advocating any change to its proposed  
6 recurring DS1 and DS3 UNE loop rates at this point, but reserves the right to utilize the  
7 revised fiber cost should the Commission defer pricing to a separate proceeding or require  
8 CenturyTel to perform a compliance run on its cost study.

9 D. CENTURYTEL PROPOSES DEAVERAGED RECURRING DS1 AND DS3  
10 UNE LOOP RATES.

11 Q. IN HIS DIRECT TESTIMONY, MR. TURNER ASSERTS "THAT CENTURYTEL IS  
12 SPONSORING ... MISSOURI-WIDE CENTURYTEL RATES." IS THAT TRUE?

13 A. No. As my direct testimony plainly reveals, CenturyTel proposes separate deaveraged  
14 recurring DS1 and DS3 UNE loop rates for CenturyTel of Missouri, LLC and for Spectra  
15 Communications Group, LLC. Mr. Davis and I explain the methodology and resulting loop  
16 rates more fully in our direct testimony (Buchan Direct at 10-12; Davis Direct at 7-12, 21-  
17 23). Based on the recurring rate cost studies, CenturyTel proposes, for each of the  
18 aforementioned companies, recurring rates for DS1 and DS3 UNE loops that are segregated  
19 into four different zones (scheduled rate groups). The rate groups were determined based on  
20 access line thresholds previously established by the Missouri Commission. Therefore,  
21 CenturyTel has not developed a "Missouri-wide" rate, but instead has proposed two separate  
22 sets of deaveraged recurring rates for DS1 and DS3 UNE loops for CenturyTel of Missouri  
23 LLC and Spectra Communications Group LLC.

1 Q. MR. TURNER SIMILARLY ASSERTS THAT "CENTURYTEL DID NOT  
2 PERFORM COST STUDIES BY THE FOUR ZONES (ZONE 1, ZONE 2, ZONE 3,  
3 AND ZONE 4) THAT PRESENTLY APPEAR IN THE INTERCONNECTION  
4 AGREEMENT." (TURNER DIRECT AT 49) IS THAT CORRECT?

5 A. No. CenturyTel de-averaged the recurring DS1 and DS3 UNE loop rates along the same four  
6 zones, as explained above and in my direct testimony.

7 E. CENTURYTEL'S COST STUDIES SUPPORT TELRIC-COMPLIANT  
8 RECURRING RATES FOR DS1 AND DS3 UNE LOOPS.

9 Q. WHAT DISPUTED RATES DO CENTURYTEL'S COST STUDIES SUPPORT?

10 A. The cost studies derive deaveraged recurring rates for DS1 and DS3 UNE loops for  
11 CenturyTel of Missouri, LLC and Spectra Communications Group, LLC.

12 Q. DO THE COST STUDIES SUPPORT NON-RECURRING RATES?

13 A. No. The cost studies presented in Proprietary Schedule A to my direct testimony (and  
14 previously produced to Socket in response to its discovery requests) were for monthly  
15 recurring DS1 and DS3 UNE loops only. Mr. Hankins discusses non-recurring charges in his  
16 testimony.

17 Q. DOES THE COST STUDY DATA SUPPORT THE RECURRING DS1 AND DS3  
18 RATES BEING PROPOSED BY CENTURYTEL?

19 A. Yes. The cost studies were developed in compliance within TELRIC principles, resulting in  
20 rates that are representative of CenturyTel's forward-looking costs in Missouri. The  
21 Commission should rely on the TELRIC-based approach that CenturyTel has used in  
22 developing the CenturyTel-specific recurring DS1 and DS3 UNE loop rates in Missouri.

1 Q. MR. TURNER CLAIMS THAT "CENTURYTEL HAS NOT MET ITS OBLIGATION  
2 TO SUPPORT IT PROPOSED RATES AND UNTIL IT DOES SO, THE  
3 COMMISSION SHOULD NOT RELY ON CENTURYTEL'S PROPOSAL FOR  
4 RATES IN THIS ARBITRATION." (TURNER DIRECT AT 55) DO YOU AGREE?

5 A. Absolutely not. CenturyTel has provided TELRIC-compliant cost studies that support its  
6 proposed recurring rates for DS1 and DS3 UNE loops. Unlike Socket's unsupported effort to  
7 borrow rates from other companies without any showing of applicability or comparability,  
8 CenturyTel's proposed rates are CenturyTel-specific rates for Missouri and are TELRIC-  
9 compliant. In the early stages of this proceeding, Socket was unwilling to extend deadlines  
10 to afford the parties more time to negotiate and prepare their cases, but now suggests that the  
11 rate development for DS1 and DS3 UNE loops be set aside and addressed in another  
12 proceeding. The Commission should reject that suggestion. Unlike Socket, which has  
13 utterly failed to put on a direct case supporting any proposed recurring rates, CenturyTel has  
14 satisfied its obligation to support its proposed rates and, therefore, CenturyTel respectfully  
15 requests that the Commission rely on CenturyTel's cost studies and implement CenturyTel's  
16 proposed recurring rates for DS1 and DS3 UNE loops.

17 IV.  
18 AVOIDED COST DISCOUNT

19  
20 ARTICLE VI, ISSUE 34: What Resale Rates should be included in the  
21 ICA?

22 Q. BASED ON YOUR REVIEW OF SOCKET'S DIRECT TESTIMONY, CAN YOU  
23 DESCRIBE THE PARTIES DISPUTE?

24 A. Yes. The parties' dispute on this issue appears to be twofold. First, the parties disagree as to  
25 the appropriate avoided cost discount that should apply to telecommunications services

1 Socket purchases for resale. Whereas Socket advocates use of a 25.4% discount from the old  
2 AT&T-GTE agreement, CenturyTel performed a specific TELRIC-compliant cost study  
3 demonstrating that the appropriate avoided cost discount for CenturyTel of Missouri LLC is  
4 14.2% and for Spectra Communications Group LLC is 17.5%. Second, Socket attempts to  
5 extend the application of the avoided cost discount to non-recurring charges, which is  
6 inappropriate.

7 **A. THE COMMISSION SHOULD ADOPT CENTURYTEL'S PROPOSED**  
8 **AVOIDED COST DISCOUNTS.**

9 **Q. PLEASE SUMMARIZE SOCKET'S POSITION ON THE APPROPRIATE**  
10 **AVOIDED COST DISCOUNT.**

11 A. Certainly. Like so many of its cost/rate proposals, Socket failed to conduct any CenturyTel-  
12 specific analysis or examination. Instead, Socket simply advocates utilization of the 25.4%  
13 avoided cost discount from the old AT&T-GTE Agreement that was developed almost a  
14 decade ago. (Kohly Direct at 95-96) Without ever providing any evidence that this discount  
15 rate is applicable to CenturyTel or that the operations of GTE and CenturyTel are  
16 comparable, Socket merely asserts that it was "the result of a cost proceeding" and that  
17 "Advisory Staff conducted an extensive cost study review." (Kohly Direct 95) In other  
18 words, Socket's position seems to be that this discount was good enough for GTE in 1997 so  
19 it should be good enough for CenturyTel in 2006 (and 2007, 2008, etc. as the Agreement  
20 extends).

1 **Q. DO YOU AGREE WITH SOCKET'S JUSTIFICATION FOR THE AVOIDED**  
2 **DISCOUNT RATE?**

3 A. Not at all; the Commission should not adopt Socket's proposed wholesale discount rate.  
4 Although the lack of underlying cost data and methodology puts CenturyTel in a position of  
5 not being able to dispute whether the 25.4% discount was appropriate for GTE in 1997, that  
6 is not the point. Different companies have different costs, different operations, and different  
7 cost structures. Indeed, in advocating the old GTE discount rate, Socket fails to note that the  
8 discount rate reflects GTE's costs and economies of scale at the time that are no longer  
9 applicable to CenturyTel. Socket also fails to recognize that revenues, operations, systems,  
10 retail offerings, and levels of competition, among other things, have changed significantly  
11 since the AT&T and GTE Arbitration in 1997. Hence, the ratio from which the discount was  
12 derived has necessarily changed. What was good enough—even assuming TELRIC  
13 compliance—for GTE in 1997 is not good enough or TELRIC-compliant for CenturyTel in  
14 2006 and beyond. Socket has done nothing in its direct testimony to demonstrate otherwise,  
15 failing to satisfy its burden.

16 **Q. SOCKET SUGGESTS THAT CENTURYTEL MADE CERTAIN COMMITMENTS**  
17 **IN ACQUIRING GTE ASSETS THAT BIND CENTURYTEL TO USE THE GTE**  
18 **AVOIDED COST DISCOUNT (KOHLY DIRECT AT 95-96). IS THAT**  
19 **ACCURATE?**

20 A. No, Socket's characterization of CenturyTel's commitment is misleading and inaccurate.  
21 Although CenturyTel agrees that it made certain commitments at the time of its acquisition  
22 of GTE/Verizon properties, CenturyTel did not agree to be bound by the rates, terms, and  
23 conditions then existing in GTE/Verizon's interconnection agreements in perpetuity, as

1       Socket would suggest. The commitment to “enter into agreements which have the same  
2       rates, terms and conditions as those agreements previously negotiated with GTE” (Kohly  
3       Direct 95:22 – 96:2) was not a perpetual or eternal obligation. Rather, my understanding is  
4       that it was designed to minimize industry disruption during the transition of operations from  
5       GTE/Verizon to CenturyTel. Basically, CenturyTel committed to replace GTE/Verizon  
6       agreements with CenturyTel agreements containing the same rates, terms, and conditions.  
7       CenturyTel did so. But those CenturyTel agreements, like the GTE/Verizon agreements  
8       before them, expire at some point and are replaced by new agreements that may have  
9       different rates, terms and conditions. I suspect that a cursory review of virtually any FTA  
10      arbitration proceeding before any state commission in the country focused on developing a  
11      successor or replacement agreement would likely show that the new agreement is not a  
12      mirror image of the previous one. Times change, as do cost structures, operations, and the  
13      appropriate avoided cost discount. A particular rate element that was set by the Commission  
14      for GTE in 1997 does not govern the resolution of the disputed issues presented by Socket  
15      with its Petition for Arbitration in this proceeding. It would be inconsistent with my  
16      understanding of TELRIC to bind parties in perpetuity to certain rates without any  
17      opportunity to modify or adjust those rates to reflect a company’s specific costs or in  
18      accordance with changing economic and/or regulatory circumstances.

1 **Q. DID CENTURYTEL PROPOSE AN AVOIDED COST DISCOUNT SPECIFIC TO**  
2 **CENTURYTEL?**

3 **A.** Yes. As I noted above, and further discussed in my direct testimony (Buchan Direct at 30-  
4 32), CenturyTel proposes an avoided cost discount of 17.5% for Spectra Communications  
5 Group, LLC and 14.2% for CenturyTel of Missouri, LLC. These company-specific proposed  
6 avoided cost discounts result from an avoided cost discount study CenturyTel conducted. In  
7 my direct testimony, I fully explained the methodology CenturyTel employed and  
8 demonstrated that the study and the resulting avoided cost discounts are forward-looking,  
9 reasonable, and comply with FCC rules. (Buchan Direct at 24–32).

10 **Q. HOW SHOULD THE COMMISSION RESOLVE THIS ISSUE?**

11 **A.** The Commission should adopt CenturyTel's proposed TELRIC-compliant avoided cost  
12 discounts for CenturyTel of Missouri, LLC and Spectra Communications Group, LLC.  
13 Whereas Socket simplistically relies on the old GTE discount rate established in 1997,  
14 without any evidence or analysis as to its current applicability or continuing viability under  
15 TELRIC, CenturyTel performed specific TELRIC-compliant analysis of the appropriate  
16 discount rate that should apply. In the end, the Commission should reject Socket's proposal  
17 and adopt CenturyTel's company-specific discount rates.



1       **B.     SOCKET ATTEMPTS TO UNDULY EXTEND THE APPLICABILITY OF**  
2       **THE AVOIDED COST DISCOUNT.**

3       **Q.     ARE THERE ANY OTHER DISPUTES RELATING TO THE AVOIDED COST**  
4       **DISCOUNT THAT YOU ARE ADDRESSING?**

5       A.     Yes. In addition to improperly relying on the old GTE discount rate from 1997, Socket is  
6       also attempting to unduly expand the application of the discount rate to operator services and  
7       to non-recurring charges. Both attempts should fail.

8       **Q.     SHOULD THE AVOIDED COST DISCOUNT APPLY TO DIRECTORY**  
9       **ASSISTANCE OR OPERATOR SERVICES?**

10      A.     No. In the context of this proceeding, Socket is requesting that CenturyTel provide operator  
11      services and that the avoided cost discount apply to those operator services. Importantly,  
12      however, CenturyTel contracts with a third party for these services and, as a result, there are  
13      no costs to be avoided. (See also Buchan Direct at 31) Likewise, assuming that other  
14      resellers seek operator services from CenturyTel, there will similarly be no costs avoided for  
15      operator service expense.

16      **Q.     SHOULD THE AVOIDED COST DISCOUNT APPLY TO NON-RECURRING**  
17      **CHARGES? (KOHLY DIRECT AT 98)**

18      A.     No. As I note in my direct testimony (Buchan Direct at 31) and as Arthur Martinez explains  
19      in his direct testimony (Martinez Direct at 3-4), none of the costs underlying the non-  
20      recurring rate elements at issue would be avoided in the purely wholesale environment. As  
21      such, no avoided cost discount should apply.

V.  
CONCLUSION

1  
2

3 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

4 A. Yes, it does.