

**BEFORE THE RHODE ISLAND  
PUBLIC UTILITIES COMMISSION**

\_\_\_\_\_)  
Verizon Rhode Island )  
Alternative Regulation Plan )  
\_\_\_\_\_)

Docket No.: 3445

**SURREBUTTAL TESTIMONY OF**

**DR. AUGUST H. ANKUM**

**On behalf of**

**CONVERSENT COMMUNICATIONS OF RHODE ISLAND, LLC**

**November 8, 2002**

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**Attachments**

- ATTACHMENT I      CC Docket No. 01-347, Application by Verizon New Jersey Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc., for Authorization to Provide In-Region, InterLATA Services in New Jersey, Evaluation of United States Department of Justice.
- ATTACHMENT II      MA DTE 01-31, Investigation by the Department on its own Motion into the Appropriate Regulatory Plan to Succeed Price Cap Regulation for Verizon New England, Inc., d/b/a Verizon Massachusetts' Retail Intrastate Telecommunications Services in the Commonwealth of Massachusetts, Excerpt Phase 1 Decision.

1 **I. INTRODUCTION**  
2

3 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
4 **ADDRESS.**

5 A. My name is Dr. August H. Ankum. I am a Senior Vice President at QSI  
6 Consulting, Inc., a consulting firm specializing in economics and  
7 telecommunications issues. My business address is 1261 North Paulina, Suite #8,  
8 Chicago, IL 60622.

9  
10 **Q. ARE YOU THE SAME DR. AUGUST H. ANKUM THAT PREVIOUSLY**  
11 **FILED TESTIMONY IN THIS PROCEEDING?**

12 A. Yes, I am.

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

15 A. The purpose of my testimony is to respond to some of the issues raised in the rebuttal  
16 testimonies filed on behalf of Verizon. Specifically, I will respond to the testimony of  
17 Teresa L. O'Brien, Arthur D. Silvia and William E. Taylor.

18

19

1 **II. PROVISIONS ADOPTED IN NEW YORK, SUCH AS HOT-**  
2 **CUT CHARGES OF \$35, ARE ALSO APPROPRIATE IN**  
3 **RHODE ISLAND**  
4

5 **Q. DOES VERIZON WITNESS O'BRIEN OBJECT AGAINST YOUR**  
6 **RECOMMENDATION THAT THE COMMISSION CAP THE RECURRING**  
7 **CHARGE FOR HOT-CUTS AT A RATE NO HIGHER THAN \$35 -- THE**  
8 **RATE AT WHICH VERIZON IS OFFERING HOT-CUTS IN NEW YORK.**

9 A. Yes. On page 5 of her testimony she objects that (1) the hot-cut should be examined  
10 in Docket No. 2681, and (2) that the provisions from New York are part of a  
11 *comprehensive settlement* between Verizon New York and the Department of Service  
12 that dealt with a number of issues.

13  
14 **Q. DO YOU AGREE WITH MS. O'BRIEN'S OBJECTION THAT THE**  
15 **APPROPRIATE CHARGE FOR HOT-CUTS IS AN ISSUE THAT HAS NO**  
16 **PLACE IN THE CURRENT PROCEEDING.**

17 A. No. As recognized by the New York Commission, Verizon's proposed hot-cut  
18 charges are potential barriers to entry that can adversely impact the development of  
19 competition. If hot-cut charges are unreasonably priced, then the Commission cannot  
20 expect robust competition by means of Verizon's UNE-loops.

21  
22 One of the critical determinations the Commission has to make in the current  
23 proceeding is whether competition is sufficiently robust to grant Verizon the pricing

1 flexibility for which it is asking. This determination, however, hinges critically on the  
2 ability of CLECs to compete with Verizon by means of unbundled network elements  
3 ("UNEs"). It is difficult to see, therefore, how the Commission can be asked to ignore  
4 the uncertainty about the UNE rates, such as the non-recurring hot-cut charge that  
5 applies when a CLEC orders a 2-wire analog loop. In short, the level of the hot-cut  
6 charge is germane to the issues at hand and should not be ignored.

7

8 **Q. IS VERIZON ITSELF TO BLAME FOR REQUESTING PRICING**  
9 **FLEXIBILITY BEFORE THE COMMISSION HAS BEEN ABLE TO SET**  
10 **APPROPRIATE UNE RATES?**

11 A. Yes. In a sense, Verizon's request is premature. As noted, the question of how robust  
12 competition will be hinges critically on the level of the UNE prices. Since Docket No.  
13 2681 has not yet been completed, it is simply not possible for the Commission or  
14 anybody else to determine how effective competitors will be in curtailing Verizon's  
15 market power. It is Verizon itself, however, who is to blame for the current sequence  
16 of proceeding that places "the cart before the horse."

17

18 **Q. MS. O'BRIEN ALSO OBJECTS THAT IN NEW YORK THE \$35 HOT-CUT**  
19 **CHARGE IS PART OF AN OVERALL PACKAGE AND THAT IT IS**  
20 **INAPPROPRIATE TO SELECTIVELY PICK-AND-CHOOSE CERTAIN**  
21 **PROVISIONS AND NOT OTHERS. PLEASE RESPOND TO MS.**  
22 **O'BRIEN'S OBJECTION.**

1 A. First, I believe that the fact that Verizon agreed to a \$35 hot-cut charge in New York is  
2 a good indication that the company's costs for hot-cuts are probably approximately  
3 \$35 or less. I do not believe that Verizon would have agreed to do hot-cuts for \$35 if  
4 its costs were significantly higher than \$35. That would simply be irrational.

5

6 More importantly, however, I believe that Conversent would be willing to adopt the  
7 New York plan, including the New York TELRIC UNE rates, in its totality here in  
8 Rhode Island. This would obviate the objection that Conversent is selectively picking-  
9 and-choosing certain provisions.

10

11 **III. RHODE ISLAND IS NOT INSULATED FROM THE NATION'S**  
12 **MASSIVE MELTDOWN OF THE COMPETITIVE TELECOM**  
13 **SECTOR**  
14

15 **Q. DOES VERIZON WITNESSES IGNORE THE OBVIOUSLY WEAKENED**  
16 **STATE OF THE COMPETITIVE TELECOMMUNICATIONS' INDUSTRY?**

17 A. Yes. Both Mr. D. Silvia and Dr. Taylor take issue with my testimony that the  
18 competitive telecommunications industry is in a severely weakened state. However,  
19 while they object to my testimony, they do not criticize my analysis that shows a near  
20 catastrophic decline in market capitalization for the competitive part of the industry.  
21 In a way, I believe that little rebuttal of Verizon's testimony is needed since the  
22 numbers speak for themselves: market capitalization for the competitive  
23 telecommunications industry has declined by approximately 88%. That is, 88 cents

1 of every dollar invested has been lost. If this does not constitute a weakened state for  
2 the competitive telecommunications sector, one should wonder what does in the eyes  
3 of Verizon's witnesses?

4

5 **Q. PLEASE COMMENT ON DR. TAYLOR'S TESTIMONY THAT THE**  
6 **DECLINE IN MARKET CAPITALIZATION FOR THE**  
7 **TELECOMMUNICATIONS SECTOR IS NO MORE SIGNIFICANT THAN,**  
8 **SAY, THAT FOR MICROSOFT OR LUCENT.**

9 A. On page 19 of his testimony, Dr. Taylor notes that the decline in market capitalization  
10 for CLECs "pales by comparison" to declines of other companies, such as Lucent,  
11 Microsoft and Intel:

12 Importantly, Dr. Ankum's much-touted decline in market  
13 capitalization for the CLECs and Wholesale Providers category (\$271  
14 billion) is not so different from the market capitalization decline of  
15 *individual* companies such as Lucent (\$237.6 billion decline),  
16 Microsoft (\$248.3 billion decline) and Intel (\$215.9 billion decline).  
17 Dr. Ankum's CLEC and Wholesale Provider category decline pales by  
18 comparison to the total market capitalization decline of just these four  
19 companies (more than \$821 billion) over roughly the same period he  
20 analyzed  
21

22 A number of observations are in order. First, Lucent is now trading for around \$1  
23 (down from \$80 a share) and may well have to file for bankruptcy at some point. It is  
24 not clear why Dr. Taylor believes that the comparison of the competitive  
25 telecommunication industry to Lucent should give the Commission any comfort. I

1           suppose it's the age-old argument of whether the bottle is 12% full or 88% empty. Dr.  
2           Taylor must be an optimist.

3

4           Further, to say that Microsoft and Intel's market capitalization has declined by  
5           comparable *dollar* figures ignores that it is the percentage decline that is significant.  
6           No sensible person would argue that bankrupt or near bankrupt companies such as  
7           Network Plus, McCleoudUSA, Metromedia Fiber Networks, Log On America, XO  
8           Communications, or NorthPoint are in as sound a financial shape as Microsoft, a  
9           company that holds tens of billions of dollars in cash, and is a dominant force in the  
10          software industry. Dr. Taylor's comparison sheds little or no light on the state of the  
11          telecommunication industry.

12

13   **Q.   MR. SILVIA USES OBSERVATIONS MADE BY THE UNITED STATES**  
14   **DEPARTMENT OF JUSTICE TO REBUT YOUR TESTIMONY THAT THE**  
15   **COMPETITIVE INDUSTRY IS IN BAD SHAPE. PLEASE COMMENT ON**  
16   **MR. SILVIA'S TESTIMONY.**

17   A.   On page 4, of his testimony he cites the DOJ analysis related to Verizon's 271  
18   application. I have already discussed in my direct testimony the difference between  
19   an analysis for a 271 application and an alternative regulation plan. In a 271 filing,  
20   the focus of the Commission should be on the question of whether Verizon has met  
21   the requirements of the Telecommunications Act of 1996 and irreversibly opened its  
22   local exchange markets in Rhode Island to competition. By contrast, in the current



1 proceeding, the focus is, among others, on the question of whether the level of  
2 competition is sufficient to curtail Verizon's market power as a dominant provider of  
3 local telecommunications services in Rhode Island. As has been discussed in my  
4 direct testimony, there should be a significantly higher threshold to answer this  
5 question affirmatively.

6  
7 **Q. HAS THE DOJ IN FACT PREVIOUSLY IDENTIFIED THE VZ'S HOT-  
8 CUT CHARGE AS A POSSIBLE IMPEDIMENT TO COMPETITION?**

9 A. Yes. In CC Docket No. 01-347, VZ's application for 271 approval in New  
10 Jersey, the DOJ expressed concerns about VZ's hot-cut charges in New Jersey.<sup>1</sup>  
11 Those charges were significantly higher (\$159.76 for the first loop and \$73.01 for  
12 additional loops) than the \$35 hot-cut charge agreed to by VZ in New York. As a  
13 result of the concerns of DOJ and CLECs, Verizon withdrew its 271 Application  
14 in New Jersey and subsequently refiled it with a \$35 hot-cut rate. Thus, while VZ  
15 is pointing to the DOJ's observation about the status of competition, it is ignoring  
16 the DOJ's position on the critical role of hot-cuts in the development of local  
17 competition.

18  

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<sup>1</sup> See CC Docket No. 01-347, Application by Verizon New Jersey Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc., for Authorization to Provide In-Region, InterLATA Services in New Jersey, Evaluation of United States Department of Justice, pages 7 and 8.

1 **Q. DOES VERIZON’S TESTIMONY UNDERSCORE HOW LIMITED IN**  
2 **SCOPE COMPETITION IS?**

3 A. Yes. First, Mr. Silvia states: “CLECs serve approximately 19.3 percent of all business  
4 lines using primarily their own fiber optic networks that are either connected directly  
5 to the customer premises or connected through loops leased from Verizon.”<sup>2</sup> This  
6 means that over six years after the passage of the Telecommunications Act of 1996,  
7 the vast majority of customers still has no access to facilities based competitive  
8 providers.

9  
10 Further, the observation that “Cox’s cable telephony service is available to  
11 between 75 and 95 percent of homes in the state” is of limited value. As the  
12 Commission knows, cable facilities do not without serious modifications allow  
13 for telephone service. Indeed, the question of whether a cable system can  
14 economically be converted to allow telephony is complex and will not always be  
15 answered in the affirmative. The Commission should recall that the cable giant  
16 TimeWarner decided to end its foray into telephony. Thus, the mere presence of  
17 cable facilities does not necessarily constitute competition more so than, say, the  
18 presence and availability of fiber facilities and switches in the warehouses of  
19 manufacturers. The question is: can those facilities be deployed profitably? Of  
20 course, the more pricing flexibility that the Commission grants VZ, the less likely  
21 it is that they can.

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**Q. ARE CABLE FACILITIES, SUCH AS COX’S, TYPICALLY DEPLOYED FOR RESIDENTIAL CUSTOMERS AND NOT NECESSARILY FOR BUSINESS CUSTOMERS?**

A. Yes. VZ notes that Cox’s cable facilities cover a large portion of the state and are able to reach possibly up to 95% of the residential customers. I have already discussed why this observation is of limited relevance. The Commission should also note, however, that Cox’s cable facilities are deployed predominantly to provide service to residential areas and that VZ has provided little or no information as to the extent to which Cox is actually serving business customers. While Cox does serve some business customers (such as the Providence Place Mall), the company’s cable facilities are not typically constructed to serve business customers.

The importance of this observation is twofold. First, to the extent that Cox will be dependent on VZ’s unbundled loops, *Cox too is vulnerable to VZ price-squeeze strategies*. Second, it underscores that carriers like Conversent are the primary alternative to Verizon for many business customers. These carriers continue to be dependent on VZ’s UNEs and that there simply are no wholesale providers other than VZ from which facilities can be obtained to pursue a strategy of broad-based competition.

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<sup>2</sup> Silvia, rebuttal Testimony, page 4.

1

2 **Q. MR. SILVIA ALSO PRESENTS PROPRIETARY 911 DATA THAT**  
3 **PURPORT TO SHOW THE EXTENT OF COMPETITIVE ENTRY. PLEASE**  
4 **COMMENT ON THESE DATA.**

5 A. Yes. As before, VZ's data tend to underscore the dominant position of the company.  
6 For example, VZ's own data show that, as of August 2002 -- six years after the  
7 passage of the Telecommunications Act of 1996 -- less than 14 % of residences are  
8 served by competitors.

9

10 **Q. SHOULD VZ'S DATA BE ACCEPTED AS THE TRUTH?**

11 A. No. Again, the 911 data are proprietary and cannot be inspected by intervenors.  
12 Conversent has issued discovery to VZ for the back-up calculations for the proprietary  
13 table presented in Mr. Silvia's rebuttal testimony. I hope that VZ will make the 911  
14 data available to that they can be placed in proper perspective.

15

16 **Q. DO YOU BELIEVE THAT THE 911 DATA MAY PRESENT A DISTORTED**  
17 **PICTURE OF THE STATUS OF COMPETITION IN RHODE ISLAND?**

18 A. Yes. First, it is important to note that the 911 data speak only to the competition that  
19 may exist for retail customers. The data do not address my main concern that CLECs  
20 are critically dependent on VZ for unbundled network elements. That is, the 911 data  
21 in no way diminish the likelihood that VZ may place CLECs in a competitive price-  
22 squeeze when it is opportune for VZ to do so.

1

2 Further, I believe that VZ has included special access lines in the 911 data. I am not  
3 entirely sure why Verizon would include special access in the 911 data. It is true that  
4 some carriers, especially large interexchange carriers, lease special access circuits  
5 from Verizon to serve large business customers, but the Commission should recognize  
6 that competition for large business customers should not be confused for general retail  
7 competition. Again, as long as intervenors are not able to inspect the work papers  
8 behind the compilation of the 911 data, the Commission should treat these data with  
9 the caution.

10

11

12 **IV. VZ IS DOMINANT IN THE WHOLESALE MARKET AND IS**  
13 **ABLE TO PLACE CLECS IN A PRICE SQUEEZE**  
14

15 **Q. IS ONE OF THE MAIN AREAS OF CONCERN ADDRESSED IN YOUR**  
16 **DIRECT TESTIMONY THE POTENTIAL THAT VZ MAY PLACE CLECS**  
17 **IN A PRICE SQUEEZE?**

18 A. Yes. In my direct testimony, I have demonstrated that if Verizon is granted the nearly  
19 unrestricted downward retail flexibility it is asking for, Verizon will be able -- at will --  
20 to increase or decrease the margin available to its dependent competitors. Further I  
21 have demonstrated that, as such, Verizon is largely in control of the strength and  
22 viability of its competitors, which -- coming full circle -- are the very companies that

1 Verizon claims will protect customers from Verizon. I concluded whatever may be  
2 the merit of Verizon’s arguments and testimony, the construct underlying the proposed  
3 Alternative Regulation Plan is deeply flawed: *to be sure, if granted as proposed, it will*  
4 *“place the fox in charge of the hen house.”* Of particular concern is the possibility  
5 that VZ will place dependent CLECs in a price-squeeze when it happens to suit VZ  
6 competitive interests.

7

8 **Q. DOES DR. TAYLOR ARGUE THAT VZ IT IS NOT RATIONAL FOR VZ TO**  
9 **PLACE CLECS IN A PRICE SQUEEZE?**

10 A. Yes. Dr. Taylor’s argument is summarized on pages 11 and 12 of his testimony. In  
11 essence he says:

12 (1) “Cox is not in any sense a dependent competitor: it is a full facilities-based  
13 competitor with a near-ubiquitous presence and currently offers telephone services to  
14 residence and business customers throughout the state. As a facilities-based  
15 competitor, Cox offers its services without relying on Verizon’s facilities. This fact  
16 implies that Verizon does not control an essential facility in Rhode Island. If Verizon  
17 does not control an essential facility then there is no economic basis to impose any  
18 imputation standard.<sup>3</sup> “  
19

20 (2) “Second, the purpose of a price floor is to prevent anticompetitive pricing,  
21 and I have explained above that *Verizon has no incentive or ability* to carry out a  
22 successful anticompetitive pricing strategy.”

23 .

24 I disagree with both statements.

25

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<sup>3</sup> Taylor Rebuttal, page 11.

1 **Q. PLEASE COMMENT ON DR. TAYLOR’S ASSERTION THAT VZ DOES**  
2 **“NOT CONTROL AN ESSENTIAL FACILITY” NECESSARY FOR A**  
3 **PRICE SQUEEZE.**

4 A. Even if it were true that Cox is 100% facilities based, this is obviously not true for  
5 other competitors, such as Conversent that install their own switch and  
6 transmission equipment in VZ central offices and combine these facilities with  
7 unbundled loops and unbundled interoffice transport from VZ. In the simplest of  
8 terms, VZ’s UNEs are essential for competition in Rhode Island. For all instances  
9 where competitors use VZ’s UNEs and are dependent on them, VZ’s proposal for  
10 pricing flexibility creates the potential for a price squeeze. The Commission  
11 simply cannot and should not focus just on Cox.

12

13 **Q. PLEASE COMMENT ON DR. TAYLOR’S ASSERTION THAT VZ**  
14 **NEITHER HAS THE INCENTIVE NOR THE ABILITY TO IMPOSE A**  
15 **PRICE SQUEEZE ON DEPENDENT COMPETITORS.**

16 A. First, if Dr. Taylor believes that VZ will never lower retail prices so that  
17 dependent CLECs will be in a price squeeze, VZ should have no objection against  
18 a price floor based on UNE prices. While the implementation of such a price  
19 floor involves some regulatory activities, in the larger scheme of VZ’s operations,  
20 this should not be a serious concern. Given how strenuously VZ is objecting,

1           however, one must wonder about the blanket assertion that “*Verizon has no*  
2           *incentive or ability* to carry out a successful anticompetitive pricing strategy.”

3

4           Second, while Dr. Taylor makes an economic argument for why VZ may or may  
5           not engage in a price squeeze, there is no guarantee that VZ will behave  
6           consistent with Dr. Taylor’s testimony. Clearly, under its proposal, VZ *will be*  
7           *able* to lower retail prices *at will*. Moreover, it will be able to lower retail prices  
8           *below* the costs faced by dependent CLECs. Dr. Taylor’s “promises” that they  
9           won’t do this are simply not sufficient protection for dependent competitors such  
10          as Conversent.

11

12          Third, the Massachusetts DTE rejected Dr. Taylor’s argument and established  
13          price floors for VZ-MA that safeguard against downward pricing flexibility at  
14          anticompetitive levels.

15

16          Further, Dr. Taylor does not consider the impact on CLECs that do not yet have  
17          operations in Rhode Island or those that may want to expand their operations.  
18          The possibility of a price squeeze will stifle these companies’ business  
19          development plans.

20



1 **Q. DID THE MASSACHUSETTS DTE BELIEVE THAT VZ WOULD NEVER**  
2 **ENGAGE IN AN ANTI-COMPETITIVE PRICE SQUEEZE?**

3 A. No. The Massachusetts DTE noted:<sup>4</sup>

4 [g]ranting Verizon unlimited downward pricing flexibility would  
5 enable Verizon to engage in a “price squeeze” with respect to  
6 UNE-based CLECs. Verizon would be free to decrease its retail  
7 rates to the point where the margin between the market price of a  
8 service and the cost of the underlying UNE was “squeezed” until  
9 UNE-based CLECs could not profitably compete with Verizon.  
10 Allowing such freedom to an incumbent would defeat UNEs’  
11 purpose as both the means of providing service and a tool for  
12 moving to a facilities-based network. Verizon asserts that UNE-  
13 based providers can switch to resale, and the existing resale  
14 discount price floor would serve as “a safety net” preventing anti-  
15 competitive pricing ... Accepting Verizon’s argument on this point  
16 would, however, impede the development of facilities-based  
17 competition envisioned by the FCC, and, as mentioned above in  
18 Section V.B.4, it is not certain that facilities-based CLECs would  
19 be willing and able (given sunk costs) to shift quickly to resale.

20

21 **Q. DID THE MASSACHUSETTS DTE PUT IN PLACE A PRICE FLOOR TO**  
22 **PROTECT CLECS AND ANTICOMPETITIVE PRICING STRATEGIES?**

23 A. Yes, the Massachusetts DTE put in place price floor provisions to prevent  
24 anticompetitive behavior. For reasons discussed in my direct testimony, I  
25 recommend that this Commission do the same.

26

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<sup>4</sup> Massachusetts DTE 01-31 Investigation by the Department on its own Motion into the Appropriate Regulatory Plan to Succeed Price Cap Regulation for Verizon New England, Inc., d/b/a Verizon

1 **Q. IS THE PRICE FLOOR ADOPTED BY THE MASSACHUSETTS DTE IN**  
2 **ESSENCE THE SAME AS THE PRICE FLOOR YOU DISCUSS AND**  
3 **RECOMMEND IN YOUR DIRECT TESTIMONY?**

4 A. Yes. In my direct testimony, I recommend that the imputed costs used to  
5 establish a price floor below which VZ would not be allowed to set retail rates  
6 includes, at a minimum, the following two cost components:

7 (1) *Imputed costs of all the UNEs used to provide the service.*  
8 This should be calculated by multiplying the quantity of the UNEs  
9 used to provide the service *times* the UNE TELRIC prices. Also  
10 included should be some recognition of the non-recurring charges to  
11 order UNEs.

12  
13 (2) *A measure of minimum retail related costs.*  
14 An appropriate proxy for these retail costs could be established by  
15 using the Commission approved percentage for resale discounts.  
16 The Commission should recall that the resale discount is calculated  
17 based on VZ's retail related expenses.

18

19 This is in essence the same as the price floor that the Massachusetts DTE adopted,  
20 which is the following:<sup>5</sup>

21 [T]he Department will require a UNE-based price floor for  
22 Verizon's business services that are contestable on a UNE basis.  
23 The price floor should be equal to the UNE rates for the elements  
24 that make up the retail service, plus a mark-up for Verizon's  
25 retailing costs as reflected in the wholesale discounts.

26

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Massachusetts' Retail Intrastate Telecommunications Services in the Commonwealth of Massachusetts.  
Excerpt Phase 1 Decision, page 101.

<sup>5</sup> Id, pages 101 - 102.

1           The Department then went on to note: “When Verizon seeks an initial price  
2           squeeze decrease for any business services, Verizon will be required to file a cost  
3           analysis calculating the price floor for those services.”<sup>6</sup>

4  
5           I recommend that the Commission adopt these same provisions for Verizon in Rhode  
6           Island as a minimal set of competitive safeguards against anticompetitive pricing  
7           strategies.

8

9   **Q.   DR. TAYLOR ALSO PROVIDES AN EXAMPLE OF COKE AND PEPSI**  
10 **COLA.   IS   THIS   EXAMPLE   RELEVANT   OT   THE**  
11 **TELECOMMUNICATIONS INDUSTRY?**

12 A.   No. With respect to the potential for a price-squeeze, Dr. Taylor notes on page 5 of  
13 his rebuttal testimony:

14                   This would be like Coke reducing its price in Rhode Island below its  
15                   marginal cost with the expectation that it could force Pepsi to exit—  
16                   and stay out of—the Rhode Island soft drink market  
17

18           This example is irrelevant for two reasons. First, the relative strength of Coke and  
19           Pepsi is different than the relative strength of VZ and, say, Conversent. Second, Pepsi  
20           is not dependent on Coke: *companies such as Conversent are dependent on VZ.* In  
21           short, the comparison is irrelevant to the situation at hand.

22

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<sup>6</sup> Id, page 102.

1 **V. CONCLUSION**

2

3 **Q. HAS ANYTHING IN VZ'S REBUTTAL TESTIMONY CAUSED YOU TO**  
4 **CHANGE YOUR RECOMMENDATIONS?**

5 A. No. My recommendations are still as stated in my direct testimony.

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes, it does.

9

10

11