Ill. C.C. Docket 00-0312 and 00-0313
Ameritech Illinois Ex. 2.1 (Meyer)

SUPPLEMENTAL VERIFIED STATEMENT OF RHONDA Y. MEYER ON BEHALF OF AMERITECH ILLINOIS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Rhonda Y. Meyer. My business address is 311 S. Akard, Dallas, Texas 75202.

Q. ARE YOU THE SAME RHONDA Y. MEYER WHO FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL VERIFIED STATEMENT?

A. I will respond to the Verified Statement of Staff witness Robert F. Koch. In particular, I will address the proper price for the high frequency portion of the loop (HFPL), line conditioning and cross connects, Arbitration Issue number 6. Arbitration Issue number 6 is also addressed in the supplemental Verified Statement of Dr. Michael Carnall.

The Appropriate Charge for the HFPL

Q. DOES MR. KOCH AGREE WITH SOME OF AMERITECH ILLINOIS' ARGUMENTS IN FAVOR OF A NON-ZERO LOOP RATE?

A. Yes, Mr. Koch agrees with several arguments raised by Ameritech Illinois. First, despite Rhythms/Covad's arguments to the contrary, Mr. Koch agrees with Ameritech Illinois that the FCC Line Sharing Order does not mandate a zero price for the HFPL. Second, Mr. Koch agrees that it is consistent with the FCC rules to allocate loop costs equally between the ILEC's voice service and the HFPL. Finally, Mr. Koch also agrees that a zero price for the HFPL causes voice services to subsidize DSL services.

Q. GIVEN STAFF'S AGREEMENT ON THESE KEY POINTS, DOES MR. KOCH AGREE TO A NON-ZERO PRICE FOR THE HFPL?

A. No. Although Mr. Koch agrees that allocating loop costs <u>equally</u> between the ILEC's voice service and the HFPL is consistent with the FCC rules, and also admits that a zero price for the HFPL causes voice services to subsidize DSL services, Mr. Koch still recommends a zero interim loop rate for the HFPL. Mr. Koch's conclusion appears to be based on four false assertions: (1) that a non-zero rate would result in double recovery by Ameritech Illinois; (2) that a zero price for the HFPL is competitively neutral; (3) that Ameritech Illinois' proposed rate for the HFPL is arbitrary; and, (4) that Ameritech Illinois' proposed rate for the HFPL was not developed according to TELRIC.

Q. HOW DO YOU RESPOND TO MR. KOCH'S ASSERTION THAT CHARGING ANYTHING GREATER THAN ZERO FOR THE HFPL WOULD RESULT IN DOUBLE RECOVERY?

A. I disagree. Charging for the HFPL allows Ameritech Illinois the opportunity to recover joint and common costs. In the recent California Line Sharing Arbitration, the administrative law judge found that:

> ....TELRIC includes a reasonable allocation of common cost, cost of capital, and economic depreciation. Despite the direct cost Pacific and GTE allocated to its retail ADSL service under federal tariffs, it is unreasonable to here find a proper, reasonable allocation of zero common cost, zero cost of capital, and zero economic depreciation for the high frequency portion of the loop.

He also stated that:

> It is unreasonable for an ILEC to sell any product or service at a zero price. Whether or not the ILECs are already recovering the full cost of the loop, it would not be acceptable to require the ILEC to "give away" any product or service. Every product or service should make some nonzero contribution to common costs, cost of capital (profit), and economic depreciation.

Ameritech Illinois agrees, and this Commission should find, that this service should contribute to joint and common costs; hence, a zero price for the HFPL is inappropriate.

Charging 50% of the recurring unbundled loop rates is reasonable because it recognizes that the CLECs are receiving dedicated use of the high frequency portion of the loop. It would be patently unfair to require a company to sell any product or service at a zero price. Charging 50% of the loop rate also would encourage facilities-based competition.

Indeed, Mr. Koch even recognizes that a zero price for the HFPL "would cause the CLECs to lose some of their incentive to build facilities." Additionally, under Ameritech Illinois' proposal, CLECs can purchase just the high frequency portion of the loop at a substantial discount, 50% off the current price of the loop.

Q. MR. KOCH ARGUES THAT A ZERO PRICE FOR THE HFPL IS COMPETITIVELY NEUTRAL BECAUSE "THE SAME PRICE FOR HFPL ARE CHARGED TO THE CLECS AND AMERITECH." HOW DO YOU RESPOND?

A. Mr. Koch's statement overlooks one very significant fact: Ameritech Illinois' data affiliate, pursuant to its interconnection agreement with Ameritech Illinois, is obligated to pay 50% of the total loop rate for the HFPL. It would be unlawfully discriminatory, in favor of CLECs such as Rhythms and Covad, for the affiliate to pay 50% of the total loop price for the HFPL and other competitors to pay $0 for the HFPL.

Q. MR. KOCH ALSO ARGUES THAT IT IS ARBITRARY TO ALLOCATE 50% OF LOOP COSTS TO THE HFPL. HOW DO YOU RESPOND?

A. I disagree. It is not arbitrary to divide the cost of the loop in this manner, based on my reading of paragraph 138 of the FCC Line Sharing Order. That paragraph provides, "we must extend the TELRIC methodology to this situation and adopt a reasonable method for *dividing* the shared loop costs." (emphasis added) It is reasonable to allocate

50% of the loop cost to the HFPL. Because there are two users sharing the loop, the straightforward, logical way to divide the loop costs is in half. Indeed, the FCC in the SBC/Ameritech Merger Conditions concluded that 50% was a reasonable rate to charge for surrogate line sharing, and that is the rate that Ameritech Illinois' data affiliate pays under its Interconnection Agreement with Ameritech Illinois. It is not arbitrary to apply that same percentage to the HFPL UNE for other carriers as well.

Q. DO YOU AGREE WITH THE MR. KOCH'S CONCLUSION THAT AMERITECH ILLINOIS' PROPOSED RATE IS NOT TELRIC-BASED?

A. No. Staff's argument ignores two obvious, and very important, facts. First, the zero rate that it proposes for the HFPL clearly is not TELRIC-based. Second, and more importantly, Ameritech Illinois' proposed rate is in fact based on TELRIC principles. Indeed, the underlying facility for the HFPL is the local loop. Ameritech Illinois' current rates for this underlying facility (the local loop) are TELRIC-based. As I alluded to above, in order to determine the appropriate allocation of these TELRIC-based loop rates between local exchange service and the HFPL, Ameritech Illinois has looked to the FCC's *Line Sharing Order*. In setting appropriate pricing for the HFPL, the FCC stated in paragraph 138 of the *Line Sharing Order* (emphasis added):

> We are thus presented with the question of how to establish the forward looking economic cost of unbundled bandwidth on a transmission *facility when the full embedded cost of that facility is already being recovered through charges for jurisdictional services*. Accordingly, we must extend the TELRIC methodology to this situation and *adopt a reasonable method for dividing the shared loop costs*.

This language clearly supports a division of the TELRIC-based shared loop costs between local exchange service and the HFPL, and does not require a separate TELRIC cost study to support rates for the HFPL.

Moreover, the FCC's *Line Sharing Order* supports a pricing approach that will charge the same amount to affiliated and non-affiliated providers. In setting the appropriate rates, the FCC declared in paragraph 141 of the *Line Sharing Order* that it is important to ensure that "competitive LECs and ILECs incur the same cost for access to the bandwidth required to provide xDSL services ." Where the ILEC does not provide DSL services (as is the case with Ameritech Illinois), the relevant comparison is with other CLECs and with any ILEC affiliates providing DSL services.

Clearly, it is appropriate to divide the cost of the underlying facility. It is also clear that the same price must be charged to both affiliated and non-affiliated xDSL providers to ensure fair competition. Ameritech Illinois' proposed rate of 50% of the unbundled loop rate accomplishes both these goals. First, the shared loop costs of the underlying facility is divided by the number of providers seeking to utilize the loop. Second, the established rate applies to both affiliate and non-affiliated providers and ensures that neither has an unfair advantage.

Q. MR. KOCH ASSERTS THAT "THE ONLY WAY IN WHICH THE COMPANY COULD DEVELOP A POSITIVE RATE FOR HFPL WOULD BE TO DO SO IN CONJUNCTION WITH EQUIVALENT RATE DECREASES FOR VOICE SERVICES FOR THE CUSTOMERS ORDERING DSL SERVICES." HOW DO YOU RESPOND?

A. First, this statement contradicts Staff's statement that a zero price for the HFPL causes a subsidy to occur between voice and data services. Moreover, the retail rate being charged for retail services is of no consequence in setting the price of wholesale elements. UNE pricing is solely governed by 252(d)(1) of the Act and the FCC's TELRIC rules — which have <u>nothing</u> to do with <u>retail rates</u>. Dr. Carnall addresses this point in more detail in his Verified Statement.

Q. MR. KOCH ARGUES THAT THE ZERO RATE FOR THE HFPL SHOULD BE ON AN INTERIM BASIS AND THAT THE PERMANENT RATE FOR THIS SERVICE IS BETTER DEALT WITH IN THE INVESTIGATION OF THE LINE SHARING TARIFF, RATHER THAN IN THIS ARBITRATION. HOW DO YOU RESPOND?

A. Ameritech Illinois agrees that the appropriate proceeding to determine the permanent rate for the HFPL is the investigation of the line sharing tariff. However, if the Commission chooses to set an interim rate in this proceeding, that rate should be subject to true-up.

<u>The Appropriate Charge for the Line Conditioning</u>

Q. MR. KOCH STATES THAT LOOP CONDITIONING CHARGES ARE CURRENTLY BEING DETERMINED IN I.C.C. DOCKET 99-0593 AND THAT THE RATES DETERMINED IN THAT DOCKET WILL BE APPLICABLE TO THE HFPL LINE CONDITIONING CHARGES. HOW DO YOU RESPOND?

A. I agree that permanent loop conditioning charges for the HFPL should not be determined in this docket. However, contrary to Mr. Koch's assertions, Docket 99-0593 will not be used to determine such permanent charges. In fact, the Hearing Examiner's Proposed Order in Docket 99-0593 does not even <u>propose</u> Illinois-specific prices for line conditioning and, significantly, the parties to that case did not provide cost studies for the purpose of setting Illinois-specific prices. Rather, in Docket 99-0593, the Hearing Examiner's Proposed Order purports to set <u>interim</u> tariff rates based purely on a Texas arbitration decision. Moreover, those interim tariff rates would be subject to true-up when the Commission ultimately establishes Illinois-specific rates for loop conditioning. Nothing, however, suggests that the interim charges proposed in Docket 99-0593 are appropriate for adoption here on either an interim or permanent basis. Permanent loop conditioning charges should be determined in a separate docket where specific TELRIC studies will be developed and presented to the Commission, thus enabling it to set appropriate rates.

<u>The Appropriate Charge for Cross Connects</u>

Q. MR. KOCH STATES THAT IT IS MOST APPROPRIATE TO ADDRESS ALL OF THE CONCERNS REGARDING THE RATE FOR CROSS CONNECTS IN THE LINE SHARING INVESTIGATION. HOW DO YOU RESPOND?

A. Again, Ameritech Illinois agrees that the appropriate proceeding to determine the permanent rate for cross connects is the investigation of the line sharing tariff. However, if the Commission chooses to set an interim rate in this proceeding, that rate should be subject to true-up.

Q. MR. KOCH RECOMMENDS AN INTERIM RECURRING CROSS CONNECT RATE FOR LINE SHARING OF $0.14 BASED ON THE COLLOCATION TARIFF. DO YOU AGREE WITH MR. KOCH'S RECOMMENDATION?

A. No. Ameritech Illinois' proposed rates in this arbitration are based on the appropriate costs for this rate element. These costs are based on the functions that must be performed in order to provision line sharing, which are different than the functions considered in developing costs under the collocation tariff. More specifically, the collocation cross connect rate only includes capital-related costs and associated maintenance for the jumper wire; it does not capture the costs of installing a cross connect. The line sharing cross connect charge, on the other hand, is meant to recover the actual installation activity for all the cross connects required to make line sharing available. Given the FCC's mandate that unbundled network elements be priced based on TELRIC and include relevant costs of provisioning the UNE, it would be inappropriate to set a price that does not include the installation activity.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL VERIFIED STATEMENT?

A. Yes.