

1 **Q. USWC IS ADAMANT THAT LOOP COSTS ARE ENTIRELY**
2 **THE RESPONSIBILITY OF LOCAL EXCHANGE SERVICE.**
3 **WHY DO YOU DISAGREE?**

4 A. The facilities that are used in providing access lines and dial tone are
5 also required for—and used by—other services that the Company
6 provides, including interstate switched access, intrastate switched
7 access, intrastate toll, Caller ID, Call Waiting, and Call Forwarding.
8 The poles, cable, drop wire, line card, and other items are required
9 equally for the provision of these other services. There is simply no
10 logical reason to single out basic local exchange service as the sole
11 source of these joint costs.

12
13 One of the crucial components, or intermediate products, used to
14 provide toll, local, and other services is an access line. That access
15 line is available jointly to serve toll and local markets. Unless
16 congestion is present, there is no trade-off between the two purposes.
17 In other words, when an additional access line is installed, it
18 simultaneously increases the intermediate output (access) available to
19 both toll and local markets (as well as the market for other services,
20 such as custom calling).

21
22 **Q. BUT WHAT IF THE TELEPHONE CUSTOMER MAKES NO**
23 **TOLL CALLS AT ALL? ISN'T THE COST OF THE LOOP**
24 **THEN ENTIRELY ATTRIBUTABLE TO LOCAL**
25 **EXCHANGE SERVICE?**

26 A. No. Even if a line is intended strictly for local calls, it is also available
27 to place and receive toll calls, and vice versa. In this situation, the

1 access line is analogous to cattle feed in the production of beef and
2 leather coats. Even if feed is strictly intended to increase the amount of
3 available beef, it concurrently increases the amount of hides that are
4 available. Of course, because an intermediate product is involved,
5 there is no assurance that quantities of the final products will be
6 produced in exact proportion to the quantities of inputs.

7
8 In other words, an increase in cattle feed will not necessarily increase
9 the number of leather coats that are produced, if the hides are thrown
10 away and never converted into coats. Similarly, the addition of another
11 access line will not automatically increase the number of toll or local
12 calls, nor will the volume of the final products (completed calls to
13 various locations) increase in strict proportion to the addition of
14 another access line. There is nothing startling, however, about this
15 situation. In a similar way, hamburger production does not vary
16 precisely with the number of leather coats.

17
18 The confusion can be eliminated by further disaggregation. Simply
19 stated, completed toll calls typically involve three or more intermediate
20 steps: use of two access lines, one or more switches, and one or more
21 interoffice trunks. In turn, some of these components can be used
22 only for local purposes, some only for toll, and others for both
23 purposes. Because of congestion, switching and trunking typically
24 involve either direct costs (when the item is dedicated to one market or
25 the other) or common costs (when the item is shared but increased use
26 in one market displaces use in the other market). The access line is
27 obviously either a joint or shared cost, since it serves both markets. I

1 think it is most accurately described as a joint cost, in the typical
2 situation where the line is not highly congested and use in one market
3 does not preclude use in the other market.

4
5 More specifically, the provision of an access line yields at least two
6 joint products: access to customers within the same locality (local
7 access) and access to customers within other cities (toll access).
8 Because the latter form of access is provided via toll carriers, one can
9 think of the access line as providing access to local and toll networks.
10 Of course, since communication is generally two-way, we also can say
11 that two other joint products are provided as well: access to the
12 customer installing the line for other customers within the same locality
13 and access to that customer for toll carriers and their customers.

14
15 **Q. CAN'T THE ACCESS LINE BE VIEWED AS A SEPARATE**
16 **PRODUCT, THUS SOLVING THE JOINT COST**
17 **PROBLEM?**

18 A. No. Even if we were to accept this notion as valid (which I do not), it
19 does not solve the pricing problem or change the fundamental nature
20 of the situation. To the contrary, the product thereby defined is an
21 intermediate product that is ultimately used in two or more markets,
22 and the joint characteristics do not simply disappear. Similarly, if one
23 defines the product being produced from cattle feed as "cattle," this
24 doesn't change the fact that cattle feed is a joint cost that impacts both
25 the beef and leather markets. Nor does it change the fact that the cost
26 of the cattle feed (or the cost of the intermediate product called
27 "cattle") is ultimately borne by purchasers of both beef and leather.

1
2 “Access” is provided to other lines situated within the same city, but it
3 is simultaneously provided to toll carriers with points of presence in
4 that city. Via their facilities, “access” is provided in both directions to
5 millions of lines located in hundreds of other cities around the state,
6 nation, and planet. There is no necessary reason to assume that the
7 entire cost of a particular access line should be borne entirely by the
8 customer that is directly connected to that line, since “access”
9 functions in both directions, and it provides valuable benefits to both
10 the local market and within the long distance market.

11
12 There is no economic reason to assume the entire cost of the access
13 line should be recovered through the price of local service, from the
14 particular customer who requests installation of the line. Rather, it is
15 appropriate to recover the cost from all of the beneficiaries of that
16 line—including the other local customers in that city and the toll
17 carriers interconnected with the new line, directly or indirectly.

18
19 **Q. DO THE COLORADO RULES SPEAK TO THIS ISSUE?**

20 A. Yes. On June 1, 1993, the Colorado Public Utilities Commission
21 adopted a set of rules regarding the costing and pricing of telephone
22 services. [Statement of Adoption of Rules, Docket No. 92R-596T]. In
23 the rules, the Commission discusses access loops, and states as
24 follows:

25
26 The access loop is not a separate service but rather is an
27 input necessary for the provision of many
28 telecommunications services. As such, costs associated
29 with the access loop will not appear in the total service

1 long run incremental cost of any single service requiring
2 the access loop but will appear as part of the total service
3 long run incremental cost of the entire group of services
4 requiring the loop. Consequently, price must be set so
5 that the sum of the revenues from all services requiring
6 the access loop covers not only the sum of the total
7 service long run incremental costs for the individual
8 services but also the shared cost of the loop. Finally,
9 regarding the computation of stand alone costs, since
10 each service in this group requires the access loop, the
11 entire cost of the loop will appear in the stand alone cost
12 for each of these services. [Order, p. 12].