

1 network, it is a simpler approach, and more reasonable than the Company's approach. BA-
2 Del's studies create the appearance that a fiber network will be very costly, because it has
3 assumed widespread fiber deployment, in conjunction with costly fiber electronics, and it has
4 ignored the potential for economies of scale and equipment cost savings which may ultimately
5 be achieved when voice traffic is handled as a minor component of a high volume video dial
6 tone/broadband network.

7 Under the Company's approach, its competitors will be forced to pay for costs that are
8 not directly related to the loops they are actually renting, and instead are associated with
9 building and operate a broadband capable network. This is particularly inappropriate since the
10 cost studies in the proceeding ignore the offsetting revenue streams, and economies of scale,
11 that will likely be achieved once such a network is actually deployed and marketed.

12
13 **Q. If the Commission were to develop unbundled loop prices based upon a copper**
14 **network or a more limited fiber/copper network, would this in any way prevent or**
15 **discourage BA-Del from pursuing a broadband network?**

16 A. No. The Company would still be free to expand its deployment of fiber. And, it will be free to
17 reap the rewards--including revenues from video dial tone and broadband data services, as
18 well as lower prices per kilobit for the electronics used to drive such a system.

19 The issue in this proceeding is a different one: should BA-Del's competitors pay higher
20 unbundled loop rates based upon a hypothetical broadband-capable network which is only
21 used to provide narrowband services? I don't believe this is appropriate. If Bell Atlantic wants
22 to expand its use of fiber optic cable in order to increase its revenues from video dial tone or
23 other broadband services, it should certainly be encouraged to do so. However, the cost of
24 deploying such a network should primarily be borne by those who will benefit from the
25 additional services--i.e., BA-Del's video dial tone and broadband customers. If the Company

1 is allowed to burden new entrants with the cost of a fiber optic network that they don't need
2 and aren't necessarily using, the wrong price signals will be sent to potential new entrants.

3
4 **Q. Are there any other problems with the Company's fiber assumptions?**

5 A. Yes. According to Witness Sanford, BA-Del's models assume the use of Next Generation
6 Digital Loop Carrier equipment, despite the fact that it is not yet commercially available.
7 Statement, [Exhibit] 3, at 5, note 1.] As a proxy cost for this new equipment, the Company
8 says it has averaged the current costs of Integrated Digital Line Carrier and Universal Digital
9 Line Carrier equipment. Id. While this may seem like a plausible approach, there is no basis for
10 assuming that this new generation of equipment will cost more. To the contrary, if one wants to
11 speculate about the cost of a new generation of digital loop equipment, it would be much more
12 plausible to assume that this equipment will be less costly than the cheapest technology available
13 today. That would be more consistent with the overall trend in computers and other electronic
14 equipment, where each new offering seems to be both better and cheaper than the previous
15 generation.

16
17 **Q. You've expressed some concerns about the Company's decision to model a network**
18 **with extensive deployment of fiber electronics and its assumptions concerning the cost**
19 **of this equipment. Do these have a significant impact on the resulting loop cost**
20 **estimates?**

21 A. Yes. Since the Company didn't provide a study showing the cost of ordinary copper loops, or
22 the cost of a network which includes a more limited, cost-effective deployment of fiber. Hence,
23 it is difficult to tell how much its cost estimates have been inflated by its assumptions in this
24 regard. However, some indication of the potential importance of this issue can be seen in the
25 example documentation provided by BA-Del. The Company's cost study backup data includes
26 an example of LCAM's operations, using the Angola Wire Center. On the summary page, the

Direct Testimony of Ben Johnson, Ph.D.

On Behalf of the Staff of the Delaware Public Service Commission, Docket No. 96-324

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Company shows total loop costs of *****BA-Del PROPRIETARY BEGINS*****

*****BA-Del**

PROPRIETARY ENDS*** of the cost of the loop is associated with this one issue.