

1 *Policy Concerns*

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3 **Q. Is the correct, procompetitive pricing of UNEs especially important in the earliest**  
4 **stages of the transition to effective local exchange competition?**

5 A. Yes. Even though it is hoped and expected that competitors will eventually develop alternatives  
6 to the ILEC's network through installation and use of their own facilities, the resale of services  
7 and the rental of UNEs will be the major means of introducing competition into much of  
8 SWBT's service territory. This is especially true in areas away from the major metropolitan  
9 areas, like much of Kansas, where completely facilities-based competition may come late, if at  
10 all. In the absence of technological breakthroughs, effective competition in rural areas may  
11 largely be limited to use of the incumbent carrier's network through resale or through rental of  
12 UNEs.

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14 **Q. What will be required to achieve even this limited form of competition?**

15 A. To achieve effective competition, barriers to entry must be reduced and new carriers must enter  
16 the market and gain a substantial share of the market (e.g., at least 20-30 % of the Company's  
17 current customer base). Compared with facilities-based operations, entry into the retail end of  
18 the telecommunications market is relatively easy, enabling resellers to operate on a very small  
19 scale in towns and neighborhoods with densities and volumes too low to support the efficient  
20 operation of more than one or two facilities-based carriers. If wholesale services are available  
21 at a reasonable price, potential resellers can bring some competitive benefits even to these small  
22 markets; if not, customers in these areas will not enjoy the freedom of choice and other benefits  
23 that effective competition can provide.

24 While pure resale (repackaging and marketing of the services offered by SWBT) offers  
25 some competitive benefits, by far the greatest benefits will come from the rental of UNEs, in

1 conjunction with elements of the competitive carrier's own network. The latter form of  
2 competition (like purely facilities based competition) offers greater opportunities for  
3 technological improvement and product innovations, and it creates a more vigorous form of  
4 competitive pressure on the incumbent carrier. The rental of UNEs and the installation of a  
5 CLEC's own facilities are to some degree substitutes, but primarily they represent  
6 complementary options that can be blended in various ways to develop diverse entry strategies.  
7 The costing and pricing of UNEs will be very important in determining the extent to which  
8 effective competition emerges in Kansas—particularly in rural areas where revenues are too low,  
9 or costs too high, for purely facilities-based entry strategies to be attractive.

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11 **Q. Is the availability of UNEs also important to promoting competition in urban and**  
12 **suburban parts of the state ?**

13 A. Yes. The ability of competitors to engage in the profitable use of unbundled elements will also  
14 have a significant impact on the pattern of competition in the higher density markets. In order to  
15 provide a complete spectrum of services and to handle calling to and from the incumbent's  
16 customers, new entrants will need to interconnect with LECs. Even if these carriers make  
17 substantial investments in their own facilities, a policy designed to encourage unbundling of  
18 UNEs will provide these CLECs with additional options, and it could potentially speed the  
19 transition to effective competition

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21 **Q. Will consumers be affected by the unbundled element prices that are established by**  
22 **the Commission?**

23 A. Yes. While consumers will not pay these rates directly, they will be affected indirectly.  
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1 **Q. What would be the effects of setting UNE rates too high?**

2 A. Rates set well above cost would have the effect of stifling competition and solidifying SWBT's  
3 dominant position. In general, if the unbundled element rates are set well above cost, barriers  
4 to entry will remain relatively high, few UNEs will be rented, the evolution towards increased  
5 competition will be slowed, the incumbent local exchange carrier's retail operations will be  
6 shielded from downward pricing pressures, and the public will be slow to gain the benefits of  
7 effective competition.

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9 **Q. What would be the effect of setting UNE rates too low?**

10 A. Rates that are too low would reduce the incentive for competing carriers to build their own  
11 facilities, increase profits for competing carriers that do not install their own facilities,  
12 discourage SWBT from making new investments (thereby jeopardizing service quality and  
13 reliability), and increase the chances of extensive litigation that might further delay the  
14 development of effective competition.

15 If the unbundled element rates are set below cost, new entrants will lack incentive to  
16 invest in their own network facilities but will just take advantage of the situation. Under these  
17 circumstances, competitive activity in the retail portion of the market may be intense, but its  
18 scope of services offered and extent of innovation will be limited to the capabilities of the  
19 existing network,

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21 **Q. If UNE prices are set appropriately (i.e., at cost including a reasonable profit), what  
22 will be the effect?**

23 A. In general, proper unbundled element rates will tend to have predictable impacts on the  
24 Company, competing carriers (e.g., AT&T and Sprint) and the public. Such unbundled rates  
25 will tend to:

- 1           1.     Somewhat provide SWBT profits.
- 2           2.     Reduce costs for competing carriers
- 3           3.     Encourage more rapid entry by competing carriers into the market.
- 4           4.     Encourage a more rapid reduction in SWBT's retail market share.
- 5           5.     Encourage a faster transition toward competition.
- 6           6.     Increase the likelihood of downward competitive pressure on retail rates.
- 7           7.     Allow CLECs to make efficient decisions concerning the extent to which they install
- 8                 their own facilities or rent from SWBT.
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