competition for access services is greatest. This would assure that no customer would be made worse off by the introduction of CCL zones.

LECs would continue to compute annual changes to the PCI and EUCL charges the same as they do currently. The maximum terminating CCL rate, to be used as the pricing cap for each zone, also would be computed in accordance with existing formulas. This proposal would be relatively simple to initiate and administer, would avoid the need to make significant changes to Part 69 rules, and would enable LECs to extend the benefits of zone pricing to access customers that utilize GTE's local exchange facilities. These procedures would remain in effect until the Commission addresses common line issues more comprehensively in the forthcoming access reform proceeding.

- INTEREXCHANGE AND VIDEO DIALTONE

GTE recommends that these baskets be carried over unchanged to the new structure as it is anticipated that those services encompassed by these baskets will quickly qualify for streamlined or nondominant treatment.

B. The Commission should not adopt a plan for adjusting price cap baskets over time.

The basket structure GTE has proposed *supra* is conservative, in that it closely follows the current structure, which in turn is based on Part 69. The *SFNPRM* (at ¶90) seeks comment on whether the price cap structure should be modified over time, or whether different structures would be appropriate for different LECs. GTE believes that there should be two opportunities for this structure, once adopted, to change.

First, the basket structure could be revised to conform more closely to economic market segments, rather than to Part 69 categories. A structure of this kind would more effectively provide the price cap protection baskets and bands were intended to afford consumers.[53] At the same time, a structure that matched relevant markets more closely would be more adaptable to streamlined regulation, since competitive showings could be made on a basket basis. However, such a structure should not be adopted on a mandatory basis for all LECs. New measurement capabilities may be needed to implement a different basket structure, since demand must be tracked in order to construct the necessary indices. GTE recommends that the Commission adopt in this proceeding a second, optional basket structure. A price cap LEC should have a one-time option to recast its demand and prices into the alternative structure. GTE will discuss this alternative basket structure in more detail *infra*, in connection with its comments on the definition of relevant markets for streamlining.

Second, to the extent that the access rules are changed significantly in an access reform proceeding, there would be an opportunity to make further changes to the price cap basket structure. The recommendation proposed herein does not propose changes to the basket structure which would be associated with fundamental changes to the Part 69 rate structure.

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[53] *See SFNPRM* at ¶86.

GTE does not recommend that the Commission adopt rules in this proceeding that would adjust price cap baskets in response to showings of competition by the LECs. The mechanism for adaptive regulation should be simple and predictable; it should allow LECs to respond to competition; and it should ensure that customers in less competitive markets continue to be protected by price caps. The best way to accomplish these objectives is to remove relevant markets that are found to be competitive from price caps -- as the *Second Notice* proposes to do under streamlined regulation -- rather than to move services among baskets within price caps.[54]

III. THE COMMISSION SHOULD IMPLEMENT STREAMLINED REGULATION IN ACCESS MARKETS WHICH MEET COMPETITIVE CRITERIA.

GTE commends the Commission for tentatively proposing a system of adaptive regulation for LEC interstate access services. GTE has consistently advocated such a system,[55] since it would adjust the degree of regulation to match the degree of competition in LEC access markets. This approach clearly produces benefits where competition has developed by allowing LECs to compete vigorously in those markets. If structured correctly, this system will also provide benefits in markets where competition has not yet developed, by establishing clear expectations among the parties as to how regulation will adjust to competitive entry. This will allow both the incumbent and potential entrants to

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[54] *See SFNPRM* at ¶¶127-158.

[55] *See* GTE's Comments, CC Docket No. 94-1, filed May 9, 1994, at 41-44.

base their investment decisions on reasonable expectations concerning future prices. In order to achieve these benefits, a framework of adaptive regulation must be simple enough to administer and predictable in its outcomes.

A. Three dimensions should be used to define a relevant market.

As the *SFNPRM* recognizes (at ¶116), a relevant market encompasses commodities that are easily substituted for one another. GTE submits that there are three dimensions which should be used in defining a relevant market: geography, service and customer segment. The *SFNPRM* discusses the geographic and service dimensions, but does not deal with the customer dimension. GTE submits that the characteristics of end-user access customers affect the degree to which services are substitutable. Therefore, a relevant market should be defined as a set of substitutable services provided to a given customer segment, within a geographic area.

The Geographic Dimension

The *SFNPRM* correctly recognizes (at ¶116) that an access market is limited to a geographic area where access services are substitutable. For most access, it is not economic for customers to use supply in one geographic area as a substitute for supply in another area. Recognizing this, the *SFNPRM* asks (at ¶123) if the current pricing zones should be used to define the relevant geographic market for streamlined regulation. In its earlier access reform proposal, USTA proposed that wire centers be used as the unit of observation

for streamlining.[56] USTA contemplated that wire centers could be grouped into larger areas, but did not propose any constraints on how this should be done. In discussing *USTA's Petition*, the *SFNPRM* (at ¶126) expresses concern that using wire centers as the relevant market would cause too many separate markets to be defined, imposing a burden on the Commission.

The current zones are themselves simply groupings of wire centers. Therefore, in evaluating the Commission's proposal, two questions arise. First, are wire centers useful as building blocks to arrive at the relevant geographic area? GTE believes that wire centers are useful as building blocks to arrive at the relevant geographic area since LECs provide interstate access services on a wire center basis today.

Access services are identified in LEC access tariffs by wire center; ordered by wire center and rated based on wire center to wire center mileages. In addition, LEC ordering, billing, and demand tracking systems are based on wire centers. Therefore, much of the data that a LEC would use for a competitive showing would be collected by wire center. Further, wire centers are logical units for removal of services from price caps, since demand data for the construction of price cap indices would be available on that basis; and, LECs would be able to publish different prices or terms by wire center.

Other approaches suggested by the Commission (at ¶125), which are not based on current LEC operations, *e.g.*, counties, zip codes, Local Access and

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[56] *See USTA's Petition.*

Transport Areas ("LATAs"), and Metropolitan Statistical Areas ("MSAs"), do not have the practical advantages of wire centers.[57] Further, none of these units can be expected to correspond to a relevant market in all cases.

Second, given that wire centers are useful building blocks, are the current zones a reasonable way of grouping wire centers for the purpose of identifying relevant markets? GTE submits they are not.

Zones were created for a different purpose -- to approximate differences in cost by using differences in density. Zones appear to functioning as desired for this purpose. Yet, even a casual observation of zone maps clearly shows that zones do not meet the criteria for defining a relevant market set forth in the *SFNPRM*. As the *SFNPRM* recognizes (at ¶124), the zones present a "checkerboard" pattern. In some areas, a Zone 1 office will be surrounded by both Zone 2 and Zone 3 offices, which are clearly good candidates for inclusion in the same relevant market. Indeed, Competitive Access Provider ("CAP") networks already may be serving offices in adjacent, but differently classed, zones. Conversely, Zone 1 also may include other offices in different parts of the state, separated from one another by large distances.[58] Clearly, customers could not substitute alternative supply across these geographically separate areas. In

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[57] In fact, if another unit were chosen, it would be necessary to associate it with a wire center or set of wire centers in order to implement the plan.

[58] Attachment 3 is a map of GTE's serving areas in Indiana, which illustrates the points discussed here.

general, it would appear to be reasonable to expect that relevant geographic market areas would be contiguous.[59]

The *SFNPRM* (at ¶124) suggests that zone plans could be modified to conform more closely to relevant markets. GTE submits that it would be better to allow zones to do what they were designed to do -- capture cost differences -- rather than to modify them to meet another objective.

There is no obvious fixed geographic unit (*SFNPRM* at ¶125) that appears to correspond to a relevant market. As the Commission notes, LATAs or MSAs will generally be too large, and too heterogeneous, to provide useful definitions.[60] In many places, competition can be quite intense in a relatively small geographic area -- a downtown financial district or suburban office parks -- without encompassing an entire city, county, or LATA. Yet in other places, competitors already serve quite a large area. In the future, as competitors with more

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59 There may be exceptions to the contiguity requirement for some services. For these services, the facilities that provide the service need not be located in the area where the service is available. An example of this would be directory assistance. Directory assistance service typically provides information for a given set of Numbering Plan Areas ("NPAs"). These need not be contiguous, and the data base that provides the service need not be located in any of the areas served. The rationale for designating a group of wire centers as the relevant geographic market where this type service is available still applies, but in this case the wire centers do not need to be contiguous.

60 Another disadvantage of using MSAs is that they cover only a small part of the land area of the United States. Zip codes appear to combine the disadvantages of all the other alternatives. There are many of them; they vary greatly in size; they don not correspond to LEC operations in any way; and the necessary LEC data are not available by zip code.

ubiquitous networks (*e.g.*, cable companies) enter the access market, the areas subject to competition may be quite extensive.

What is needed, then, is not a fixed definition based on an existing unit, such as an MSA or a fixed set of wire centers, such as a zone. GTE proposes that the Commission establish a framework that allows the basic building block -- the wire center -- to be grouped to capture the relevant market in each area. This grouping may be small in some areas and large in others.

GTE proposes that the Commission should establish simple guidelines to govern how LECs could group wire centers to define the geographic dimension of a relevant market. GTE suggests that the Commission set two simple parameters to govern the grouping of wire centers. First, the serving areas of the wire centers in the group must be contiguous.[61] Second, each wire center area also must be touched by the area the LEC shows to be "addressable."[62] These parameters would allow a relevant market to be as small as a downtown financial area, or as large as an MSA -- but only if the market characteristics justified it. These rules would allow a LEC to expand the wire center group to the point where it included all of a relevant market -- subject to limits which would prevent inclusion of areas which were geographically distant, or where there were no competitive alternatives.

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[61] As noted *supra*, an exception to this requirement may be appropriate for a few services, such as data base or information services.

[62] The procedure for demonstrating addressability will be described *infra*. GTE will refer to the addressable area as the "footprint."

In designing these guidelines, the Commission must address the size of the grouping. If the group is too large, wire centers where no alternatives exist may be grouped with wire centers that are very competitive. If the group, as a whole, meets the criteria for streamlining, some wire center areas within the group will then lose price cap protection, even though customers there have no choices available.[63] If the group as a whole does not meet the criteria, then the LEC would be prevented from responding to competition in the area that is truly competitive, simply because the size of the relevant area has been misspecified. If the area is too small, it will not capture all of the relevant market. The LEC then would not be able to respond to competitors in that market on the basis of a single showing. This would create a burden for the LEC, a delay in responding to competition, and an administrative problem for Commission, since the LEC would be obliged to make many separate showings.

Given these rules for the grouping of wire centers, GTE believes that the use of the wire center as the unit of observation will not lead to an unreasonable number of competitive showings. GTE estimates that, during the first two years of the plan, showings would be submitted for no more than 80 to 100 areas. This number of showings should be manageable, especially if the criteria and

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[63] Note that the test should be applied to the group as a whole. If it were applied to each wire center in the group separately, the purpose of grouping would be lost, and the plan would become difficult to administer.

support requirements for the showings are designed to make the process simple.[64]

The Service Dimension

The *SFNPRM* seeks comment (at ¶118) on whether the price cap baskets' subcategories should be used as the relevant markets for streamlining services. GTE agrees that relevant markets should have a service dimension, and this dimension could be related to the price cap basket structure. However, the current price cap structure is based to a large degree on the Part 69 rate element structure, which is excessively prescriptive and in need of reform.[65] Since the LEC price cap plan was first adopted, subsequent Commission decisions have added subcategories to the price cap basket structure. In general, the current price cap subcategories are too small to define unique relevant markets, since in many cases the services in one subcategory will be cross-elastic with services in another subcategory. In some cases, the rates in several categories apply to the same demand. An example would be the CCL, RIC, and local switching charges.

GTE recommends two proposals that could be implemented in this proceeding to assure development of more reasonable service dimensions for

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[64] It is also likely that the first few showings LECs submit will be controversial, but that subsequent showings will become less so as precedents are established as to how such showings will be reviewed.

[65] A comprehensive access reform proceeding revising the Part 69 structure would also lead to simplification of the price cap basket structure.

the definition of a relevant market. First, the Commission should simplify the current price cap basket and subcategory structure. Under the new structure, there would be fewer subcategories. Price cap LECs should have the option of making a competitive showing for one or more of these subcategories, within a relevant geographic area. Second, the Commission should establish logical service groupings which would include all substitutable services and would not be limited by subcategories. As GTE will describe *infra*, these logical service groupings may differ depending on the customers served. The logical service grouping could then be combined with the geographic and customer dimensions to define a relevant market. Price cap LECs should have the option of making a showing for one or more of these relevant markets, each of which would comprise a group of substitutable services provided to a given customer segment within a relevant geographic area.

This option would establish a relevant market that would more accurately reflect the substitutability of services. In addition, this approach would make the plan easier to administer because these logical service groupings would be less numerous than price cap subcategories, thereby minimizing the number of separate showings the Commission must review for each geographic area. As explained *infra*, relevant markets should be defined with a combination of dimensions – geographic, service and customer.

The Customer Dimension

The opportunity to substitute access services for one another may vary, depending on the characteristics of the end-user location. These differences

should be considered in defining a relevant market -- that is, each relevant market should have a customer dimension. In order to deliver traffic to or from a large business customer, an IXC may choose to purchase switched access from the LEC, or it may establish a direct connection between the end-user's location and its Point-of-Presence using its own facilities or using special access facilities purchased either from a LEC or an alternative provider.[66] In any case, the service ultimately provided to the end-user is switched interexchange service.[67] For these large end-user locations, special access and switched access are close substitutes. However, for an end-user that generates only a small volume of interstate traffic, special access may not be a feasible alternative to switched access, because the customer's traffic volume is insufficient to justify a special access service.[68]

If a special access direct connection is established for a large end-user, that end-user still retains the option of purchasing local dialtone service from a

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66 This access will most often be ordered by the IXC, but may be ordered directly by the end-user. In either case, it is the end-user's volume, rather than the identity of the IXC, that primarily determines the opportunity to substitute special access for switched access.

67 Interexchange services based on switched access include MCI's Friends and Family and AT&T's Message Telecommunications Service ("MTS") and some Pro-WATS options. Switched interexchange services based on special access include Megacom. The function provided to the end-user is nearly identical, and these services are highly substitutable for one another.

68 Smaller volume customers may have opportunities to utilize special access when they are located in such a way as to facilitate the aggregation of traffic from several such customers. This may occur in a multi-tenant building, an industrial park, or a university campus.

LEC or competitive provider.[69] For large end-users, the choice of an access provider is separable from the choice of a local service provider. In contrast, a small end-user is more likely to use the same network facility for both local service and interstate access, since it would be economically difficult to justify a separate link for access alone. For these small customers, the choice of local service usually is not separable from the choice of access service.

For similar reasons, large and small end-users may have different alternative sources of supply open to them. For example, suppose that a CAP offers fiber-based high capacity services throughout a geographic area. The CAP naturally will target customer locations large enough to justify a high capacity service. Therefore, large end-users will have a substitute available for both LEC special and switched access services. However, a small customer, located in the same area, may not have any access alternative available, either because the CAP does not serve small customers or because the CAP's high capacity service would not be economical for those customers. If the alternative access provider is a cable company or a Personal Communications Services ("PCS") provider, then the substitution opportunities may be similar for both small and large end-users. Such carriers may offer local dialtone, switched access, and special access to both small and large volume end-users.

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[69] Of course, if the special access provider is also a dial-tone provider, both services may be obtained from the same carrier.

Because the end-user volume of interexchange traffic affects the availability of alternatives and the substitutability of those alternatives, GTE proposes that customer size should be one of the dimensions that defines a relevant market.[70] In general, large end-users will have an alternative available when a CAP offers service in an area. This alternative would be substitutable for either LEC switched or special access. For these customers, the availability of local exchange alternatives would not be a necessary condition for the availability of access alternatives. Small end-user locations also will have alternatives available when a provider of local exchange service, such as a cable company or PCS provider, offers service in an area.

B. The relevant market should be based on a combination of geographic, service and customer dimensions.

A relevant market should be based on a combination of the three dimensions described *supra*. It would represent a logical grouping of substitutable services provided to a given customer set in a given geographic area. Once a LEC has made a showing that the competitive criteria have been met for that market, streamlined regulation should apply to all services within that market. In all cases, the geographic dimension would be a grouping of wire center areas, following the guidelines discussed *supra*. The service dimension could be a single service category, or a logical grouping of substitutable services,

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[70] Again, this is not meant to suggest that the end-user would be the customer of record for the access services provided to a given end-user location. In most cases, an IXC would be the access customer.

that generally would include services from more than one service category. In some cases, when customer size does not affect substitution opportunities, no purpose would be served by distinguishing among the customers to whom service is provided in a geographical area. The customer dimension then would simply be all customers that purchase the service. However, it often would be useful to distinguish between service provided to large end user locations and the same service provided to small end user locations.

In principle, a LEC should be able to select the combination of the three dimensions to define a relevant market. The LEC would have to explain why the combination chosen is reasonable. However, the Commission can simplify this process by recognizing, when it establishes its adaptive framework, certain logical groupings of the three dimensions. When a LEC chooses to make a showing based on one of these recognized "standard" groupings, it should not have to justify its choice of the relevant market. This would greatly simplify the administration of the adaptive framework by minimizing contention over the market definition which would otherwise occur for each showing. At the same time, a LEC could justify a different grouping of the three dimensions, if necessary, to capture the conditions in particular markets.

Taking the three dimensions together, the simplest relevant market would include the services in a single service category, for all customers that purchase these services, within a specific geographical area. In addition, GTE suggests recognition of several additional "standard" groupings. A service category is generally too small to define a relevant market. Further, a customer's

opportunity to substitute services across categories depends in part on the customer's size. There is a natural interaction between the service dimension and the customer dimension, and certain basic combinations of these two dimensions, combined with the geographic dimension, would usefully define a relevant market.[71]

Specifically, GTE proposes three examples of logical groupings which should be recognized as defining a relevant market. The first grouping is the interoffice transport market. If alternative carriers can address a LEC's wire centers in a geographic area, then interoffice transport to and from these addressable offices have substitutes available. Therefore, a single showing should apply to this segment. Since interoffice transport comprises aggregated traffic from both large and small end-users, the customer dimension for this market would simply be all customers in the wire center that generate transport demand.[72]

The second logical grouping is the large customer market. If alternative carriers can address a sufficient proportion of the large end-users within a geographic area, then a single competitive showing should apply to all

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[71] GTE refers to a logical combination of the service and customer dimensions as a "market segment."

[72] This segment would include all interoffice special access transport, and dedicated switched transport. Subject to a showing with respect to the availability of tandem signaling, it also would include tandem-switched transport and tandem switching. *See* discussion of competitive showing *infra*.

substitutable services provided to these end users. This would include special access channel terminations, as well as local switching and CCL charges applying to traffic originating from or terminating to those customers' locations.[73] This logical grouping would reflect the fact that switched and special access arrangements are substitutable for one another when the end user is a large customer.

The third logical grouping is the small customer market. If alternative carriers can address a sufficient proportion of small end-user locations within a geographic area, then a single competitive showing should apply to all substitutable services provided to and from those locations. This would include local switching and CCL charges applying to traffic originating from or terminating to those locations.[74]

GTE's proposal would allow the Commission to establish in advance "standard" definitions of relevant markets. These recognized groupings would capture the substitutability of services more accurately than it would be possible

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[73] It also would include any interoffice special access associated with large customers. It is likely that if a sufficient number of large end user locations in the area can be addressed, that the wire center itself can also be addressed. Thus, switched interoffice transport should also be included when a LEC does a large customer showing.

[74] If alternative carriers address wire center locations, large end-users, and small end-users in the geographic area, then a LEC may be able to make a single showing which would include all three of the market segments defined here. It is most likely that all three markets will be addressable if a ubiquitous local service provider is operating in the area. It is possible, however that a cable network, for example, could address most residence customers in area, but only a smaller proportion of business customers.

to do by defining relevant markets purely on the basis of service categories. Since services would be grouped broadly across several categories, the use of these definitions would reduce the number of showings the Commission would have to review. By recognizing certain "standard" groupings in advance, the Commission could greatly reduce the number of disputes over market definition that would otherwise arise in the context of individual showings. At the same time, the approach would be flexible enough to accommodate market definitions which, for good reason, do not fit the "standard" mold.

C. The Commission should permit LECs to opt for a different price cap basket structure.

GTE proposes a definition of relevant markets that is compatible with the structure of price cap baskets and categories outlined *supra*. If a LEC justifies a showing for a price cap service category, that category should be removed from price caps for the given geographic area. If a LEC justifies a showing for one or more of the "standard" market definitions proposed here, that combination of services should be removed from price caps -- again for a geographic area. In most cases, this would involve some or all of the demand from several service categories. For example, in the case of the large customer market, it would involve removing the demand associated with large end-users from the local switching and CCL categories.

However, an alternative price cap basket structure could be structured to align the price cap baskets and service categories more closely with market segments. This alternative structure is displayed in Attachment 2. It would

establish baskets for Transport, Large Customer, Small Customer, Interexchange, Video Dialtone and Other.

The Large Customer basket would include switching and common line elements for services provided to and from large end users. The Small Customer basket would include the same elements for service to and from small end-users. The Other basket includes the elements which would comprise the Information and Data Base service categories included in the Switching basket as GTE proposes *supra*. GTE proposes that price cap LECs should have the ability to recast their demand and prices into this alternative basket structure. This alternative basket structure would simplify the process of streamlined regulation by allowing LECs to remove groups of service categories from price caps. These categories would be more closely aligned with the "standard" market definitions for which LECs could make showings.

The alternative structure would focus price cap protection separately for each market segment. For example, the prices for services provided to small customers would be capped independently of the prices for services provided to large customers. This means, for example, that a price reduction or discount offered for services in the Large Customer basket would not create any "headroom" which would allow a LEC to raise rates to smaller customers, since those customers' services would be in a separate basket. The Commission adopted a similar basket structure in its price cap plan for AT&T, grouping the

services provided to residence and small business customers in one basket and those provided to larger businesses in another basket.[75]

However, GTE recommends that this alternative basket structure be optional. Because the alternative structure represents a significant change, it should not be imposed on all LECs as a condition for adopting price cap regulation. Many LECs currently do not have the capability of measuring large and small end-user demand separately, which would be necessary in order to implement the optional structure. Further, for those LECs that choose to make their competitive showings on the basis of price cap service categories, the effort of changing to the alternative price cap basket structure may not be justified.

D. The Commission should establish criteria to serve as triggers for streamlined regulation.

The *SFNPRM* seeks comment (at ¶133) on criteria to determine when the services in a relevant market should be removed from price caps and afforded streamlined regulation. The criteria should provide an indicator that the LEC has lost market power to such an extent that price cap regulation is no longer necessary to protect consumers.

Drawing on its experience in analyzing AT&T's markets, the Commission outlines four areas in which such indicators might be developed – supply

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[75] *SFNPRM* at ¶131. The *SFNPRM* notes that LEC access services are primarily wholesale services, while AT&T's interexchange services are primarily retail in nature. However, GTE points out that the ability to substitute one access service for another is influenced more by the characteristics of the end user location than by those of the IXC.

responsiveness, demand responsiveness, market share and pricing behavior. GTE agrees that the Commission's previous experience with AT&T is useful in evaluating LEC markets. However, there are several important differences between access markets and interexchange markets. For this reason, even though much of the basic framework is useful, the specific application would be quite different,

Further, the *Second Notice* seeks to establish an orderly framework to do what the Commission has previously done on an *ad hoc* basis for AT&T. In part, this is the result of learning by doing. Also, it reflects, in part, a recognition that because LEC access markets are more numerous, the assessment of market power must be simple enough to be applied repeatedly. Thus, the criteria should be based on indicators of market power, rather than on attempts to measure it precisely, which would be the subject of debate every time a showing is proposed.

1. Addressability should be the indicator of supply responsiveness.

A crucial determinant of market power is the elasticity of alternative supply of a substitutable service.[76] The *SFNPRM* (at ¶141) proposes that relative

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[76] If customers regard the alternative service as a close substitute, the elasticity of alternative supply will generally determine the firm elasticity of demand faced by the incumbent LEC. If no alternative is available, the firm demand elasticity will be low, and will approximate the industry elasticity for the service. If an alternative is available, the firm elasticity will generally be high. For these reasons, GTE believes that supply responsiveness, as

supply capacity should be used as an indicator of the elasticity of alternative supply. The competitors' capacity to offer alternatives to customers in the relevant market in an indication that the market should be subject to streamlined regulation. This conclusion is consistent with the Justice Department's *Merger Guidelines*, which suggest that, for markets with the characteristics of the interstate access market, relative capacity is the appropriate measure of market power.[77]

The issue, then, is what indicator should be used to evaluate LEC competitors' capacity to supply access markets. The *SFNPRM* seeks comment (at ¶139) on the appropriate supply measure and discusses addressability – the measure proposed in *USTA's Petition*. GTE believes that addressability is the appropriate indicator of supply elasticity.

In its evaluation of the interexchange market, the Commission considered aggregate measures of capacity for AT&T and its competitors.[78] This was reasonable in the context of the interexchange market, because the

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measured by addressability, is the most important indicator of market power.

[77] "Physical capacity or reserves generally will be used if it is these measures that most effectively distinguish firms." U.S. Department of Justice, *Merger Guidelines*, June 1984 at 25-26. In the *Guidelines'* terms, this is the case in markets where products are relatively homogeneous and product differentiation is not strong – as is the case in the wholesale market for access.

[78] *See SFNPRM* at ¶140.

interexchange market is a single national market and interexchange supply capacity is fungible to a certain degree among routes.

GTE does not recommend this approach for access markets. It would be burdensome to collect data on relative units of capacity placed by each access competitor. It also would be necessary to perform these analyses for every access market, not one single national market; and it would be difficult to compare capacity measures of different technologies. Even if it could be done, this measure would not be useful as it would only reflect the total cross-section of capacity available, not the competitors' ability to use that capacity to reach customer locations. Most access competition comes from carriers using technology which, once placed, has a very high level of capacity.[79] In several access markets today, CAPs already have enough capacity to serve the entire market. GTE submits that the Commission should not attempt to measure units of capacity, but should assume that a facilities-based competitor has sufficient capacity to serve the markets it can reach.[80]

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[79] Fiber facilities can easily be upgraded to higher capacity levels by changing the electronics. Further, initial installation of a digital switch puts in-place the software and the majority of the hardware that would be required to serve the switch's maximum line capacity. Only minor hardware additions are required to expand the initial line capacity. In many states, a local competitor is able to serve most of the state using a single switch.

[80] There may be cases where exceptions would have to be made. For example, if a LEC based a showing for the small customer segment entirely on the presence of wireless competitors, it might be reasonable for the Commission to ask for evidence that these firms could supply a substantial portion of the market.

The most significant limitation on a competitor's ability to supply a customer is its ability to reach the customer.[81] Therefore, the most reasonable measure of the proportion of demand in an access market that competitors have the capacity to serve is the proportion they have the ability to reach -- this is addressability.

The *Second Notice* draws a distinction (at n.207) between addressability and supply elasticity. As the *SFNPRM* notes, addressability considers demand which a provider could serve on request by extending its facilities. For this reason, addressability is a conservative measure. The *SFNPRM* correctly points out that supply elasticity includes additional capacity that could easily be added by competitors and new entrants as prices rise. Addressability will capture some of this capacity, depending on the assumptions that underlie the development of an addressability measure. In essence, this depends on how the addressability measure defines the market to which a competitor will extend its facilities. The dividing line the SFNPRM draws between capacity in-place and potential capacity is analogous to the dividing line between addressability and contestability. Any real-world measure of addressability will include some potential capacity.

In recent LEC examples of addressability showings, the analysis has focused on specific alternative facilities that the LEC had identified through its

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[81] Note that the availability of LEC facilities on an unbundled basis gives access competitors another way to reach the customer.

market research. The area in which a customer could obtain service from the competitor (the "footprint") was estimated based on assumptions regarding the distance the carrier would be willing to extend facilities from its existing backbone network. In this approach, the only "potential" capacity measured is the minimal extension assumed from the backbone network. However, GTE does not propose that addressability showings generally should be done in this manner. This method places a burden on the LEC to discover the location of competitors' facilities. Further, since the LEC will not have full knowledge, the showing will tend to underestimate the addressable area.

Instead, GTE proposes that access providers should be required to report the areas where they make their services available.[82] In developing the addressability measure, the LEC would use this area as the competitive "footprint." Under this method, the focus of the analysis would still be on facilities-based carriers, but it would not explicitly examine where the facilities are located. It would be based on the area where competitors offer to provide service. Instead of making assumptions about the competitor's willingness to extend facilities from a backbone network, it would operate on the assumption that, given demand, the competitor would extend facilities to support its offer of service.[83]

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[82] *See* discussion *infra*. *See also* USTA's Comments in the instant proceeding, Attachment 8.

[83] The mix between "actual" and "potential" capacity captured by the addressability measure will, therefore, depend on the choices the