give the correct rule for investment decisions by a firm facing competition.[9]

11. This calculation is not mere economic theory; it has long been observed that competitive firms use a "hurdle rate" for investments far beyond their estimated cost of capital.[10] These high observed hurdle rates had remained a puzzle for economics and finance specialists. However, taking the sunk and irreversible nature of most investments into account explains why competitive firms use hurdle rates which exceed the cost of capital by such large amounts. TSLRIC calculations that assume certainty give a very biased calculation because they ignore the fundamental economic uncertainty which has such a large effect on sunk and irreversible investments. To quote Ingersoll and Ross (1992):

> "Perhaps what is most remarkable about the analysis of this article is the rather profound implication it has for the real world of investment decision making. It is simply no longer the case that investment decisions should be governed by the common NPV [net present value] rule....We should also note that our analysis provides a rather simple rationale for setting corporate rates above the cost of capital. With uncertain interest rates, an investment should not be undertaken until its projected rate of return is substantially in excess of its breakeven rate." (op. cit., pp. 27-28)

TSLRIC which is built on the NPV rule is clearly wrong for long-lived sunk and irreversible investments such as those made in telecommunications networks.

12. The affidavit of Professors W. Baumol, J. Ordover, and R. Willig (BOW) submitted on behalf of AT&T correctly notes that incremental cost provides the correct standard for efficient economic outcomes. However they implicitly assume a world of complete certainty when they state, "Incremental cost represents the <u>additional</u> cost to society of producing a particular network element or service..." (p. 4). But in an uncertain world, risk always exists and someone must bear the non-diversifiable risk. BOW neglect to account for uncertainty and the cost of bearing the large degree of risk which is inherent in sunk investments. Indeed, it can be demonstrated through economic analysis that investment decisions which take account of the increased risk with sunk

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[9] This calculation is an approximation because it combines two different factors, and a change in δ affects the calculation for β_1 which in turn affects the calculation for m.

[10] Summers (1987) in a survey of firms found mean and median hurdle rates to exceed the cost of capital by a factor of between 2 and 10.

investments and uncertainty are socially optimal. By assuming away uncertainty and not discussing the free option that they would give to CLECs (and which Ingersoll and Ross (1992) demonstrate is very valuable), BOW are not capturing all of the costs imposed on the ILECs by the CLECs.[11] Thus, their recommendation leads to economic inefficiency and a socially sub-optimal outcome.

B. Efficient Entry Decisions

13. The DOJ claims that a second advantage of a pricing standard based on TSLRIC is the "creation of the 'right' investment incentives for competitive facilities-based entry" in terms of the "entrant's 'make or buy' decision with respect to network elements (DOJ, p. 29). The DOJ is again incorrect because it has failed to take account of the effect of sunk and irreversible investment together with uncertainty The typical rule based on certainty or no sunk costs says to invest if the operating cost plus the cost of capital is less than the price: $C + rI < P$ or equivalently $(P - C)/I > r$. However, suppose future demand is uncertain so that future price is also uncertain. If you invest in a sunk and irreversible capital good and the price decreases sufficiently, you can be left losing money because the capital good cannot be used elsewhere. Thus, for sunk investments one expects a firm to have a rule of $(P - C)/I > mr$ where $m > 1$. Now TSLRIC sets the cost equal to $C + rI$ so it sets $m = 1$, which is incorrect. The size of m depends on underlying economic factors and the amount of uncertainty as before, but as the above calculations show, m can be quite large.[12]

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[11] An example may clarify this situation. Suppose that a customer of microprocessors approaches a manufacturer and wants to negotiate a price for a custom made chip which will require a dedicated sunk cost investment whose economic lifetime is 10 years. Under usual competitive situations, if the customer commits to buy a guaranteed number of chips over the next 10 years, the price will be much lower than if the customer only commits to buying the chips for 1 year. BOW's description of the basic principles of estimating TSLRIC (pp. 9-13) would lead to the same estimate regardless of whether the contract was for 1 year or 10 years. However, the efficient economic outcome and the price will very much depend on the contract terms of which party, in fact, does bear the risk. Thus, BOW's neglect of uncertainty is contradicted by actual market outcomes and does not correspond to economically efficient outcomes that are observed in competitive markets.

[12] Dixit and Pindyck (1992, p. 260) explain the entry decision: "If competitive firms adopted the rule of entering when the price reached P_0 [equivalent to the TSLRIC set price], they would earn a normal return only at those instants when entry was taking place--they would earn lower return at all

14. Thus, contrary to DOJ's claim, TSLRIC-based network element prices will set too low a signal for facilities-based investment. The new entrant, which also must account for sunk investment and uncertainty, will buy too much from the ILEC which reduces productive efficiency if the new entrant could have done the investment more efficiently.[13] Society's resources will be wasted.

15. Again, I point to two real world economic outcomes which this theory explains. When the US dollar exchange rate rose rapidly in the early 1980's, economists were puzzled that foreign imports to the US or investment in manufacturing capacity in the United States did not increase as quickly as economic theory would have predicted. According to purchasing power parity (PPP) calculation, the dollar was highly over-valued. However, when Baldwin and Krugman (1989) took account of sunk costs of manufacturing investment and uncertainty, they realized that a significant premium to the investment cost had to be taken account of, because the exchange rates could certainly decrease as well as increase. Similarly, for exit decisions from an industry, outdated economic theory says that a manufacturer should shut down if its variable costs exceed the price of the product. Yet, during recessions we see, for instance, that Ford continued to make cars despite suffering enormous losses (not accounting for depreciation). The explanation arises because Ford has tremendous sunk costs in its manufacturing plant and even more important sunk costs in its dealer network and reputation and name recognition with consumers. If Ford had shut down in 1982, much of this sunk investment would have been lost if Ford later decided to re-enter the industry. When demand increased again, Ford would have to make many new sunk investments to restart its operation. The modern economic theory of sunk costs and investment explains why Ford did not shut down.

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other instants. The average return over time would then be insufficient to justify the initial investment expenditure."

[13] BOW's discussion of entry decision and make-or-buy decision (p. 5) is correct when they say the expected costs of expansion or entry are compared to the expected incremental revenue. But with uncertainty the expected cost must contain a component which reflects the uncertainty combined with the sunk cost investment. TSLRIC does not capture this uncertainty, but instead assumes a certain outcome.

The IXCs and DOJ make no mention of the sunk-cost effects in their argument for TSLRIC. This neglect of modern economic analysis causes them wrongly to claim that TSLRIC prices will lead to efficient entry decisions. In actuality, TSLRIC set network element prices will lead to too little facilities based entry and will lead to lost economic efficiency and a waste of society's resources.

C. The "Competitive Market" Standard

16. The DOJ (pp. 28-29) advances a "competitive market" standard for the provision of network elements to new entrants, CLECs. However, the DOJ adopts the perfect information and no uncertainty approach to competitive markets and ignores sunk costs. Thus, DOJ's advice is similar to a perfect competition type of outcome. It is important to recognize that no network industry ends up anywhere close to this outcome of perfect competition. Sunk costs and externalities which arise from networks ensure that the perfect competition outcome will not occur. Highly imperfect competition is the expected outcome--e.g. airlines in transportation, ATM networks in banking, credit payment networks, and operating systems for computers (where applications must interconnect). To attempt to impose a theoretical ideal through regulation, on a real word situation in which the ideal cannot occur because of technology, leads to inefficient economic outcomes.

17. The Telecommunications Act of 1996 establishes other factors which will make telecommunications depart even more from how even an imperfectly competitive industry typically operates. None of the industries discussed above has a universal service obligation, e.g. Microsoft is not required to make certain that 95% of residential customers have a computer and use Windows. Similarly, no airline is required to provide cross subsidies to residential customers by pricing below cost. No airline is required by Congress to charge the same amount for a 200 mile flight as for a 2000 mile flight (rate averaging). Nor are banks required to provide free service to a given group of customers as ILECs are required to do for information service providers. Thus, the "competitive market" ideal, in terms of perfect competition, is far from the actual situation, especially as applied to local exchange service obligations of

ILECs. As an economist, I certainly favor increased competition in telecommunications. However, a realistic view of the competitive structure engendered by the technology and regulatory and legislative obligations imposed on the ILECs provides the economic constraints under which the industry operates. The DOJ assumes away these economic constraints in its policy recommendations. Neglect of these real world policy considerations is not the correct approach.

18. Similarly, the Hatfield model submitted by MCI assumes a "start from scratch" world where technology has never changed, no uncertainty exists, and no firm ever made an investment without correctly predicting how technology would change. However, in the real world of uncertainty and asymmetric information companies do make mistakes. For example, the 1982 AT&T prediction that by the year 2000 only 1 million cellular subscribers would exist and the 1985 decision by MCI to sell off all of its cellular spectrum at about $25 per pop were both multi-billion "mistakes" Yet, the Hatfield study does not allow for these "mistakes", and instead says that the new entrants should get all of the benefits of uncertainty. Thus, Hatfield wants the ILECs to bear all of the risk and the CLECs to get all of the rewards of uncertainty.

19. Under this situation, the ILECs' incentive will be to invest too little and the 1996 Act's explicit goal "to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services to all Americans" will not occur. Correct investment incentives must take account of the technological uncertainty and the sunk costs of investment to provide the correct economic incentives for ILECS and new entrants to invest.[14]

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[14] The Hatfield study's reliance on TSLRIC is incorrect for the same reasons that the IXC's and DOJ's reliance is incorrect. Further, the Hatfield study proposal would not allow for recovery of joint and common costs which the DOJ does recognize should be recovered by the ILECs.

29 May 1996

Jerry A. Hausman

Subscribed and sworn to before me
this 29th day of May, 1996.

Notary Public

My Commission Expires: July 3 1998.

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PART XX

IMPLEMENTATION OF LOCAL COMPETITION

Subpart A – General

XX.001 Purpose. The purpose of the rules in this part is to specify the guidelines to be followed by States and telecommunications carriers, local exchange carriers (LECs) and incumbent local exchange carriers (ILECs) in meeting the obligations of §§ 251 and 252 of the Telecommunications Act of 1996 and to promote facilities-based competition in the provision of telephone exchange service and exchange access service.

XX.002 Definitions. For purposes of this part—

(a) UNBUNDLED LOCAL LOOP.—Unbundled local loop means the transmission path from a point of interconnection determined by the ILEC in the serving central office to the appropriate demarcation point, on an individual customer's premises.

(b) SWITCHING PORT.—Switching port means the physical connection between the loop and the switch. In providing connectivity to switching associated with telephone lines and numbers, line-to-line switching capability, line-to-trunk switching capability, and inter-local switch connectivity, such term does not include vertical services such as custom calling or switching capacity.

(c) BONA FIDE REQUEST.—Bona fide request means—

(1) A request that identifies: (A) the specific point(s) of interconnection sought; (B) any desired interface and other technical specifications; (C) the date when interconnection is desired; (D) the projected quantity of interconnection points ordered with a demand forecast; and (E) any desired changes in LEC operations or procedures.

(d) TECHNICALLY FEASIBLE.—Technically feasible for interconnection purposes means the point of interconnection which—

(1) is defined by an interface that can be disclosed, ordered, provisioned, maintained and billed for without unique or special handling;

(2) affords non-discriminatory access that can be managed without undermining network reliability, increasing the risks of physical damage, service impairment, service degradation, or service outage, or creating a hazard to customers or operating personnel;

(3) can be achieved in a manner that is consistent with applicable industry standards and protocols for equipment intended for the specific environment in which it is located (e.g., Central Office, Outside Plant, etc.), consistent with the standards the ILEC applies to itself; and

(4) meets by means of physical and/or logical interconnection the service and security needs of interconnectors, the ILEC network, and the public.

(e) INCUMBENT LOCAL EXCHANGE CARRIER.—Incumbent local exchange carrier (ILEC) means a carrier that on February 8, 1996, provided telephone exchange service in a State and either: (A) on such date was a member of the exchange carrier association; or (B) is a person or entity that became a successor or assign of a member described in clause (A). If a local exchange carrier has offered telephone exchange service in a State for three years, such carrier shall be considered an incumbent unless the State determines that such designation is not in the public interest. A local exchange carrier may also be considered an ILEC if: (A) such local exchange carrier occupies a position in the market for telephone exchange service within an area that is comparable to the position occupied by a carrier described above; (B) such local exchange carrier has substantially replaced an ILEC described above; or

(C) the State determines that such designation is in the public interest.

(f) TELECOMMUNICATIONS CARRIERS.—The term "telecommunications carriers" shall have the same meaning as in Section 3 of the Act [47 U.S.C. § 3 44)].

Subpart B — Duties Imposed by § 251(c) on "Incumbent Local Exchange Carrier"

(ILEC)

XX.101 Interconnection.

(a) Each ILEC shall provide to requesting telecommunications carriers interconnection with such ILEC's network at any technically feasible point for the transmission and routing of telephone exchange service and exchange access, at rates, terms, and conditions that are just, reasonable, and non-discriminatory. Such interconnection shall be at least equal in quality to that provided by the ILEC to itself, any subsidiary or affiliate, or any other party. For purposes of this subpart, equal in quality means the same or equivalent interface specifications, installation, and repair intervals.

(b) Physical and/or logical interconnection points must meet the service and security needs of interconnectors, the ILEC network, and the public.

(c) An ILEC's obligation to consider a request for interconnection should begin with the submission of a bona fide request (BFR).

(1) A BFR shall include a commitment either to order the item(s) requested in the quantity requested, or to pay the ILEC's costs of processing the request.

(2) Requesting telecommunications carriers should be permitted to cancel BFRs at any time, but at a minimum should compensate the ILEC for reasonable costs incurred through the date of cancellation.

(3) ILECs should promptly advise requesting carriers of the need for additional information. Once necessary information is received, the incumbent should then

promptly process and analyze the request, and notify the requesting carrier of the results within 90 days of such request. The analysis should include whether the request is technically feasible. If the request is technically feasible, the ILEC should proceed promptly to develop the requested services, determine their availability at the requested point, determine the applicable prices, and establish estimated installation intervals. To the extent that the request is not technically feasible, the ILEC should notify the requesting carrier as soon as possible, and should promptly provide a written report setting forth a detailed basis for this conclusion.

(4) ILECs shall be authorized to recover the costs of any investment required or expenses incurred to provide the requested interconnection.

XX.102 Collocation.

(a) Each ILEC has the obligation to provide physical collocation of equipment necessary for interconnection or for access to unbundled network elements at the premises of the local exchange carrier pursuant to and in accordance with the requirements set forth in this subpart.

(b) ILECs shall provide for physical collocation of equipment necessary for interconnection between ILECs and competitive local exchange carriers (CLECs) except that such ILECs shall offer virtual collocation instead of physical collocation, upon a finding by the relevant State commission, that physical collocation is not practical for technical reasons or space limitations.

(c) Physical collocation shall be deemed not practical, for technical reasons or space limitations, at an individual central office, if that office lacks physical space to accommodate physical collocation or if such space available for physical collocation has been exhausted.

(d) For the purposes of this subpart, physical collocation means the ability of requesting telecommunications carriers—

(1) to place their own equipment necessary to terminate basic transmission facilities within or upon the ILEC's central office buildings; and

(2) to use such equipment to connect their own fiber optic systems, microwave radio transmission facilities, or other network facilities (where reasonably feasible) with the ILEC's equipment and facilities.

(e) The duty to provide physical collocation does not require an ILEC to provide such arrangements by means of tariff or provide averaged rates for such arrangements.

(f) The locations where ILECs should be required to permit collocation are: central offices, tandem switch locators and remote switching nodes that serve as switching points for switched transport (subject to space availability).

(g) Nothing in this subpart shall prohibit an ILEC from offering virtual collocation if the CLEC so requests.

XX.103 Unbundled Network Elements.

(a) Each ILEC shall provide to requesting telecommunications carriers, for the provision of telephone exchange and exchange access services, non-discriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms and conditions that are just, reasonable, and non-discriminatory.

(b) A network element obtained under this subpart may be used by the requesting telecommunications carrier, in combination with its own facilities, only to provide a telephone exchange and exchange access service, including obtaining billing and collection, transmission, and routing, of the service.

(c) Upon request, all ILECs shall provide to requesting telecommunications carriers for purposes of providing a telephone exchange and exchange access service—

(1) local loop transmission from the central office to a customer's premises, unbundled from local switching or other services;

(2) local transport from the trunk side of the wireline local exchange carrier switch, unbundled from switching or other services;

(3) local switching port unbundled from local loop transmission; and

(4) databases and signalling necessary for call routing and completion.

(d) An ILEC is required to provide a network element only if the requesting telecommunications carrier establishes that its failure to obtain such network element would impair its ability to provide the telecommunications services involved. For purposes of this subpart, impair means that the function, features, capacity or information involved cannot otherwise be provided by the requesting carrier, or obtained from another source or existing services of the ILEC including access or resold services, and the failure to obtain the network element would materially diminish the quality of such telecommunications service.

(e) In the case of proprietary network element, an ILEC is required to provide unbundled access to such element only if the requesting telecommunications carrier establishes that access is necessary for the requesting carrier to provide a telecommunications service. For purposes of this subpart, necessary means that the requesting carrier could not provide the telephone exchange and exchange access service without access to such proprietary network element.

(f) For purposes of this subpart, a network element is an unbundled facilities or equipment that the ILEC uses to provide telecommunications service to its customers. A network element can be unbundled features, functions, and capabilities, including access to numbers, databases, signaling systems, (for

SS7 at the signal transfer point) and information provided by or in such facilities or equipment, of the ILEC.

(g) Network elements do not include any service defined as a telecommunications service under the Telecommunications Act of 1996.

(h) Unbundled network elements shall include:

(1) Local loop transmission (or local loop) between an ILEC's end office and the premises of the LEC's end user, unbundled from local switching and other services. Telecommunications carriers ordering unbundled local loops can connect to the local loop via a cross connect provided by the ILEC from its main distributing frame, or other designated frame or point of demarcation, to the requesting carrier's transmission facilities terminated in the ILEC's office through a collocation arrangement pursuant to § 251(c)(6) of the Telecommunications Act of 1996.

(2) Local transport from the trunk side of the ILEC's local switch in such LEC's end or tandem office, unbundled from switching and other services. Unbundled local transport can generally be connected through arrangements included within existing expanded interconnection services under the Commissions access rules and applicable LEC access tariffs.

(3) Local switching, unbundled from the loop. Telecommunications carriers ordering unbundled local switching can connect to the ILEC's local switching through a port, which provides access to the capabilities derived from the ILEC's local switch, including local usage and other capabilities that can be ordered in conjunction with the port on an unbundled basis. The requesting telecommunications carrier can connect to the port at a frame or other point of demarcation designated by the LEC via a cross connect provided by the LEC to the requesting telecommunications carrier's transmission

facilities terminated in the ILEC's office through a collocation arrangement pursuant to § 251(c)(6) of the Act [47 U.S.C. § 251(c)(6)].

(i) ILECs shall not be required to provide access to unbundled network elements for the purpose of enabling interexchange carriers to originate and terminate interexchange traffic.

XX.104 Pricing of Interconnection, Collocation, and Unbundled Network Elements.

(a) ILECs shall be permitted to recover the total costs of providing any service or network element under this subpart.

(b) For the purposes of this subpart, total costs include long run incremental, joint and common costs, and embedded costs, and a reasonable profit.

(c) For the purposes of this subpart, non-discriminatory shall mean the absence of unreasonable discrimination.

XX.105 Resale

(a) Subject to reasonable and non-discriminatory restrictions as States may permit, each LEC has the duty not to prohibit, and not to impose any unreasonable or discriminatory limitations on, the resale of its telecommunications services.

(b) Subject to reasonable and non-discriminatory restrictions as States may permit, each ILEC has an obligation to offer for resale, at wholesale rates, any telecommunication service provided by such carrier at retail to subscribers who are not telecommunications carriers.

(c) The resale obligation applies only to transmission based telecommunications services.

(d) States may prohibit—

(1) cross selling of telecommunications services including the selling of residential service to business subscribers;

(2) the resale of promotional, discounted or special packaged offerings;

(3) the application of resale to market trials;

(4) the resale of services that are no longer available to the public, but are offered to a limited class of pre-existing customers;

(5) the application of resale to customer specific contract arrangements offered to meet competitive bids; and

(6) the application of resale to individual contract arrangements.

(e) Wholesale rates shall be set on the basis of retail rates less the costs of marketing, billing, collection, and other costs that an ILEC avoids by selling its retail services to a requesting telecommunications carriers instead of end users.

(f) ILECs shall be permitted to recover the cost of expenses that it incurs in the provision of wholesale services.

(g) ILECs are required to offer for resale only services that such ILECs provides at retail to end users.

Subpart C – Obligations of Local Exchange Carriers

XX.201 Resale.

Subject to reasonable and non-discriminatory restrictions as States may permit, each LEC has the duty not to prohibit, and not to impose any unreasonable or discriminatory limitations on, the resale of its telecommunications services.

XX.202 Reciprocal Compensation.

(a) Each LEC has a duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications services, but only in connection with the exchange of the local traffic from the subscribers of another telecommunications carrier where such telecommunications carrier directly interconnects with the LEC and the local calling scope of each is continuous and contiguous or overlaps.

(b) Compensation arrangements for the provision of exchange access shall be governed by prevailing access tariffs regardless of from whom such traffic is received.

(c) Nothing in this subpart, precludes recovery of joint and common or embedded costs.

(d) Bill and Keep arrangements are permitted by this subpart only to the extent that the parties to any agreement waive mutual recovery of costs.

XX.203 Exemptions, Suspensions and Modifications.

(a) States may terminate the exemption from the requirements of § 251(c) of the Telecommunications Act of 1996 only on a company specific basis. State-wide elimination for all companies within a State is not authorized.

(b) Rural telephone companies are exempted from the requirements of § 251(c) of the Telecommunications Act of 1996 [47 U.S.C. § 251(c)] until—

(1) such company has received a bona fide request for interconnection services, or network elements; and

(2) the State commission determines (under subparagraph (B)) that such a request is not unduly economically burdensome, is technically feasible, and is consistent with § 254 of the Telecommunications Act of 1996 (other than subsection (b)(7) and (c)(1)(D) thereof).

(c) A bona fide request shall include the following:

(1) The requesting carrier must offer service within one year following agreement or arbitration, and the agreement must provide for a one-year minimum service period (with the States free to require a longer service period). This requirement will ensure that rural telephone companies are able to recoup the costs of the agreement and that requesting carriers are in earnest.

(2) The points where interconnection is sought must be identified, network components and quantities must be specified, and the date when interconnection is desired must be given.

(3) The rural telephone company must be able to recover an investment required and/or expenses incurred to satisfy an interconnection or unbundling request. Thus,

the requesting carrier must be willing to pay charges sufficient to compensate the rural telephone company for all costs incurred in fulfilling the terms of the interconnection agreement, and those charges must be reflected in the agreement or arbitration order. The States, moreover, may require additional assurances, such as deposits or performance bonds.

(d) All LECs with fewer than two percent of the nation's access lines are authorized to seek from States either a suspension or a modification of the requirements of §§ 251(b) and (c) of the Telecommunications Act of 1996 [47 U.S.C. §§ 251(b) and (c)].

(e) Suspensions or modifications may be granted by States—

(1) where the wholesale rate for resold services would be less than the cost of providing such service; and

(2) when the LEC would incur expenses to establish unbundled network elements where it would be at risk to recover the total costs of providing requested network elements.

(f) States shall grant suspension or modifications if it is necessary—

(1) to avoid a significant adverse economic impact on users of telecommunications services generally;

(2) to avoid imposing a requirement that is unduly economically burdensome; or

(3) to avoid imposing a requirement that is technically infeasible; and

(4) is consistent with the public interest, convenience, and necessity.

(g) Adverse economic impact on users of telecommunications services means any instance in which an LEC with fewer than two percent of the nation's access lines cannot recover its total cost, thereby providing a disincentive for such an LEC to make further investment in the local area.

Other examples include situations where LECs include when the remaining customers of such an LEC would likely bear an increase in rates or a reduction in service to cover a shortfall or subsidy to a new entrant.

(h) Unduly economically burdensome conditions may be established from any showing that the LEC is not able to recover its total cost. This would include items provided below cost and interconnection requests that do not satisfy the bona fide request process outlined above. When considering the economic burden on the LECs with fewer than two percent of the nation's access lines, States should assure the LEC of recovery of any investment required or expenses incurred to satisfy an interconnection or unbundling request. This includes compensation from the requesting telecommunications carrier for expenses incurred in satisfying the terms of the interconnection agreement, including those incurred in developing costs and rates, modifying support systems, and other relevant terms. Unduly economically burdensome also means any instance where such LEC is "at risk" for the expenses incurred at the request of a requesting telecommunications carrier. The State may require additional assurances, advance payments, deposits or performance bonds, if necessary.

(i) Technical feasibility, pursuant to this subpart, should include an acknowledgement of the limited resources and lack of economies of scale or smaller companies. Moreover, any requested interconnection arrangement must have been previously implemented by a large LEC. Even if the interconnection has been successfully accomplished at another installation, consideration should still be given to the cost-benefit of this specific interconnection in light of the lack of economies of scale and scope, and resources of the small or mid-size company.

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on May 30, 1996 reply comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.

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