

**SURREBUTTAL TESTIMONY**

**OF**

**MICHAEL J. DOANE**

**Prepared on Behalf of Verizon New England, Inc.**

**d/b/a Verizon Massachusetts**

**Before the Massachusetts**

**Department of Telecommunications and Energy**

**November 15, 2001**

**SURREBUTTAL TESTIMONY OF MICHAEL J. DOANE**

Q. Please state your name, title, and business address.

A. My name is Michael J. Doane. I am President of PM Industrial Economics, a subsidiary of PM Keypoint LLC. My business address is 2200 Powell Street, Suite 1080, Emeryville, California 94608.

Q. Are you the same Michael Doane who provided testimony earlier in this proceeding?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony?

A. My Surrebuttal Testimony responds to the testimony of Dr. John W. Mayo, testifying on behalf of AT&T Communications of New England, Inc.

Q. In your Rebuttal Testimony you commented on the number of markets that the Department would have to analyze if it used Dr. Mayo's market definition approach, correct?

A. Yes. I stated: "Dr. Mayo, for example, argues that formal studies must be performed for at least 68 different services in each of Verizon MA's 272 wire centers. Thus, the number of formal market power studies required would be at least 18,496. Assuming that a formal market power study of a given market could be completed in one week, the time required to perform all the market power

studies recommended by Dr. Mayo would be approximately 356 years.” (Doane Rebuttal Testimony, p. 6.)

Q. In his Surrebuttal Testimony, does Dr. Mayo dispute this statement?

A. Yes. He states that I have misunderstood his position regarding the number of markets in which the Department must conduct market power studies. (Mayo, Surrebuttal Testimony, pp. 6-7.) He points out that his Direct Testimony (1) criticized Verizon MA for its “failure to identify properly the relevant product and geographic markets within which its services compete,” and (2) concludes that “a proper analysis of the extent of market power held by Verizon should begin with this determination of the properly defined relevant markets.” (Mayo, Surrebuttal Testimony, p. 6.)

Q. In his Direct Testimony, how did Dr. Mayo define the relevant markets?

A. First, with respect to the relevant geographic markets, Dr. Mayo concludes that “it is difficult to imagine that, in response to a price increase by a hypothetical monopolist for business local exchange service in a given central office in Massachusetts, customers would shift away from business local exchange services in sufficient numbers that such a price increase would be defeated.” (Mayo, Direct Testimony, p. 28.) Thus, according to Dr. Mayo, a central office constitutes a relevant geographic market.

Second, with respect to the relevant product markets, Dr. Mayo comments in his Direct Testimony that Verizon MA seeks market-based rates for “68

services ranging from Directory Assistance to Apartment Door Answering. This implicitly suggests that Verizon believes that the relevant product market encompasses all of these services. . . . This interpretation, however, is directly at odds with sound economic analysis regarding the definition of the relevant markets.” (Mayo, Direct Testimony, p. 27.) Thus, Dr. Mayo argues that the services cannot be combined into a single product market, but rather must be considered separately.

In sum, Dr. Mayo concludes that there are 272 relevant geographic markets (i.e., the number of Verizon MA central offices) and, by implication, 68 relevant product markets, resulting in a total of 18,496 relevant markets.

- Q. Does Dr. Mayo’s Surrebuttal Testimony explain his assertion that you have misunderstood the number of markets he believes the Department must examine?
- A. No. He simply makes that assertion and then repeats his claim that Verizon MA has “failed to identify the relevant markets within which its services that it seeks to be deregulated compete.” (Mayo, Surrebuttal Testimony, p. 7.) Dr. Mayo’s Surrebuttal Testimony contains nothing to support his claim that I have “misunderstood” his position on the number of markets he believes the Department must examine. In fact, his position, as set out in his Direct Testimony, is quite clear: each of Verizon MA’s 272 central offices is a relevant geographic market, and Verizon MA’s 68 services must be analyzed separately since they include such disparate services as Directory Assistance and Apartment Door Answering. Finally, note that even if the number of relevant product

markets were reduced from 68 to, say, four, Dr. Mayo's market definition approach would still result in the Department having to conduct more than 1,000 separate market power studies.

Q. Does Dr. Mayo acknowledge the fact that Verizon MA provided the Department detailed information on the services offered by rival CLECs in the geographic markets he advocated, i.e., central offices?

A. No. Dr. Mayo simply ignores this information despite his clear statement that central offices constitute relevant geographic markets. Dr. Mayo further ignores the fact that my Rebuttal Testimony contains detailed information on the number of business lines offered by rival CLECs in each of Verizon's 272 central offices (Exhibit MJD-2), as well as the number of CLECs in these central offices and whether they compete via resale, UNE-P, or with their own switches (Exhibit MJD-3). In short, after criticizing Verizon MA in his Direct Testimony for not offering detailed data in the markets he concluded were relevant (i.e., central offices), Dr. Mayo in his Surrebuttal Testimony simply ignores the data provided by Verizon MA that are responsive to his original criticism. Clearly, Dr. Mayo's Surrebuttal Testimony contains nothing to rebut the data offered by Verizon MA regarding the competitiveness of the markets he advocates the Department should examine.

Q. Does Dr. Mayo's Surrebuttal Testimony contain any other comments on your testimony?

A. Yes, he concludes his comments on my Rebuttal Testimony with the following:  
“Mr. Doane states that he disagrees with the application of the market power methodology I recommend because it is ‘generally used to evaluate the competitive effects of horizontal mergers.’ . . . The model underlying the approach I advocate is predicated on a ‘dominant firm-competitive fringe’ industry and is constructed specifically to analyze the market power of the dominant firm.” (Mayo, Surrebuttal Testimony, p. 9.)

Q. Has Dr. Mayo correctly characterized your criticism in this instance?

A. No. As stated in my Rebuttal Testimony, I disagree with “Dr. Mayo’s and Dr. Selwyn’s *application* of their market power approach.” (Doane, Rebuttal Testimony, p. 6, emphasis added.) The problem with Dr. Mayo’s market power analysis in this case is not that it relies on a “dominant firm-competitive fringe” model, but rather that his *application* of the market definition methodology results in the Department’s having to analyze needlessly thousands of separate markets. This task is needless because, as stated in my Rebuttal Testimony, “there is no reason to analyze each of the 68 services in a wire center in separate market power studies if, throughout the state, the same underlying facilities and competition-enabling policies are used to provide essentially all these services. In this case, entry conditions will be essentially the same in any given wire center.” (Doane, Rebuttal Testimony, pp. 6-7.)

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.