

ORIGINAL	
N.H.P.U.C. Case No.	DT 07-027
Exhibit No.	59 Bailey
Witness	Michael Keel/Daniel Gault
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1 A. Contrary to the claims of Dr. s Loube [Loube Direct at pp. 14-15] and Johnson [Johnson
2 Direct at p. 31] that the purpose for including such a pricing mechanism must be to
3 extract monopoly rent, we perceived that it was the pricing mechanism that the General
4 Court considered appropriate in order to protect against raising rates above affordable
5 levels. This is a reasonable assumption given that the largest carrier in New Hampshire is
6 still under rate of return regulation, and surely the Commission has carried out its
7 mandate to ensure that their rates are just, reasonable, and affordable. It would be odd
8 indeed if following the statute exactly would constitute the basis for rejecting the Plan.

9
10 **Q. As stated above, Dr.'s Loube and Johnson criticize the Petitioners for suggesting a**
11 **pricing mechanism that includes increases for basic local service. Do you share**
12 **their concerns?**

13 A. No, but it is a good scare tactic. Dr. Loube [Loube Direct at p. 14] claims that inclusion
14 of such a cap shows "that the Petitioners are willing and able to exercise market power."
15 However, with declining access lines and access minutes, competition already places
16 pressure on the Petitioners' basic local exchange rates, and raising local rates would be
17 one of its last options. Dr. Johnson [Johnson Direct at p. 31] is right when he says "[i]n
18 competitive market firms typically increase their prices in response to cost increases,
19 while they decrease rates in response to competitive pressures." As he indicates, the
20 former is the reason a Petitioner would increase its rates while the latter may keep it from
21 doing so. Failure to recognize this is short sighted from a business perspective.