

## **Exhibit 2 Updated ETI Study**

Economics and Technology, Inc. (ETI) prepared a total factor productivity (TFP) study for the Ad Hoc Telecommunications Users Committee in the prior rounds of comments in this proceeding.<sup>1</sup> That study examined economy and Bell Operating Company (BOC) data through 2004, and found the average X factor for interstate special access service in 2000 through 2004 to be 11.01 percent. Data are now available from the BOCs through 2006. In addition, the ETI Study uses data from the Bureau of Labor Statistics and the Bureau of Economic Analysis on economy wide productivity and inputs, which have now been updated through 2006. Using this additional data, we have updated the ETI Study and find that the BOCs' interstate special access productivity continues to outstrip productivity gains in the economy as whole, resulting in an average X factor for interstate special access services in 2000 through 2006 of 16.95 percent.

The attached tables provide the updated data and computations that yield this result. In addition to updating the previous study with data through 2006, this study made the following changes from the original ETI Study.

1. Data for all the BOCs as they are currently constituted are included.

Specifically, data for all AT&T, Qwest, and Verizon operating entities are included. ETI's original study excluded Southern New England Telephone (now part of AT&T) and all of GTE (now part of Verizon), because those entities had been excluded from the Commission's original ETI Study. Since

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<sup>1</sup> Economics and Technology Incorporated, *Competition in Access Markets: Reality or Illusion*, Table 2.1 (August 2004) (*ETI Competition in Access Markets*), filed as Attachment A to Comments of the Ad Hoc Telecommunications Users Committee, WC Docket No. 05-25 (June 13, 2005) (2005 Ad Hoc Comments), amended by Declaration of Susan M. Gately, filed as Attachment B of the 2005 Ad Hoc Comments ("ETI Study").

data for those companies are available and they are under price cap regulation, they have been included in this study.

2. The Special Access revenue used by ETI in Table 6 was taken from ARMIS 43-02 Table II. That data includes state special access and private line revenue as well as interstate Special Access revenue. Since this study is examining only the productivity for interstate special access services, the state data should not be included. Interstate special access revenues are available in ARMIS 43-01, rows, column 1090, and those data are used in this study.
3. For 1992 through 2006, Table 10 uses Labor Compensation and Employee counts from ARMIS 43-02, Table II. These data are not available in the Commission's online ARMIS database for 1991, so the data for that year was taken from the Statistics of Communications Common Carriers, Table 2.9.
4. Benchmark Special Access Telephone Plant in Service for 1991 in Table 12, column A was taken from ARMIS 43-01, rows, row 1690. The ETI Study used the results of a previous iteration of the TFP model for this benchmark. Because that iteration did not reflect all the companies included in this study, the ARMIS data was used.

Table 1 displays the results from 1993 through 2006. The X factor used in the price cap formula is the sum of the differentials in TFP between the BOCs and the economy as a whole and in the input prices for the BOCs and the economy. The results evidence some year over year variation in the X factor. However, in the fourteen years covered by this study, only three years had an X factor of less than 10 percent. Clearly, the BOCs' productivity has consistently and substantially outstripped the economy-wide productivity.