

## FLORIDA PUBLIC SERVICE COMMISSION

In re: Expanded Interconnection )  
Phase II and Local Transport )  
Restructure )

DOCKET NO. 921074-TP  
DOCKET NO. 930955-TL  
DOCKET NO. 940014-TL  
DOCKET NO. 940020-TL  
DOCKET NO. 931196-TL  
DOCKET NO. 940190-TL

## THIRD DAY - AFTERNOON SESSION

VOLUME 7

PAGES 834 through 1020

## PROCEEDINGS:

## HEARING

## BEFORE:

J. TERRY DEASON, CHAIRMAN  
SUSAN F. CLARK, COMMISSIONER  
JULIA L. JOHNSON, COMMISSIONER

## DATE:

Wednesday, August 24, 1994

## PLACE:

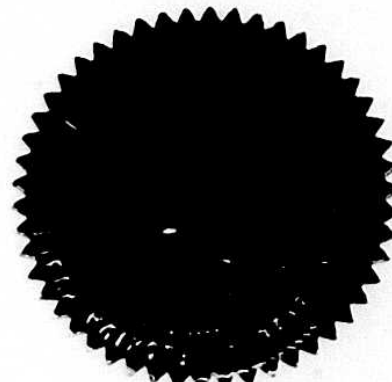
FPSC Hearing Room 106  
101 East Gaines Street  
Tallahassee, Florida

## REPORTED BY:

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## APPEARANCES:

(As heretofore noted.)



DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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1	Number:		
2			
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## PROCEEDINGS

(Hearing reconvened at 1:30 p.m.)

(Transcript continues in sequence from Volume 6.)

CHAIRMAN DEASON: Call the hearing back to order. Mr. Tye, I believe your witness is next.

MS. PEED: Mr. Chairman, I'm sorry, I just have one issue I would like to bring up as far as the order of witnesses for rebuttal. Earlier in the proceeding we had rearranged the order of witnesses to accommodate Mr. Gillan's schedule, and Mr. Gillan has been here throughout yesterday and today, and I believe he's not leaving until later on this evening, and so I would propose that we go back to the way that the witnesses were scheduled before. Also, this would give an opportunity for -- as in the direct testimony, Mr. Gillan had an opportunity to listen to all of the LEC witnesses and then present his testimony in this way. It would give an opposite effect of the LEC witnesses having the opportunity to go last to support their tariffs.

CHAIRMAN DEASON: You're proposing that he would follow Mr. Lee as contemplated in the --

MS. PEED: That he would go before Mr. Lee. In between Mr. Beauvais -- I mean after Mr. Beauvais.

CHAIRMAN DEASON: Ms. Kaufman?

MS. KAUFMAN: Mr. Chairman, we would object to

1 that. As I stated yesterday, I thought the order of  
2 witnesses had been discussed yesterday. We believe it's  
3 more appropriate for Mr. Gillan not to appear in the  
4 middle of the LEC witnesses' case, but to follow them.  
5 And we would request that he be permitted, as you ruled  
6 yesterday, to follow Mr. Hendrix.

7 CHAIRMAN DEASON: Let me ask you this, is he  
8 going to be available tomorrow?

9 MS. KAUFMAN: He can be available tomorrow.

10 CHAIRMAN DEASON: Okay. We'll just stay with  
11 the order as I have it, and that would be Guedel,  
12 Beauvais, Lee, Denton, Hendrix, Gillan, Rock, Andreassi.  
13 And I understand that Mr. Andreassi is not available  
14 tomorrow; is that correct?

15 MR. HOFFMAN: Mr. Chairman, he is available  
16 tomorrow if the hearing goes into tomorrow. It's our  
17 preference to try and get him out of here today, but he is  
18 available tomorrow.

19 CHAIRMAN DEASON: Okay. I would like to  
20 conclude all witnesses today. But I don't know if that's  
21 possible. Okay, Mr. Tye.

22 MR. TYE: Yes, sir, we'll recall Mr. Guedel,  
23 Mr. Chairman.

24

25

1 MIKE GUEDEL

2 was recalled as a witness on behalf of AT&T, and having  
3 been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. TYE:

6 Q Mr. Guedel, you've previously testified in this  
7 proceeding; is that correct?

8 A Yes, that is correct.

9 Q And you're still under oath. Would you please  
10 state your name and address one more time for the record?

11 A Yes, my name is Mike Guedel. My business  
12 address is 1200 Peachtree Street, Northeast, Atlanta,  
13 Georgia 30309.

14 Q Now, sir, have you prepared and caused to be  
15 prefiled in this proceeding rebuttal testimony consisting  
16 of some 14 pages of questions and answers?

17 A Yes, I have.

18 Q And do you have any changes, corrections or  
19 additions to that testimony which you wish to make at this  
20 time?

21 A No, I do not.

22 Q If I asked you the same questions contained in  
23 that testimony here today, would you give me the same  
24 answers contained therein?

25 A Yes, I would.

1           Q     And have you prepared a summary of that  
2 testimony?

3           A     Yes, I have.

4           Q     Could you please give us that summary?

5           A     Yes.

6           Q     The purpose of my rebuttal testimony was three-  
7 fold. First, I refute the arguments of GTE Witness Lee  
8 regarding the use of a reconfigured network to develop the  
9 RIC charge. Such a proposal would result in immediate  
10 overrecovery; that is recovery in excess of revenue  
11 neutrality. And I will also show that it will result in  
12 recovery of revenue in excess of revenue neutrality, even  
13 if carriers reconfigure as they have predicted.

14                     Second, I rebut Mr. Lee's proposal for switched  
15 access discount plans. While the filing is still  
16 incomplete, it is conceptually flawed and would most  
17 likely result in discriminatory pricing. Finally, I will  
18 explain how Mr. Gillan's proposed pricing structure is not  
19 a cost-based solution, but rather a return to  
20 minute-of-use based pricing.

21                     First, the return of the reconfigured network.  
22 We spent some time in the last couple of days talking  
23 about how the RIC charge was developed. Basically, the  
24 company started out with an amount of revenue that they  
25 were currently receiving from transport services. From

1 that total amount they subtracted the amount of money that  
2 they would now get from the facility-based elements of the  
3 new restructure transport. Those facility-based elements  
4 are the DS1s, the DS3s and the tandem switching. The  
5 remainder, the dollars left over from that pot, once you  
6 subtract out the facility-based revenues, became the RIC  
7 amount. And the per-minute amount was again obtained by  
8 dividing by the appropriate minutes.

9           When you use a reconfigured network, you assume  
10 that carriers are going to reconfigure their transport  
11 network, reorder transport, if you will, to provide more  
12 efficient use of the network. In other words, carriers  
13 are going to reconfigure in order to cut their costs. If  
14 carriers reconfigure to cut their costs, they will  
15 probably purchase less of the facilities than they are  
16 currently purchasing. If that is the case, the LECs will  
17 recover less money from the transport from the  
18 facility-based elements than they previously would. And  
19 the RIC charge would naturally go up.

20           Now GTE presented earlier this week what they  
21 said was an anomaly to that in Florida where the RIC  
22 charge was actually lower if they used reconfigured  
23 network. However, under cross examination Mr. Lee pointed  
24 out that in actuality, the RIC charge became different  
25 because they actually used a different demand set in

1 calculating the two RICs. Clearly, when you use a  
2 different demand set you're going to change the  
3 relationships. That's not an anomaly, that's a fact. So  
4 I will still maintain that if you use a reconfigured  
5 network, you are going to inflate the RIC charge, unless  
6 you assume the carriers are going to reconfigure in a  
7 manner that would be less efficient.

8           Now, what happens when you use the  
9 reconfigured network? On day 1, before the carriers  
10 reconfigure, you automatically are in a position where you  
11 are recovering in excess of revenue neutrality because you  
12 have set the RIC charge to recover not only the base, not  
13 only the difference, but also any facilities that may not  
14 be used in the future as a result of reconfiguration. So  
15 on day 1 you automatically overrecover.

16           What happens on day 2? If the carriers do  
17 reconfigure, the cost of the facilities that are now not  
18 being used are being recovered through the RIC charge.  
19 But the question then becomes what happens to those  
20 facilities? Are they put away? Are they hidden? Are  
21 they lost forever, or are they reused? And the answer is  
22 they are most probably reused. We are talking about  
23 tandem switching capacity. We are talking about  
24 transmission capacity and we are talking about DS1  
25 multiplexers that can be used in a variety of services,

1 and as long as the telecommunications industry continues  
2 to grow, and I see no reason why it will not continue to  
3 grow as it has, those facilities will be reused. And when  
4 they are reused, the company will recover the cost one  
5 more time from the customers who purchase the other  
6 services. So even if carriers reconfigure as these  
7 companies have stated that we will, they will double  
8 recover those costs if they use a reconfigured network  
9 when calculating the RIC. Therefore this commission  
10 should order those companies that use the reconfigured  
11 network to go back and do it right the next time.

12           My second point deals with the switched access  
13 discount plan. And my point here is the plan is basically  
14 not cost-based. Let me give you an example of how I think  
15 the plan is going to work. There aren't a lot of numbers  
16 in what they propose, but I have an idea of what they're  
17 doing. For example, let's take customer A. Customer A  
18 delivers 1 million minutes of use to GTE in a year, Year  
19 1. In Year 2, customer A commits to deliver 1,050,000  
20 minutes to GTE. That's approximately a 5% increase.  
21 Under the SADP, the switched access discount plan, this  
22 customer could qualify for a discount on the 1,050,000  
23 minutes.

24           Let's take a look at customer B. Customer B  
25 delivers 100 million minutes of use to GTE in Year 1. In

1 Year 2 customer B delivers 100 million minutes of use  
2 again to GTE. This customer, however, does not receive a  
3 discount and does not qualify for a discount under the GTE  
4 plan. Now, I think you can make an argument that volume,  
5 in an economy of scale world, can result in lower per unit  
6 costs. But I don't see how you can make an argument that  
7 the company who provides 1 million minutes can anyway have  
8 less cost to provide that 1 million minutes than to serve  
9 the customer who delivers 100 million minutes, again on a  
10 per minute of use basis. So for these reasons I think the  
11 plan is flawed and I think it should be rejected.

12 Finally, Mr. Gillan. Mr. Gillan spends a great  
13 deal of time in his testimony championing the merits of  
14 cost-based pricing. But at the conclusion, his pricing  
15 proposal reverts to a minute-of-use arrangement very  
16 similar to that in the equal charge rule.

17 First, Mr. Gillan supports the proposed pricing  
18 of DS3 services with whatever markup above cost they  
19 contain. But he then argues that the additional  
20 facilities or additional costs required to provide DS1  
21 service be sold at incremental cost. The markup that  
22 would normally be associated with the DS1 facilities will  
23 be included in the RIC or some other minute-of-use  
24 mechanism under Mr. Gillan's plan. This does not preserve  
25 the cost relationship, but merely constitutes or merely

1 continues the equal charge rule.

2           Second, Mr. Gillan ignores the balance of  
3 interest contained in the FCC prescription. The local  
4 transport restructure filings that this Commission is  
5 reviewing generally contain the same rates or the same  
6 rate relationship for dedicated services as found  
7 reasonable by the FCC. The FCC did not approve this  
8 relationship without significant analysis. The FCC  
9 considered the current pricing of DS1 and DS3 dedicated  
10 services. The FCC recognized several factors that  
11 contributed to cost differences between providing DS1 and  
12 providing an equivalent number of DS1s through a DS3  
13 offering. The FCC ordered 80% of the costs associated  
14 with tandem switching to be removed and recovered through  
15 the RIC. And in direct response to the concerns of  
16 smaller IXCs, concerns consistent with the arguments  
17 presented by Mr. Gillan today, the FCC established a  
18 DS1-to-DS3 pricing ratio of 9.6-to-1 as the floor of  
19 assumed reasonableness.

20           Finally, the FCC ordered the preparation of  
21 shadow bills to determine the impact of the restructure on  
22 all classes of carriers. The FCC found that the cost of  
23 transport would most likely increase for small carriers,  
24 but the increase would be minimal, not threatening. And  
25 those costs were expected to increase by some margin,

1 recognizing that these companies had been protected by the  
2 equal charge rule for the years. The rates proposed by  
3 the LECs for dedicated transport in this proceeding  
4 reflect that same balance. Therefore, this commission  
5 should approve the pricing of dedicated portion of the  
6 transport restructure as filed by the LECs, recognizing  
7 that the concerns of Mr. Gillan have been incorporated  
8 into the proposed pricing. This concludes my summary.

9 MR. TYE: Thank you, Mr. Guedel. Mr. Chairman,  
10 I would ask Mr. Guedel's rebuttal testimony be copied into  
11 the record as though given orally.

12 CHAIRMAN DEASON: Without objection it will be  
13 so inserted.

14  
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16  
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20  
21  
22  
23  
24  
25

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

3 A. My name is Mike Guedel and my business address is AT&T,  
4 1200 Peachtree Street, NE, Atlanta, Georgia, 30309. I  
5 am employed by AT&T as Manager-Network Services  
6 Division.

7

8

9 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK  
10 EXPERIENCE.

11

12 A. I received a Master of Business Administration with a  
13 concentration in Finance from Kennesaw State College,  
14 Marietta, GA in 1994. I received a Bachelor of Science  
15 degree in Business Administration from Miami  
16 University, Oxford, Ohio. Over the past years, I have  
17 attended numerous industry schools and seminars  
18 covering a variety of technical and regulatory issues.  
19 I joined the Rates and Economics Department of South  
20 Central Bell in February of 1980. My initial  
21 assignments included cost analysis of terminal  
22 equipment and special assembly offerings. In 1982, I  
23 worked on access charge design and development. From  
24 May of 1983 through September of 1983, as part of an  
25 AT&T task force, I developed local transport rates for

1 the initial NECA interstate access filing. Post  
2 divestiture, I remained with South Central bell with  
3 specific responsibility for cost analysis, design, and  
4 development relating to switched access services and  
5 intraLATA toll.

6  
7 In June of 1985, I joined AT&T, assuming responsibility  
8 for cost analysis of network services including access  
9 charge impacts for the five South Central States  
10 (Alabama, Kentucky, Louisiana, Mississippi, and  
11 Tennessee).

12  
13  
14 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

15  
16 A. My current responsibilities include directing  
17 analytical support activities necessary for intrastate  
18 communications services in Florida and other southern  
19 states. This includes detailed analysis of access  
20 charges and other LEC filings to assess their impact on  
21 AT&T and its customers. In this capacity, I have  
22 represented AT&T through formal testimony before the  
23 Florida Public Service Commission, as well as the  
24 regulatory commissions in the states of South Carolina  
25 and Georgia.

1 Q. ARE YOU THE SAME MIKE GUEDEL WHO FILED DIRECT TESTIMONY  
2 IN THIS PROCEEDING ON MAY 23, 1994?  
3

4 A. Yes.  
5  
6

7 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?  
8

9 A. The purpose of my rebuttal testimony is threefold.  
10

11 First, I will refute the arguments of Mr. Kirk Lee  
12 testifying on behalf of GTE Florida Inc. regarding the  
13 use of a "reconfigured" network in developing the  
14 Residual Interconnection Charge (RIC). Mr. Lee's  
15 proposal would ensure an immediate recovery in excess  
16 of revenue neutrality.  
17

18 Second, I will recommend that the Commission reject  
19 GTE's proposal for the switched access discount plan  
20 (SADP) again supported by Mr. Lee. The discount  
21 structure does not reflect underlying costs and could  
22 lead to discriminatory and anticompetitive pricing.  
23

24 Third, I will refute Mr. Gillan's extended support of  
25 the "equal charge" rule. In adopting the new transport

1 structure and price levels, the FCC struck a balance  
2 between the desires of those who sought to continue the  
3 "equal charge" application, and those who preferred  
4 movement to rates that more accurately reflected cost  
5 relationships.

6  
7  
8  
9  
10 I. Reconfigured Network - Local Transport  
11  
12

13 Q. WHY DO YOU BELIEVE SOME COMPANIES HAVE USED A  
14 "RECONFIGURED" NETWORK TO DEVELOP THE RIC?  
15

16 A. In the "equal charge" transport environment, there was  
17 no incentive for carriers to optimally order access  
18 facilities, because access configurations did not  
19 affect access expense. In the restructured  
20 environment, however, some carriers may find that they  
21 can save some access expense by more efficiently  
22 utilizing the LEC access networks. In other words,  
23 these carriers could deliver the same number of access  
24 minutes, using a more efficient access configuration,  
25 and pay the LEC less money.

1  
2       Considering the revenue neutral nature of the proposed  
3       restructure filing, with the RIC absorbing all revenue  
4       not estimated to be recovered from the facility based  
5       elements, the LEC can inflate the level of the RIC by  
6       assuming instant (hypothetical) reconfiguration to an  
7       optimally efficient network - a network that does not  
8       exist today and one that may never exist.

9  
10       With this procedure, the LEC would be loading some of  
11       the revenue requirement currently being recovered from  
12       the transport facility elements (i.e., DS1, DS3, and  
13       tandem) into the RIC. Thus, while the current network  
14       configuration remains, the LEC will be recovering its  
15       network costs from both the transport facility charges  
16       as well as the RIC. This methodology would ensure an  
17       immediate recovery of revenue in excess of revenue  
18       neutrality.

19  
20  
21  
22   Q.   MR. LEE SUGGESTS AT PAGES 16 AND 17 OF HIS TESTIMONY,  
23       THAT GTE WILL LOOSE MONEY OVER THE LONGER TERM IF IT  
24       DEVELOPS ITS RATES BASED UPON AN HISTORICAL NETWORK  
25       CONFIGURATION. DO YOU AGREE WITH THAT CONCLUSION?

1 A. No. GTE will not lose money if it establishes its  
2 rates based upon a historical network. In fact, the  
3 use of the "reconfigured" network will most likely  
4 ensure over-recovery even in the longer term.

5  
6 First, the use of the reconfigured network ignores the  
7 fungability of the underlying plant. It is true that  
8 as carriers reconfigure to find more efficient ways of  
9 utilizing access services, GTE may find itself  
10 providing the same volume of access minutes with less  
11 access facilities. This may result in some decrease in  
12 facilities transport revenue. However, the foregone  
13 facilities (basically switching capacity and  
14 transmission equipment) are generally re-usable. As  
15 long as telecommunications services continue to grow,  
16 GTE can use these facilities to provide additional  
17 services. These additional services will generate the  
18 revenue to recover the cost associated with the  
19 facilities. However, if GTE recovers the cost of these  
20 facilities through an inflated RIC and also through  
21 rates for additional services, it will clearly recover  
22 its costs twice.

23  
24 Second, The RIC is a pure contribution element. In  
25 other words, the incremental cost of providing an

1 additional minute of RIC is zero. Thus, if access  
2 minutes were to grow 5% in the next year, GTE would  
3 receive a 5% increase in revenue from the RIC with no  
4 associated increase in cost. This additional revenue  
5 could offset potential losses from network  
6 reconfigurations.

7  
8  
9 Q. WHAT ACTION SHOULD THE COMMISSION TAKE WITH RESPECT TO  
10 GTE'S LOCAL TRANSPORT FILING?

11  
12 A. The Commission should approve the proposed structure  
13 and all of the rates except for the RIC. It should  
14 then order GTE to recalculate and refile the RIC based  
15 upon existing network configurations. Unless GTE has  
16 assumed that carriers would "reconfigure" into less  
17 efficient (i.e., more costly) configurations, this  
18 should result in the filing of a lower RIC.

19  
20  
21 Q. HAVE LECS OTHER THAN GTE USED A "RECONFIGURED" NETWORK  
22 TO DEVELOP THEIR RICs?

23  
24 A. It is my understanding that both Centel and United have  
25 also used a "reconfigured" network. For the same

1 reasons discussed above with respect to GTE's filing,  
2 those companies should also be required to refile their  
3 transport rates reflecting charges based upon existing  
4 network configurations.

5  
6  
7 **II. GTE Switched Access Discount Plan**

8  
9  
10 **Q. MR. LEE HAS SUGGESTED THAT THE COMMISSION CONSIDER A**  
11 **SWITCHED ACCESS DISCOUNT PLAN (SADP) AS A POSSIBLE**  
12 **"ENHANCEMENT" TO LTR. IS THIS AN APPROPRIATE PRICING**  
13 **ALTERNATIVE?**

14  
15 **A. No. AT&T cannot support the Switched Access Discount**  
16 **Plan proposed by GTE in this case because its Term and**  
17 **Growth Plan options are not cost-based. For a monopoly**  
18 **access supplier to discount the price it charges for**  
19 **access traffic, without a demonstration that providing**  
20 **that access traffic creates a cost savings for the**  
21 **supplier, is both discriminatory and potentially anti-**  
22 **competitive. Absent competition, such discounts for**  
23 **access service cannot be justified.**

1 Q. WHAT SPECIFIC OBJECTIONS DOES AT&T HAVE TO THE TERM  
2 PLAN PROVISIONS OF GTE'S DISCOUNT PROPOSAL?  
3

4 A. The Term Plan option of GTE's Switched Access Discount  
5 Plan is unacceptable because it is not cost-based.  
6 Under the Term Plan, GTE proposes to discount switched  
7 access rates based on a customer's commitment of a  
8 certain percentage of its base period usage to GTE for  
9 a specified term. The percentage of base to be  
10 committed under the Term plan ranges from 80% to 100%,  
11 and the term of the commitment varies from one to five  
12 years. No distinction is made under the Plan for  
13 differences in the size of customers' base period  
14 usage, nor for any absolute increases in the volume of  
15 participating customers' access minutes.  
16  
17

18 Q. SHOULD THE GROWTH PLAN OPTION OF GTE'S SWITCHED  
19 DISCOUNT PLAN BE APPROVED?  
20

21 A. No. The Growth Plan option of the Switched Access  
22 Discount Plan offers discounts to GTE access customers  
23 based on the percentage of growth in switched access  
24 usage that these individual customers experience. On  
25 the whole, it favors access customers with high growth

1 rates. Under the Growth Plan, the potential exists for  
2 access customers with high growth rates to pay an  
3 effectively lower rate per minute for switched access  
4 than customers with equal or even greater overall  
5 access usage, but lower percentage growth rates. This  
6 is economically unjustified and unreasonably  
7 discriminatory.

8  
9  
10 **III. Equal Charge Rule**

11  
12  
13 **Q. MR. GILLAN SUGGESTS AT PAGE 3, LINES 6 THROUGH 7, OF**  
14 **HIS DIRECT TESTIMONY THAT IF THE NEW TRANSPORT**  
15 **STRUCTURE IS "PROPERLY IMPLEMENTED," PRICE**  
16 **RELATIONSHIPS SHOULD MATCH COST RELATIONSHIPS. DOES**  
17 **MR. GILLAN'S PROPOSED PRICING METHODOLOGY PRESERVE THE**  
18 **UNDERLYING COST RELATIONSHIPS?**

19  
20 **A. No. Mr. Gillan's proposed methodology preserves the**  
21 **equal charge rule.**

22  
23 **Mr. Gillan suggests that a cost-based price for DS-1**  
24 **facilities could be determined by adding the**  
25 **incremental cost of the DS-3 to DS-1 multiplexing to**

1       one twenty-eighth of the proposed price of DS-3  
2       facilities. However, in mixing the "price" (which  
3       included cost plus mark-up) of the DS-3 with the "cost"  
4       (incremental cost without any mark-up) of the DS-1, Mr.  
5       Gillan distorts the cost relationship between the two  
6       services. Under, his proposal, purchasers of DS-3s  
7       would be required to pay the cost of providing the DS-3  
8       plus some mark-up (contribution) above that cost.  
9       Purchasers of DS-1, however, would only have to pay the  
10      incremental cost associated with the additional  
11      facilities required in providing DS-1 service. The  
12      mark-up that would be associated with the additional  
13      DS-1 facilities (mark-up that is included in proposed  
14      LEC rates) would be moved to the RIC (or some other  
15      "equal charge" recovery mechanism). However, because  
16      the RIC is paid on a minute of use basis by all  
17      purchasers of transport, the DS-3 customer would be  
18      bearing a portion of the mark-up that is included in  
19      the LEC's proposed DS-1 rates. This does not represent  
20      cost based pricing; it simply represents a scheme to  
21      perpetuate the non-cost-based advantage inherent in the  
22      equal charge rule.

1 Q. DID THE FCC CONSIDER THE KINDS OF ARGUMENTS THAT MR.  
2 GILLAM IS OFFERING PRIOR TO ORDERING THE STRUCTURE AND  
3 RATE RELATIONSHIPS OF THE LOCAL TRANSPORT RESTRUCTURE?  
4

5 A. Yes. The FCC received comments from over fifty  
6 companies or organizations and reply comments from over  
7 forty companies or organizations during its  
8 investigation of local transport restructure. These  
9 expressed concerns were weighed in the development of  
10 the final order.  
11

12 For example, the FCC placed the majority of the  
13 contribution associated with transport in the RIC. The  
14 RIC is billed on a minute of use basis consistent with  
15 the equal charge rule. The FCC loaded 80% of the  
16 revenue requirement associated with the tandem  
17 switching element into the RIC to lighten the impact of  
18 restructure on those carriers utilizing tandem  
19 switching. By placing this revenue requirement in the  
20 RIC, it too was recovered consistent with the equal  
21 charge rule. Finally, the FCC established pricing  
22 relationships between the direct trucking elements  
23 based upon historical private line relationships.  
24

1 To ensure the reasonableness of its decisions, the FCC  
2 reviewed "shadow bills" created by the local exchange  
3 companies to evaluate the impact of the proposed  
4 restructure on various situated carriers. The  
5 compromise order may not be perfect in all eyes.  
6 Indeed the FCC considered it "interim," recognizing the  
7 need for ongoing review. However, the order attempted  
8 to strike a balance between the competing interests  
9 while moving toward cost-based pricing.  
10  
11

12 Q. WILL SERVICE TO RURAL AREAS IN FLORIDA BE HARMED BY THE  
13 APPROVAL OF THIS TARIFF AS MR. GILLAN SUGGESTS AT PAGE  
14 9 OF HIS TESTIMONY?  
15

16 A. No. Rural areas will continue to be served by a  
17 combination of dedicated DS1 transport and tandem  
18 switched transport, just as they are today. AT&T  
19 serves all areas of Florida, including the most remote  
20 rural areas, utilizing a combination of dedicated and  
21 tandem switched facilities. Any IXC that desires to  
22 serve rural areas will pay the same rate for the same  
23 type of transport as AT&T and will, therefore, not be  
24 disadvantaged.  
25

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2

3 A. Yes.

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1 MR. TYE: Mr. Guedel is available for cross.

2 CHAIRMAN DEASON: Ms. Peed.

3 MS. PEED: Mr. Chairman, I have just a few  
4 questions.

5 CROSS EXAMINATION

6 BY MS. PEED:

7 Q Mr. Guedel, in your summary you mentioned that  
8 the FCC determined that the impact of local transport  
9 restructure would be minimal. Is that correct?

10 A Yes, that's correct.

11 Q Were you here yesterday when Mr. Gillan  
12 presented his direct testimony?

13 A Yes, I was.

14 Q Do you recall the chart that he presented which  
15 appeared to depict a significant difference in the charges  
16 applied to different interexchange carriers?

17 A Yes, I believe he had a bar chart here which  
18 showed the difference in pricing of DS1s, DS3s and tandem  
19 switching, tandem switching being extremely high per  
20 minute of use and DS3s being extremely low per minute of  
21 use.

22 Q And lastly, could you reconcile the apparent  
23 differences between the FCC's view and Mr. Gillan's view  
24 regarding the impact?

25 A Well, I believe the presentation of Mr. Gillan

1 indicated that only the large -- and I'll say "the" large,  
2 according to Mr. Gillan -- interexchange carrier, would be  
3 able to use DS3. Other carriers of medium size would use  
4 DS1s, and carriers of small size would use tandem  
5 switching. Basically that's not true. All of us use a  
6 mix of those kinds of services. Admittedly, AT&T may have  
7 more DS3s than anybody else. We probably also have more  
8 DS1s than anybody else and more tandem-switched minutes  
9 than anybody else.

10           So in order to look at things in proportion to  
11 see exactly how carriers are affected, you have to look at  
12 the mix of facilities that they use, and if you look at  
13 the mix of facilities, you'll find that that sloping line  
14 is not nearly as steep as the one that Mr. Gillan had  
15 presented, but is relatively flat. Admittedly, the small  
16 carriers will receive an increase under the restructure,  
17 and that's simply because -- not that all of a sudden the  
18 big carriers are getting an advantage, but simply because  
19 the small carriers have been given a significant advantage  
20 under the equal charge rule for many, many years, and  
21 we're just starting to equalize that. But the slope of  
22 the actual difference is much more -- much less steep than  
23 that which Mr. Gillan presented.

24           Q     Thank you. That's all I have.

25           CHAIRMAN DEASON: Ms. Kaufman?

1 MR. ADAMS: Just a couple of questions.

2 CROSS EXAMINATION

3 BY MR. ADAMS:

4 Q Mr. Guedel.

5 A Yes.

6 Q You were criticizing the GTE plan a minute ago  
7 for not being cost based. Is it AT&T's position that  
8 local exchange carrier access services should be cost  
9 based?

10 A Yes. AT&T supports cost-based pricing,  
11 absolutely.

12 Q Have you been present for the testimony of the  
13 local exchange carrier witnesses here?

14 A Yes, I have.

15 Q And did you hear all of them say that their  
16 rates are market based, not cost based?

17 A Yes. And that's something I probably should  
18 address. We are not supporting the LECs' filing because  
19 of the arguments that they put behind them. I am not  
20 supporting market-based pricing. I think that's  
21 completely inappropriate for companies who possess an  
22 absolute monopoly, as the LECs do. We are supporting the  
23 filings of the LECs because the rates they are filing in  
24 this jurisdiction mirror those that have been approved by  
25 the FCC. And we believe that the FCC has struck a balance

1 in their restructure filing between the interests of all  
2 parties, the interexchange carriers, the small ones, the  
3 large ones, and the LEC. So that is why we are supporting  
4 that. I do not support market-based pricing for monopoly  
5 service.

6 MR. ADAMS: No further questions.

7 MS. CASWELL: I just have a couple of questions  
8 Mr. Guedel.

9 CROSS EXAMINATION

10 BY MS. CASWELL:

11 Q Based on the activity that's gone on so far,  
12 you're absolutely certain that IXCs will reconfigure their  
13 networks; isn't that true?

14 A I would be surprised if they didn't. If we can  
15 save money we will do it.

16 Q And at the same time you can't be absolutely  
17 certain that the facilities freed up by those  
18 reconfigurations will be reused by the LECs, can you?

19 A I think I can be certain of that as long as the  
20 industry continues to grow as it has grown, and as long as  
21 the LECs market those services and are willing to sell  
22 them, I think I can be very, very sure there will be a  
23 market for them.

24 Q But if the Commission approves expanded  
25 interconnection for switched access, won't that introduce

1 more competition for the LECs' access services?

2 A It will introduce a platform for the beginnings  
3 of competition, or for the beginnings of potential  
4 competition. Will that introduce competition overnight?  
5 Absolutely not.

6 MS. CASWELL: Thank you.

7 MS. BRYANT: No questions.

8 MS. KURLIN: No questions.

9 MS. CANZANO: Staff has no questions.

10 CHAIRMAN DEASON: Commissioners? Redirect?

11 MR. TYE: No redirect.

12 CHAIRMAN DEASON: And we have no exhibits.

13 Thank you, Mr. Guedel.

14 CHAIRMAN DEASON: Ms. Caswell?

15 MS. CASWELL: GTE calls Mr. Beauvais to the  
16 stand.

17 EDWARD C. BEAUVAIS

18 was called as a witness on behalf of GTE Florida, and  
19 having been duly sworn, testified as follows:

20 DIRECT EXAMINATION

21 BY MS. CASWELL:

22 Q Would you please state your name for the record?

23 A My name is Edward C. Beauvais.

24 Q Are you the same Mr. Beauvais that filed direct  
25 testimony in this proceeding?

1           A     Yes, ma'am.

2           Q     Did you also file rebuttal testimony in this  
3 proceeding?

4           A     I did.

5           Q     Do you have any additions or corrections to that  
6 testimony?

7           A     I don't.

8           Q     If I asked you those same questions today, would  
9 your answers remain the same?

10          A     Yes, they would.

11               MS. CASWELL: Mr. Chairman, I would ask that  
12 Mr. Beauvais' testimony be inserted into the record as  
13 though read.

14               CHAIRMAN DEASON: Without objection, it will be  
15 so inserted.

16

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1       **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2       **A.   My name is Edward C. Beauvais; my business address**  
3           **is 600 Hidden Ridge, Irving, TX 75038. I am em-**  
4           **ployed by GTE Telephone Operations as Senior Econo-**  
5           **mist in the Regulatory Planning and Policy Depart-**  
6           **ment.**

7       **Q.   DID YOU PREVIOUSLY PRESENT TESTIMONY AND EXHIBITS**  
8           **TO THIS COMMISSION IN THIS DOCKET?**

9       **A.   Yes, I presented direct testimony and exhibits**  
10           **previously in this docket, both in Phase I, dealing**  
11           **with Expanded Interconnection for Special Access**  
12           **Transport, and in Phase II in which the Commission**  
13           **is considering similar issues associated with**  
14           **Switched Access Transport. I also presented Sup-**  
15           **plemental Direct Testimony in Phase II, in which I**  
16           **addressed the implications for this Commission of**  
17           **the recent Court of Appeals reversal of the FCC's**  
18           **physical collocation mandate.**

19       **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

20       **A.   My testimony today responds to assertion in certain**  
21           **parties' testimony and focuses on the public policy**  
22           **aspects of this case. To the extent that specific**  
23           **issues arise with respect to the transport restruc-**  
24           **ture, Mr. Kirk Lee will address them.**

25

1       **Q.   ASIDE FROM THE COURT'S REVERSAL OF THE FCC, HAVE**  
2       **ANY EVENTS OCCURRED WHICH SHOULD BE BROUGHT TO THE**  
3       **NOTICE OF THIS COMMISSION IN THIS DOCKET?**

4       **A.   Yes.   On June 17, 1994, the U.S. Supreme Court**  
5       **ruled that the FCC acted without legal authority**  
6       **when it moved to relieve "non-dominant" carriers**  
7       **from the responsibility of filing tariffs. While I**  
8       **do not believe that this decision has any legal**  
9       **implications for the Florida Public Service Commis-**  
10      **sion in this docket, I do think that it has impli-**  
11      **cations for the correct public policy to be pursued**  
12      **as to what entities should be required to file**  
13      **tariffs with this Commission.**

14      **Q.   WHAT ARE THOSE IMPLICATIONS FOR COMMISSION POLICY**  
15      **ARISING FROM THE U.S. SUPREME COURT DECISION?**

16      **A.   Tariffs can serve both as a regulatory mechanism**  
17      **and an information source for consumers. New**  
18      **entrants to the marketplace arising from the adop-**  
19      **tion of expanded interconnection, or for any other**  
20      **reason, should be subject to the same type of**  
21      **tariffing requirements as established carriers.**  
22      **This is more than simply a "level playing field"**  
23      **argument and has very little to do with arguments**  
24      **about relative possession of market power by a**  
25      **firm. It is fundamentally a consumer safeguard**

1 argument and an argument promoting the efficient  
2 functioning of a market. The efficient functioning  
3 of a marketplace relies on the flow of information  
4 to customers relative to the availability of ser-  
5 vices, as well as the price and quality of those  
6 services. Tariffs filed by all companies at a  
7 single location clearly facilitate comparison  
8 shopping among consumers by minimizing the search  
9 costs. Ready access to this information will  
10 become even more important as AAVs and others begin  
11 to serve smaller customers. This availability of  
12 information in turn contributes to a more efficient  
13 marketplace. Thus, those parties opposing the  
14 filing of tariffs are mistaken from a current  
15 public policy perspective. Any firm offering  
16 transport and/or access services in the market  
17 today should be required to file tariffs with the  
18 Florida Commission.

19 Q. IN GTEFL'S PROPOSED TARIFFS, DOES GTEFL OFFER  
20 EXPANDED INTERCONNECTION AND COLLOCATION AT ITS  
21 ACCESS TANDEMS?

22 A. Yes, GTEFL proposes to offer such service to all  
23 parties not only at our tandem offices, but at our  
24 end offices where space is available and where the  
25 facilities are otherwise qualified and capable of

1 offering such functions.

2 Q. IN HIS TESTIMONY, MR. ANDREASSI OF TELEPORT ARGUES  
3 THAT LECs SHOULD BE ORDERED TO UNBUNDLE TANDEM  
4 SIGNALLING AND PERMIT COMPETITION FOR TANDEM ROUTED  
5 TRAFFIC. HOW IS THIS RELATED TO THE ISSUE OF  
6 EXPANDED INTERCONNECTION AT AN ACCESS TANDEM?

7 A. In Phase II of its CC Docket No. 91-141, the FCC  
8 released an order on May 27, 1994 that requires  
9 Tier 1 LECs to provide signalling information to  
10 any third party collocated within an equal access  
11 end office so that tandem switching networks can be  
12 constructed to compete with LEC tandem switching  
13 services. This means that if Signalling System 7  
14 (SS7) signalling is available in a central office,  
15 the LEC must offer a choice of either SS7 or multi-  
16 frequency (MF) signalling to competing firms. Note  
17 that this is not a requirement to build SS7 capa-  
18 bility if it is not already available at the end  
19 office. In the same order, the FCC sensibly aban-  
20 doned its original proposal that SS7 signalling be  
21 delivered at all end offices. Instead, the FCC  
22 specified that SS7 interconnection should take  
23 place only at Signal Transfer Points (STPs).

24

25 The FCC also determined that by modifying switch

1 software to treat alternative tandems as if they  
2 were the LEC's own tandem, it would be possible for  
3 LECs to provide signalling in a short amount of  
4 time and without large expenditures. However, due  
5 to the many technical shortcomings that would  
6 require large investments to overcome, signalling  
7 is not required to be delivered to tandem switching  
8 providers (TSPs) collocated at LEC tandem loca-  
9 tions. In addition, LECs are not required to allow  
10 TSPs to install their switching equipment within a  
11 central office.

12  
13 With respect to Mr. Andreassi's demand that LECs be  
14 required to unbundle tandem signalling, it is not  
15 clear what he is asking for. If he is requesting  
16 that this Commission simply adopt the FCC standards  
17 for LECs, that would appear to be an efficient  
18 approach, given the integrated nature of the switch  
19 and of the traffic. However, if Teleport is argu-  
20 ing that LECs must be ordered to deliver signalling  
21 to TSPs--possibly including Teleport--collocated at  
22 LEC tandems, then I must oppose Teleport's request  
23 as a very inefficient approach to the marketplace.

24 Q. WHAT ABOUT MR. ANDREASSI'S ASSERTION THAT LECs MUST  
25 PERMIT COMPETITION FOR TANDEM ROUTED TRAFFIC?

1       **A.**    I would simply point out that this is not up to the  
2               LEC one way or the other.  If Teleport wants to  
3               compete for such traffic in an exchange where GTEFL  
4               currently provides traffic, there is nothing that  
5               GTEFL does which prevents them from doing so.  
6               Teleport simply needs to make the investments and  
7               induce customers to subscribe to the services it  
8               provides.  It is, indeed, true that under current  
9               Florida statutes, AAVs such as Teleport are prohib-  
10              ited from being in the switched business, but that  
11              is not something the LEC controls.  I would also  
12              point out that the dedicated hi-cap services of-  
13              fered by AAVs are very much a substitute for tandem  
14              switching arrangements, as the sole function of  
15              tandem switching in a LEC network is the aggrega-  
16              tion of traffic.  For those customers with hi-cap  
17              facilities, such traffic aggregation has already  
18              been performed and the tandem essentially provides  
19              little additional value.  Since Teleport and other  
20              CAPs are in the special access business, they  
21              already compete with the LECs' tandem-routed traf-  
22              fic business.

23       **Q.**    YOUR LAST STATEMENT SUGGESTS THAT LECs ALREADY FACE  
24               SOME DEGREE OF COMPETITION IN THE SWITCHED ACCESS  
25               PORTION OF THEIR BUSINESS.  FURTHER, IN YOUR DIRECT

1           TESTIMONY IN THIS PHASE, YOU STATED THAT THE CON-  
2           TRIBUTION CURRENTLY DERIVED FROM THE TRANSPORT OF  
3           SWITCHED SERVICES SHOULD BE RESTRUCTURED TO ENHANCE  
4           THE ECONOMIC EFFICIENCY OF THE MARKETPLACE. YET A  
5           STATEMENT MADE BY MR. GILLAN WOULD SEEM TO INDICATE  
6           THAT CONTRIBUTION SHOULD BE RECOVERED UNDER AN  
7           EQUAL CHARGE APPROACH. IS THIS THE CORRECT POLICY  
8           TO PURSUE?

9           A. I believe that Mr. Gillan is incorrect in a number  
10          of his statements in this regard. While Mr. Lee  
11          will address the details, I can offer some public  
12          policy guidelines in this regard. Mr Gillan in  
13          this instance seems to regard the level of competi-  
14          tion as most fragile in the interexchange market-  
15          place--even contemplating that interexchange compe-  
16          tition will "become a memory" if the Commission  
17          does not adopt IAC's recommendations. Mr. Gillan  
18          attributes the purported fragility of this market-  
19          place to AT&T's size relative to that of the other  
20          players and to the pricing structure put forward by  
21          LECs.

22  
23          If the former is a problem, then Mr. Gillan and the  
24          IAC should certainly support the entry of firms  
25          such as GTEFL and Southern Bell back into the

1 interLATA market, as such action would certainly  
2 reduce the market power of AT&T. However, I believe  
3 that Mr. Gillan misstates his case when he says  
4 that, "The LECs should not be permitted to selec-  
5 tively shift the contribution burden among inter-  
6 exchange carriers to satisfy their own strategic  
7 objectives. To do so is paramount to placing the  
8 LECs in control of the shape of the long distance  
9 industry."

10  
11 I suppose GTEFL and the other LECs should be flat-  
12 tered that IAC believes we are that powerful in the  
13 marketplace. However, I don't believe it. Even if  
14 I did, what objectives does Mr. Gillan believe that  
15 LECs should pursue in the marketplace, if not their  
16 own? If the objective of this Commission is to  
17 foster a competitive marketplace, then it is neces-  
18 sary to encourage LECs to act on the same incen-  
19 tives as firms in a non-regulated market. The  
20 price structure proposed by GTEFL simply recognizes  
21 and attempts to reflect as far as possible the  
22 economies of scale available to the firm. This is  
23 not a matter of shifting contribution selectively  
24 among interexchange carriers to benefit one rela-  
25 tive to another.

1       It will, in fact, be true that some interexchange  
2       carriers will be in a better position than others  
3       to take advantage of the more efficient price  
4       structure that GTEFL has proposed. This price  
5       structure could be made even more efficient by  
6       granting the LECs additional pricing flexibility,  
7       such as volume-discounted switched services and  
8       term discounts. Each of these actions will once  
9       again result in differential impacts across inter-  
10      exchange carriers, depending upon their customers'  
11      usage profiles. Once again, however, that is not  
12      tantamount to placing the LECs in control of the  
13      long distance industry. It is a course of action  
14      which makes one of the inputs used by the long  
15      distance industry more efficiently priced. It is  
16      implausible that making an input more efficient in  
17      the marketplace makes the overall market structure  
18      less efficient.

19  
20      The optimal price structure does not necessarily  
21      result in a uniform level of mark-up of price  
22      relative to incremental cost. In fact, as I have  
23      testified previously, an efficient price structure  
24      would recover contribution in roughly inverse  
25      proportion to the price elasticity of demand for

1           It will, in fact, be true that some interexchange  
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19  
20          The optimal price structure does not necessarily  
21          result in a uniform level of mark-up of price  
22          relative to incremental cost. In fact, as I have  
23          testified previously, an efficient price structure  
24          would recover contribution in roughly inverse  
25          proportion to the price elasticity of demand for

1           that service. Furthermore, it can be shown that  
2           non-linear tariffs based around these inverse  
3           elasticity prices are even better at meeting the  
4           requirements of a competitive marketplace. In  
5           these tariffs, contribution is certainly not recovered  
6           uniformly, but the degree of contribution on a  
7           per-minute basis decreases as the quantity demanded  
8           increases. Much of the contribution is collected  
9           from inframarginal units of output, rather than the  
10          marginal unit. This allows the marginal price of  
11          the service to more closely approximate the marginal  
12          cost of the service--a very desirable result.

13       Q.   ICI'S WITNESS, DOUGLAS S. METCALF, THROUGHOUT HIS  
14           TESTIMONY REFERS TO CONSTRAINTS PLACED ON AAVS--  
15           SPECIFICALLY, THAT THEY CANNOT PROVIDE SWITCHED  
16           SERVICES OR TRANSPORT BETWEEN UNAFFILIATED ENTITIES.  
17           HE TERMS THESE CONSTRAINTS "REGULATORY  
18           BARRIERS." DO YOU AGREE WITH THAT CHARACTERISATION?  
19

20       A.   No. It is incorrect. As this Commission recognized  
21           in its AAV order (Docket No. 890183-TL, Order  
22           No. 24877, August 2, 1991), these restrictions  
23           placed on AAVs derive from Chapter 364. They are  
24           not simply a matter of Commission policy, as Mr.  
25           Metcalf appears to believe. Indeed, in its AAV

1           order the Commission recognized that: "There is  
2           agreement among the parties that AAVs are not  
3           authorized to provide switched services. ICI  
4           states that it does not intend to provide switched  
5           services. MFS also stated that AAVs should be  
6           prohibited from providing switched services." (AAV  
7           Order at 19.)  
8

9           Q.   DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

10          A.   Yes, it does.  
11  
12  
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25

1           Q     (By Ms. Caswell) Mr. Beauvais, do have a  
2 summary of your testimony for us today?

3           A     Yes, I do.

4           Q     Would you please give that summary?

5           A     In the summary of my direct testimony on Monday  
6 I mentioned the importance of LEC price reforms to  
7 customers. The optimal price structure does not, however,  
8 result in a uniform level of markup of price, relative to  
9 incremental cost across all products as Mr. Gillan  
10 suggests. In fact, such a uniform level of contribution  
11 is likely to be rather inefficient, especially if the  
12 LECs' cost functions exhibit economies of scope and  
13 scale. Certainly an efficient price structure must take  
14 into account both cost and demand characteristics; that is  
15 pricing decisions across products must consider customer  
16 reactions, their tastes and preferences for products, not  
17 just the cost to the LEC in supplying such goods.

18                     In other words, real cost-based pricing  
19 considers both supply and demand conditions. I believe  
20 the concern of many of the IXCs is that they not be  
21 disadvantaged relative to each other from the adoption of  
22 expanded interconnection in a new transport rate  
23 structure. Certainly their concern is understandable.  
24 However, I also believe the new transport structure, as  
25 proposed by GTE and other LECs complementing expanded

1 interconnection, is a more efficient rate structure than  
2 the former equal charge rule. While it is undoubtedly  
3 true that some carriers are in a better position than  
4 others to take advantage of the new LTR structure, I don't  
5 believe that the LECs should be required to be the  
6 balancing act to compensate for differences among IXC's.  
7 GTEFL will be competing with other providers, such as ICI,  
8 and it must be possible for GTE to reflect its economies  
9 of scope and scale, as well as the customers' demands it  
10 faces in its prices.

11           Finally, it's true that markets are changing  
12 very rapidly in this industry. As recently as the AAV  
13 docket, approximately three years ago, MFS, for example,  
14 stated that they weren't all that interested in providing  
15 switched services. Yet in several states that company has  
16 now filed to become an alternative local exchange carrier,  
17 at least for selected companies. Now my point here is  
18 that while we're only talking about transported  
19 interconnection narrowly defined in this docket, it is but  
20 the tip of a very big iceberg of local exchange  
21 competition and switched access competition.

22           Q     Thank you. Mr. Beauvais is available for cross  
23 examination.

24           CHAIRMAN DEASON: Questions? Staff?

25           MS. CANZANO: Staff has no questions.

1 CHAIRMAN DEASON: Commissioners? Assume there's  
2 no redirect.

3 MS. CASWELL: No redirect.

4 CHAIRMAN DEASON: I think maybe Mr. Poag --

5 WITNESS BEAUVAIS: Can I follow Mr. Poag's  
6 example?

7 (Witness Beauvais excused.)

8 \* \* \*

9 CHAIRMAN DEASON: Okay. You may call your next  
10 witness.

11 MS. CASWELL: GTE calls Mr. Kirk Lee to the  
12 stand.

13 R. KIRK LEE  
14 was called as a witness on behalf of GTE Florida, and  
15 having been duly sworn, testified as follows:

16 COMMISSIONER CLARK: Mr. Chairman, if people  
17 don't have questions, we can stipulate some of this  
18 testimony into the record.

19 MS. CASWELL: We would be agreeable to that.

20 CHAIRMAN DEASON: Are there any parties that  
21 have questions for Mr. Lee?

22 MS. KAUFMAN: I have questions, Mr. Chairman.

23 DIRECT EXAMINATION

24 BY MS. CASWELL:

25 Q Please state your name.

1           A     My name is R. Kirk Lee.

2           Q     Did you file direct testimony in this  
3 proceeding?

4           A     Yes, I did.

5           Q     And you're the same Kirk Lee that filed that  
6 testimony?

7           A     Yes, I am.

8           Q     Did you also file rebuttal testimony?

9           A     Yes, I have.

10          Q     Do you have any additions or corrections to that  
11 testimony?

12          A     No, I do not.

13          Q     So that if I asked you those same questions  
14 today, your answers would remain the same?

15          A     Yes, they would.

16                MS. CASWELL: Mr. Chairman, I would ask that  
17 Mr. Lee's testimony be inserted into the record.

18                CHAIRMAN DEASON: Without objection it will be  
19 so inserted.

20

21

22

23

24

25

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is R. Kirk Lee. My business address is 600  
3 Hidden Ridge, Irving, Texas 75038.

4

5 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS  
6 PROCEEDING?

7 A. Yes. I filed direct testimony in this proceeding  
8 addressing issues related to pricing flexibility  
9 and the local transport restructure (LTR).

10

11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

12 A. The purpose of my rebuttal testimony is to respond  
13 to issues raised by several parties in this case,  
14 including AT&T witness Mike Guedel, IAC witness  
15 Joseph Gillan, Sprint witness Fred Rock, Teleport  
16 witness Steven Andreassi, and ICI witness Douglas  
17 Metcalf. These issues include (1) the appropriate  
18 policy basis for pricing switched transport  
19 services, (2) the use of reconfigured demand for  
20 the Company's LTR filing, and (3) the level of  
21 pricing flexibility needed by LECs.

22

23 Q. THE INTEREXCHANGE ACCESS COALITION (IAC) ADVOCATES  
24 THE ESTABLISHMENT OF COST-BASED RATE DIFFERENTIALS  
25 COMBINED WITH THE RECOVERY OF CONTRIBUTION IN A

1           COMPETITIVELY NEUTRAL MANNER.   WHAT EXACTLY DOES  
2           THIS MEAN AND HOW WAS THIS ISSUE ADDRESSED BY THE  
3           FCC?

4       A.   Essentially, the IAC proposal appears to be the  
5           same proposal that certain small IXC's advocated at  
6           the federal level. This proposal, basically a 28-  
7           to-1 DS1-to-DS3 crossover ratio, with some minor  
8           modifications, was considered and rejected by the  
9           FCC. It appears that the IAC has, in an attempt to  
10          make it more palatable, repackaged previous  
11          arguments without providing any additional evidence  
12          that they would be harmed by the LECs' LTR rates.

13

14          The FCC addressed these arguments in its Report and  
15          Order and Further Notice of Proposed Rulemaking in  
16          Docket No. 91-213 (Transport Order), released  
17          October 16, 1992, and found that the record did not  
18          support the arguments of the small and medium IXC's  
19          that DS1 rates should be based on a simplistic  
20          translation from DS3 rates. The FCC noted that:

21                "The interoffice network does not consist  
22                entirely of facilities capable of  
23                providing DS3 service.       [Footnote  
24                omitted.] The record indicates that the  
25                interoffice segment of the access network

1 is a mix of fiber, copper, and microwave  
2 facilities. [Footnote omitted.] Copper  
3 facilities in particular cannot be used  
4 to provide DS3 services in the  
5 interoffice network. In many instances,  
6 a given interoffice route may actually  
7 use a combination of facilities using  
8 different technologies. Thus, it would  
9 not be possible to set DS1 rates on the  
10 basis of DS3 rates without ignoring the  
11 higher costs associated with copper  
12 facilities, or attempting to allocate  
13 such costs on a route-by-route basis."

14 (Transport Order at para. 47.)

15 The FCC explained that even if it were to base DS1  
16 rates on DS3 prices, the appropriate relationship  
17 would not be 28-to-1. The FCC gave three primary  
18 reasons why such a ratio was inappropriate:

19 "There are costs associated with  
20 providing DS1 circuits over a DS3 fiber  
21 facility that are not incurred when a  
22 full DS3 facility is provided to the  
23 customer. First, in order to carry an  
24 IXC's DS1 level traffic over a DS3  
25 facility in the interoffice network, the

1 DS1 circuit must be multiplexed up to a  
2 DS3 at the (SWC) and back down to a DS1  
3 at the end office. [Footnote omitted.]  
4 The additional multiplexing costs at the  
5 SWC are properly included in the  
6 nondistance-sensitive charge of the DS1  
7 interoffice rate. Second, if DS1 direct-  
8 trunked traffic is routed through an  
9 intermediate office where some of the  
10 traffic being carried on the DS3 circuit  
11 is dropped off, LECs have to multiplex  
12 the circuits down to the DS1 level in  
13 order to strip off traffic, and then up  
14 again to the DS3 level to continue  
15 through the interoffice network.  
16 [Footnote omitted.] To accomplish this  
17 multiplexing, the LEC must convert an  
18 optical signal to an electrical signal  
19 and then back to an optical signal by  
20 using the appropriate optical line  
21 terminating circuit equipment. These  
22 multiplexing and optical circuit  
23 equipment costs are now recovered through  
24 the mileage component of DS1 special  
25 access interoffice rates. Third, DS1

1 circuits riding on a DS3 facility will  
2 generally not fill the DS3 facility.  
3 There will often be fewer than 28 DS1s in  
4 use on the DS3. While customers that  
5 purchase a DS3 facility pay for the full  
6 capacity of the DS3, DS1 rates are set to  
7 recover on average the full cost of the  
8 DS3 spread among all DS1s, even when it  
9 is not fully utilized by DS1 customers.  
10 [Footnote omitted.] For all of these  
11 reasons, we reject the argument that DS1  
12 rates should be based on 1/28 of DS3  
13 rates."

14 (Transport Order at para. 48)  
15

16 Q. THE FCC ESTABLISHED A BENCHMARK CROSSOVER RATIO OF  
17 9.6-TO-1 FOR DS1-TO-DS3 RATES. PLEASE EXPLAIN YOUR  
18 UNDERSTANDING OF THE FCC'S RATIONALE IN DETERMINING  
19 THIS WAS THE MOST APPROPRIATE RATIO FOR THE INITIAL  
20 LTR FILING.

21 A. The FCC found that there was no evidence on the  
22 record supporting the establishment of a specific  
23 rate relationship between DS1 and DS3 services.  
24 While the FCC could have undertaken a cost  
25 investigation to determine a DS3-to-DS1 rate

1 relationship, it found that a lengthy investigation  
2 with continuance of the equal charge rule would not  
3 be in the public interest. The FCC believed that  
4 because of cost differences between the LECs, any  
5 mandated fixed ratio would be inaccurate and would  
6 have to be adjusted over time. Instead, it  
7 concluded that:

8 "a LEC's initial DS1 and DS3 transport  
9 rates, based on special access rates as  
10 of September 1, 1992, should be presumed  
11 reasonable if they satisfy a benchmark  
12 analysis. [Footnote omitted.]"

13 (Transport Order at para. 50.)

14 The FCC established its benchmark ratio by finding  
15 that most of the LECs offering DS3 service were  
16 clustered between 9.6-to-1 and 15-to-1 ratios.  
17 Because the FCC was concerned with unreasonably  
18 disadvantaging smaller IXC's, rates reflecting  
19 ratios below 9.6-to-1, in the absence of  
20 satisfactory justification, were to be suspended  
21 and investigated, while rate ratios above 9.6-to-1  
22 were determined to be presumptively lawful and  
23 reasonable.

24

25 The FCC further found that special access rates

1           were a reasonable basis to use in setting LTR rates  
2           because the same underlying facilities are used to  
3           provide both special access and switched transport  
4           services. The FCC noted that:

5                   "[a]llowing the LECs to use a greater  
6                   range of high capacity services in their  
7                   direct-trunked transport rates recognizes  
8                   that, as with special access, there are  
9                   efficiencies to be gained through high  
10                  volume usage. We note that today, small  
11                  IXCs that would otherwise take DS1s can  
12                  aggregate their traffic together on a  
13                  DS3, and take advantage of DS3 rates, and  
14                  this may be an alternative for the small  
15                  IXCs."

16          (Transport Order at para. 50.)

17           GTEFL is already aware of some IXC customers in  
18           Florida who are selling excess capacity on their  
19           networks to smaller IXCs in order to aggregate  
20           traffic and reduce access costs.

21  
22          Q.   DO GTEFL'S COMPETITORS AND CUSTOMERS SUPPORT LTR  
23               PRICES BASED UPON EQUIVALENT SPECIAL ACCESS  
24               SERVICES?

25          A.   Yes. Teleport witness Andreassi, representing a

1 competitor for GTEFL's transport services, provided  
2 testimony which supports using special access rates  
3 as a basis for setting switched dedicated rates.  
4 For example, at page 18 of his testimony, he  
5 states:

6 "Different rate levels for interstate and  
7 intrastate transport are appropriate only  
8 to the extent that different interstate  
9 and intrastate tariff rates apply for  
10 equivalent DS1 and DS3 special access  
11 services."

12 Mr. Andreassi's testimony demonstrates the appeal  
13 of market-based pricing to diverse interests.

14  
15 AT&T witness Guedel, representing GTEFL's largest  
16 customer, also supports the Company's LTR proposal  
17 at page 11 of his testimony:

18 "the Commission should approve the  
19 proposed rate structure as filed. This  
20 structure will more accurately reflect  
21 the underlying costs associated with the  
22 provision of transport services."

23  
24 Q. DOES GTEFL AGREE WITH THE FCC'S BENCHMARK RATIO OF  
25 9.6-TO-1?

1       A.   Not entirely.       Although the FCC's goal of  
2       preventing the small IXC's from being unreasonably  
3       disadvantaged is important, broader public interest  
4       factors should take precedence. As I stated in my  
5       direct testimony, GTEFL believes that crossover  
6       ratios should not be pre-set, but should be allowed  
7       to be driven by market factors which determine what  
8       prices are ultimately charged for a given service.  
9       The demand for a service and the number of  
10      available substitutes for that service are examples  
11      of such market factors. Use of market-based rates  
12      will create an environment where competition can  
13      flourish and the public will benefit more overall  
14      as rates are driven closer to true economic costs.

15  
16      With expanded interconnection for switched access,  
17      the potential for a LEC competitor to provide  
18      alternative transport services will increase. A  
19      number of witnesses indicated in direct testimony  
20      that, even without expanded interconnection,  
21      special access and dedicated private line transport  
22      services are fully competitive today in Florida.  
23      If a LEC's prices for DS1 or DS3 transport services  
24      are not market-based, the LEC will be forced to  
25      correct them or risk losing customers to

1 alternative access providers. Allowing the market  
2 to set transport prices will help prevent potential  
3 uneconomic bypass and help keep traffic on the  
4 LECs' networks while allowing the public to benefit  
5 from the increased level of competition. To  
6 accomplish this, crossover ratios should be  
7 flexible and should be determined by market prices  
8 for existing special access services.

9  
10 Given the increasingly competitive nature of local  
11 transport services, it is not appropriate to  
12 establish a pre-set level of contribution to be  
13 provided by each service as the IAC advocates.  
14 Rates for local transport services should be set  
15 above long run incremental cost, as a price floor,  
16 and at a level which will contribute to the  
17 recovery of the Company's common overhead expenses.  
18 The specific rates for each type of service should  
19 again, however, be based on market factors,  
20 including market demand and competitive pressures.

21  
22 Q. DID THE FCC ALLOW THE SMALL IXCs AND OTHER PARTIES  
23 TO ITS TRANSPORT RESTRUCTURE DOCKET THE OPPORTUNITY  
24 TO CHALLENGE THE LECs' LTR RATES, EVEN THOUGH THE  
25 RATES WERE PRESUMED REASONABLE?

1       A.    Yes.    FCC policy states that parties seeking  
2           suspension of rates that are presumed reasonable  
3           must demonstrate: (1) a high probability that the  
4           tariff would be found unlawful after investigation;  
5           (2) that suspension would not substantially harm  
6           other interested parties; (3) that irreparable  
7           injury would result if suspension did not issue;  
8           and (4) that suspension would not otherwise be  
9           contrary to the public interest.

10

11           Any party opposing a LEC's LTR rates is required to  
12           submit evidence to the FCC on the four points above  
13           supporting their claim. To GTEFL's knowledge, none  
14           of the small IXCs or any other party was able to  
15           demonstrate to the FCC that GTEFL's tariff was  
16           unlawful or that any irreparable injury was  
17           incurred due to GTEFL's local transport rates.  
18           The Company's rates met all requirements to be  
19           presumed reasonable by the FCC and were allowed to  
20           go into effect on December 30, 1993.

21

22       Q.    ARE GTEFL'S LTR RATES NON-DISCRIMINATORY?

23       A.    Yes.    As mentioned above, the Company met all of  
24           the    FCC's    criteria    for    lawful    rates.  
25           Discrimination, in the common carrier context,

1 means that different rates are being charged to  
2 similarly situated customers for the same service.  
3 This is not the case with GTEFL's LTR rates. With  
4 the authorized exception of Contract Service  
5 Authority (CSA) and Individual Case Basis (ICB)  
6 applications, GTEFL charges each customer the same  
7 tariff rates for its DS1 service. The Company also  
8 charges each of its customers the same tariff rates  
9 for DS3 services. The Company does not have  
10 different sets of rates for different customers for  
11 the same service. Moreover, it is important to  
12 remember that DS1 and DS3 transport are different  
13 transport services with different markets for each.  
14 They are not the same service.

15

16 This does not mean that some IXCs will not  
17 experience increases and some will not experience  
18 decreases in their access costs as a result of LTR.  
19 However, these increases and decreases are not the  
20 result of discriminatory rates. The Company does  
21 not and cannot differentiate between its customers  
22 when selling a tariffed service. The cost  
23 differences to the IXCs are primarily due to the  
24 mix of transport services each IXC purchases.  
25 These cost differences are also due in part to

1           elimination of subsidies that were inherent in the  
2           previously used equal charge per-minute pricing  
3           scheme.

4  
5           These impacts on the IXCs were fully anticipated by  
6           the FCC in its investigation of LTR. However, the  
7           FCC still found elimination of the equal charge  
8           rule to be in the public interest.

9  
10          Q.   WHAT OTHER FACTORS ARE IMPORTANT IN CONSIDERING THE  
11               IAC'S PROPOSED DS1-TO-DS3 RATIOS?

12          A.   The IAC's proposal isolates only the interoffice  
13               trunking rate elements and fails to take into  
14               account the rates for entrance facilities in  
15               calculating their crossover ratios. The FCC  
16               specified in its Transport Order that the rate  
17               relationship comparison between DS1 and DS3  
18               services should include a channel termination rate  
19               element, which is the special access equivalent of  
20               an entrance facility. The rate relationships of  
21               the different services need to be examined in  
22               total, not on a rate element basis. To do  
23               otherwise ignores rate elements which are needed to  
24               fully provision the service.

25

1 In addition, the IAC's proposal takes away most of  
2 the incentive for an IXC to optimize its network  
3 and reduce costs because it makes the rates for DS3  
4 transport, DS1 transport, and Tandem Switched  
5 transport essentially the same. This is contrary  
6 to the FCC's objectives in eliminating the equal  
7 charge rule. The FCC found that:

8 "the equal charge rate structure cannot  
9 remain in place if customers are to  
10 receive the benefits of switched  
11 transport competition."

12 (Transport Order at para. 2.)

13 It further noted that:

14 "The current rate structure, under the  
15 "equal charge" rule, has promoted  
16 significant inefficient use of the local  
17 exchange carrier (LEC) networks by  
18 interexchange carriers (IXCs) and other  
19 access customers. The uneconomic pricing  
20 signals created by the equal charge rule  
21 have caused wasteful use of LEC  
22 facilities and higher rates for  
23 ratepayers. For this reason, it is  
24 critical that we adopt a new rate  
25 structure that will better match LEC

1 transport rates and costs."

2 (Transport Order at para. 1.)

3 The IAC's proposal is simply another way to re-  
4 implement the effects of the equal charge rule. As  
5 such, the Commission should reject it.

6  
7 The IAC proposal would also potentially shift more  
8 dollars to be recovered by the Residual  
9 Interconnection Charge (RIC). This further  
10 compounds the equal charge aspect of their proposal  
11 since all parties are required to pay the RIC,  
12 regardless of which transport option they buy from  
13 a LEC.

14  
15 A 28-to-1 crossover ratio is essentially a rate  
16 relationship based solely on the equivalent  
17 capacity of each type of circuit, since there are  
18 28 DS1 circuits available on a DS3 facility. This  
19 ratio has nothing to do with the underlying costs  
20 of providing those facilities, as the FCC correctly  
21 concluded.

22

23 Q. DO THE IXCs THEMSELVES ADHERE TO A 28-TO-1 RATE  
24 RELATIONSHIP IN PRICING THEIR OWN HIGH CAPACITY  
25 SERVICES?

1       A.    No.   As GTE pointed out before the FCC, the rates  
2            charged by both IXCs and Alternative Access Vendors  
3            (AAVs) exhibit crossovers consistent with those  
4            found in local exchange carrier rates, including  
5            those of GTEFL.   As examples, rates quoted for  
6            Teleport and Jones Lightwave showed crossovers  
7            occurring in a range from 9.7-to-1 to 13.7-to-1.  
8            AT&T and MCI had crossovers ranging from 5.8-to-1  
9            to 12.9-to-1.

10

11           The underlying cost relationship between DS1 and  
12           DS3 services is apparently not anywhere close to  
13           28-to-1 since we have not observed any competitive  
14           carriers charging such rates in the non-regulated  
15           marketplace.   The Commission should view such  
16           proposals (28-to-1 or cost-based differentials)  
17           with skepticism if parties which have no regulatory  
18           constraints on their rates are not pricing in this  
19           manner.

20

21       Q.    WILL GTEFL'S PROPOSED LTR RATES AFFECT COMPETITION  
22            IN LESS POPULATED MARKETS?

23       A.    No.   Mr. Gillan, on page 9 of his testimony,  
24            implies that GTEFL's LTR rates will ultimately lead  
25            to fewer customer choices in rural areas or

1 possibly lead to deaveraged retail rates. This  
2 implication is incorrect. Under today's equal  
3 charge rule, rural customers already have  
4 relatively fewer choices of toll carriers. An  
5 IXC's decision to provide toll service in an area  
6 is based on customer density and revenue potential  
7 more than any other factors. An urban customer  
8 today (pre-LTR) has more choices than a rural  
9 customer because smaller IXCs find it more  
10 profitable to operate where the majority of  
11 customers are clustered.

12  
13 Also, it is unlikely that LTR interoffice transport  
14 rates will cause any retail toll rates to be  
15 deaveraged. In GTEFL's LTR proposal, less than 7%  
16 of the total transport revenues are generated by  
17 rates for these interoffice transport options.  
18 Other factors, such as widely varying access rates  
19 between LECs, put much more pressure on toll  
20 providers to deaverage their rates.

21

22 Q. THE SUGGESTION HAS BEEN MADE THAT ANY POTENTIAL  
23 DECREASE TO DS1 RATES THAT MIGHT RESULT FROM THIS  
24 PROCEEDING CAN SIMPLY BE RECOVERED BY INCREASING  
25 THE RESIDUAL INTERCONNECTION CHARGE (RIC) SO THAT

1 THE LEC REMAINS REVENUE NEUTRAL. PLEASE DISCUSS.

2 A. The RIC was designed to be a residual rate element  
3 which would keep the LECs revenue neutral to their  
4 current transport revenue levels. This rate  
5 element is not supported by any readily  
6 identifiable investment cost on a long run  
7 incremental cost basis and, as a result, may not be  
8 a viable element in the long run. It was intended  
9 only to ensure short-term transport revenue  
10 neutrality. The FCC recognized this fact and has  
11 indicated its intention to review this rate  
12 element, and there is the potential that it may be  
13 phased down or eliminated altogether. The FPSC may  
14 also take action on the intrastate RIC as a result  
15 of these proceedings. Given these circumstances,  
16 shifting more money to the RIC now may lead to a  
17 larger burden placed on local ratepayers once the  
18 RIC is phased down or eliminated and the LECs must  
19 look elsewhere to replace this revenue stream.

20

21 Q. AT&T AND THE IAC BOTH ARGUE AGAINST GTEFL'S USE OF  
22 RECONFIGURED DEMAND TO DEVELOP THE RIC. AT&T  
23 WITNESS GUEDEL, ON PAGE 9 OF HIS TESTIMONY, IMPLIES  
24 THAT LECS HAVE INCENTIVES TO INFLATE THE RIC AND  
25 THAT RECONFIGURED DEMAND IS TOO DIFFICULT TO

1 EVALUATE. PLEASE RESPOND.

2 A. These criticisms are unfounded and unsupported by  
3 any evidence in this proceeding. As mentioned  
4 above, the RIC is not a viable long-term rate  
5 element. As a result, it is unclear why GTE would  
6 have any incentive to artificially inflate a rate  
7 element that may ultimately be eliminated or phased  
8 down. To help guard against any perception of even  
9 unintentional inflation of the RIC, GTEFL used a  
10 reconfiguration methodology that resulted in a  
11 conservative 75% reconfigured demand estimate. The  
12 Company believes this partial reconfiguration  
13 estimate gives it a reasonable chance of ensuring  
14 revenue neutrality in the near term.

15

16 Regarding Mr. Guedel's second point, evaluation of  
17 reconfigured demand is not the complex process he  
18 would have us believe. As I mentioned in my direct  
19 testimony, GTEFL used a simple economic choice  
20 model to evaluate the most likely transport choices  
21 an IXC would make for a given route, based on its  
22 current traffic volumes and dedicated facilities.  
23 There is no growth factored into the model results.  
24 Given these choices in the real world, most  
25 rational companies would also make the demand

1 choices which yield the lowest cost to them. IXC's,  
2 being no different, actively seek cheaper forms of  
3 access in the marketplace based upon LEC's' access  
4 rates. Reconfiguration is one way an IXC can  
5 purchase cheaper access.

6  
7 As I previously indicated in my direct testimony,  
8 the use of historical demand will cause the Company  
9 to under-recover its transport revenues if any  
10 reconfiguration does occur. Therefore, the Company  
11 has used a conservative estimate of reconfigured  
12 demand to give it a better chance of remaining  
13 revenue neutral. There is no doubt that IXC's will  
14 actually reconfigure. The Company began receiving  
15 LTR-related orders from the IXC's well prior to the  
16 effective date of interstate LTR. The Company  
17 expects reconfiguration activity to increase over  
18 time, especially since AT&T has asked GTE to extend  
19 its nonrecurring charge (NRC) waiver through the  
20 end of 1994. It is GTEFL's understanding that  
21 AT&T's resources to optimize its network are tied  
22 up with the RBOC's' territories and that GTE is  
23 prioritized after the RBOC's. It is also our  
24 understanding that AT&T plans to use hubbing and  
25 shared use arrangements in the future, which will

1           also require reconfiguration.

2

3       Q.    TELEPORT WITNESS ANDREASSI ARGUES THAT THE LECs  
4            SHOULD NOT BE GIVEN PRICING FLEXIBILITY, OTHER THAN  
5            WHAT THE FCC HAS GRANTED. DO YOU AGREE?

6       A.    No. First, it should be noted that the switched  
7            access pricing flexibility granted by the FCC for  
8            volume/term discounts puts significant restrictions  
9            and a burden of proof on the LECs which rendered  
10           this type of pricing flexibility unworkable for the  
11           most part. The FCC required LECs to demonstrate  
12           that 100 DS1 equivalent crossconnects had been  
13           purchased by interconnectors before volume/term  
14           discounts could be implemented. In addition, the  
15           tariff review period for a volume/term discount  
16           filing was extended from 45 to 120 days. In short,  
17           the FCC pricing flexibility that Mr. Andreassi says  
18           is adequate is really not available.

19

20           Mr. Andreassi further claims that "an order in this  
21           docket will only open up a fraction of the  
22           intrastate switched access market [transport] to  
23           competition. Because of this, the LECs will not  
24           lose significant revenues and should not receive  
25           excessive pricing flexibility." This statement

1 ignores the existing competition LECs face today,  
2 as well as the loss of switched usage from the  
3 LECs' network due to the use of cheaper special  
4 access alternatives. As I have previously noted in  
5 my direct testimony, and as ICI witness Metcalf  
6 agrees, there is already a substantial amount of  
7 competition allowed in the Florida intrastate  
8 access market in the form of dedicated or special  
9 access.

10

11 Further, special access is a substitute service for  
12 switched access for certain customers. When an end  
13 user generates a large volume of traffic from a  
14 single location, it is often more cost-effective  
15 for an IXC to carry the traffic from the customer's  
16 location the IXC's POP over special access, as  
17 opposed to switched access. These cheaper special  
18 access circuits can be provided by the LEC or by an  
19 AAV, such as Teleport or ICI. The result is that  
20 switched usage, which provides a higher  
21 contribution than special access, is removed from  
22 the LEC's network. If an AAV provides the special  
23 access, all contribution is lost.

24

25 Large blocks of switched usage can be removed from

1 the network by converting relatively few large  
2 business customers to special access or private  
3 network alternatives. Removing this usage from the  
4 network affects more than just transport revenues  
5 since other switched access rate elements such as  
6 end office switching are also bypassed. This  
7 leaves the average ratepayer, who generates little  
8 usage, left to pay the fixed costs of the network,  
9 which have now increased on a per-unit basis due to  
10 the lower overall usage remaining.

11

12 For these reasons, it is critical to allow the LECs  
13 additional switched access pricing flexibility so  
14 they can compete with alternative sources of  
15 access. Sprint witness Rock, for example,  
16 recognizes the need for a zone pricing scheme for  
17 switched access. The additional pricing  
18 flexibility is needed today, however, not some time  
19 in the future as Mr. Metcalf suggests. By delaying  
20 implementation of flexible pricing options, erosion  
21 of LEC revenues will continue and LECs will not be  
22 able to recoup these losses once they occur. This,  
23 in turn, will place upward pressure on the rates of  
24 other services, including local rates, to make up  
25 the difference.

1 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

2 A. As I have indicated above, the FCC has conducted a  
3 thorough investigation of LTR issues and found  
4 GTEFL's LTR rates to be just, reasonable, and  
5 lawful. These are the same rates that the Company  
6 has mirrored for its intrastate access tariff, with  
7 the exception of the RIC. Further, as the FCC  
8 concluded, there is no support for use of DS1-to-  
9 DS3 ratio of 28-to-1. The FCC has recognized that  
10 some carriers will experience changes in their  
11 access costs resulting from LTR. Nevertheless, it  
12 found that eliminating the equal charge rule and  
13 implementing the LECs' LTR rates was in the public  
14 interest.

15

16 The Commission should approve GTEFL's proposed LTR  
17 rates and its proposed enhancements to LTR,  
18 including the use of pricing flexibility and  
19 reconfigured demand. The Commission should allow  
20 the Company to implement these enhancements in  
21 conjunction with its LTR filing.

22

23 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

24 A. Yes, it does.

25

1           Q     (By Ms. Caswell) If you have a summary of your  
2 testimony, please give that to us now.

3           A     Yes, I do have a summary. The purpose of my  
4 rebuttal testimony is to respond to the testimony of  
5 various parties in this docket regarding the appropriate  
6 policy basis for setting switched transport rates, the use  
7 of reconfigured demand to set the RIC rate, and also the  
8 need for increased pricing flexibility for switched access  
9 services.

10                   The appropriate policy for setting transport  
11 rates needs to be based primarily on market factors. The  
12 need for this type of pricing is here today. A number of  
13 witnesses in this docket have confirmed the proliferation  
14 of competitive alternatives that exist in Florida today  
15 already. The amount of competition that we face will only  
16 further increase as a result of expanded interconnection.  
17 GTE needs to be able to make a competitive response to  
18 these alternatives where needed, or risk losing  
19 contribution which helps support lower basic exchange  
20 rates today.

21                   The company's rates -- existing rates and  
22 proposed rates -- are cost based in the traditional  
23 definition of cost-based standard used in Florida. That  
24 is, GTE's proposed rates are above its long-run  
25 incremental costs, and no matter this in docket is

1 disputing that fact. The IAC's definition of cost-based  
2 pricing is not the same as this standard that's in place  
3 in Florida today. We need to be careful not to confuse  
4 the two. There is a difference in what they're  
5 proposing. The IAC believes that cost should be the only  
6 factor used to determine prices.

7           Further, the IAC proposal would inflate the RIC,  
8 which is contrary to its own proposal for true cost-based  
9 pricing, since the RIC itself has no cost basis, or very  
10 little. And contrary to the IAC's arguments, their  
11 proposal will actually hinder competition in the  
12 telecommunications market. The IAC proposal would fix  
13 GTE's rates at a level that no other competitor is  
14 required to charge. Both AAVs and IXC's would not be  
15 required to charge transport rates this way and therefore  
16 would gain a competitive advantage. For GTE to be able to  
17 respond to competitive threats, for instance to its DS3  
18 service, under the IAC proposal, if it lowered its rates  
19 for DS3 service, it would have to unnecessarily lower its  
20 rates for DS1 and tandem-switched transport service, again  
21 reducing the contribution received from switched access.

22           This type of requirement would clearly  
23 discourage rate access reductions in the future, which in  
24 turn means no benefit for ratepayers through lower toll  
25 rates and stimulation to the economy. Instead, the IAC

1 proposal will place additional burden on the ratepayer,  
2 since it inflates the RIC, which GTE believes must be  
3 eventually be phased down or eliminated, then recovered  
4 through the rates of other services.

5 GTE's proposed LTR rates in Florida were found  
6 to be reasonable and lawful by the FCC. And in Florida,  
7 the company has estimated a favorable impact to the small  
8 and medium IXCs as a result of these rates. Further,  
9 these rates have been in effect for approximately seven  
10 months in the interstate jurisdiction, and I think a key  
11 point needs to be made that the IAC has not presented any  
12 evidence in this docket of competitive harm to themselves,  
13 nor has the IAC presented any evidence of harm to the  
14 consumer or ratepayers as a result of the Company's LTR  
15 rates.

16 Further, GTE's proposed rates must be in line.  
17 If they're not, competitors will take away the IXC traffic  
18 from GTE's switched network.

19 Also, today the small IXCs can and do aggregate  
20 traffic to take advantage of cheaper transport options.  
21 As an example of this, WilTel, who is a member of the  
22 Interexchange Access Coalition --

23 MS. KAUFMAN: Excuse me, Mr. Chairman. I hate  
24 to be the one to always interrupt, but I think Mr. Lee is  
25 straying from his rebuttal testimony.

1 MS. CASWELL: I don't even think we know what  
2 he's going to say about WilTel.

3 MS. KAUFMAN: I don't believe there's anything  
4 in his rebuttal testimony about WilTel.

5 MS. CASWELL: There's testimony about --

6 CHAIRMAN DEASON: Let's let the attorneys talk  
7 and then we'll see if you can talk.

8 MS. CASWELL: There is testimony about the IAC,  
9 of which WilTel is a member, so I think it's relevant to  
10 talk about WilTel.

11 CHAIRMAN DEASON: Is the term WilTel, does it  
12 appear anywhere in the testimony?

13 MS. CASWELL: It appears in the interrogatories.

14 CHAIRMAN DEASON: I'm talking about in the  
15 prefiled rebuttal testimony. Does that term appear?

16 MS. KAUFMAN: I don't believe so.

17 CHAIRMAN DEASON: If it does not appear, I'm not  
18 going to allow any statement on WilTel.

19 WITNESS LEE: I was merely going to provide an  
20 example of a statement I made in my --

21 CHAIRMAN DEASON: If you didn't give the example  
22 in the rebuttal, you're not going to give it on summary.

23 WITNESS LEE: Okay.

24 CHAIRMAN DEASON: Does that conclude your  
25 summary?

1           WITNESS LEE: A little bit more here. Regarding  
2 the use of reconfigured demand, reconfigured demand  
3 results in the best estimate of how IXCs' networks will  
4 look after implementation of LTR. The company's estimate  
5 was based on a partial reconfiguration which it believes  
6 provides the best opportunity to maintain revenue  
7 neutrality. The IXCs have confirmed that they are  
8 reconfiguring to take advantage of cheaper alternatives,  
9 as would any rational company.

10           The use of a historical demand in the  
11 development of a RIC would, on day 1, keep the company  
12 revenue neutral. On day 2, as soon as an order is put in  
13 by an IXC that results in a cheaper alternative for them,  
14 that is lost revenues to the company that cannot be  
15 recovered.

16           Finally, regarding additional pricing  
17 flexibility, the high level of existing competition  
18 indicates a significant need for LECs to have pricing  
19 flexibility now, and expanded interconnection will expand  
20 the need further. The company has proposed switched  
21 access discount plan, its zone pricing plan and  
22 enhancements to the CSA process. The purpose of those  
23 plans is to provide an alternative today where none exists  
24 in the spectrum of products offered by the company. If  
25 you envision prices for switched access today up here and

1 special access right here at a lower level, there is no  
2 range of products in between to address competitive  
3 alternatives. The company's switched access discount plan  
4 is an alternative that is priced somewhere in between that  
5 upper and lower level and provides an additional option  
6 for customers to purchase switched access from the company  
7 and help maintain that additional contribution.

8           Zone pricing and CSAs were approved in the  
9 Phase I order of this docket and should be approved here  
10 also in Phase II of this docket to be consistent. Thank  
11 you.

12           MS. CASWELL: Mr. Lee is available for cross  
13 examination.

14           CHAIRMAN DEASON: Ms. Kaufman?

15                           CROSS EXAMINATION

16 BY MS. KAUFMAN:

17           Q     Good afternoon, Mr. Lee. Isn't it true that  
18 under the proposal that GTE has presented to the  
19 Commission that the rates you proposed are intended to be  
20 revenue neutral?

21           A     That's correct, essentially revenue neutral.

22           Q     And therefore, isn't it true that the rates for  
23 some customers will rise while the rates for others will  
24 decline?

25           A     That's correct. And GTE provided estimates that

1 showed that declining costs --

2 Q Mr. Lee, if you could --

3 A -- for the small and medium carriers and  
4 increased costs for the larger carriers.

5 MS. CASWELL: I believe the witness has an  
6 opportunity to elaborate on --

7 CHAIRMAN DEASON: Obviously the witness is going  
8 to be able to elaborate, but the witness does need to give  
9 a yes or no answer.

10 MS. CASWELL: I think he did.

11 Q (By Ms. Kaufman) I'll move on since he already  
12 gave his answer anyway.

13 Mr. Lee, if you would turn to Page 2 of your  
14 rebuttal testimony and look at Lines 11 through 12 and I  
15 want to see if I understand what you've said there. And  
16 tell me if I'm correct in understanding the standard that  
17 you are suggesting to the Commission for the approval of  
18 the rates that you've proposed. And that is that unless a  
19 party can show harm from the rates that you propose, the  
20 Commission ought to approve them. Is that the standard  
21 you're suggesting that the Commission apply in this case?

22 A I think that that would be a reasonable standard  
23 to expect in this case, given the fact that these rates  
24 have been proved lawful before the FCC prior to this.

25 Q So is that a yes to my question?

1           A     Yes.

2           Q     Let me ask you this then. Why should GTE be  
3 able to raise the rates to some customers without GTE  
4 having the burden of showing that it would be harmed  
5 without the increase? In other words, why should the  
6 burden be upon the intervenors to show that they will not  
7 be harmed? And I think you've said that's what you're  
8 suggesting.

9           A     We have filed impacts showing what the impact is  
10 to the carrier, so I don't understand what your question  
11 is.

12          Q     My question is I think that you agreed with me  
13 that the standard you are asking the Commission to apply  
14 to the rates here is that unless a party can demonstrate  
15 to the Commission that they have been harmed or they will  
16 be harmed by your rates, that then the Commission should  
17 approve the rates. And what I am asking you is why should  
18 not the burden be on GTE to demonstrate that if the rates  
19 are not approved, GTE will be harmed?

20           MS. CASWELL: I'm going to have to object. I  
21 think this is a question that calls for a legal  
22 conclusion.

23           MS. KAUFMAN: I think --

24           CHAIRMAN DEASON: There's no need. Objection  
25 overruled. To the extent the witness has an opinion, he

1 may express it.

2 BY MS. KAUFMAN:

3 Q Do you need me to ask it one more time?

4 A Yes, please, repeat the question.

5 Q I think that you agreed in a previous answer  
6 that what you are asking the Commission to do is look at  
7 your rates, and if no party to this proceeding can  
8 demonstrate to the Commission that they have been harmed,  
9 you're asking the Commission to approve the rates; is that  
10 right?

11 A That's correct.

12 Q And my question to you is why should not the  
13 burden be on GTE to show that if the Commission does not  
14 approve the rates you've suggested, GTE will be harmed?

15 A In my opinion, I don't believe that that is  
16 current regulatory procedure. I believe that the  
17 company's requirement for filing a tariff is to show that  
18 it covers its costs and that's all.

19 Q So you don't believe that the company has any  
20 burden other than that?

21 A I don't believe so, no.

22 Q I'm sorry, I apologize. What was your answer to  
23 that question?

24 A I don't believe so.

25 Q So basically it would be your view that the

1 company can continue to raise rates without limit unless  
2 some party is able to come in and demonstrate to the  
3 Commission that they're being harmed?

4 A That's why we have these proceedings, so that  
5 parties can intervene and show that they have some problem  
6 with those rates, yes.

7 Q So is that a yes? That was a yes?

8 A Repeat the question again.

9 Q My answer -- my question is that it's your view  
10 that the company can continue to raise rates to its  
11 customers unless some party comes in and demonstrates to  
12 the Commission that that party is going to be harmed?

13 A The company can propose to raise rates.

14 Q And that what the Commission should look at --

15 A In a switched access environment it does not  
16 generally do that, because of the competitive nature of  
17 it, and we are not proposing to raise any specific rates  
18 in this proceeding either.

19 Q But you are suggesting a standard that the  
20 Commission apply to your proposal, and I am just asking  
21 you if what you're asking them to do is as long as no  
22 party comes in and shows they're harmed, you think the  
23 Commission should approve the rates?

24 A I think that proof of harm should be a factor  
25 that is considered, not the only standard.

1 Q Well, do you have any other standard in this  
2 testimony? And I'm looking at Page 2, Lines 11 to 12.  
3 That is the standard you're suggesting, isn't it?

4 A The other standards that --

5 Q Mr. Lee, I'm sorry. Do you have any other  
6 standard in your testimony that you're asking the  
7 Commission to apply, other than what I've shown you on  
8 Page 2?

9 A Yes, I believe I do.

10 Q Can you show me where in your testimony that is?  
11 MS. CASWELL: I'm sorry, can you point out where  
12 on Page 2 you're referring to?

13 MS. KAUFMAN: Yes, I'm on Page 2. The full  
14 sentence begins at Line 9, and the phrase I'm really  
15 discussing with him is on Lines 11 and 12. (Pause)

16 WITNESS LEE: In my -- on the last page of my  
17 testimony on Page 24, in my summary, I discuss the fact  
18 that the company's rates and -- from its intrastate LTR  
19 tariff -- or interstate LTR tariff, were found to be in  
20 the public interest. And I would carry over that standard  
21 here as well. It should be found to be in the public  
22 interest and approved as well.

23 Q Are you suggesting that the Commission is bound  
24 by the standard that the FCC applies?

25 A No. I am suggesting that that's a standard that

1 they would be wise to look at.

2 MS. KAUFMAN: I have nothing further,  
3 Mr. Chairman. Thank you.

4 CHAIRMAN DEASON: Further questions?

5 MS. KURLIN: Mr. Chairman, if I could.

6 CHAIRMAN DEASON: I believe, Mr. Tye -- Mr. Tye,  
7 do you have questions?

8 MR. TYE: Yes, sir, I have just a couple.

9 CHAIRMAN DEASON: You go first, please.

10 CROSS EXAMINATION

11 BY MR. TYE:

12 Q Mr. Lee, in response to one of the questions  
13 that Ms. Kaufman just asked you, you indicated that the  
14 rates -- excuse me, with local transport rate structure  
15 the cost to some carriers will go up, and the cost to  
16 other carriers will go down. Is that a correct  
17 characterization of what you said?

18 A That's correct.

19 Q Do you have the document which was identified,  
20 either yesterday or day before, as Exhibit No. 17 over  
21 there with you?

22 A I do.

23 Q Would you please turn to Page 23 of that  
24 document?

25 MS. KAUFMAN: Mr. Tye, could you give us just a

1 second to pull that out?

2 MR. TYE: Sure, I'll be glad to.

3 MS. KAUFMAN: Okay, thank you. What page? I'm  
4 sorry.

5 MR. TYE: Page 23.

6 Q (By Mr. Tye) That page is one of GTE Florida's  
7 Responses to the Interexchange Access Coalition's First  
8 Set of Interrogatories; is that correct?

9 A That's correct.

10 Q In response to Interrogatory No. 19 there, you  
11 indicate that the estimated impact of the proposed LTR  
12 intrastate rates in Florida on large, medium and small  
13 IXC's are 3.54%. Is that an increase?

14 A That's correct.

15 Q So the impact on the large carriers would be a  
16 3.54% increase, on the medium carriers, it would be a  
17 negative 4.32. That would be a rate decrease?

18 A Yes, it would.

19 Q And then on the small IXC's, the impact would be  
20 a decrease of 9.56%?

21 A Yes.

22 Q Given those figures -- well, aren't these  
23 figures contrary to what Mr. Gillan has been arguing here  
24 today, or yesterday?

25 A In essence, yes.

1 Q So in essence, GTE's computations show that the  
2 large IXC is going to bear the brunt of the increased  
3 charges that -- resulting from restructure, and the  
4 smallest IXCs are going to get the biggest benefit; is  
5 that correct?

6 A That's correct.

7 MR. TYE: Thank you, sir. I have no further  
8 questions, Mr. Chairman.

9 CHAIRMAN DEASON: Ms. Kurlin?

10 CROSS EXAMINATION

11 BY MS. KURLIN:

12 Q Mr. Lee, I'm Pat Kurlin on behalf of  
13 Intermedia. I just have a couple questions for you. On  
14 Page 9 of your rebuttal testimony at Lines -- beginning  
15 around Line 18 and 19, you state that a number of  
16 witnesses indicated in their direct testimony that special  
17 access and dedicated private line transport services are  
18 fully competitive today. And I am not going to ask you to  
19 go back and tell me which witnesses made those statements,  
20 but is that your understanding and belief as well?

21 A Yes, it is.

22 Q That private line and special access are fully  
23 competitive in Florida today?

24 A Yes.

25 Q And on what would you base that assumption?

1           A     On the basis of Commission rules which allow  
2 AAVs to provide that service in the state.

3           Q     So by the Commission allowing AAVs to provide  
4 that service in the state, the service is therefore  
5 competitive?

6           A     Yes. I would also add in addition to that, the  
7 number of these competitors that exist today in GTE's  
8 market in Florida.

9           Q     To your knowledge, has this Commission made any  
10 sort of finding that these services are competitive?

11          A     I am not aware of any specific ruling to that  
12 effect.

13          Q     Thank you.

14               CHAIRMAN DEASON: Staff?

15               MS. CANZANO: Staff has no questions.

16               CHAIRMAN DEASON: Commissioners? Redirect?

17                       REDIRECT EXAMINATION

18 BY MS. CASWELL:

19          Q     Mr. Lee, to the extent that you understand this  
20 Commission's procedures and obligations, do you believe  
21 the Commission has the responsibility to assess the  
22 effects of its actions on both the public and the  
23 industries it regulates?

24          A     Yes, I believe so.

25          Q     And will Mr. Gillan's proposed local transport

1 pricing scheme harm consumers?

2       A     Mr. Gillan's proposal will harm consumers to the  
3 extent that LECs are unable to tariff competitive prices.  
4 The result of that will be that the LECs will lose  
5 business to competitive alternatives to our switched  
6 access service. The loss of those -- the loss of those  
7 revenues will ultimately lead to additional burdens being  
8 placed on local ratepayers and consumers through the  
9 having to increase the prices of other services such as  
10 basic local exchange rates.

11       Q     And do you think his proposal might also chill  
12 rate reductions for any access services and in turn long  
13 distance services?

14           MS. KAUFMAN: Excuse me. I need to object. I  
15 think she's leading the witness, and that's improper  
16 redirect.

17           WITNESS LEE: I did state that in my summary.

18           MS. KURLIN: I withdraw the question.

19           CHAIRMAN DEASON: The objection is that you're  
20 leading the witness.

21           MS. KURLIN: I'm finished. Thank you.

22           CHAIRMAN DEASON: And we have no exhibits.

23 Thank you. Mr. Lee.

24           WITNESS LEE: Thank you.

25                   (Witness Lee excused.)

1 COMMISSIONER CLARK: Mr. Chairman, can we ask  
2 the parties with respect to the remaining witnesses who  
3 has questions?

4 CHAIRMAN DEASON: Well, the next scheduled  
5 witnesses is Mr. Denton. Are there any questions for  
6 Mr. Denton? Staff have questions for Mr. Denton?

7 MS. CANZANO: No.

8 CHAIRMAN DEASON: Following Mr. Denton is  
9 Mr. Hendrix. Any questions for Mr. Hendrix?

10 MR. WIGGINS: I have one or two.

11 CHAIRMAN DEASON: At this point I think we  
12 can -- just without objection we can have the prefiled  
13 rebuttal testimony of Mr. Denton inserted into the  
14 record. And there will be no cross examination.

15 And there is no exhibit to be identified; is  
16 that correct?

17 MR. CARVER: No exhibits.

18 CHAIRMAN DEASON: Mr. Denton's prefiled rebuttal  
19 will be inserted into the record. And without objection  
20 we also will insert the prefiled rebuttal testimony of  
21 Mr. Hendrix --

22 COMMISSIONER CLARK: Pat has questions.

23 CHAIRMAN DEASON: I'm just speeding things  
24 along. I know you have questions. I'm going to go ahead  
25 and have it inserted.

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2 the parties with respect to the remaining witnesses who  
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16 that correct?

17 MR. CARVER: No exhibits.

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21 Mr. Hendrix --

22 COMMISSIONER CLARK: Pat has questions.

23 CHAIRMAN DEASON: I'm just speeding things  
24 along. I know you have questions. I'm going to go ahead  
25 and have it inserted.

1 MR. WIGGINS: Thank you.

2 CHAIRMAN DEASON: I get a feeling here the  
3 commissioners want things to speed up, so I'm trying to  
4 speed them up. Are there any exhibits to the testimony of  
5 Mr. Hendrix? Is it necessary to have a summary of  
6 Mr. Hendrix' rebuttal testimony?

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1           SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
2           REBUTTAL TESTIMONY OF DAVID B. DENTON  
3           BEFORE THE  
4           FLORIDA PUBLIC SERVICE COMMISSION  
5           DOCKET NO. 921074-TP  
6           June 27, 1994  
7

8 Q.   WILL YOU PLEASE STATE YOUR NAME AND BUSINESS  
9       ADDRESS?

10

11 A.   I AM DAVID B. DENTON. MY BUSINESS ADDRESS IS 675  
12       WEST PEACHTREE STREET, ATLANTA, GEORGIA.

13

14 Q.   DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?

15

16 A.   YES, I DID.

17

18 Q.   WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

19

20 A.   THE PURPOSE OF MY REBUTTAL TESTIMONY IS TO REBUT  
21       CERTAIN POSITIONS TAKEN BY VARIOUS PARTIES IN THIS  
22       DOCKET.

23

24 Q.   MR. GUEDEL FOR AT&T TAKES THE POSITION THAT  
25       COLLOCATORS SHOULD NOT BE REQUIRED SPECIFICALLY

1 TO ALLOW THE LECs TO INTERCONNECT WITH THEIR  
2 NETWORKS AND MR. ANDREASSI TAKES THE POSITION ON  
3 BEHALF OF TELEPORT THAT SINCE ALL THOSE WHO  
4 COLLOCATE AT LEC CENTRAL OFFICES ARE NON-DOMINANT  
5 CARRIERS, THERE SHOULD BE NO REQUIREMENT TO ALLOW  
6 LECs OR OTHER PARTIES TO INTERCONNECT WITH THEIR  
7 NETWORKS. DO YOU AGREE WITH THESE POSITIONS?

8

9 A. NO, I DO NOT. THE PURPOSE OF EXPANDED  
10 INTERCONNECTION IS NOT TO SIMPLY "FACILITATE THE  
11 ENTRY OF POTENTIAL COMPETITORS INTO THE MONOPOLY  
12 PRESERVES OF THE LECs" AS STATED BY MR. GUEDEL FOR  
13 AT&T. THE TRUE PURPOSE OF EXPANDED  
14 INTERCONNECTION, AS SET FORTH BY THIS COMMISSION'S  
15 ORDER ON PRIVATE LINE AND SPECIAL ACCESS  
16 COLLOCATIONS, IS SO THAT:

17

18 ...THE ADOPTION OF A COMPETITIVE  
19 REGULATORY MODEL FOR PRIVATE LINE  
20 AND SPECIAL ACCESS SERVICES WILL  
21 BENEFIT FLORIDA'S LONG TERM  
22 TELECOMMUNICATIONS INFRASTRUCTURE  
23 AND THE USERS OF TELECOMMUNICATIONS  
24 SERVICES. EXPANDING COMPETITIVE  
25 OPPORTUNITIES FOR SPECIAL ACCESS AND

1 PRIVATE LINE WILL BENEFIT END USERS  
2 THROUGH:

- 3  
4 1. INCREASED CUSTOMER CHOICE;  
5 2. INTRODUCTION OF NEW SERVICES AND  
6 TECHNOLOGIES;  
7 3. PRICE COMPETITION;  
8 4. DIVERSIFICATION AND NETWORK  
9 REDUNDANCY;  
10 4. PRIVATE INVESTMENT IN THE  
11 FLORIDA INFRASTRUCTURE;  
12 6. INCREASED SERVICE AND QUALITY;  
13 7. GREATER RESPONSIVENESS TO END  
14 USER NEEDS; AND  
15 8. IMPROVED EFFICIENCY.

16  
17 THE SAME IS TRUE FOR SWITCHED ACCESS COLLOCATION.  
18 PUT SIMPLY, THIS COMMISSION'S COLLOCATION POLICY IS  
19 THAT COLLOCATION SHOULD FOSTER COMPETITION TO  
20 BENEFIT CUSTOMERS. IT IS NOT TO BENEFIT  
21 COMPETITORS.

22  
23 Q. HOW DO YOU RESPOND TO MR. GUEDEL'S ALLEGATION THAT  
24 BY REQUIRING RECIPROCAL ARRANGEMENTS THE  
25 DEVELOPMENT OF COMPETITION WOULD BE FRUSTRATED

1 RATHER THAN ENCOURAGED?

2

3 A. NOTHING COULD, IN FACT, BE FURTHER FROM REALITY.  
4 SOUTHERN BELL HAS HAD, AND WILL CONTINUE TO HAVE,  
5 CUSTOMERS WHOSE REQUESTS FOR SPECIFIC NETWORK  
6 DESIGNS REQUIRE COLLOCATION WITH OTHER  
7 TELECOMMUNICATIONS SERVICE PROVIDERS. IF THIS  
8 COMMISSION DETERMINES THAT RECIPROCAL COLLOCATION  
9 IS NOT APPROPRIATE, THESE END USER CUSTOMERS COULD  
10 HAVE THEIR TELECOMMUNICATIONS CHOICES ARTIFICIALLY  
11 CONSTRAINED BECAUSE THE OTHER TELECOMMUNICATIONS  
12 SERVICES PROVIDERS COULD IMPOSE TERMS AND  
13 CONDITIONS FOR COLLOCATION WHICH WOULD PRICE  
14 SOUTHERN BELL'S RESPONSE OUT OF THE MARKET.

15

16 Q. DO YOU AGREE WITH MR. ANDREASSI'S POSITION THAT A  
17 RECIPROCAL INTERCONNECTION REQUIREMENT IS  
18 UNNECESSARY?

19

20 A. AGAIN, NO. MR. ANDREASSI FROM TELEPORT MAKES THE  
21 ARGUMENT THAT THE LECs ARE THE "MONOPOLY PROVIDERS  
22 OF ESSENTIAL BOTTLENECK FACILITIES" AND THAT THEY  
23 MUST BE REQUIRED TO PROVIDE PHYSICAL COLLOCATION  
24 FOR THIS REASON. FURTHER, HE STATES THAT NON-  
25 DOMINANT, COMPETITIVE CARRIERS SUCH AS AAVs, NEED

1 NO SUCH REQUIREMENT BECAUSE THEY WOULD BE FOOLISH  
2 TO REJECT COLLOCATION REQUESTS BECAUSE OF THE  
3 ADDITIONAL REVENUES THEY PROVIDE. ON THE SURFACE  
4 THIS MAY APPEAR TO BE LOGICAL, BUT IT GLOSSES OVER  
5 THE FACT THAT WHOEVER CONTROLS A PARTICULAR  
6 LOCATION OF COLLOCATION CAN INDEED LIMIT A  
7 COMPETITOR'S ACCESS IF THE TERMS AND CONDITIONS FOR  
8 COLLOCATION ARE NOT FORMALLY ESTABLISHED. IN OTHER  
9 WORDS, UNDER MR. ANDREASSI'S APPROACH, AN AAV WOULD  
10 BE FREE TO PRICE COLLOCATION AT PROHIBITIVE RATES,  
11 TERMS OR CONDITIONS IF IT PERCEIVED THAT ITS  
12 BUSINESS WOULD BE SERVED BY DOING SO IN A  
13 PARTICULAR INSTANCE. THE BETTER APPROACH IS TO  
14 AVOID THIS POSSIBILITY BY REQUIRING RECIPROCAL  
15 COLLOCATION ON THE SAME TERMS AND RATES AS  
16 COLLOCATION IS OFFERED BY THE LECS.

17

18 THE DISTINCTION BETWEEN DOMINANT AND NON-DOMINANT  
19 CARRIERS ALSO FAILS BECAUSE THE ENTITY CONTROLLING  
20 THE PARTICULAR SPACE DESIRED BY A COLLOCATOR COULD  
21 USE THAT POSITION TO ITS STRATEGIC ADVANTAGE, NO  
22 MATTER HOW LARGE OR SMALL THAT ENTITY MAY BE. BY  
23 DENYING RECIPROCAL COLLOCATION AT A GIVEN LOCATION,  
24 AN AAV, FOR EXAMPLE, COULD DENY THE LEC'S PROVISION  
25 OF SERVICES AS A CUSTOMER OPTION, REGARDLESS OF THE

1       AAV'S RELATIVE MARKET SHARE.

2

3       AS I UNDERSTAND IT, THE GOAL OF THIS PROCEEDING IS  
4       TO INCREASE COMPETITION SO AS TO BENEFIT CUSTOMERS.  
5       UNLESS EXPANDED INTERCONNECTION IS AVAILABLE TO ALL  
6       PARTIES ON THE SAME TERMS AND CONDITIONS, INCLUDING  
7       THE LECs, THEN THIS PROCEEDING WILL FALL SHORT OF  
8       ACHIEVING THAT KEY GOAL. MR. METCALF, WITNESS FOR  
9       INTERMEDIA COMMUNICATIONS INC., AGREES WITH  
10      SOUTHERN BELL ON THIS POINT. HE STATES IN HIS  
11      DIRECT TESTIMONY THAT, "THE MORE COMPETITIVE  
12      FLEXIBILITY THAT BOTH THE LECs AND THE AAVs HAVE,  
13      THE BETTER - PARTICULARLY AS IT RELATES TO  
14      COMPETING WITH VSAT AND MICROWAVE VENDORS".  
15      ALTHOUGH MR. METCALF MADE THIS POINT IN REGARD TO  
16      PRICING FLEXIBILITY, IT APPLIES EQUALLY TO  
17      FLEXIBILITY IN PROMOTING COLLOCATION ARRANGEMENTS.  
18      THEREFORE, IF THE PRIME BENEFACTORS OF EXPANDED  
19      INTERCONNECTION ARE TO BE END USER CUSTOMERS, IT IS  
20      NECESSARY TO REQUIRE RECIPROCAL COLLOCATION.

21

22 Q. MR. ANDREASSI HAS OBJECTED TO SOUTHERN BELL'S  
23      TARIFF FOR SPECIAL ACCESS INTERCONNECTION BECAUSE  
24      IT DOES NOT PROVIDE FOR INTERCONNECTION AT THE DSO  
25      LEVEL. COULD YOU PLEASE EXPLAIN SOUTHERN BELL'S

1        POSITION ON INTERCONNECTION AT THE DSO LEVEL?

2

3 A.    SOUTHERN BELL'S POSITION IS THAT DSO LEVEL

4        INTERCONNECTIONS SHOULD BE HANDLED ON A CENTRAL

5        OFFICE BY CENTRAL OFFICE BASIS. THIS IS DUE TO THE

6        POTENTIAL FOR SPACE EXHAUSTION PROBLEMS IF DSO

7        LEVEL INTERCONNECTION IS REQUIRED IN ALL

8        COLLOCATING CENTRAL OFFICES. ADDITIONALLY, SINCE

9        THE COMMISSION HAS ORDERED INTERCONNECTION FOR

10       FIBER ONLY DSO FACILITIES FOR SPECIAL ACCESS

11       PURPOSES, THERE IS A STRONG LIKELIHOOD THAT THERE

12       WILL BE LITTLE OR NO DEMAND FOR DSO INTERCONNECTION

13       IN MOST CENTRAL OFFICES. THERE IS NO REASON THAT

14       ANY REQUEST FOR DSO INTERCONNECTIONS COULD NOT BE

15       HANDLED TO THE SATISFACTION OF THE COLLOCATORS ON A

16       CENTRAL OFFICE BY CENTRAL OFFICE BASIS. HOWEVER,

17       IF A DSO LEVEL TARIFF IS REQUIRED, THEN ALL

18       NECESSARY PREPARATION AND COST DOCUMENTATION WOULD

19       HAVE TO BE PERFORMED TO SUPPORT A DSO TARIFF

20       OFFERING EVEN IF THERE ARE FEW OR NO REQUESTS FOR

21       THIS SERVICE.

22

23       SOUTHERN BELL BELIEVES STRONGLY IN THE NEED FOR

24       CONSISTENCY WITH THE FCC ON THIS POINT. SOUTHERN

25       BELL SUPPORTS THE FCC'S APPROACH TO HANDLING

1        REQUESTS FOR "SPECIAL ACCESS SERVICES OTHER THAN  
2        DS1 AND DS3 SERVICE" (WHICH INCLUDES DS0 SERVICE).  
3        THE FCC HELD THAT A LEC SHALL FILE A TARIFF "WITHIN  
4        45 DAYS OF RECEIPT OF A BONA FIDE REQUEST TO BE  
5        EFFECTIVE UPON 45 DAYS NOTICE." SOUTHERN BELL  
6        REQUESTS THAT THIS COMMISSION RESOLVE THIS ISSUE IN  
7        A MANNER THAT IS CONSISTENT WITH THE FCC ORDER ON  
8        INTERSTATE COLLOCATION.

9  
10 Q.    MR. ANDREASSI FROM TELEPORT ALSO OBJECTS TO  
11        SOUTHERN BELL'S SPECIAL ACCESS INTERCONNECTION  
12        TARIFF BECAUSE, HE CONTENDS, THE REQUIREMENT THAT  
13        AN INTERCONNECTOR OCCUPY ITS SPACE WITHIN 60 DAYS  
14        IS UNREASONABLE, AND PERMITS THE LEC TO FORCE  
15        COLLOCATION IN ORDER TO "TRIGGER" PRICING  
16        FLEXIBILITY FOR THE LECs. IS THIS VIEW CORRECT?

17  
18 A.    NO, IT IS NOT. MR. ANDREASSI HAS CONFUSED THE  
19        FCC'S ORDER CONCERNING HOW PRICING FLEXIBILITY IS  
20        "TRIGGERED" FOR INTERSTATE SPECIAL ACCESS SERVICES  
21        WITH WHAT WAS ORDERED BY THIS COMMISSION. IN THE  
22        ORDER ISSUED MARCH 10, 1994, THIS COMMISSION  
23        GRANTED THE LECs "ZONE-PRICING" FLEXIBILITY AND  
24        ORDERED THE LECs TO FILE PLANS AND ACCOMPANYING  
25        TARIFF PROPOSALS. THUS, PENDING COMMISSION

1        APPROVAL OF THEIR TARIFF PROPOSALS, THE LECs  
2        ALREADY HAVE PRICING FLEXIBILITY. THERE IS NO  
3        REASON FOR THE LECs TO FORCE AN INTERCONNECTOR TO  
4        ORDER COLLOCATION PREMATURELY IN ORDER TO GAIN  
5        PRICING FLEXIBILITY.

6

7 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

8

9 A. YES, IT DOES.

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1                   SOUTHERN BELL TELEPHONE COMPANY  
2           REBUTTAL TESTIMONY OF JERRY D. HENDRIX  
3                   BEFORE THE  
4           FLORIDA PUBLIC SERVICE COMMISSION  
5                   DOCKET NO. 921074-TP  
6                   JUNE 27, 1994  
7  
8

9 Q.   WILL YOU PLEASE STATE YOUR NAME AND BUSINESS  
10       ADDRESS?  
11

12 A.   YES.   I AM JERRY D. HENDRIX.   MY BUSINESS ADDRESS  
13       IS 675 WEST PEACHTREE STREET, ATLANTA, GEORGIA.  
14

15 Q.   DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?  
16

17 A.   YES, I DID.  
18

19 Q.   WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?  
20

21 A.   THE PURPOSE OF THIS TESTIMONY IS TO REBUT THE  
22       TESTIMONY OF SEVERAL PARTIES FILED ON MAY 23, 1994  
23       IN THIS DOCKET.  
24

25 Q.   WHAT IS YOUR FIRST POINT OF REBUTTAL?

1

2 A. THE FIRST POINT OF REBUTTAL IS ONE THAT WILL APPLY  
3 TO MR. GILLAN'S TESTIMONY IN GENERAL AND MORE  
4 SPECIFICALLY TO HIS TESTIMONY UNDER "IV. COST-BASED  
5 TRANSPORT RATES FOR SOUTHERN BELL" AND "V. OTHER  
6 ISSUES". IN THESE SECTIONS MR. GILLAN EXPLAINS HOW  
7 THE PRICE FOR EACH TRANSPORT OPTION SHOULD BE  
8 ESTABLISHED.

9

10 SIMPLY PUT, MR. GILLAN WANTS THIS COMMISSION TO  
11 ADOPT THE INTEREXCHANGE ACCESS COALITION'S (IAC'S)  
12 PROPOSAL WHICH ESTABLISHES A MECHANISM FOR  
13 DETERMINING RATE LEVELS AND THE RELATIONSHIPS  
14 BETWEEN RATE LEVELS. IAC'S MEMBERS INCLUDE  
15 LDDS/METROMEDIA, CABLE AND WIRELESS, WILTEL, LCI  
16 AND US LONG DISTANCE. THIS PROPOSAL BY IAC IS  
17 TOTALLY INAPPROPRIATE. ITS PROPOSAL IS TANTAMOUNT  
18 TO ONE COMPETITOR TELLING ANOTHER COMPETITOR WHAT  
19 IT SHOULD CHARGE FOR ITS SERVICES.

20

21 SOUTHERN BELL'S PENDING FILING, MADE WITH THE  
22 COMMISSION ON SEPTEMBER 22, 1993 AND LATER UPDATED  
23 IN JANUARY, 1994, PROPOSES TO MIRROR THE INTERSTATE  
24 TRANSPORT STRUCTURE AND RATES THAT BECAME EFFECTIVE  
25 DECEMBER 30, 1993. THE FCC, PRIOR TO ALLOWING

1       THESE RATES TO BECOME EFFECTIVE, ADDRESSED THE VERY  
2       ARGUMENTS AND PROPOSALS BEING MADE BY IAC.  THESE  
3       ARGUMENTS WERE NOT ACCEPTED AT THE FCC AND THEY  
4       SHOULD NOT BE ACCEPTED HERE.  ADDITIONALLY, THESE  
5       SAME ARGUMENTS HAVE BEEN REJECTED IN PROCEEDINGS IN  
6       NORTH CAROLINA, SOUTH CAROLINA AND TENNESSEE.  THE  
7       LOCAL TRANSPORT RESTRUCTURE TARIFF WAS APPROVED AS  
8       FILED IN THESE STATES.  THE TARIFF FILING WAS ALSO  
9       APPROVED IN ALABAMA AND KENTUCKY.

10

11       SOUTHERN BELL'S RATES FOR ITS SERVICES COVER ITS  
12       COSTS AND THE RATES FOR THE DIFFERENT SERVICES AND  
13       THE RELATIONSHIPS BETWEEN THE RATES ARE JUST AND  
14       REASONABLE.

15

16 Q.  WHAT IS YOUR SECOND POINT OF REBUTTAL FOR MR.  
17       GILLAN?

18

19 A.  MR. GILLAN'S TESTIMONY CONVENIENTLY AVOIDS THE  
20       IMPACT ON SOUTHERN BELL IF HIS PROPOSED RATES ARE  
21       ADOPTED BY THIS COMMISSION.  HIS TESTIMONY FURTHER  
22       IGNORES THAT THE PURPOSE OF THE PROPOSED TARIFF IS  
23       NOT ONLY TO FOSTER FULL AND FAIR INTEREXCHANGE  
24       COMPETITION BUT ALSO TO FOSTER ACCESS COMPETITION  
25       AND EFFICIENT USE OF SOUTHERN BELL'S NETWORK.

1

2 Q. PLEASE EXPLAIN THE IMPACT ON SOUTHERN BELL IF THE  
3 TRANSPORT RATES PROPOSED BY IAC ARE ADOPTED.

4

5 A. THE RATE LEVELS PROPOSED BY IAC COULD HAVE  
6 SIGNIFICANT IMPACTS ON SOUTHERN BELL'S PUBLIC  
7 SWITCHED NETWORK. ADOPTING AN INTRASTATE RATE  
8 STRUCTURE AND RATE LEVELS THAT ARE INCONSISTENT  
9 WITH THE INTERSTATE JURISDICTION COULD CAUSE  
10 SIGNIFICANT SHIFTS IN THE VOLUME OF USAGE OF TANDEM  
11 SWITCHED TRAFFIC. IN OTHER WORDS, IF IAC'S  
12 PROPOSAL IS ADOPTED, CUSTOMERS THAT ARE CURRENTLY  
13 USERS OF DEDICATED TRANSPORT MAY RECONFIGURE TO  
14 TANDEM SWITCHED TRANSPORT ON THE PUBLIC SWITCHED  
15 NETWORK. THIS SHIFT IN TRAFFIC COULD CREATE  
16 TRAFFIC LOAD PROBLEMS FOR THE PUBLIC SWITCHED  
17 NETWORK REQUIRING SIGNIFICANT NEW NETWORK  
18 INVESTMENT.

19

20 HAVING THE SAME RATE LEVELS IN BOTH THE INTERSTATE  
21 AND INTRASTATE JURISDICTIONS WILL LESSEN THIS  
22 THREAT SIGNIFICANTLY AND LESSEN ANY IMPETUS FOR  
23 MISREPORTING PERCENT INTERSTATE USAGE (PIU).  
24 FURTHER, MIRRORING THE INTERSTATE STRUCTURE AND  
25 RATES WILL ALLOW SOUTHERN BELL TO OPERATE MORE

1       EFFICIENTLY FROM BOTH AN ADMINISTRATIVE AND BILLING  
2       STANDPOINT.   RATE PARITY WITH THE INTERSTATE  
3       JURISDICTION WILL REDUCE CUSTOMER CONFUSION AND  
4       REDUCE THE POSSIBILITY OF BILLING ERRORS.

5  
6       ALSO, IAC'S RATE PROPOSAL FAILS TO ADDRESS HOW THE  
7       BASIC RATEPAYERS OF THIS STATE COULD BE AFFECTED.  
8       SOUTHERN BELL HAS PROPOSED RATES THAT WILL SERVE AS  
9       AN INITIAL STEP TO ALLOWING IT TO COMPETE  
10      EFFECTIVELY IN THE MARKETPLACE.   THESE RATES WILL  
11      ALLOW SOUTHERN BELL TO RETAIN INTEREXCHANGE CARRIER  
12      CUSTOMERS ON THE PUBLIC SWITCHED NETWORK SO THAT  
13      THE COMMISSION'S GOALS OF UNIVERSAL SERVICE AND  
14      SUPPORT OF BASIC EXCHANGE SERVICE CAN CONTINUE TO  
15      BE ACHIEVED.   THE CRITICAL SUPPORT TO BASIC  
16      EXCHANGE SERVICE DOES NOT APPEAR TO BE A CONCERN OF  
17      IAC.

18  
19      THE IXC'S AND OTHER COMPETITORS HAVE NOT  
20      DEMONSTRATED CONCERN FOR THE IMPACT ON THE BASIC  
21      RATEPAYERS.   THE COMMISSION IN ORDER NO. 16343, AT  
22      PAGE 8, RECOGNIZED THAT THEY DO NOT HAVE THE SAME  
23      RESPONSIBILITY TO THE RATEPAYERS AS THE LEC'S.   THE  
24      COMMISSION STATED:

25

1 THE IXCs ARE NOT HAMSTRUNG WITH THE  
2 RESPONSIBILITIES FOR UNIVERSAL TOLL AND  
3 LOCAL SERVICE WHICH WE IMPOSE ON THE  
4 LECs. THIS ALONE ELIMINATES ANY  
5 SEMBLANCE OR POSSIBILITY FOR 'TRUE  
6 COMPETITION.' AS DISCUSSED EARLIER,  
7 COMPETITIVE ENTRY BY THE IXCs WOULD BE  
8 DIRECTED AT LUCRATIVE HIGH-VOLUME TOLL  
9 ROUTES AND SPECIFIC LARGE-VOLUME TOLL  
10 USERS.....TOLL RATES FOR SOME CONSUMERS  
11 WILL GO DOWN, LOCAL RATES FOR ALL  
12 CONSUMERS WILL ULTIMATELY GO UP.....

13

14 Q. PLEASE ADDRESS THE NEED FOR SOUTHERN BELL TO BE  
15 ABLE TO COMPETE EFFECTIVELY.

16

17 A. THE NEED TO BE ABLE TO COMPETE EFFECTIVELY IS  
18 CRITICAL TO SOUTHERN BELL AND THE RATEPAYERS OF  
19 THIS STATE BECAUSE PRESENTLY ACCESS SERVICES  
20 PROVIDE SIGNIFICANT SUPPORT TO BASIC EXCHANGE  
21 SERVICES.

22

23 MANY PARTIES IN THIS PROCEEDING INCLUDING SOUTHERN  
24 BELL, SUPPORT INCREASED COMPETITION FOR ACCESS  
25 SERVICES. SOME HAVE EVEN RECOGNIZED THAT THE

1 MARKETPLACE IS ALREADY COMPETITIVE AND OTHERS WANT  
2 THE STATE RESTRICTIONS TO BE ELIMINATED TO ALLOW  
3 THEM TO COMPETE MORE FULLY ON AN INTRASTATE BASIS.  
4 SOUTHERN BELL SHOULD BE A PLAYER IN THIS  
5 COMPETITIVE ENVIRONMENT. IN ORDER TO RESPOND TO  
6 INCREASED COMPETITION, SOUTHERN BELL AND OTHER  
7 LOCAL EXCHANGE COMPANIES (LECs) SHOULD BE ALLOWED  
8 TO ESTABLISH RATES TO MEET MARKET PRESSURES.

9  
10 Q. WHAT IS YOUR OTHER POINT OF REBUTTAL TO MR.  
11 GILLAN'S TESTIMONY?

12  
13 A. MR. GILLAN'S TESTIMONY AT PAGE 9 (LINES 4 THROUGH  
14 17) DOES NOT PROVIDE AN ACCURATE OR COMPLETE  
15 PORTRAYAL OF THE IMPACT SOUTHERN BELL'S LOCAL  
16 TRANSPORT FILING WILL HAVE ON SMALLER MARKETS.

17  
18 HE INFERS THAT SOUTHERN BELL'S FILING COULD BE USED  
19 TO INTRODUCE UNECONOMIC AND UNNECESSARY BARRIERS,  
20 ENDING IN THE LACK OF COMPETITIVE CHOICES FOR  
21 SERVING SMALLER MARKETS. ON THE OTHER HAND, MR.  
22 GILLAN CLAIMS THAT IAC'S PROPOSAL WILL NOT  
23 MATERIALLY DISADVANTAGE THE SMALLER MARKETS.

24  
25 THE FACT IS, UNDER SOUTHERN BELL'S PROPOSED TARIFF,

1 ALL PURCHASERS OF SWITCHED ACCESS WILL CONTINUE TO  
2 PAY THE SAME RATE FOR MORE THAN 95% OF THEIR  
3 SWITCHED ACCESS USAGE CHARGES. WITH SWITCHED  
4 TRANSPORT INCLUDED, THE DIFFERENCE BETWEEN THE  
5 HIGHEST TRANSPORT RATE (TANDEM SWITCHED) AT \$.04686  
6 PER ACCESS MINUTE AND THE LOWEST TRANSPORT RATE  
7 (DEDICATED DS3) AT \$.04573 PER ACCESS MINUTE IS  
8 APPROXIMATELY 1/10TH OF A CENT. HENDRIX EXHIBIT 3  
9 DEPICTS THIS INSIGNIFICANT RATE IMPACT ON IAC'S  
10 MEMBERS.

11

12 Q. PLEASE COMMENT ON THE IMPACT THIS FILING WILL HAVE  
13 ON SMALLER LESS DENSE MARKETS IN FLORIDA.

14

15 A. SOUTHERN BELL DOES NOT BELIEVE THAT SMALLER LESS  
16 DENSE MARKETS IN FLORIDA WILL BE NEGATIVELY  
17 IMPACTED. IT IS FAIRLY SAFE TO ASSUME THAT AT&T  
18 WILL CONTINUE TO SERVE THESE MARKET AREAS ALONG  
19 WITH OTHER INTEREXCHANGE CARRIERS (IXCs). IN FACT  
20 IN THE LOCAL TRANSPORT RESTRUCTURE HEARINGS  
21 CONDUCTED IN OTHER STATES, AT&T'S WITNESS HAS  
22 STATED THAT IXC SERVING THE RURAL AREAS WOULD ALL  
23 BE BASICALLY BUYING THE SAME FACILITIES, DS-1'S AND  
24 TANDEM SWITCHING FACILITIES, AND COMPETITION MAY BE  
25 ENHANCED RATHER THAN ADVERSELY AFFECTED.

1

2       ADDITIONALLY, SOUTHERN BELL WILL CONTINUE TO SERVE  
3       THE SMALLER, LESS DENSE MARKETS AS WELL. AS HAS  
4       BEEN THE CASE IN THE PAST, THESE CUSTOMERS WILL BE  
5       AFFORDED THE SAME QUALITY OF SERVICE AND PERHAPS  
6       MORE COMPETITIVE SERVICE OPTIONS AS ENJOYED BY  
7       CUSTOMERS IN THE MORE URBAN AREAS.

8

9 Q.   TELEPORT COMMUNICATIONS GROUP, INC. HAS FILED  
10       TESTIMONY IN THIS INSTANT PROCEEDING. DO YOU HAVE  
11       ANY POINTS OF REBUTTAL TO MR. ANDREASSI'S  
12       TESTIMONY?

13

14 A.   YES I DO. IT IS OBVIOUS THAT MR. ANDREASSI DOES  
15       NOT UNDERSTAND IMPUTATION IN THE CONTEXT OF ISSUE  
16       23. (HOW SHOULD THE COMMISSION'S IMPUTATION  
17       GUIDELINES BE MODIFIED TO REFLECT A REVISED  
18       TRANSPORT STRUCTURE (IF LOCAL TRANSPORT RESTRUCTURE  
19       IS ADOPTED)?) MR. ANDREASSI'S RESPONSE TO THIS  
20       ISSUE IS INAPPROPRIATE AND GOES BEYOND THE SCOPE OF  
21       THE ISSUE AT HAND.

22

23       IMPUTATION REQUIREMENTS ARE CONTRARY TO THE INTENT  
24       OF COMPETITION. ONLY A SELECT FEW ARE ASSURED OF  
25       BENEFITING FROM IMPUTATION - IXCs AND OTHER TOLL

1 PROVIDERS. THERE IS NO EQUITY IN PLACING THESE  
2 REQUIREMENTS ON THE LECs WHILE THE IXC's AND OTHER  
3 TOLL PROVIDERS HAVE FREEDOM FROM THESE ONEROUS AND  
4 UNNECESSARY IMPUTATION REQUIREMENTS. IF THE  
5 IMPUTATION REQUIREMENTS ARE TO BE CONTINUED, THEY  
6 SHOULD BE APPLIED TO ALL TOLL PROVIDERS. IAC'S  
7 WITNESS, MR. GILLAN ALSO ADVOCATES THIS POSITION AT  
8 PAGE 20 OF HIS TESTIMONY, LINES 8 AND 9. HE STATES  
9 THAT:

10  
11 TO CONTINUE TO SATISFY THESE OBJECTIVES,  
12 THE ACCESS TRANSPORT RESTRUCTURE SHOULD  
13 BE APPLIED TO THE TOLL SERVICES OF LOCAL  
14 TELEPHONE COMPANIES AS WELL AS  
15 INTEREXCHANGE CARRIERS.

16  
17 HOWEVER, AS STATED BY MR. ANDREASSI AND OTHERS IN  
18 THIS PROCEEDING, THE LOCAL TRANSPORT PORTION OF  
19 SWITCHED ACCESS IS AND WILL BECOME MORE COMPETITIVE  
20 ONCE SWITCHED ACCESS INTERCONNECTION IS  
21 IMPLEMENTED. BECAUSE OF THIS INCREASED  
22 COMPETITION, THERE SHOULD BE NO IMPUTATION  
23 REQUIREMENTS. THE MARKET CONDITIONS SHOULD DICTATE  
24 THE APPROPRIATE RATE LEVEL FOR TOLL SERVICES.

25

1 Q. AT PAGE 17 OF MR. ANDREASSI'S TESTIMONY AND PAGE 14  
2 OF MR. METCALF'S TESTIMONY THEY RESPOND TO THE  
3 ISSUE: SHOULD THE LECs BE ALLOWED TO HAVE MORE  
4 PRICING FLEXIBILITY? MR. ANDREASSI STATED THAT THE  
5 LECs SHOULD NOT BE GRANTED PRICING FLEXIBILITY  
6 BEYOND WHAT WAS GRANTED BY THE FCC. MR. METCALF IN  
7 EFFECT STATED THAT ONCE THE AAVs HAVE GAINED ALL  
8 THE MARKET SHARE THEY CAN HANDLE, THEN THE  
9 COMMISSION SHOULD ALLOW THE LECs PRICING  
10 FLEXIBILITY.

11

12 WHAT IS YOUR OPINION REGARDING THESE GENTLEMEN'S  
13 RECOMMENDATIONS?

14

15 A. SOUTHERN BELL VIGOROUSLY OPPOSES THE CONCLUSIONS OF  
16 MR. ANDREASSI AND MR. METCALF. IT IS APPARENT THAT  
17 THE MOTIVES FOR THESE RECOMMENDATIONS SELF-SERVING.

18

19 PRICING FLEXIBILITY IS NEEDED TO ALLOW SOUTHERN  
20 BELL AND OTHER LECs TO RESPOND COMPETITIVELY IN THE  
21 PROVISION OF ACCESS SERVICES FOR CUSTOMERS. AS  
22 STATED EARLIER, ACCESS SERVICES HAVE TRADITIONALLY  
23 PROVIDED SIGNIFICANT CONTRIBUTION TO THE  
24 MAINTENANCE OF LOW RESIDENTIAL RATES. IN ORDER TO  
25 KEEP ACCESS CUSTOMERS, AND THUS CONTINUE SUPPORT TO

1       LOW RESIDENTIAL RATES, PRICING FLEXIBILITY IS THE  
2       KEY TO PROVIDING THE LECs WITH THE ABILITY TO BE  
3       PROACTIVE AND REACTIVE IN THIS COMPETITIVE MARKET.  
4

5 Q.   SPECIFICALLY, HOW DO YOU RESPOND TO MR. ANDREASSI'S  
6       ALLEGATION THAT ADDITIONAL PRICING FLEXIBILITY WILL  
7       INCREASE THE RISK OF WHAT HE CALLS "PRICING  
8       ABUSES" BY THE LECs?  
9

10 A.   I STRONGLY DISAGREE WITH HIS ASSERTION. MR.  
11       ANDREASSI'S THEORY IS BASICALLY THAT GRANTING  
12       PRICING FLEXIBILITY WILL ENABLE THE LECs TO PRICE  
13       TRANSPORT SERVICES BELOW THEIR COST FOR SOME  
14       ANTI-COMPETITIVE PURPOSE. THE PROBLEM WITH THIS  
15       CONTENTION IS THAT NO POSITION TAKEN BY ANY LEC IN  
16       THIS PROCEEDING COULD BE CONSTRUED TO EVEN REMOTELY  
17       SUGGEST AN INTENTION TO PRICE TRANSPORT SERVICES  
18       BELOW THEIR INCREMENTAL COST. MR. ANDREASSI'S  
19       POSITION IS, IN EFFECT, THAT LEC PRICES SHOULD BE  
20       ARTIFICIALLY CONSTRAINED AT A LEVEL THAT WILL  
21       OBVIOUSLY BENEFIT THE LEC'S COMPETITORS IN ORDER TO  
22       PREVENT SOME PRICING ABUSE THAT HE SPECULATES MIGHT  
23       BECOME A PROBLEM. I BELIEVE HIS CONTENTION ON THIS  
24       POINT IS TRANSPARENTLY SELF SERVING.  
25

1 Q. HOW DO YOU RESPOND TO MR. METCALF'S CONTENTION  
2 THAT, WHILE ADDITIONAL PRICING FLEXIBILITY FOR LECs  
3 IS ACCEPTABLE, IT SHOULD NOT BE GRANTED UNTIL SOME  
4 LATER DATE?

5  
6 A. I DISAGREE WITH THIS POSITION ALSO. THE ULTIMATE  
7 BENEFICIARIES OF COMPETITION SHOULD ALWAYS BE  
8 CUSTOMERS. IN ORDER TO ENSURE THAT THE USERS OF  
9 TELECOMMUNICATIONS SERVICES ARE, IN FACT, THE ONES  
10 WHO BENEFIT, IT IS IMPORTANT TO ALLOW COMPETITION  
11 THAT WILL RESULT IN END USERS BEING ABLE TO OBTAIN  
12 THE BEST PRICE FOR A SERVICE FROM THE MOST  
13 EFFICIENT COMPETITOR. UNDER MR. METCALF'S  
14 APPROACH, THE PRICES CHARGED BY LECs WOULD BE  
15 ARTIFICIALLY CONSTRAINED FOR SOME PERIOD OF TIME  
16 ADEQUATE TO ALLOW ALTERNATE ACCESS VENDORS TO TAKE  
17 AWAY SOME OF THE LECs' MARKET SHARE. WHILE IT IS  
18 OBVIOUS THAT THIS APPROACH HAS SUBSTANTIAL BENEFIT  
19 FOR ALTERNATE ACCESS VENDORS, IT IS EQUALLY CLEAR  
20 THAT IT DEPRIVES END USERS OF THE FULL BENEFIT OF  
21 COMPETITION BY LIMITING THEIR CHOICES IN THE  
22 MARKETPLACE. ON THE OTHER HAND, IF THE LECs ARE  
23 GRANTED IMMEDIATE PRICING FLEXIBILITY, THEN  
24 CUSTOMERS WILL HAVE FULL AND IMMEDIATE ACCESS TO  
25 THE COMPLETE RANGE OF COMPETITIVE OPTIONS.

1

2 Q. MR. ROCK HAS FILED TESTIMONY IN THIS PROCEEDING ON  
3 BEHALF OF SPRINT COMMUNICATIONS COMPANY LIMITED  
4 PARTNERSHIP. DO YOU HAVE ANY POINTS OF REBUTTAL TO  
5 MR. ROCK'S TESTIMONY?

6

7 A. YES I DO.

8

9 FIRST, MR. ROCK'S ANALYSIS (AT PAGE 3, LINES 1  
10 THROUGH 7) LACKS LOGIC. AT PAGE 3 OF HIS  
11 TESTIMONY, MR. ROCK ASSERTS THAT THE  
12 INTERCONNECTION CHARGE RATE ELEMENT WILL SERVE TO  
13 INSURE REVENUE NEUTRALITY FOR THE LECs AS THEY LOSE  
14 MARKET SHARE IN THE ACCESS SERVICES MARKET. MR.  
15 ROCK'S ASSERTION IS BUILT UPON SAND RATHER THAN  
16 ROCK. THE PURPOSE OF THE INTERCONNECTION CHARGE  
17 WAS TO INSURE THAT THE EFFECT OF THE LOCAL  
18 TRANSPORT RESTRUCTURE, NOT COLLOCATION, WAS REVENUE  
19 NEUTRAL. TO THE EXTENT THAT THE INTERCONNECTION  
20 CHARGE RATE LEVEL IS NOT INCREASED AND NO SUCH  
21 INCREASE IS ALLOWED IN THE INTERSTATE JURISDICTION,  
22 THE LECs WILL EXPERIENCE A REVENUE LOSS.

23

24 Q. AT PAGES 7 AND 8, MR. ROCK PROPOSES THAT THE  
25 APPROPRIATE DS3:DS1 PRICE RELATIONSHIP IS 22:1. DO

1 YOU AGREE WITH HIS PROPOSAL?

2

3 A. NO. THE FCC, PRIOR TO ALLOWING THESE RATES TO  
4 BECOME EFFECTIVE, ADDRESSED THE SAME ARGUMENTS AND  
5 PROPOSALS BEING PUT FORTH BY MR. ROCK. THEY WERE  
6 NOT ACCEPTED AT THE FCC AND HAVE NOT BEEN ACCEPTED  
7 IN SOUTH CAROLINA AND TENNESSEE. THE FCC IN CC  
8 DOCKET NO. 91-213 CONCLUDED THAT ENTRANCE FACILITY  
9 (SWITCHED LOCAL CHANNEL) AND DIRECT TRANSPORT RATES  
10 WILL BE PRESUMED REASONABLE IF SUCH RATES SATISFY A  
11 BENCHMARK DS3-TO-DS1 RATE RELATIONSHIP ABOVE A 9.6  
12 TO 1. SOUTHERN BELL'S RATES RESULT IN A  
13 RELATIONSHIP THAT IS FAR ABOVE THIS BENCHMARK.

14

15 MR. ROCK, LIKE MR. GILLAN, CONVENIENTLY AVOIDS THE  
16 IMPACT ON ON THE PUBLIC SWITCHED NETWORK AND LOCAL  
17 RATES IF THEIR PROPOSALS ARE ADOPTED BY THE  
18 COMMISSION. FURTHER, THEY IGNORE THAT THE PROPOSED  
19 TARIFF WAS TO FOSTER FULL ACCESS COMPETITION.  
20 SOUTHERN BELL'S PRESENT AND FUTURE COMPETITORS WILL  
21 NOT BE CONSTRAINED BY MR. ROCK'S OR IAC'S PRICING  
22 PROPOSALS.

23

24 Q. DO YOU HAVE FINAL COMMENTS ON LOCAL TRANSPORT  
25 RESTRUCTURE?

1  
2 A. YES. SOUTHERN BELL ASKS THE COMMISSION TO NOTE  
3 THAT THERE ARE MORE THAN 100 PURCHASERS OF SWITCHED  
4 ACCESS IN FLORIDA. NO ONE IS OPPOSING SOUTHERN  
5 BELL'S PROPOSED TARIFF STRUCTURE. ONLY THE MEMBERS  
6 OF IAC AND SPRINT ARE OPPOSED TO ONLY A FEW OF THE  
7 ELEMENTS IN SOUTHERN BELL'S RESTRUCTURED TRANSPORT  
8 SERVICE TARIFF. IT STANDS TO REASON THAT IF  
9 CHANGES WERE WARRANTED IN THIS FILING MORE PARTIES  
10 WOULD HAVE INTERVENED IN THIS DOCKET TO OPPOSE DENY  
11 SOUTHERN BELL'S TARIFF FILING. THIS HAS NOT  
12 HAPPENED.

13  
14 GIVEN THAT, SOUTHERN BELL'S PROPOSED RESTRUCTURE OF  
15 SWITCHED ACCESS TRANSPORT SERVICE TARIFF WITH THE  
16 PROPOSED RATES SHOULD BE APPROVED FOR MANY REASONS:

17  
18 I. TO MIRROR THE INTERSTATE SWITCHED  
19 TRANSPORT RATES AND STRUCTURE  
20 APPROVED BY THE FCC (EXCLUDING THE  
21 INTERCONNECTION CHARGE);

22  
23 II. TO MORE CLOSELY REFLECT THE WAY  
24 TRANSPORT IS PROVIDED AND COSTS ARE  
25 INCURRED;

1

2

III. TO PROMOTE EFFICIENT USE OF SOUTHERN  
BELL'S NETWORK;

3

4

5

IV. TO MOVE TOWARD A MORE COMPETITIVE  
ENVIRONMENT FOR THE PROVISION OF  
INTEREXCHANGE SERVICE; AND

6

7

8

9

V. TO FACILITATE THE DEVELOPMENT OF  
ACCESS COMPETITION.

10

11

12 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

13

14 A. YES.

15

16

17

18

19

20

21

22

23

24

25

1 CHAIRMAN DEASON: Okay. Mr. Hendrix, you may  
2 proceed with your summary.

3 JERRY D. HENDRIX

4 was recalled as a witness on behalf of Southern Bell, and  
5 having been duly sworn, testified as follows:

6 WITNESS HENDRIX: Thank you. Good afternoon.

7 CHAIRMAN DEASON: I believe we know you're  
8 Mr. Hendrix and you were here and you've been here and  
9 you've been sworn.

10 WITNESS HENDRIX: That's correct, and I've been  
11 married 19 years.

12 COMMISSIONER CLARK: It's important to know  
13 that. It's also important to know the date on which you  
14 were married.

15 WITNESS HENDRIX: That's true. That's why I  
16 keep saying it. I will not forget.

17 DIRECT EXAMINATION

18 BY MS. PEED:

19 Q Mr. Hendrix, please provide a summary of your  
20 rebuttal testimony at this time.

21 A Thank you. The so-called cost-based proposal  
22 presented by the IAC witness is not appropriate. If such  
23 a proposal is adopted, Southern Bell and other LECs will  
24 not be able to compete in the marketplace. The other  
25 competitors in the marketplace do not set their rates the

1 way that we are being asked to set ours. As a matter of  
2 fact, in looking at the other carrier rates, the DS1-to-3  
3 ratios range from 1.1 to 5 --

4 MR. ADAMS: Mr. Chairman, I'm sorry, but I think  
5 he's outside the scope of his rebuttal testimony.

6 CHAIRMAN DEASON: Is this outside the scope of  
7 your rebuttal testimony?

8 WITNESS HENDRIX: I just finished that point.

9 CHAIRMAN DEASON: I want to ask you to please  
10 keep your summary directly in line with your prefiled  
11 rebuttal.

12 WITNESS HENDRIX: I will. The arguments  
13 presented by Sprint, as well as IAC, were not accepted at  
14 the federal level, neither were they accepted in the other  
15 BellSouth states, and they should not be accepted here.  
16 Both Mr. Rock and the IAC witness overlooked the impact to  
17 the local companies of the rate option that they were  
18 asking us to use in setting our DS1 and DS3 and other  
19 transport rates. Having the same rates in both the inter-  
20 and intrastate will eliminate some major problems for the  
21 local companies, many of the problems that were talked  
22 about earlier.

23 Southern Bell feels as if the impact of its  
24 filing has been really blown up and presented to be much  
25 greater than what it actually is. As indicated yesterday,

1 95% of the access charges will be paid by all customers  
2 using switched access. Southern Bell does not believe  
3 that the rates in the rural areas would be forced to  
4 increase, but rather other carriers and other vendors  
5 would probably come in and provide services in those  
6 areas. If anything, competition should actually increase  
7 in those rural areas.

8           As far as imputation of access, we do not feel  
9 as if imputation is any longer needed. Things are  
10 changing in the marketplace, and the benefits of  
11 imputation, which was to bring competition to the end  
12 users of this state, will not be anymore -- is not  
13 appropriate given the changes in the marketplace. The  
14 imputation requirements should not remain in place.

15           Further, the LECs should be allowed the pricing  
16 flexibility to price their transport services to meet the  
17 market pressures. They should not be constrained to set  
18 their price levels as proposed by the other witnesses in  
19 this docket. That concludes my summary.

20           MS. PEED: Mr. Chairman, the witness is  
21 available for cross.

22           CHAIRMAN DEASON: Mr. Hoffman?

23           MR. HOFFMAN: Thank you, Mr. Chairman.  
24  
25

## CROSS EXAMINATION

1  
2 BY MR. HOFFMAN:

3 Q Mr. Hendrix, just a couple questions. Do you  
4 understand that an AAV will want to collocate to provide  
5 end-to-end service between a customer and an interexchange  
6 carrier?

7 A Yes, I do.

8 Q And in order to do that, isn't it true that a  
9 collocator will have to purchase monopoly inputs or  
10 services such as the collocation space itself, the cross  
11 connection and multiplexing service, in order to provide  
12 to the end-to-end service?

13 MS. PEED: I'm sorry, Mr. Chairman, I have to  
14 object. Mr. Hendrix is not the collocation witness for  
15 BellSouth, nor is his rebuttal directed at collocation.

16 CHAIRMAN DEASON: Mr. Hoffman?

17 MR. HOFFMAN: Mr. Chairman, if I may respond.  
18 As part of his rebuttal testimony, Mr. Hendrix takes issue  
19 with the statements of Mr. Andreassi concerning the issue  
20 of imputation. In his testimony on Page 10 he states  
21 that, "as stated by Mr. Andreassi and others in this  
22 proceeding, the local transport portion of switched access  
23 is and will become more competitive once switched access  
24 interconnection is implemented." Yesterday on cross  
25 examination, Mr. Hendrix said, concerning a question on

1 imputation, that there are issues other than transport  
2 that are relevant to the issue of imputation. He stated  
3 we're talking about other providers providing the same  
4 types of services. So my question goes to the monopoly  
5 input aspect of the issue of imputation.

6 CHAIRMAN DEASON: Objection overruled. I will  
7 allow the question.

8 WITNESS HENDRIX: Could you repeat the  
9 question?

10 Q (By Mr. Hoffman) Yes, sir. In order to provide  
11 the end-to-end service between a customer and an  
12 interexchange carrier, isn't it true that a collocator  
13 will have to purchase monopoly inputs or services such as  
14 the collocation space, the cross connection and  
15 multiplexing service in order to provide the end-to-end  
16 service?

17 A If he chooses to collocate in Southern Bell's  
18 office, and that is a choice that he is going to make,  
19 then the answer is yes.

20 MR. HOFFMAN: Thank you. I have no further  
21 questions.

22 CHAIRMAN DEASON: Mr. Wiggins.

23 CROSS EXAMINATION

24 BY MR. WIGGINS:

25 Q Good afternoon.

1           A     Good afternoon.

2           Q     On Page 11 of your rebuttal, Mr. Hendrix, you  
3 address the issue of pricing flexibility.

4           A     Yes, I do.

5           Q     On Line 6, you say, "Mr. Metcalf in effect  
6 stated that once the AAVs have gained all the market share  
7 they can handle, then the Commission should allow the LECs  
8 pricing flexibility." To save a lot of argument, would  
9 you say that it is fair for me to say that that is your  
10 characterization of Mr. Metcalf's testimony?

11          A     In a summary fashion, to speed things on, yes.

12          Q     Then I want to reframe the question and see if  
13 your answer is the same. Mr. Metcalf in effect stated  
14 that once AAVs have gained a tenable foothold in the  
15 market, then the Commission should allow the LECs pricing  
16 flexibility. What is your opinion regarding that  
17 assertion?

18          A     That he would -- that before the LECs are  
19 afforded pricing flexibility, they should demonstrate that  
20 they've lost market share. I mean when you speak of  
21 foothold, I'm not sure what else that could actually  
22 mean. But the market is only so big. When other people  
23 come into the market, something has got to leave.

24          Q     On page -- excuse me, on Line 15 through 17 of  
25 your response, you say, "Southern Bell vigorously opposes

1 the conclusions of Mr. Andreassi and Mr. Metcalf. It is  
2 apparent that the motives for these recommendations self-  
3 serving." I'm assuming that means "are self-serving."  
4 Could you explain to me how -- what you mean that  
5 Mr. Metcalf's motives for asking for delayed flexibility  
6 are self-serving in the terms of his client base -- his  
7 clients, the large users?

8 A Yes. To not allow the LECs in the changing  
9 marketplace to have the flexibility and to price its  
10 services to meet market pressures, but to require that the  
11 LECs lose some market share before being granted that,  
12 then it is simply to allow them to go out and seek other  
13 sources to provide this transport service. He also stated  
14 in testimony that was given Monday, that the AAVs will not  
15 price their services higher than the LEC services. So the  
16 impetus or the incentive is there to move to other  
17 carriers or other vendors to get this service. And so it  
18 is self-serving to the get very best price he can actually  
19 get out in the -- out in the marketplace. So they are  
20 self-serving from that standpoint, to get the very best  
21 price and to hold the LECs down while he's able to go out  
22 and venture far and wide to get whatever price is actually  
23 wanted, or needed, rather.

24 MR. WIGGINS: Thank you. I have no further  
25 questions.

1 CHAIRMAN DEASON: Staff?

2 MS. CANZANO: No questions.

3 CHAIRMAN DEASON: Commissioners? Redirect?

4 MS. PEED: No redirect.

5 CHAIRMAN DEASON: Thank you, Mr. Hendrix. Are  
6 there questions for Mr. Gillan? You have some questions,  
7 okay. Ms. Kaufman you may proceed.

8 (Witness Hendrix excused.)

9 \* \* \*

10 MS. PEED: Mr. Chairman, there is one issue --  
11 I'm sorry, I just woke up. I have some interrogatory  
12 responses of IAC's that I would like to enter into the  
13 record. I don't need to cross examine Mr. Gillan on them,  
14 but I would like to have an exhibit number to enter into  
15 the record IAC's responses to Nos. 16 and 17 of Southern  
16 Bell's First Set of Interrogatories, and their  
17 Confidential Responses to Southern Bell's First Set of  
18 Interrogatories No. 5 and 10. And as far as the  
19 confidential responses, I believe that IAC has filed a  
20 notice of intent to request confidential treatment of  
21 these two responses.

22 CHAIRMAN DEASON: Do you wish to have that  
23 identified as a composite exhibit?

24 MS. PEED: Sure.

25 CHAIRMAN DEASON: That will be identified as

1 Exhibit No. 53. And you do not need to ask questions if  
2 all parties can stipulate this information into the  
3 record?

4 (Exhibit No. 53 marked for identification.)

5 MS. KAUFMAN: Mr. Chairman, we would like an  
6 opportunity to review them.

7 CHAIRMAN DEASON: I think now would be a good  
8 time to take a ten-minute recess anyway. We'll do that  
9 now.

10 (Recess)

11 CHAIRMAN DEASON: Call the hearing back to  
12 order.

13 Ms. Kaufman, did you have an opportunity to  
14 review the exhibit that is to be identified as Exhibit 54,  
15 I believe?

16 MS. KAUFMAN: Yes, Mr. Chairman. Is it 54 or  
17 53?

18 CHAIRMAN DEASON: I'm sorry, it's 53.

19 MS. KAUFMAN: I did, and we have no objection.

20 CHAIRMAN DEASON: Okay, Ms. Peed, you're moving  
21 that into the record at this time?

22 MS. PEED: Yes.

23 CHAIRMAN DEASON: Without objection, Exhibit 53  
24 is admitted and you may proceed with your witness now.

25 (Exhibit No. 53 received into evidence.)

1 MS. KAUFMAN: Would you like me to eliminate the  
2 preliminaries and just that ask that his testimony be  
3 inserted into the record?

4 CHAIRMAN DEASON: Is there any objection to the  
5 insertion of Mr. Gillan's rebuttal testimony? Without  
6 objection it will be inserted.

7  
8  
9  
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25

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**In Re: Petition for expanded  
interconnection for alternate  
access vendors within local  
exchange company central offices  
by INTERMEDIA COMMUNICATIONS  
OF FLORIDA, INC.**

**DOCKET NO. 921074-TP**

**In Re: Request for approval of  
tariff filing to restructure  
Switched Access Local Transport  
by BELL SOUTH TELECOMM-  
UNICATIONS, INC. d/b/a  
SOUTHERN BELL TELEPHONE AND  
TELEGRAPH COMPANY  
(T-93-552 FILED 9/15/93)**

**DOCKET NO. 930955-TL**

**In Re: Request for approval of  
tariff filing to restructure  
local transport element of  
switched access service by  
UNITED TELEPHONE COMPANY  
OF FLORIDA (T-93-728 FILED  
12/17/93)**

**DOCKET NO. 940014-TL**

**In Re: Request for approval of  
tariff filing to restructure  
local transport element of  
switched access service by  
CENTRAL TELEPHONE COMPANY  
OF FLORIDA (T-93-727 FILED  
12/17/93)**

**DOCKET NO. 940020-TL  
ORDER NO. PSC-94-0076-  
PCO-TL  
ISSUED: January 21, 1994**

**REBUTTAL TESTIMONY OF JOSEPH GILLAN  
ON BEHALF OF  
INTEREXCHANGE ACCESS COALITION**

**Q. Please state your name and business address.**

**A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando,  
Florida, 32854.**

1 Q. What is the purpose of your rebuttal testimony?

2  
3 A. The purpose of my rebuttal testimony is to respond to the testimony of local telephone  
4 company ("LEC") witnesses requesting additional pricing flexibility with the advent of  
5 limited competition for switched access transport service. I recommend that a single  
6 form of pricing flexibility, zone pricing, be granted for the local telephone companies  
7 to respond to competition -- subject to a requirement that price reductions apply on a  
8 non-discriminatory basis to all transport customers within a zone. In addition, my  
9 rebuttal testimony responds to the claims of several LEC witnesses that their proposed  
10 restructure of local transport service should be approved despite the absence of any  
11 cost support for proposed rate levels which are discriminatory.

12  
13 Finally, I respond to the LECs' request to selectively exempt their own toll services  
14 (to one degree or another) from the effect of the transport structure either by avoiding  
15 the Commission's imputation standard, exempting interLEC ("MABC") toll traffic.  
16 There is no justification for allowing one LEC to discriminate in the access charges  
17 applied to the toll traffic of another carrier simply because that carrier is also a local  
18 telephone company in a different part of the state.

19  
20 Q. Why do you characterize the potential for access competition as being "limited"?

21  
22 A. The competitive opportunity presented by expanded interconnection is overstated.  
23 While this event makes it theoretically possible for interexchange carriers to use an

1 alternative provider for their dedicated transport needs, no real competition has yet  
2 developed.

3  
4 Notably, Southern Bell has not received a single request for collocation in Florida --  
5 the "potential" for competition has not translated to a "reality" anywhere in the state.  
6 While competition may develop in the future, the Commission should recognize that  
7 the intrastate dedicated transport is a relatively small market -- only \$9 million for  
8 Southern Bell. This is less than 4 percent of its intrastate switched access revenues  
9 (\$236 million for 1993).

10  
11 Q. Are the LECs' requests for pricing flexibility inappropriate?

12  
13 A. To a large extent, yes. But the real question is not *whether* the LEC should be  
14 provided pricing flexibility, the relevant question is what *form* the flexibility should  
15 take.

16  
17 The single greatest danger in access pricing is discrimination between access  
18 customers -- i.e., interexchange carriers. The restructure of local transport service  
19 provides the LECs the opportunity to discriminate between customers of different size  
20 by introducing non-cost based rate relationships between transport options. In a  
21 nutshell, this is the real issue behind the transport debate. Using the cloak of moving  
22 towards "more" cost-based rates, the LECs want to introduce non-cost "market-based"  
23 rate differentials.

1 Access service is the fundamental underlying cost of interexchange service. If the  
2 LECs are permitted to discriminate among interexchange carriers -- selectively  
3 reducing contribution for some while denying equivalent relief for others -- the LECs  
4 will seriously distort interexchange competition through access pricing. The entire  
5 point of divestiture -- to separate interexchange competition from access favoritism --  
6 will be lost.

7  
8 Q. What types of pricing flexibility are appropriate?

9  
10 A. The key objective should be pricing flexibility which allows the LEC to move its  
11 access rates closer to cost in a non-discriminatory manner for all access customers.  
12 Both elements must be met.

13  
14 Clearly, the present form of pricing flexibility -- the contract service arrangement  
15 ("CSA") -- is an anathema to interexchange competition because it presupposes  
16 discrimination on a customer-by-customer basis. This form of flexibility is  
17 completely unacceptable for a service that is intended to be a wholesale input to the  
18 long distance industry. Just as the earth's surface reflects the geological pattern of  
19 plates and faults which underlie it, the competitive landscape of the interexchange  
20 marketplace will be determined by its underlying access costs.

21  
22 Q. Why should the Commission be concerned with the competitiveness of the  
23 interexchange market when establishing access pricing policy?

1 A. Because the only way that access policy benefits end users is through the prism of  
2 interexchange competition. Without competition, access reductions enjoyed by only  
3 one or two carriers are unlikely to flow through to end-users and will become  
4 windfalls for those companies. And, in an unfortunate Catch 22, to the extent that  
5 dependent discriminatory access reductions *do result* in rate reductions, they will be at  
6 the expense of fair competition. In either event, the public interest demands that  
7 access pricing not distort interexchange competition.

8  
9 Q. What type of flexibility should replace CSA authority for switched access service?

10  
11 A. The principal LEC argument appears to be that geographic conditions affect their  
12 costs and that charging an averaged rate prevents the LECs from effectively  
13 competing. The answer is to allow zone pricing. With zone pricing the LECs are  
14 able to reduce prices closer to costs while maintaining appropriate relationships  
15 among transport options and customers. In this way -- and only in this way -- the  
16 LEC can be permitted to respond to competition while customers are protected from  
17 discrimination. In this regard I agree with United Witness Poag, the inherently  
18 discriminatory CSA approach should be replaced by non-discriminatory zone prices.

19  
20 Q. Is zone pricing flexibility adequate for the LECs to compete?

21  
22 A. Yes. Zone pricing allows the LECs to reduce rates for all access customers. The  
23 LECs do not need an additional ability to discriminate between IXC's to effectively

1 compete with AAVs. If the LEC establishes non-discriminatory rates, the AAV's  
2 rates must follow with rates that are similarly non-discriminatory.

3  
4 **Q. Should AAVs be required to file tariffs?**

5  
6 **A. Yes. Where AAVs have facilities and offer switched access transport, they should**  
7 **tariff so that any IXC can obtain service on equivalent terms and conditions. The**  
8 **AAVs should not have any more opportunity to discriminate between IXCs than the**  
9 **incumbent LECs. This standard eliminates any justification for the LECs being**  
10 **allowed the customer-specific discrimination that is the essence of a CSA.**

11  
12 **Q. Should the Commission's approve GTE's SAFD proposal?**

13  
14 **A. No. GTE's discount matrix would allow for GTE to selectively price virtually every**  
15 **combination of term and volume commitment without cost justification. The**  
16 **threshold criteria for access pricing -- non-discrimination -- cannot be maintained**  
17 **under this structure. At this time, the only pricing flexibility that the Commission**  
18 **should allow is zone pricing.**

19  
20 **Q. Have you reviewed the LECs' justification for their proposed transport rates?**

1     **A.     Yes. The LECs have essentially justified their proposed rate levels by the argument**  
2     **that if a rate exists in their interstate tariff, it should be presumed just and reasonable**  
3     **by the Florida Commission.**

4  
5     **Ironically, GTE adopts this standard both to justify *this* filing ("GTE Florida's prices**  
6     **for its local transport rate elements . . . mirror the Company's interstate LTR tariff" -**  
7     **- Lee District page 10), while rejecting the standard for future filings ("Rates should**  
8     **not necessarily be mirrored but should be determined by market factors . . ." -- Lee**  
9     **District page 9). In other words, access shouldn't be regulated.**

10  
11     **Southern Bell leans even more heavily on the FCC's decision by arguing that this**  
12     **Commission should approve its rates with the claim they will further three goals:**

- 13  
14     **1.     Encourage more efficient use of transport facilities;**  
15  
16     **2.     Facilitate full and fair interexchange competition; and**  
17  
18     **3.     Allow the development of access competition.**  
19

20     **While these objectives are worthwhile, the reality is that none will be met under the**  
21     **rate levels proposed by Southern Bell. Rather, Southern Bell's tariff (and GTE's and**  
22     **United's) introduce discriminatory, non-cost based rates into the access environment**

1 that would seriously disrupt interexchange competition and encourage wasteful  
2 network reconfigurations, all without furthering access competition one bit.

3  
4 **Q. Would the restructure of access transport service achieve any of the objectives**  
5 **identified by Southern Bell's witness Mr. Hendrix?**

6  
7 **A. No. The only way that interexchange carriers will be encouraged to order the most**  
8 **efficient combination of network facilities is if the price relationships among the three**  
9 **transport options -- tandem switched, DS1 and DS3 -- reflect the underlying cost**  
10 **relationship to Southern Bell. Similarly, fair interexchange competition requires that**  
11 **price level differences among the transport options (and, as a consequence, among the**  
12 **interexchange carriers) reflect only cost differences. Finally, access transport**  
13 **competition will be thwarted by rates which encourage large customers to order**  
14 **excess capacity from Southern Bell, effectively locking the AAVs out of this market.**

15  
16 **Q. Southern Bell argues that the new structure will encourage interexchange carriers**  
17 **to be "more efficient." Do you agree?**

18  
19 **A. No. First, Southern Bell is in error when it implies that interexchange carriers did**  
20 **not face incentives to be efficient under the old structure. Every access circuit must**  
21 **connect to an IXCs, and that IXC circuits must then extend to the nearest IXC switch**  
22 **where it requires a port and other equipment. For each of these items -- transmission**

1 facilities, termination equipment and switch ports -- the IXC incurs costs and has an  
2 incentive to use both its and the LEC's access network efficiently.

3  
4 Second, IXCs will face appropriate incentives only if rate relationships reflect costs.  
5 Logically, IXCs should use tandem transport where they have low traffic volumes and  
6 can't load dedicated circuits very efficiently. As the IXC's traffic volume grow, the  
7 IXC should be encouraged to move traffic to dedicated circuits when the IXC can  
8 load those circuits efficiently. Finally, at very high traffic volumes it might make  
9 sense for the IXC to perform DS1-to-DS3 multiplexing rather than the LEC, thereby  
10 ordering DS3 units of capacity instead of DS1. Efficient network incentives exist  
11 when there are rational and consistent cross-over points between the three interoffice  
12 options: TST, DS1 and DS3. If the price relationships don't reflect cost  
13 relationships, these incentives will be seriously distorted.

14  
15 Exhibit (JPG - 7) provides the crossover points between the TST, DS1 and DS3  
16 options at two sample mileages: 2 miles and 32 miles. This exhibit shows the  
17 perverse incentives presented by the Southern Bell rates. In short mileage conditions,  
18 carriers are encouraged to "step up" to higher capacity options even though they  
19 cannot fill them. At longer mileages, the only "economic" choices are tandem switch  
20 transport or DS3 transport -- with the later option 60% idle. While the present rate  
21 structure is effectively neutral in how it influences carrier behavior, the new non-cost  
22 rate relationships proposed by Southern Bell encourage inefficiency by rewarding it  
23 with lower prices.

1 Finally, GTE's own demand projections demonstrate the insane incentives of the rates  
2 it has proposed. GTE expects carriers to order 55% more capacity to handle the  
3 same traffic as they "optimize" under its rates. Clearly these prices cannot be said to  
4 "encourage" a more efficient use of the network.

5  
6 Q. Southern Bell implies that the impact of this plan is trivial. Please comment.

7  
8 A. In the competitive interexchange market, fractions of a penny in access cost have  
9 significant impacts on interexchange carriers cost structures, pricing options and  
10 profitability. We have all seen AT&T advertisements which emphasize that price  
11 competition is a matter of only a few cents per call. In a market characterized by  
12 razor thin margins, price discrimination measured in the "tenths of a cent" in access  
13 cost can have a major impact on competitive positioning and profitability.

14  
15 Further, it is important to remember that all interexchange carriers today pay far  
16 more to the LECs for transport than it costs to serve them. If the LECs were truly  
17 moving towards cost-based rates, then every carrier would be facing a reduction. The  
18 only reason that any carrier will see an increase from the restructure is because of  
19 LEC's desire to be "revenue neutral". If LEC's are convinced that a fraction of a  
20 cent is too small to be of concern, then they should cap each interexchange carrier's  
21 cost at the existing rate and absorb the difference.

22  
23 Q. Are you recommending that the LECs not be permitted "revenue neutrality"?

1 A. No, but the quid pro quo for revenue neutrality -- not to mention the introduction of  
2 zone pricing -- is non-discriminatory rates. Unlike the FCC, this Commission can  
3 establish new transport rate levels that reflect underlying cost conditions because it  
4 can review the relevant cost information.

5  
6 Q. Are cost-based rates compatible with mirroring?

7  
8 A. Yes. Southern Bell itself recognizes that the structure can be mirrored without each  
9 rate element being identical. GTE actually recommends that only the structure be  
10 mirrored. In fact, none of the LECs propose that the interconnection charge be the  
11 same in the interstate and intrastate tariffs. Under either the LEC's proposal or cost-  
12 based rates, the LEC's remain revenue neutral -- that is, the average price for  
13 transport is the same as under both approaches. Because both approaches adopt the  
14 interstate structure, and both approaches have an identical average price, they each  
15 adhere to mirroring to roughly the same degree. Finally, nothing prevents Southern  
16 Bell or GTE from using the flexibility they enjoy under price caps to move their  
17 interstate transport rates toward cost (thereby mirroring the Florida rates).

18  
19 Q. Should the Commission proceed with the restructure?

20  
21 A. The potential benefits of the new structure for access transport service are entirely  
22 dependent upon rate levels that reflect underlying costs. Without this assurance, the  
23 structure seriously disrupts interexchange competition and encourages wasteful and

1 unnecessary network reconfigurations. As a result, the new structure can be  
2 implemented only in combination with cost-based rate relationships. Because the  
3 LEC's prices are not cost-based, they should be rejected.

4  
5 Q. Should local transport restructure proceed in light of the U.S. Court of Appeals  
6 Decision?

7  
8 A. No. The entire underpinning of the (potential) competition for access transport  
9 service was the FCC's decision allowing physical collocation. Without this ability,  
10 other carriers cannot enter the LEC central office and, if they can't enter the central  
11 office, they cannot offer a competitive alternative to the LEC's switched transport  
12 network.

13  
14 The U.S. Court of Appeals decision vacated this critical element of the decision --  
15 effectively reversing the entire basis for potential access competition. The potential  
16 for access competition is now back at square one and any claim that the transport  
17 restructure is necessary to respond to competition is hollow. Therefore, the transport  
18 restructure should not proceed without a determination on how interconnection will be  
19 accomplished.

20  
21 Q. Should the Commission's MABC and imputation standards be modified?  
22  
23  
24  
25

1 A. Yes. The Commission should not allow one LEC to favor the toll services of another  
2 LEC simply because they both provide local exchange service in different parts of the  
3 state. Coincident with the introduction of the local transport restructure on  
4 interexchange carriers, the LECs should incorporate the same elements to the MABC  
5 plan.

6  
7 Furthermore, the Commission should explicitly reject (once again) Southern Bell's  
8 efforts to side step the Commission's imputation standards by providing itself  
9 switched access at special access prices. The Commission's current policy to limit  
10 the imputation of special access to only those instances where a special access line is  
11 used should not be changed.

12  
13 Finally, the LECs should be required to impute transport applying rates for the  
14 tandem switched interoffice option until such time as they provide data demonstrating  
15 a different network configuration. In addition, the Commission should initiate  
16 workshops to impute (at a minimum) the unavoidable rate elements for collocation to  
17 reflect the least cost charges for the entrance facility component.

18  
19 Q. Does this conclude your rebuttal testimony?

20  
21 A. Yes.

1 MS. KAUFMAN: And Mr. Gillan does have one  
2 exhibit, Mr. Chairman, labeled JPG-7, that I would ask for  
3 a number for.

4 CHAIRMAN DEASON: That will be identified as  
5 Exhibit 54.

6 (Exhibit No. 54 marked for identification.)

7 JOSEPH GILLAN

8 was recalled as a witness on behalf of Interexchange  
9 Access Coalition, and having been duly sworn, testified as  
10 follows:

11 DIRECT EXAMINATION

12 BY MS. KAUFMAN:

13 Q Mr. Gillan, do you have a summary of your  
14 testimony?

15 A I, in fact, even have a summary of my summary.

16 Q Please proceed.

17 A My rebuttal testimony in main addresses three  
18 points: One, the local telephone companies' requests for  
19 pricing flexibility; two, their claim that the proposed  
20 prices that they've contained in there will make the  
21 network more efficient; and three, that the impact on  
22 interexchange competition will be trivial.

23 As to the first point, the pricing flexibility  
24 that the local telephone companies request, perhaps  
25 surprisingly, but as a customer, again, we're not opposed

1 to the local telephone companies having some additional  
2 pricing flexibility so long as, A, it's proportionate to  
3 the level of competitive activity; and secondly, that it  
4 is not discriminatory. Those are our only two real  
5 requests.

6           As far as it being proportionate to the level of  
7 competitive activity, we think it is important that  
8 despite the length of these hearings and the amount of  
9 time we spent, we are, in final event, at least BellSouth,  
10 talking about a \$9 million market.. That's what the size  
11 of the dedicated transport market in Florida is today for  
12 Southern Bell.

13           As to the second point, give them pricing  
14 flexibility, we're not opposed to it so long as it allows  
15 them to move the rates closer to costs and it's not  
16 discriminatory. In our view that means the Commission  
17 should allow them to have zone pricing where they can  
18 reduce their prices in areas and regions to get them  
19 closer to cost, so long as they cannot discriminate  
20 between interexchange carriers within those zones.

21           On the other hand, that also means that the  
22 contract service arrangement is a type of pricing  
23 flexibility that's inappropriate to this marketplace, that  
24 access service really isn't a service that has unique  
25 characteristics, and the CSA process is not well suited to

1 it.

2           And finally, like AT&T, and U.S. Sprint, we too  
3 are opposed to GTE's SFD proposal. I think it's useful to  
4 note that in the name of responding to the market, GTE has  
5 proposed a plan where every single one of their customers  
6 in this hearing has asked you to deny it. And as market  
7 responses go, when all the customers come in and complain,  
8 it's probably not helping them very much.

9           Second main point, the LECs' claim about network  
10 efficiency. Will there be network efficiency gains? Is  
11 this what that is about? Our testimony is and our  
12 analysis is no, unless the Commission makes the rates be  
13 cost based. This docket surrounds, once again, three  
14 different transport options -- really a single service  
15 here, transport, three options, and carriers are going to  
16 make their decision about which one of these options to  
17 buy based on the relative pricing. And if the price of  
18 one option relative to another reflects the cost  
19 relationship, then the circuits we order and the decisions  
20 we make reflect the costs that we incur on the network,  
21 and the decisions we make will be optimal. On the other  
22 hand, to any extent that these prices, the actual charge  
23 prices, distort those relationships, we're going to make  
24 purchasing decisions that are similarly distorted.

25           My rebuttal testimony, I calculated the impact

1 of what type of incentives we face to reconfigure our  
2 network. There are really two decisions carriers face,  
3 when to move from tandem transport to DS1, and when to  
4 move from the DS1 option to DS3. And I calculated at what  
5 -- what type of efficiencies we would get based on the  
6 prices that BellSouth was proposing, because to the extent  
7 that the price difference is artificially inflated over  
8 the cost difference, carriers will switch between these  
9 options much sooner than is economic.

10 I did this calculation at two different mileage  
11 bands. When carriers switch from tandem-switched  
12 transport to DS1 at the two-mile band, it becomes economic  
13 at a point where we actually leave the DS1 62% empty.  
14 This is how much excess capacity we will have in that DS1  
15 given the prices that are being proposed here in the name  
16 of economic efficiency. At 32 miles, our excess capacity  
17 actually becomes negative. What that means is that in the  
18 long mileage bands, no matter how much traffic we could  
19 put on a DS1, no matter how efficient it could be, we can  
20 act -- there's naturally never a point at which it becomes  
21 economic to use that transport option. Why? Because the  
22 rates have nothing to do with cost. And by not having  
23 anything to do with the cost, in a short mileage  
24 situation, you buy a ton of extra capacity and you have it  
25 sit idle. In the long mileage situations, this option

1 never even proves to become economic, despite the fact  
2 that there will be situations where it does.

3           The situation is just as disturbing in the cross  
4 point between DS1 and DS3. In the short mileage you would  
5 buy -- you would switch to a DS3 and leave almost half of  
6 it empty in the name of economic efficiency. In the  
7 longer situation, approximately -- you would make the same  
8 decision and you have approximately 62% of it empty. By  
9 and large, this whole system is a system designed because  
10 of these distorted rate relationships to encourage the  
11 wasteful use of capacity. And so it shouldn't be  
12 surprising that when GTE ran their model and they asked  
13 what is the network going to look at after carriers  
14 reconfigure based on these new incentives --

15           MR. TYE: Mr. Chairman, I object on the same  
16 grounds that the counsel for IAC objected to GTE's  
17 summary, this is going beyond the summary. There's  
18 nothing in Mr. Gillan's rebuttal testimony that I see that  
19 has anything to do with GTE's model.

20           CHAIRMAN DEASON: Mr. Gillan, is this within  
21 your prefiled rebuttal testimony.

22           WITNESS GILLAN: Page 10, Lines 1 through 4.  
23 And the figure is --

24           CHAIRMAN DEASON: Please proceed.

25           WITNESS GILLAN: The point was that GTE itself

1 projected that its capacity requirements would go up by  
2 55%, that it would take 55% more circuits to provide  
3 transport under the new arrangement after carriers had  
4 reconfigured. Economic efficiency? No.

5           The final point -- this goes to the description  
6 in many of the LECs' testimony, BellSouth's in particular,  
7 that somehow this impact is trivial, and that because it's  
8 a trivial impact on interexchange carriers by Mr. Hendrix'  
9 testimony in the tenths of a cent, that this commission  
10 shouldn't care. The problem is that the interexchange  
11 carrier industry has very thin profit margins. A tenth of  
12 a cent may be nothing to Southern Bell, but it's a very  
13 big deal to these market participants. And I point out,  
14 if it means so little to Southern Bell, then Southern Bell  
15 could just as easily adopt our prices, or not be  
16 revenue-neutral and not increase anybody's rates, or do  
17 some other act. The reality is this is real money and  
18 it's very important in this market. And that concludes my  
19 summary.

20           MS. KAUFMAN: Mr. Gillan is available for cross  
21 examination.

22           MS. PEED: Mr. Chairman, I'm sorry, I just have  
23 one question. I said I didn't have one before, but I just  
24 have one.

25           CHAIRMAN DEASON: Please proceed.

## CROSS EXAMINATION

1  
2 BY MS. PEED:

3 Q Mr. Gillan, you mentioned that the intrastate  
4 dedicated transport market is a relatively small market,  
5 approximately \$9 million; is that correct?

6 A That's correct.

7 Q Isn't it -- are you counting for the revenues  
8 associated with the interconnection charge?

9 A Of course not. That's not a market that the CAP  
10 -- the CAPs can't charge an interconnection charge. They  
11 don't have an interconnection charge. If they have  
12 expanded interconnection, what they can do is sell a  
13 portion of the dedicated transport to an interexchange  
14 carrier, but once they connect back to your network,  
15 everyone pays you the interconnection charge. The  
16 interconnection charge is protected from competitive  
17 threat.

18 Q But isn't it true that the interconnection  
19 charge, or the RIC, as it's been referred to in this  
20 proceeding, is approximately \$20 million intrastate?

21 A Yes, but that doesn't mean that it's subject to  
22 competitive pressure under expanded interconnection.

23 Q But isn't it true that it is subject to bypass?

24 A But that's subject to the bypass that exists  
25 today. That equation hasn't changed at all. Today the

1 switched access rates are high. They're going to redo  
2 this service some and they're going to allow competition,  
3 perhaps, to develop for one component of it. But the only  
4 way to avoid the RIC is to avoid their switch, to avoid  
5 their entire service and go all the way around and connect  
6 to the end user directly. But that's what's been there  
7 all along. That's what's there today. That's been there  
8 since 1984. Everyone has always had the ability to avoid  
9 buying switched access if they could go to a customer that  
10 was large enough to build a line to them directly and then  
11 convince that customer that they should separate their  
12 long distance calling from their local calling. By and  
13 large that's a market event that's over.

14 Commissioner Clark, you were in the GTE case  
15 where they tried to make their SAVE proposal. And the  
16 SAVE proposal is --

17 MS. CASWELL: Objection. I don't think that's  
18 at issue in this proceeding at all.

19 CHAIRMAN DEASON: Care to respond to the  
20 objection?

21 MS. KAUFMAN: I think Mr. Gillan is attempting  
22 to give an illustration. I think that that is  
23 appropriate.

24 CHAIRMAN DEASON: And I agree and I will  
25 overrule the objection and allow him to use that as an

1 example.

2           WITNESS GILLAN: The example actually wasn't  
3 with SAVE. It was with some facts that came up in those  
4 discussions, because what they were concerned with was  
5 people going in and connecting to large users. But it  
6 turned out that there was like three customers remaining  
7 out there, according to their own analysis, that hadn't  
8 already gone to special access. So the RIC is no  
9 different than the fact that today your prices are  
10 inflated, they'll remain inflated, but it's sustainable  
11 because the only way to avoid those prices is to connect  
12 to end users directly, and people aren't talking about  
13 developing ubiquitous networks that replace the local  
14 telephone companies' network in this docket. That's not  
15 the issue. It's simply expanded interconnection and a few  
16 pieces of dedicated transport that could become  
17 competitive as a consequence of that policy action, which  
18 is \$9 million in total for you today.

19           Q     (By Ms. Peed) But it is true that once switched  
20 interconnection is approved and the local monopoly is open  
21 to competition, that that type of competition is going to  
22 increase and there is going to be an impetus to circumvent  
23 any service that has a RIC applied to it?

24           A     No. I think you're completely misconstruing  
25 what switched interconnection is about. Switched

1 interconnection simply means -- in fact, it's sort of a  
2 misnomer because it sounds like it's switched competition  
3 and it isn't. All it means is that an interexchange  
4 carrier could use a dedicated pipe off from somebody else  
5 to connect to one of your switches. What's being opened  
6 up is the ability of using somebody else to connect to  
7 your switch.

8 CHAIRMAN DEASON: Mr. Gillan, I believe the  
9 question was if local service, the local monopoly is open  
10 to competition.

11 WITNESS GILLAN: Oh, I'm sorry. If the local  
12 monopoly is open to competition and it proves that it's  
13 economically feasible for there to be multiple local  
14 telephone companies, and it turns out that subscribers  
15 actually subscribe to more than one local telephone  
16 company at a time, so that there's switched access  
17 competition, that when the interexchange carrier wants its  
18 calls, it can go make its switched access purchase  
19 decision separate from the local -- end user's decision of  
20 their local telephone company, you could have that  
21 situation. But those are three pretty -- the easiest of  
22 those assumptions is that the state of Florida changes its  
23 law. Probably the next easiest assumption, but it's a  
24 giant leap, is that something actually goes out and builds  
25 a ubiquitous local telephone network, puts in a switch and

1 starts signing up subscribers, then you still you have the  
2 third condition that you have to satisfy that subscribers  
3 choose to connect to both networks at the same time so  
4 that there is competition between those networks for  
5 delivery of traffic to an interexchange carrier. And to  
6 me those are -- that may happen, but it isn't to going to  
7 happen at the conclusion of this docket and it may not  
8 happen in the conclusion of my life time, or this trip,  
9 which ever comes first.

10 Q (By Ms. Peed) But the short answer to the  
11 question, can the RIC be bypassed, is yes?

12 A Yes, but to the exact same --

13 Q Well, it's the short answer.

14 A The short answer is yes, but the clarification  
15 is, yes, as a result of the fact that it's the same as me  
16 bypassing you today. And to the exact statement extent  
17 that I can't -- any interexchange carrier can effectively  
18 bypass you to reach switched access customers today  
19 remains in the future.

20 Q That's everything I possibly could have.

21 CHAIRMAN DEASON: Mr. Fons?

22 MR. FONS: I have a few questions.

23 CROSS EXAMINATION

24 BY MR. FONS:

25 Q Mr. Gillan, you indicated in your brief summary

1 that there are certain inefficiencies built into crossover  
2 points. Is that correct?

3 A Yes.

4 Q And these crossover points are in the DS1 to  
5 DS3?

6 A Yes.

7 Q And do your clients offer DS1 and DS3 services?

8 A We offer retail products that correspond to your  
9 special access products. We don't have any products that  
10 are equivalent to the switched access transport product  
11 that we're discussing here today.

12 COMMISSIONER CLARK: Mr. Gillan, I have to say,  
13 he used some terms and you used others, and I can't marry  
14 them up at all.

15 WITNESS GILLAN: Well, that's actually a very  
16 important point.

17 COMMISSIONER CLARK: Let me stop you. I want an  
18 answer to his question in his terms.

19 WITNESS GILLAN: I will have to have his  
20 question --

21 Q (By Mr. Fons) Do your clients offer services,  
22 DS1 and DS3 services, that have a crossover point?

23 A They offer DS1 and DS3 services which are not  
24 like all -- this is where the confusion is coming about,  
25 Commissioner.

1 Q I think you can answer the question. Do they  
2 have a crossover point?

3 A Yes, for services that are not like the ones at  
4 dispute here, and that's where the complication is.

5 Q But you offer a DS1 and a DS3 service?

6 A Yes, we do, but they're not like the ones here.

7 Q But they have a crossover point?

8 A Yes.

9 Q And aren't there inefficiencies in that  
10 crossover point?

11 A There could be if those services that we offered  
12 were actually substitutes for one another in the way that  
13 these are, but that's not the way those services are  
14 provided to the market.

15 CHAIRMAN DEASON: Why are they not substitutes?

16 WITNESS GILLAN: Okay, now we're back -- now,  
17 actually it goes to something that's sort of been  
18 surrounding this. The LECs today, we today, in the retail  
19 marketplace, sell a DS1 and a DS3 as a service. Okay.  
20 And these are private lines, they're out to customers, and  
21 I'm using the word "service" here because someone who  
22 wants a DS1 service and someone who wants a DS3 service  
23 typically are very different types of customers doing them  
24 for different things, and you can go into the marketplace  
25 and charge them different prices because they're actually

1 not using the products in the same way and they're not  
2 competing against each other.

3           For instance, the interexchange carriers  
4 frequently offer large volume voice customers the  
5 opportunity to connect directly with a POP. The Megacom  
6 is the AT&T name. Typically those type of customers would  
7 buy capacity in DS1 increments, okay? DS3s, much larger,  
8 don't have anywhere -- aren't as prevalently used in that  
9 type of situation in the marketplace. A big user of DS3  
10 service, television stations, television stations can put  
11 video on a DS3, and so you can see where over time prices  
12 for a DS1 product that is out there being sold to banks  
13 and data companies and large voice users would be priced  
14 completely differently than a DS3 service sold to  
15 interexchange carriers or to television stations, or to  
16 very, very large users. They ended up with different  
17 pricing, much along the types of theory that Mr. Beauvais  
18 was talking about. You know, the market would bear.

19           What we're talking about here is the fact that  
20 when we buy transport, the network can be configured in a  
21 couple of different ways at a DS1 level, a DS3 level or a  
22 tandem-switched transport level, but those really aren't  
23 different services, they're just different options of how  
24 to buy it.

25           CHAIRMAN DEASON: Let me interrupt you. Is

1 there not a situation where there could be a customer who  
2 could look at your pricing, and instead of subscribing to  
3 12 DS1s, just gets one DS3?

4 WITNESS GILLAN: That's correct. That is true.  
5 But, typically, the customers that interexchange carriers  
6 deal with, they're not planning on growing in that DS3.  
7 If it's cheaper, they'll do it, but typically we're  
8 selling our DS1s in 1s and 2s and 3s, and that that  
9 crossover then reflects a completely different market  
10 segment of people that have a very large capacity need.  
11 It isn't just a natural switch point between how you hand  
12 the traffic to a local telephone company. And that's  
13 really the concern -- if you take this through, that's the  
14 concern we ended up with.

15 COMMISSIONER CLARK: Is that true because you  
16 are not the end user, you are a reseller of the service?

17 WITNESS GILLAN: Right --

18 COMMISSIONER CLARK: End user just cares about  
19 accomplishing his data transmission or transmitting video;  
20 but you're buying that to repackage it into another  
21 service?

22 WITNESS GILLAN: That's partially the reason.  
23 In the retail marketplace the people who want a DS1 can be  
24 pretty well easily distinguished from the people who want  
25 a DS3, and you can have different prices, and they're not

1 really -- they're not really substitutes because there are  
2 customer groups of different sizes. In this market all  
3 we're talking about is there's really one interoffice  
4 network out there, and these are just different ways of  
5 configuring it.

6           And the concern -- we understand everything that  
7 they said about pricing today -- well, not everything they  
8 said, but an awful lot about what they said about pricing  
9 we understand and appreciate insofar as they go into the  
10 retail marketplace, and that's how they set their prices.  
11 And we're not here complaining about their special access  
12 prices, and we're not here complaining about their private  
13 line prices. We are complaining about this product which  
14 is just a wholesale input to long distance carriers to  
15 provide service.

16           And we just -- and the bottom line is the  
17 pricing rules we want applied here we feel are necessary  
18 because the dangers of that discrimination are completely  
19 different in this market where we're competing against  
20 each other than they are if a television station pays a  
21 lower amount of contribution than the bank. Do we have a  
22 problem with that? No, we're not unrealistic. We realize  
23 that that's a way for the local telephone company to  
24 price, and we're not complaining.

25           But if you take that same philosophy into this

1 market and you say AT&T's customers should pay lower  
2 contribution than the customers of MCI or the customers of  
3 Sprint or the customers of LDDS, that's a completely  
4 different set of problems, because realistically, AT&T and  
5 LDDS and MCI, they're not final users of the product from  
6 the local telephone company. We all then have to  
7 translate this in the long distance service to sell it in  
8 the long distance marketplace, and if over time AT&T has  
9 an advantage that other people don't have that's  
10 completely unrelated to their costs, we're going to start  
11 losing customers, and those customers are going to be  
12 shifting over to other carriers simply because they're  
13 able to make a smaller contribution on AT&T's service than  
14 on ours. And that's the bottom line of our concern. We  
15 find this product to be unique. We think it needs to be  
16 cost based and that's why we're here talking to you.

17 Q (By Mr. Fons) Whew. Sore spot?

18 A Sore spot in this --

19 Q Joe, Joe. All I want to know, Joe, is your  
20 crossover points. Your clients on DS1 and DS3, they're  
21 driven by the marketplace, aren't they?

22 A Yes, they are, because the marketplace can be  
23 segmented between those customers classes. But if you  
24 allow that same type of segmentation in this marketplace,  
25 the consequence is different. And that's the point that I

1 think needs to be clear, we understood what we're looking  
2 at in this docket.

3 Q The LECs have customers that are buying DS1 and  
4 DS3, don't they?

5 A Yes, they do.

6 Q And the marketplace can drive those crossover  
7 points just as well?

8 A I'm not objecting to those crossovers in that  
9 marketplace, but I think there's a completely different  
10 question raised when you try and take those crossovers  
11 that were designed for that marketplace between banks and  
12 television stations, and you bring them over into this  
13 marketplace between interexchange carriers. That's the  
14 whole fulcrum of it. And it's not a sore point, but yeah,  
15 I do feel like I was a victim of regulatory bait and  
16 switch because the FCC looked at these rates, and people  
17 were telling them to approve these rates because they're  
18 cost based. There aren't any cost studies to look at,  
19 but, hey, approve these rates, they're cost based. I come  
20 here and you're told approve these rates because the FCC  
21 did it and they're market based. But they're the same set  
22 of rates. Which is it?

23 MR. FONS: I don't think I have to answer  
24 questions from Mr. Gillan, do I? Maybe my own witness,  
25 yes, but not of Joe Gillan.

1           CHAIRMAN DEASON: Maybe you can get Mr. Poag to  
2 ask the questions.

3           MR. FONS: I am going to. No further  
4 questions.

5           CHAIRMAN DEASON: Mr. Hoffman?

6           MR. HOFFMAN: No questions.

7           MS. BRYANT: I have a few.

8                           CROSS EXAMINATION

9 BY MS. BRYANT:

10          Q     Mr. Gillan, I think you stated in your  
11 testimony, and you just responded to Mr. Fons that the FCC  
12 approved these rates absent any cost data; is that  
13 correct?

14          A     That's correct.

15          Q     And these are the same rates that are being  
16 considered in this proceeding with the exception of the  
17 RIC; is that correct?

18          A     That's correct.

19          Q     Now, during the FCC's proceeding, were any other  
20 factors included in setting those rates, such as  
21 multiplexing?

22          A     No, they didn't -- no. In fact, they did not  
23 set the rates. What they did was they adopted a structure  
24 that they thought could be more cost based. And then they  
25 started casting about of how do I set the prices? We

1 suggested a 28-to-1 type of approach with some  
2 modifications and that entire sequence of discussions from  
3 Mr. Tye about the things that FCC considered, they  
4 considered all in deciding that a simple ratio of 28-to-1  
5 was too high, that it needed to come down to include those  
6 factors. But since they never used that approach anyway,  
7 the rates were set simply by saying, hey, LECs whatever  
8 you were charging those end use customers in September of  
9 '92, those will be the rates we will allow you to use  
10 here, period. They didn't consider any other factors --  
11 they didn't consider any factors. It was just those were  
12 what existed in '92. That's what we're going to use.

13 Q And you are aware of the proposal by Sprint with  
14 the crossover of 22-to-1?

15 A Yes. Sorry.

16 Q And you are also aware that the FCC denied  
17 Sprint's proposal, along with other carriers that filed  
18 before the FCC?

19 A Well, actually, I don't think they actually  
20 denied 22-to-1, per se. They denied the idea that it  
21 could be -- if you take this very simple view, if you just  
22 look at a ratio, it couldn't be 28-to-1 because there  
23 would be factors that would bring it down, but they didn't  
24 have the information to tell them bring it down to what.  
25 And that was how -- in that sense they denied it, but it

1 wasn't denied based on Mr. Rock's explanation about using  
2 a capacity utilization. And, in fact, quite technically,  
3 that whole approach has never really been denied anyway.  
4 That whole approach is, until to this day, on  
5 reconsideration at the FCC without final decision.

6 Q So you're saying that these factors may be  
7 appropriate, but they just were not considered by the  
8 FCC?

9 MR. TYE: Mr. Chairman --

10 WITNESS GILLAN: Those factors would probably be  
11 appropriate in reducing a crossover ratio, but since the  
12 FCC didn't attempt to establish a cost-based crossover  
13 point, they weren't using the establishment of any rates.

14 MS. BRYANT: Thank you, I have nothing further.

15 CHAIRMAN DEASON: Mr. Tye?

16 CROSS EXAMINATION

17 BY MR. TYE:

18 Q Mr. Gillan, did any of those matters you just  
19 discussed with Sprint have anything at all to do with your  
20 rebuttal testimony?

21 A Well, they had to do with the economic  
22 efficiency arguments, yes.

23 Q They were not addressed in your rebuttal  
24 testimony, per se, were they?

25 A They were addressed in it with respect to the

1 whole question of the efficiency incentives and the  
2 crossover.

3 MR. TYE: No further questions.

4 CHAIRMAN DEASON: Mr. Wiggins.

5 CROSS EXAMINATION

6 BY MR. WIGGINS:

7 Q With some trepidation. Mr. Gillan, would you  
8 turn to Page 6 of your rebuttal testimony where you take  
9 the unfortunate position that AAVs should be required to  
10 file tariffs?

11 A The unfortunately necessary position that AAVs  
12 file tariffs.

13 Q I'm going to see if I can accomplish what no man  
14 before has and that is get to your ultimate point so I can  
15 actually make mine.

16 Is it your testimony that AAVs and LECs should  
17 both be required to file tariffs? Is that correct?

18 A That's correct.

19 Q Now those tariffs may have flexibility in them  
20 based on cost relationships, but nonetheless they would be  
21 tariffs and they would be generally applicable, correct?

22 A Such as zone -- specifically, and in fact  
23 exclusively, zone pricing, yes.

24 Q And in that context, you would be not in favor  
25 of LECs being allowed to have contractual service

1 arrangements, correct?

2 A That's correct.

3 Q But you also are aware that the LECs have  
4 insisted on having not only tariffs in place, but zone  
5 density pricing and contract service arrangements,  
6 correct?

7 A I don't believe that position is uniformly  
8 held. My understanding of Mr. Poag's testimony is that he  
9 felt zone pricing was a better form of flexibility than  
10 the CSA. And I always understood his testimony to be that  
11 the zone pricing flexibility would be a substitute for the  
12 contract tariff flexibility.

13 Q Could I get a point of clarification from  
14 Mr. Fons? Mr. Fons, I thought that your witness's  
15 position was that contract service arrangements should be  
16 available even without the presence of the competitive  
17 bypass. Am I correct on that or not?

18 MR. FONS: Am I going to testify again? Am I  
19 being called upon to testify?

20 MR. WIGGINS: I was just asking for  
21 clarification for efficiency purposes.

22 MR. FONS: I don't believe that was our  
23 position.

24 COMMISSIONER CLARK: What good will it do if  
25 he's not under oath?

1           Q     (By Mr. Wiggins) Never mind. Let me go on.  
2 That's fine. With respect to the historical use of  
3 tariffs, isn't it true that tariffs have been used to  
4 essentially control the market activities of monopolies  
5 from abusing their dominant position?

6           A     No, I don't think that's necessarily true. I  
7 mean that's a use of a tariff. Obviously it's one of the  
8 outcomes when you apply to a monopoly, but I think tariffs  
9 are more generally used as the regulatory tool to guard  
10 against discrimination, and they're frequently applied in  
11 environments and in markets where there are multiple  
12 providers. You don't necessarily have to have a monopoly  
13 to desire a tariff system to protect against  
14 discrimination. In fact, there's an excellent court case  
15 on that, actually, but just the logic was good. That's  
16 all I meant. I mean, I'm not offering a legal opinion,  
17 but it was a good description.

18          Q     You touched on the issue of discrimination. I'm  
19 assuming you mean unjust discrimination among similarly  
20 situated customers?

21          A     That's correct.

22          Q     To use an economic term. Isn't it true that a  
23 monopoly or an entity that has a dominant position in the  
24 market is in a much better position to inflict unjust  
25 discrimination among its customers than one that is a new

1 entrant and has no such equivalent position?

2       A     Yes, that is certainly true. I think it would  
3 be very difficult for you to practice discrimination. The  
4 problem is, however, that it's a non-sustainable market  
5 arrangement for one participant to be held to  
6 non-discrimination standards and tariffing while the other  
7 one can run around cutting special deals. It would only  
8 take a little while before the LEC would be back before  
9 you saying, well, I have to respond to this special deal  
10 with this special deal. And everything starts falling  
11 apart. If you use tariffs, on the other hand, you guys  
12 have to butt heads, and in a way that everybody has an  
13 opportunity to benefit from the lower prices. And I  
14 believe that's a far superior way of organizing it.

15       Q     If I understood your answer correctly, you agree  
16 with the premise that at least in the short run an AAV  
17 such as Intermedia would not have the market power to  
18 unjustly discriminate among its customers?

19       A     That's correct. In the short run.

20       Q     But --

21       A     And in the long run, the concern is that you're  
22 planting a seed for an inevitable problem. And that -- I  
23 mean we already have an example of what happens when one  
24 party tariffs and the other one doesn't. The FCC tried  
25 that experiment, and within a few short years, they were

1 looking at Tariff 12 from AT&T, Tariff 15 from AT&T. We  
2 know the consequences of that strategy.

3 Q If the Commission were to adopt your  
4 recommendation then, there would be tariffs for both --  
5 for all providers of the product and no contract service  
6 arrangement authority for either; is that correct?

7 A Well, certainly for access, yes.

8 Q For access. Let me ask you this. Suppose they  
9 don't adopt your proposal, that they grant zone density  
10 pricing and flexibility in the tariffs, and also continue  
11 to allow contract service arrangements. With that being  
12 the LEC position, would you therefore -- would you also  
13 advocate at that point tariffs for the AAVs such as  
14 Intermedia?

15 A No, at that point they've effectively allowed  
16 the LEC to go on published contracts and I think the  
17 market consequence of published and unpublished contracts  
18 is about the same. It's discrimination. If you're going  
19 to have discrimination, there's no real reason to have you  
20 tarified.

21 Q Thank you. No further questions.

22 CHAIRMAN DEASON: Staff?

23 MS. CANZANO: We have no questions, but we want  
24 to follow up on that late-filed exhibit.

25 WITNESS GILLAN: I even have a speech.

1 MS. CANZANO: We had requested that Mr. Lee,  
2 Mr. Hendrix and Mr. Poag in their Late-filed Exhibits 19,  
3 30 and 43, respectively, file a statement as to the  
4 appropriate cost to use as a basis for cost-based rate,  
5 and we ask that they include their work papers. We  
6 request of you, in a late-filed exhibit, your response to  
7 those -- to that request, but just limit it to that  
8 portion of their late-filed exhibit and limit it also to  
9 the numbers used in that exhibit. And we would like that  
10 response by October 5th, and have that distributed to the  
11 parties by that time, too, as we had agreed during our  
12 discussions during a break.

13 WITNESS GILLAN: Just so I'm clear, that  
14 agreement, when I distribute it to the parties, the  
15 Southern Bell discussion goes to Southern Bell, the GTE  
16 discussion to GTE, but they don't get cross pollinated?

17 MS. CANZANO: That's correct.

18 MS. KAUFMAN: Ms. Canzano, is that date October  
19 7th or October 5th?

20 MS. CANZANO: October 5th.

21 MS. PEED: I would think that the parties would  
22 get served with all of the --

23 MS. CANZANO: Except for the confidential  
24 portion, unless they sign a non-disclosure agreement.

25 MS. PEED: You could redact that part of the --

1 if it's going to be a late-filed exhibit, I would think  
2 that everyone would be responsible for serving all the  
3 parties either a redacted or non-redacted upon  
4 proprietary.

5 MS. CANZANO: Is everybody agreeable to that? I  
6 we think that would be appropriate.

7 CHAIRMAN DEASON: Very well. The exhibit will  
8 be provided to all parties, and if it contains  
9 confidential information, it will be redacted, unless  
10 there is a non-disclosure agreement signed.

11 MS. CANZANO: Sounds good to me. Can we have  
12 that marked for identification at this time?

13 CHAIRMAN DEASON: It will be identified as  
14 Late-filed Exhibit 55. And I take it Mr. Gillan, that you  
15 understand what is required?

16 WITNESS GILLAN: Yes.

17 MS. CANZANO: And we'll just have a simple  
18 title. We'll just call it Mr. Gillan's Response to the  
19 LECs' Cost-based Rates.

20 (Late-filed Exhibit No. 55 identified.)

21 CHAIRMAN DEASON: Okay.

22 MS. CANZANO: Staff has no further questions.

23 CHAIRMAN DEASON: Redirect?

24 MS. KAUFMAN: I have no redirect, Mr. Chairman.

25 CHAIRMAN DEASON: Exhibits?

1 MS. KAUFMAN: IAC would move Exhibit 54.

2 CHAIRMAN DEASON: Without objection, Exhibit 54  
3 is admitted.

4 MS. PEED: I would move 53, please.

5 CHAIRMAN DEASON: I believe it's already been  
6 done.

7 Thank you, Mr. Gillan.

8 (Exhibit No. 54 received into evidence.)

9 (Witness Gillan excused.)

10 \* \* \*

11 CHAIRMAN DEASON: I believe Mr. Rock is the next  
12 scheduled witness.

13 MS. BRYANT: Yes, I think he is.

14 CHAIRMAN DEASON: Are there any questions for  
15 Mr. Rock? MS. Kaufman, do you have a question?

16 MS. KAUFMAN: No. I'm sorry, Mr. Chairman.

17 CHAIRMAN DEASON: Questions, Mr. Poucher?

18 MR. POUCHER: No.

19 CHAIRMAN DEASON: Staff?

20 MS. CANZANO: No questions.

21 CHAIRMAN DEASON: Perhaps we could simply have  
22 his testimony inserted into the record.

23 MS. BRYANT: That would be great.

24 CHAIRMAN DEASON: Without objection. Hearing no  
25 objection, Mr. Rock's prefiled rebuttal testimony will be

1 inserted into the record. Is there an exhibit which needs  
2 identification?

3 MS. BRYANT: No, there is no exhibit,  
4 Mr. Chairman.

5 CHAIRMAN DEASON: Very well. And I take it you  
6 will waive summary, and since there is no cross  
7 examination, that concludes Mr. Rock.

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**Florida Public Service Commission****Rebuttal Testimony of Fred I. Rock****Docket Number 921074-TP****July 27, 1994**

1 Q. Please state your name, business address and occupation.

2 A. My name is Fred I. Rock and my business address is 7171 West 95th Street,  
3 Overland Park, KS 66212. I am employed by Sprint Communications  
4 Company Limited Partnership ("Sprint") as Manager - Regulatory Access  
5 Planning.

6

7 Q. What is the purpose of your rebuttal testimony?

8 A. I will address the additional pricing flexibility proposed by GTE Witness, Mr.  
9 R. Kirk Lee, for all switched access services.

10

11 Q. What pricing proposals has Mr. Lee supported in his testimony?

12 A. Mr. Lee proposed pricing flexibility for all switched access services using  
13 volume and term discounts, zone pricing and contract service arrangements  
14 ("CSAs").

15

16 Q. Do you believe the pricing options introduced by Mr. Lee are appropriate?

1 A. I support GTE in the introduction of zone pricing for access services where the  
2 underlying unit cost of providing the service varies by geographic location (or  
3 wire center). I believe LECs should be allowed to reflect differences in  
4 underlying service costs in pricing like services. If the LEC can prove cost  
5 differences due to the density of a wire center, it should be allowed to reflect  
6 these differences in its prices.

7

8 However, I cannot generally support volume/growth discounts or contract  
9 service arrangements for switched access as introduced by GTE. I am not  
10 aware of any data that supports lower unit costs for any LECs total shared  
11 network because the traffic volume of one IXC is greater than another. Lower  
12 access unit costs are obtained by the LEC as total volume grows and not by  
13 individual IXC traffic, shifting of traffic from one IXC to another, or individual  
14 serving arrangements.

15

16 Q. How does GTE's proposed volume/growth plan work?

17 A. The plan provides savings to access customers (IXCs) who commit to various  
18 percentages of usage growth over a one year time period. In addition, a volume  
19 based feature is included within the plan that affords varying discounts to access  
20 customers of different sizes.

21

22 Q. What is Sprint's concern with the plan?

1 A. Since GTE elected to exclude the discount levels from the proposed matrix, it is  
2 difficult to thoroughly assess the impact of its volume/growth discount plan.  
3 However, the structure of this plan is almost identical to a volume discount plan  
4 GTE filed at both the FCC and in Illinois both of which are still pending.

5

6 If GTE continues the trend established with this plan at the FCC and in Illinois,  
7 it will award an access customer with large volumes a specified discount even if  
8 it had virtually no volume growth, whereas an access customer with smaller  
9 volumes would have to grow at a faster rate to achieve the same discounts as the  
10 larger customer. In other words, the growth discount factors contained in the  
11 plan may be weighted by an access customer's relative size as determined by  
12 network usage.

13

14 Q. Is the premise of GTE's proposed volume/growth plan consistent with the  
15 underlying cost characteristic of LECs switched networks?

16 A. The discounts awarded for the achievement of usage growth are consistent with  
17 the underlying cost characteristics of LEC switched networks, whereas the  
18 discounts awarded to a customer for its relative size based on historical volumes  
19 are not.

20

21 Q. Please explain why?

1 A. The volume banding feature contained in the proposed growth plan is clearly  
2 inconsistent with underlying cost characteristics of LEC switched networks.  
3 LEC switched network capacity is planned and ultimately sized to enable the  
4 LEC to handle the current traffic volumes of all customers and the anticipated  
5 growth in those volumes over some specified period of time. Ultimately, the  
6 total network capacity employed by the LEC is the result of all anticipated  
7 traffic volumes from all customers during the planning interval, including the  
8 LEC's own local and toll traffic.

9  
10 Once the network has been sized and the capital has been invested to build it,  
11 this investment becomes a sunk cost. Given that network size is a function of  
12 all customers' current and anticipated future traffic volumes, including the  
13 LEC's own traffic, and the sunk characteristics of that investment in the  
14 network, the only way to reduce incremental cost per unit of traffic is through  
15 utilization of the spare capacity contained in the switched network.

16  
17 Utilization of spare capacity and the resulting reduction in per unit cost is only  
18 accomplished through the growth of traffic volumes carried on the network that  
19 are additional traffic. The volume aspect of the plan rewards customers with  
20 relatively high levels of historical usage, but does not lead to lower future unit  
21 costs.

1 Sprint has always been a strong proponent of cost-based pricing for switched  
2 access services, which reflects the underlying cost characteristics of LEC  
3 switched networks. In addition, Sprint believes that the use of "market  
4 considerations" in the pricing of any service is more appropriately reserved to  
5 rate pricing of services offered in "competitive" markets, unlike the current  
6 switched access market in Florida, wherein LECs still carry over 99% of  
7 Sprint's switched access minutes in their service area.

8

9 Q. What aspects of GTE's proposed volume/growth plan does Sprint find  
10 discriminatory?

11 A. The volume banding feature contained in the Growth Plan proposal unfairly  
12 advantages the largest IXC at the expense of small and medium sized IXCs.  
13 This is particularly troubling to Sprint because the largest IXC would receive  
14 the largest benefit from the proposed growth plan simply on the basis of traffic  
15 volumes that accrued while operating as a near monopolist, and not on any  
16 fundamental underlying network cost characteristics as I addressed earlier in my  
17 testimony.

18

19 To reward such a customer for its historical monopoly position, rather than its  
20 marketplace performance in terms of generating additional traffic on the LEC  
21 network, could potentially harm interexchange competition in Florida which is  
22 not in the public's interest.

1 Q. What is Sprint's position on CSAs for switched access?

2 A. The access customer(s) that will benefit from CSAs will be limited to those with  
3 competitive alternatives which is primarily the largest customer. Again, lower  
4 prices will be awarded to an access customer for its relative size and  
5 marketpower based on historical volumes instead of actions which lead to lower  
6 network unit costs for the LEC.

7

8 Q. What actions do you recommend the Commission take on the pricing options  
9 described by Mr. Lee?

10 A. I believe the Commission should allow density zone pricing for switched access  
11 services based on the cost differences by location. I strongly urge the  
12 Commission to reject discounts based on individual IXC traffic volumes and  
13 CSAs for switched access services.

14

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes, it does.

1           **CHAIRMAN DEASON:** And that brings us to the last  
2 witness, Mr. Andreassi. Are there any questions for  
3 Mr. Andreassi? Ms. Peed has questions.

4           **Mr. Hoffman,** you may proceed.

5           **MR. HOFFMAN:** Thank you, Mr. Chairman. If  
6 there's no objection, I would just as soon skip the  
7 formalities and ask that the prefiled rebuttal testimony  
8 of Mr. Andreassi be inserted into the record.

9           **CHAIRMAN DEASON:** Without objection. Hearing no  
10 objection, the testimony will be so inserted.

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Steven Andreassi. My business address  
3 is Teleport Communications Group, Inc. (TCG), Two  
4 Teleport Drive, Suite 300, Staten Island, New York  
5 10311.

6 Q. DID YOU SUBMIT TESTIMONY IN PHASE II OF THIS  
7 PROCEEDING?

8 A. Yes. I submitted direct testimony and supplemental  
9 direct testimony in Phase II.

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

11 A. The purpose of my testimony is to respond to  
12 certain testimony filed by Southern Bell and GTE  
13 Florida Inc. ("GTEFL").

14 Q. DO YOU AGREE WITH SOUTHERN BELL WITNESS DENTON  
15 (Testimony at 4-6) and GTEFL WITNESS BEAUVAIS  
16 (Testimony at 2) THAT EXPANDED INTERCONNECTION FOR  
17 SWITCHED ACCESS SERVICES WILL PUT CONTRIBUTION  
18 RECEIVED BY THE LOCAL EXCHANGE CARRIER ("LEC") FROM  
19 SWITCHED ACCESS IN JEOPARDY?

20 A. No. Expanded interconnection will not  
21 significantly erode the contributions the LEC  
22 receives from switched access because  
23 interconnectors will only be able to compete for a  
24 small portion of this service. As I explained in  
25 my direct testimony, the only piece of switched  
26 access an interconnector can offer to an

1 interexchange carrier ("IXC") customer is the  
2 dedicated trunk portions of local transport. Even  
3 if interconnectors captured the entire local  
4 transport market, which is highly unlikely, the LEC  
5 would still earn revenues from the carrier common  
6 line charge, local switching and an intrastate  
7 residual interconnection charge.

8 Q. SHOULD THE COMMISSION GRANT THE LECS THE ABILITY TO  
9 FLEXIBLY PRICE SWITCHED ACCESS SERVICES?

10 A. To the extent that the Commission implements a  
11 restructuring of local transport rates ("LTR"),  
12 similar to the scheme mandated at the federal level  
13 to permit the LECs to respond to competition, TCG  
14 supports such a restructuring. GTEFL Witness Lee  
15 argues that LECs should receive pricing flexibility  
16 in addition to LTR in the form of a switched access  
17 discount plan and zone pricing plan. Mr. Lee  
18 claims this is necessary due to an already highly  
19 competitive environment in Florida. As a general  
20 matter, it is impossible for an environment in  
21 which AAVs are prohibited from offering switched  
22 services to be "highly competitive." Moreover, if  
23 the Commission approves Phase II, competitors will  
24 have the ability to compete for only the small  
25 local transport portion of switched access.  
26 Therefore, it is reasonable for LECs to receive

1 pricing flexibility for local transport which is  
2 accomplished through LTR. TCG believes it would be  
3 reasonable to implement at the intrastate level the  
4 volume and term discounts established by the  
5 Federal Communications Commission in its Expanded  
6 Interconnection Order (FCC 94-190, rel. July 25,  
7 1994). This plan permits the LECs to offer  
8 switched access with volume and term discounts only  
9 after 100 DS1 switched cross connects are  
10 operational in the LECs' offices located in the  
11 pricing zone with the greatest traffic density.

12 Q. DO YOU AGREE WITH MR. DENTON (Testimony at 12) AND  
13 MR. BEAUVAIS (Testimony at 40) THAT CUSTOMERS WILL  
14 BE DENIED THE FULL BENEFITS OF COMPETITION IF  
15 COLLOCATORS ARE NOT REQUIRED TO OFFER EXPANDED  
16 INTERCONNECTION FOR SWITCHED ACCESS?

17 A. No. The Commission instituted this proceeding to  
18 permit competitors access to the LECs' bottleneck  
19 network facilities. By permitting them access to  
20 these ubiquitous LEC facilities, AAVs will be able  
21 to offer competitive, diverse services to customers  
22 who would otherwise be connected only to the  
23 monopoly provider. Mr. Denton states that "in a  
24 number of instances" Southern Bell has not been  
25 allowed to collocate with a competitor on  
26 reasonable terms. (Testimony at 12). To my

1 knowledge, TCG has never denied a request from a  
2 potential interconnector, but would instead welcome  
3 the revenues associated with the use of its  
4 network. TCG believes that in a competitive market  
5 most AAVs would similarly grant a collocation  
6 request.

7 Q. MR. DENTON (Testimony at 12-13) AND MR. BEAUVAIS  
8 (Testimony at 38-39) ARGUE THAT LECS SHOULD NOT  
9 HAVE TO PERMIT NON-FIBER OPTIC DS0  
10 INTERCONNECTIONS. DO YOU AGREE?

11 A. No. The LECs are confused. In addressing  
12 interconnection of non-fiber optic technology in  
13 the Phase I Order, the Commission was referring to  
14 the transmission equipment placed in the cage by  
15 the interconnector. For example, the Order  
16 addressed the use of microwave equipment by  
17 interconnectors as an example of the use of non-  
18 fiber optic technology. The Commission did not  
19 restrict the type of LEC technology to which an  
20 interconnector would connect its transmission  
21 equipment. It is in the public interest for  
22 collocators to interconnect to copper DS0  
23 technology to reach customers using less than high  
24 speed capacity services and the LECs should tariff  
25 DS0 interconnection for special and switched access  
26 services.

1           In addition, Mr. Beauvais (Testimony at 38) and Mr.  
2           Denton (Testimony at 12) argue that DSO  
3           interconnection is impossible due to space  
4           constraints. Again, the LECs are confused.  
5           Collocators are seeking to interconnect with the  
6           LECs' existing network using transmission equipment  
7           in the collocators' cage and therefore space in the  
8           central office is not an issue. Contrary to the  
9           LECs' argument, collocators are not requesting LECs  
10          to provision more DSOs to their customers.

11       Q.   DOES THIS CONCLUDE YOUR TESTIMONY?

12       A.   Yes.

1           MR. HOFFMAN: Thank you, Mr. Chairman. In  
2 addition, we would like at this time your permission, if  
3 there is no objection of any parties, to permit  
4 Mr. Andreassi to correct a misstatement in his response to  
5 one of Mr. Fons' questions in the cross examination of his  
6 direct concerning the issue of how long AAVs have been  
7 subject to tariff requirements by the FCC. If the parties  
8 don't have an objection I would like for him to correct  
9 that testimony at this time.

10           MR. FONS: I have no objection.

11           CHAIRMAN DEASON: Very well. I will give him  
12 that opportunity.

13                       STEVEN C. ANDREASSI  
14 was called as a witness on behalf of Teleport  
15 Communications Group, and having been duly sworn,  
16 testified as follows:

17                       DIRECT EXAMINATION

18 BY MR. HOFFMAN:

19           Q     If you would, Mr. Andreassi.

20           A     The AAVs have been subject to tariff filing  
21 requirements by the FCC for about one year, or a little  
22 over one year.

23           MR. HOFFMAN: Thank you. And he is available  
24 for cross examination.

25           CHAIRMAN DEASON: Ms. Peed.

## CROSS EXAMINATION

1  
2 BY MS. PEED:

3 Q Mr. Andreassi, I just have a couple of  
4 questions. Mr. Fons in his cross examination of your  
5 direct testimony had asked you some questions regarding  
6 Teleport's private line -- or Teleport's rates for DS3 and  
7 DS1 services. At that particular point in time you did  
8 not have the tariffs?

9 A That's correct.

10 Q And since that time we have been able to get  
11 copies of Teleport's interstate tariffs, and I would like  
12 to ask you just a couple of questions about those tariffs  
13 if you don't mind.

14 A Okay.

15 Q In looking at the digital transmission services  
16 rates for DS1 and DS3 services, there is a minimum and a  
17 maximum rate filed; is that correct?

18 A That is correct.

19 Q And the crossover point, subject to check, as  
20 far as the math is concerned, the ratio ranges from a  
21 minimum of 3.17 to 7.8; is that correct?

22 A Given the -- yes, the relationship between the  
23 minimums and the maximums, that is a correct ratio,  
24 subject to check.

25 Q And that's 3.17-to-1 and 7.8-to-1, right?

1 A Yes.

2 Q Thank you. That's all I have.

3 CHAIRMAN DEASON: Questions? Mr. Poucher, do  
4 you have questions? Staff?

5 MS. CANZANO: No questions.

6 CHAIRMAN DEASON: Commissioners? Any redirect?

7 MR. HOFFMAN: No, sir.

8 CHAIRMAN DEASON: And we have no exhibits.

9 Thank you, Mr. Andreassi.

10 (Witness Andreassi excused.)

11 \* \* \*

12 CHAIRMAN DEASON: That concludes all witnesses.

13 MS. CANZANO: Yes, it does.

14 CHAIRMAN DEASON: Any further matters?

15 MS. CASWELL: Mr. Chairman, I have one small  
16 matter. We now have a completed errata sheet to Mr. Lee's  
17 deposition. I believe that was Exhibit 20, and if we  
18 could have that associated with the deposition exhibit, I  
19 would appreciate it.

20 CHAIRMAN DEASON: Yes, the errata sheet for  
21 Mr. Lee will be incorporated into Exhibit No. 20.

22 MS. CASWELL: Thank you.

23 CHAIRMAN DEASON: Any other matters?  
24 Scheduling?

25 MS. CANZANO: Yes, scheduling. The briefs will

1 be due October 12th as amended by our agreement for the  
2 late-filed exhibit. The Staff recommendation is set for  
3 November 18th, with the special agenda on November 30th.

4 CHAIRMAN DEASON: I'm sorry, special agenda  
5 when?

6 MS. CANZANO: November 30th.

7 CHAIRMAN DEASON: Anything else to come before  
8 the Commission at this time?

9 Hearing nothing, this hearing is adjourned.  
10 Thank you all.

11 (Hearing adjourned at 3:30 p.m.)  
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1 STATE OF FLORIDA )  
 2 COUNTY OF LEON )


CERTIFICATE OF REPORTER

3 WE, JOY KELLY, CSR, RPR, Chief, Bureau of  
 4 Reporting, SYDNEY C. SILVA, CSR, RPR, Official Commission  
 5 Reporter; and LISA GIROD JONES, RPR, CM,

6 DO HEREBY CERTIFY that the hearing in this cause,  
 7 Docket No. 921074-TP, was heard by the Florida Public  
 8 Service Commission at the time and place herein stated; it  
 9 is further

10 CERTIFIED that we reported in shorthand the said  
 11 proceedings, and that this transcript, consisting of 1020  
 12 pages, Volumes 1 through 7, inclusive, constitutes a true  
 13 and accurate transcription of our notes of said proceedings.

14 DATED THIS 6<sup>th</sup> DAY OF September, 1994.

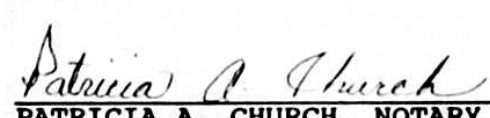
15   
 16 JOY KELLY, CSR, RPR,  
 17 Chief, Bureau of Reporting

18   
 19 SYDNEY C. SILVA, CSR, RPR  
 20 Official Commission Reporter

21   
 22 LISA GIROD JONES, RPR, CM

23 STATE OF FLORIDA )  
 24 COUNTY OF LEON )

25 The foregoing certificate was acknowledged before  
 me this 6<sup>th</sup> day of September, 1994, by Joy  
 Kelly, Sydney C. Silva and Lisa Girod Jones, who are  
 personally known to me.

26   
 27 PATRICIA A. CHURCH, NOTARY PUBLIC,  
 28 State of Florida at Large  
 29 Commission No. CC-90785

Notary Public, State of Florida

My Commission Expires April 20, 1995

Bonded Thru Tray Fom Insurance Inc