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February 20, 1996

BY HAND DELIVERY

Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 950984-TP (Sprint/GTEFL)
(Unbundling)

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Metro Access
Transmission Services, Inc. (MCI metro) in the above referenced
docket are the original and 15 copies of the rebuttal testimony
of Dr. Nina Cornell.

By copy of this letter this document has been provided to
the parties on the attached service list.

Very truly yours,

R.D.M.

Richard D. Melson

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cc: Parties of Record

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

DR. NINA W. CORNELL

ON BEHALF OF

MCI METRO ACCESS TRANSMISSION SERVICES, INC.

DOCKET NO. 950984-TP

MFS UNBUNDLING PETITIONS RE SPRINT AND GTEFL

FEBRUARY 21, 1996

DOCUMENT NUMBER-DATE

01988 FEB 20 8

FPSC-RECORDS/REPORTING

1 Q. WHAT IS YOUR NAME AND ADDRESS?

2

3 A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse,
4 Wyoming 82433.

5

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

7

8 A. My testimony responds to the testimonies of Dr. Duncan and Mr. Trimble on behalf
9 of GTE Florida Incorporated (GTEFL), and Mr. Poag on behalf of
10 Sprint-United/Centel.

11

12 Q. MR. TRIMBLE PROPOSES THAT THE PRICE FOR AN UNBUNDLED LOOP
13 BE THE SAME AS THE PRICE FOR SPECIAL ACCESS. IS THIS THE PROPER
14 PRICE FOR AN UNBUNDLED LOOP?

15

16 A. No. Setting the price for an unbundled loop at the special access rate clearly creates
17 a price squeeze for use of that loop to serve residential customers. Moreover, it
18 reduces the efficiency with which competition can work in the business market. The
19 price for unbundled loops, for loop transport, and for loop concentration -- something
20 GTEFL has not offered to supply -- should all be set at their direct economic costs
21 and no higher for the reasons I gave in my direct testimony.

22

23 Q. DR. DUNCAN REFERS TO THE SO-CALLED EFFICIENT COMPONENT
24 PRICING RULE TO SUPPORT RATES THAT HAVE A MARKUP FOR
25 ESSENTIAL MONOPOLY INPUT FUNCTIONS SOLD TO COMPETITORS. IS

1 THAT RULE APPROPRIATE?

2

3 A. No. The rule is badly misnamed: it prevents the achievement of efficiency because
4 it would prevent any competition until such time as a firm arose that had total costs
5 that were less than just the direct incremental costs of the incumbent. This is far
6 from what should be the goal of public policy. That it is far from efficient can be
7 seen by the fact that use of that rule would leave the incumbent indifferent as to
8 whether it kept the customer or not, as noted by Dr. Duncan (Duncan direct, page
9 7, lines 12-13) In normal markets, a firm cannot be as well off if it fails to retain
10 a customer who was paying rates that have a markup over direct economic cost.

11 Moreover, the failure of the rule to promote efficiency is conceded by
12 GTEFL, as it has not tried to set the price for an unbundled loop on the basis of
13 application of the rule. According to Mr. Trimble, doing so would promote
14 uneconomic bypass. If the rule were efficient, the bypass it would promote would
15 not be uneconomic.

16 If competition is to bring the maximum benefits to consumers in the form of
17 lower prices and faster deployment of new technologies and services, the public
18 policy goal should be to establish rules that permit an equally efficient competitor to
19 the incumbent local exchange provider to enter and survive. This requires that the
20 prices for an unbundled loop, loop transport, and loop concentration be set equal to
21 their direct economic cost, no higher.

22

23 Q. MR. TRIMBLE ASKS THE COMMISSION TO ESTABLISH A
24 "COMPETITIVELY NEUTRAL" FUND TO COMPENSATE GTEFL FOR ITS
25 DEFICIT IN REVENUES DUE TO LOSING CUSTOMERS. DO YOU AGREE

1 WITH THIS PROPOSAL?

2

3 A. No. Mr. Trimble believes that GTEFL is somehow legally entitled to keep the same
4 level of revenues no matter how well or badly it does in the competitive marketplace.
5 If this were to be accepted by the Commission, consumers would be denied the very
6 benefits that opening the markets to competition were supposed to bring. GTEFL
7 needs to become more efficient, and to be a better competitor, not look to the
8 equivalent of tax levies on its competitors to keep it whole.

9

10 Q. MR. TRIMBLE ALSO ASKS THE COMMISSION TO ALLOW GTEFL TO
11 IMPOSE A NONRECURRING CHARGE PER LOOP ON ENTRANTS TO
12 RECOVER GTEFL'S ONE-TIME IMPLEMENTATION COSTS ASSOCIATED
13 WITH LOCAL COMPETITION. SHOULD THE COMMISSION GRANT THIS
14 REQUEST?

15

16 A. No. Mr. Trimble offers no explanation of these costs, nor explains how he arrived
17 at \$2.2 million for them. He also does not explain how he proposes to impose this
18 charge. This appears to be a second request for the Commission to impose some sort
19 of tax-like mechanism on entrants to keep GTEFL whole. It is bad for consumers,
20 and should be rejected.

21

22 Q. MR. POAG SAYS THAT UNBUNDLED LOOPS SHOULD NOT BE SUPPLIED
23 TO ENTRANTS AT INCREMENTAL COST BECAUSE IT COULD HAVE
24 NEGATIVE FINANCIAL IMPACT ON THE INCUMBENT LOCAL EXCHANGE
25 PROVIDERS. IS THIS A GOOD REASON TO PERMIT PRICES HIGHER THAN

1 DIRECT ECONOMIC COST?

2

3 A. No. Unbundled loops are one of a small number of essential monopoly input
4 functions. These functions cannot be acquired other than from the incumbent local
5 exchange providers. Unless they are supplied at cost, there is an artificial barrier to
6 entry that arises because the incumbent is able to force an entrant to have higher costs
7 for an essential input than the incumbent faces for that same input. This impedes the
8 development of competition, and so is bad for consumers.

9

10 Q. MR. POAG CLAIMS THAT IT WOULD BE DISCRIMINATORY TO SUPPLY
11 UNBUNDLED LOOPS AT DIRECT ECONOMIC COST. DO YOU AGREE?

12

13 A. No. Mr. Poag is concerned about discrimination between local exchange entrants,
14 interexchange carriers, alternative access vendors, and cellular providers. He leaves
15 out, however, discrimination between Sprint-United/Centel and entrants.
16 Sprint-United/Centel gets loops for direct economic cost. Charging more than direct
17 economic cost for unbundled loops discriminates between Sprint-United/Centel, on
18 the one hand, and all of the other types of carriers he has described.

19

20 Q. MR. POAG CLAIMS THAT INCREMENTAL COSTING METHODS ARE NOT
21 USED FOR SETTING PRICES, BUT ONLY FOR TESTING FOR CROSS
22 SUBSIDIES. DO YOU AGREE?

23

24 A. No. Indeed, in every docket in which I have been involved around the country since
25 1981, local exchange carriers have been asking to set their rates, particularly their

1 rates for services subject to competition, on the basis of incremental costs.

2

3 Q. MR. POAG CLAIMS THAT IT IS TOTALLY "ILLOGICAL" TO CLAIM THAT
4 CHARGING FOR INTERCONNECTION AT A RATE THAT IS HIGHER THAN
5 COST SHIELDS THE COSTS RECOVERED FROM THE MARKUP FROM
6 MARKET PRESSURES. IS HE CORRECT?

7

8 A. No. Mr. Poag genuinely does not understand what market pressure means. The
9 price for interconnection cannot be pushed down by market forces because there is
10 no alternative for terminating traffic to subscribers who remain with the incumbent
11 other than use of the incumbent's local termination. What this means is that, even
12 if in fact the incumbent became more efficient, no market force exists to force the
13 incumbent to reflect that greater efficiency in a lower interconnection charge.
14 Therefore that efficiency also would not be reflected in the end user prices charged
15 by the entrant, which in turn protects the end user prices that the incumbent will
16 charge in the future. The fact that the incumbent might become more efficient in a
17 cost-cutting sense is of virtually no benefit to consumers unless they get the benefits
18 in lower prices.

19

20 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

21

22 A. Yes.

23

24

25