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August 14, 1996

Ms. Blanca Bayo
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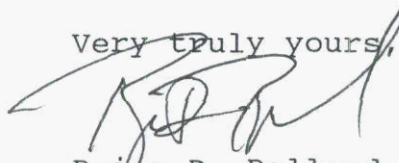
In Re: Comprehensive Review of the revenue requirements and rate
stabilization plan of Southern Bell Telephone and
Telegraph Company. Docket No. 920260-TP

Dear Ms. Blanco:

Please find enclosed for filing an original and fifteen copies
of the prefiled direct testimony of Michael Guedel on behalf of
AT&T Communications of the Southern States, Inc. in the above-
referenced docket.

Please indicate receipt of same by stamping a copy of this
letter and returning it to this writer. Thank you.

Very truly yours,



Brian D. Ballard

BDB/ma

cc: All Parties of Record

RECEIVED & FILED

EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

08564 AUG 14 1996

FPSC-RECORDS/REPORTING

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive Review of)
the revenue requirements and rate)
stabilization plan of Southern)
Bell Telephone and Telegraph)
Company)

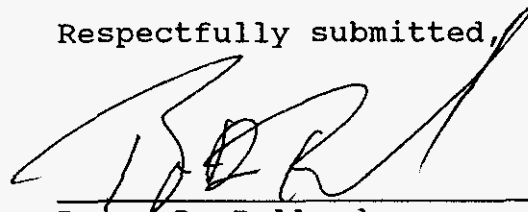
DOCKET NO. 920260-TP

Filed: August 14, 1996

NOTICE OF FILING DIRECT PREFILED TESTIMONY

AT&T Communications of the Southern States, Inc. ("AT&T")
hereby files its Direct Prefiled Testimony of Mike Guedel on behalf
of AT&T in this docket.

Respectfully submitted,



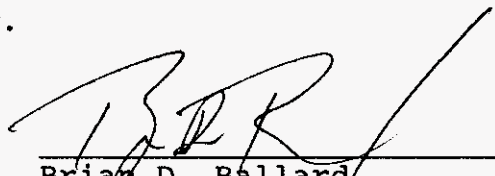
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was served by U.S. Mail or hand delivery this 14th day of August, 1996, to the parties of record as listed below.



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DIRECT TESTIMONY OF MIKE GUEDEL
ON BEHALF OF AT&T COMMUNICATIONS
OF THE SOUTHERN STATES INC.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 920260-TL
FILED: AUGUST 14, 1996

Q. WILL YOU PLEASE IDENTIFY YOURSELF?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCES.

A. I received a Master of Business Administration with a concentration in Finance from Kennesaw State College, Marietta, GA in 1994. I

1 received a Bachelor of Science degree in
2 Business Administration from Miami University,
3 Oxford, Ohio. Over the past years, I have
4 attended numerous industry schools and seminars
5 covering a variety of technical and regulatory
6 issues. I joined the Rates and Economics
7 Department of South Central Bell in February of
8 1980. My initial assignments included cost
9 analysis of terminal equipment and special
10 assembly offerings. In 1982, I began working
11 on access charge design and development. From
12 May of 1983 through September of 1983, as part
13 of an AT&T task force, I developed local
14 transport rates for the initial NECA interstate
15 filing. Post divestiture, I remained with
16 South Central Bell with specific responsibility
17 for cost analysis, design, and development
18 relating to switched access services and
19 intraLATA toll. In June of 1985, I joined
20 AT&T, assuming responsibility for cost analysis
21 of network services including access charge
22 impacts for the five South Central States
23 (Alabama, Kentucky, Louisiana, Mississippi, and
24 Tennessee).

25

1 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

2

3 A. My current responsibilities include directing
4 analytical support activities necessary for
5 AT&T's provision of intrastate communications
6 service in Florida and other southern states.
7 This includes detailed analysis of access
8 charges and other Local Exchange Company (LEC)
9 filings to assess their impact on AT&T and its
10 customers. In this capacity, I have
11 represented AT&T through formal testimony
12 before the Florida Public Service Commission,
13 as well as regulatory commissions in the states
14 of Georgia, Kentucky, and South Carolina.

15

16

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

18

19 A. The purpose of my testimony is twofold:

20

21 First, I will recommend the adoption of the
22 "Joint Proposal" filed with this Commission on
23 May 30, 1996 by the coalition of
24 telecommunications users and telecommunications
25 carriers, namely Florida Ad Hoc

1 Telecommunications Users' Committee, MCI
2 Telecommunications Corporation, AT&T
3 Communications of the Southern States, Inc.,
4 Florida Interexchange Carriers Association,
5 Sprint Communications Company, LP, and McCaw
6 Communications of Florida Inc. (hereafter "The
7 Coalition"), regarding the disposition of
8 certain BellSouth revenues found to be
9 available for rate reductions earlier in this
10 proceeding.

11
12 Second, I will recommend that the Commission
13 reject BellSouth's proposal regarding "zone
14 density pricing" of various switched access
15 elements.

16

17

18 **Q. COULD YOU SUMMARIZE THE RECOMMENDATIONS THAT**
19 **WERE CONTAINED IN THE COALITION'S PROPOSAL?**

20

21 **A.** Yes. The joint proposal recommends the
22 disposition of the unspecified \$48M available
23 for rate reductions in the following manner:

24

- 1 1. \$11M - Reduce rates for PBX trunk
2 service and DID service related to PBX
3 trunk service
4 2. \$35M - Eliminate the Residual
5 Interconnection Charge (RIC) within the
6 local transport rate elements of
7 BellSouth's switched access service
8 3. \$2M - Reduce usage rates for
9 BellSouth's mobile interconnection
10 services.

11

12 My testimony will focus on item 2, the
13 elimination of the RIC.

14

15

16 **Q. COULD YOU DESCRIBE THE CURRENT LEVEL OF**
17 **BELLSOUTH'S INTRASTATE SWITCHED ACCESS CHARGES**
18 **IN FLORIDIA?**

19

20 **A. Yes. With the specified \$40M reduction**
21 (anticipated October 1, 1996), BellSouth's
22 switched access charges will be approximately
23 \$.06 (6 cents) per minute including two ends of
24 switched access - or, on an average basis,
25 approximately \$.03 (3 cents) per access minute

1 of use (one end of access). This level is
2 essentially consistent with the level of
3 BellSouth's interstate switched access rates as
4 of December, 1993.

5

6

7 **Q. HOW DOES THIS PRICE LEVEL COMPARE WITH THE**
8 **UNDERLYING COST OF PROVIDING SWITCHED ACCESS**
9 **SERVICES?**

10

11 A. Information made available through Florida
12 Public Service Commission Docket No. 950985-TP
13 indicates that BellSouth's cost of providing
14 switched access service is less than \$.0025 per
15 access minute of use - perhaps as low as \$.002
16 or less. Thus even with the \$40M reduction,
17 the price of switched access will remain at a
18 level of 12 to 15 times that of the underlying
19 cost. Said another way, BellSouth will be
20 enjoying a mark-up above cost of at least 1100%
21 and possibly as much as 1400% in the provision
22 of its switched access services. This mark-up
23 is significantly higher than the mark-up
24 BellSouth enjoys on any other major revenue
25 producing service that it offers.

1 Q. WHAT IS THE INCREMENTAL COST INCURRED BY
2 BELLSOUTH IN PROVIDING THE RIC ELEMENT?

3
4 A. The incremental cost is zero. In other words,
5 a 10% increase in demand for the RIC would
6 result in a zero percent increase in
7 BellSouth's costs. The RIC is a pure
8 contribution element, a tax if you will, levied
9 by BellSouth on all interexchange carriers
10 purchasing BellSouth's local switching access
11 service.

12
13
14 Q. AT WHAT LEVEL WOULD BELLSOUTH'S SWITCHED ACCESS
15 CHARGES REMAIN, IF THE RIC WERE TOTALLY
16 ELIMINATED?

17
18 A. Elimination of the RIC would reduce BellSouth's
19 average switched access charges to
20 approximately \$.05 per MOU for two ends of
21 access. This level is reasonably close to
22 BellSouth's current interstate switched access
23 rates - but notable still in excess of 10 times
24 BellSouth's underlying cost.

25

1 Q. WHY IS IT NECESSARY FOR THE COMMISSION TO
2 UTILIZE SUCH A SIGNIFICANT PORTION OF THE
3 "UNSPECIFIED" REVENUES TO REDUCE BELLSOUTH'S
4 SWITCHED ACCESS CHARGES AT THIS TIME?

5
6 A. The Commission has long recognized the need to
7 reduce BellSouth's switched access charges in
8 Florida - and the Commission has made some
9 significant progress over the years. However,
10 recent events have raised the stakes
11 surrounding BellSouth's high access charges.
12
13 First, the Telecommunication Act of 1996 has
14 become law with a spirit of introducing
15 competition into all phases of the
16 telecommunications industry. High access
17 charges have never been conducive of
18 competitive development - and they will surely
19 become much more of an impediment under the new
20 Act. Access charges in excess of incremental
21 cost provide the incumbent monopolist with the
22 opportunity to exact a contribution or "a
23 tribute" from any potential competitor that
24 would "dare" to attempt to compete with an
25 incumbent's retail services. High access

1 charges can distort the economics of
2 competitive local entry - perhaps encouraging
3 potential entrants to build facilities where
4 other forms of entry such as resale may make
5 better economic sense. In either case, the end
6 user receives less than the desired results of
7 competition.

8
9 Second, BellSouth's election of "price cap"
10 regulation under the recent Florida statute has
11 greatly limited the Commissions authority to
12 control BellSouth's rates. This instant rate
13 case opportunity, which has been protected by
14 the statute, may offer the Commission its last
15 obvious chance to drive BellSouth's access
16 charges closer to (though still very far from)
17 the underlying cost.

18

19

20 **Q. SHOULD THE COMMISSION FOCUS ON APPLYING THE**
21 **AVAILABLE REVENUES TOWARD REDUCING RATES THAT**
22 **WILL "HELP BELLSOUTH MEET COMPETITION"?**

23 A. No. BellSouth has elected price cap regulation
24 under the current Florida statutes as a means
25 to adjust its prices to meet its competitive

1 needs. The Commission need not further augment
2 this process. The Commission should instead
3 focus its prescribed rate relief on those rate
4 elements or services that are: 1) recognized to
5 be priced in excess of cost today, and 2)
6 either not likely be positively influenced by
7 competition, or likely to frustrate competition
8 if prices remain at current levels. This focus
9 will tend to optimize the consumer benefits
10 associated with this revenue disposition.

11

12

13 **Q. SHOULD THE COMMISSION APPROVE BELLSOUTH'S**
14 **PROPOSAL REGARDING ZONE DENSITY PRICING OF**
15 **SWITCHED ACCESS RATE ELEMENTS?**

16

17 **A.** No. Zone density pricing should only be
18 justified on the basis of cost. BellSouth's
19 proposal fails to meet that standard.

20

21

22 **Q. DOES AT&T SUPPORT ZONE DENSITY PRICING OF ANY**
23 **SWITCHED ACCESS RATE ELEMENTS?**

24

1 A. AT&T has not opposed zone density pricing of
2 certain local transport rate elements (i.e.,
3 dedicated transport, and common transport
4 links) recognizing that the cost of providing
5 these elements may vary by density zone. AT&T
6 will not oppose density sensitive pricing of
7 these elements so long as the relative price
8 levels reflect the relative differences in
9 costs. BellSouth should be required to provide
10 supporting cost data for any such pricing
11 recommendation.

12
13
14 **Q. DOES BELLSOUTH'S ZONE DENSITY PRICING PROPOSAL,**
15 **AS IT APPLIES TO OTHER SWITCHED ACCESS**
16 **ELEMENTS, MEET THIS COST STANDARD?**

17
18 A. No. There is no apparent cost basis for
19 applying a zone density pricing concept to
20 other switched access elements (i.e., Carrier
21 Common Line, RIC, and Local Switching).

22
23 First, the incremental cost of providing either
24 the Carrier Common Line or the RIC is zero. If
25 the cost is an absolute zero in all cases, it

1 cannot be accurately argued that such a cost
2 would ever vary by density zone. Therefore, a
3 pricing arrangement that would vary prices for
4 these services based upon zone density must be
5 considered to be unjustly discriminatory on its
6 face and should be rejected by the Commission.

7
8 Second, BellSouth has not offered any
9 information demonstrating that the cost of
10 local switching would vary by density zone.
11 Indeed it is not at all apparent that a forward
12 looking cost analysis would find varying costs
13 for this element as a function of density.
14 BellSouth has made no attempt to justify its
15 pricing recommendation of this element on the
16 basis of cost. Without supporting cost
17 information, the proposed price must be
18 considered to be unjustly discriminatory (as
19 with the CCL and the RIC) and should be
20 rejected by this Commission.

21

22

23 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

24

1 A. Yes. First, the Commission should approve the
2 proposal offered by The Coalition with respect
3 to the disposition of available BellSouth
4 revenues. This proposal is consistent with the
5 development of competition and will provide
6 relief from some of the most excessive of
7 BellSouth rates - those associated with
8 switched access.

9
10 Second, the Commission should reject the
11 concept of zone density pricing with respect to
12 switched access charges (other than dedicated
13 and common transport) and deny the BellSouth
14 proposal that would establish zone specific
15 rates for elements like the CCL, RIC or Local
16 Switching. The Commission should consider
17 "zone density" pricing of network elements only
18 when cost differences can be demonstrated, and
19 then, only to the extent that the cost
20 differences occur.

21

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24

25 A. Yes.