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REBUTTAL TESTIMONY OF
MIKE GUEDEL
ON BEHALF OF AT&T COMMUNICATIONS
OF THE SOUTHERN STATES, INC.
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 960847-TP
FILED: SEPTEMBER 24, 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 received a Bachelor of Science degree in Business Administration from Miami University, Oxford, Ohio. Over the past years, I have attended numerous

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1 industry schools and seminars covering a variety of
2 technical and regulatory issues. I joined the Rates
3 and Economics Department of South Central Bell in
4 February of 1980. My initial assignments included
5 cost analysis of terminal equipment and special
6 assembly offerings.

7
8 In 1982, I began working on access charge design and
9 development. From May of 1983 through September of
10 1983, as part of an AT&T task force, I developed
11 local transport rates for the initial National
12 Exchange Carrier Association (NECA) interstate
13 filing. Post divestiture, I remained with South
14 Central Bell with specific responsibility for cost
15 analysis, design, and development relating to
16 switched access services and intraLATA toll. In
17 June of 1985, I joined AT&T, assuming responsibility
18 for cost analysis of network services including
19 access charge impacts for the five South Central
20 States (Alabama, Kentucky, Louisiana, Mississippi,
21 and Tennessee).

22

23 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

24

25 **A.** My current responsibilities include directing

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

11

12

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

14

15 A. The purpose of my testimony is to rebut some of the
16 assertions and specific conclusions of two GTE
17 witnesses in this case: William E. Munsell and
18 Dennis B. Trimble.

19

20

21 Q. MR. MUNSELL ARGUES BEGINNING AT PAGE 7, LINE 15 OF
22 HIS TESTIMONY THAT AN ALEC'S COST OF PROVIDING
23 TRANSPORT AND TERMINATION WOULD LIKELY BE LESS THAN
24 GTE'S COST OF PROVIDING TRANSPORT AND TERMINATION.
25 DO YOU AGREE WITH HIS POSITIONS?

1

2 A. No.

3

4 First, Mr. Munsell begins his discussion with the
5 assertion that GTE may have older, less efficient
6 plant and equipment which would tend to increase its
7 costs. This argument, however, is without merit
8 because embedded technologies have no place in a
9 TSLRIC or TELRIC analysis. A forward looking cost
10 analysis appropriately includes forward looking
11 technologies. The fact that GTE may or may not have
12 some obsolete technologies in place is not relevant.
13 On a going forward basis, the estimated cost
14 incurred by GTE should be based upon the most
15 efficient technology ("reconstructed" at current
16 wire center locations) - essentially the same
17 technology as would be used to estimate the ALEC's
18 cost.

19

20 Second, Mr. Munsell argues that "because the total
21 capacity of an ALEC's network tends to be more fully
22 utilized than the capacity of the ILEC's network,
23 the ALEC per unit cost for carrying that capacity
24 will be lower than the ILEC's per unit cost." This
25 argument also misses the mark. GTE begins the

1 competitive phase with a market share of nearly
2 100%. The ALEC's begin with nothing. In the near
3 term, it is, therefore, not likely that an ALEC
4 could deploy a telecommunications network and
5 immediately utilize that network as efficiently as
6 GTE can utilize its network. In the longer term, it
7 could be assumed that both GTE and the ALEC(s)
8 deploy optimally efficient networks. But even in
9 this case, economies of scale would tend to favor
10 the incumbent - GTE. In other words, larger
11 networks still tend to be more efficient at full
12 utilization than smaller networks.

13

14

15 Q. AT PAGE 32, LINES 17 THROUGH 19, MR. TRIMBLE ARGUES
16 THAT "IF EACH PORT CAME WITH A FULL COMPLEMENT OF
17 VERTICAL SERVICE, THE FULL TELRIC COST OF THE "FREE"
18 VERTICAL SERVICES COULD EASILY EXCEED \$100 PER
19 MONTH." DO YOU AGREE WITH THAT POSITION?

20

21 A. No. I am not sure of the costs that Mr. Trimble
22 intends to include in his estimate, but the number
23 appears to be unrealistically high.

24

25 A rough rule of thumb in the industry maintains that

1 an entire switching machine can be purchased for
2 between \$100 and \$120 per port - and this price
3 includes all of the features and functionality of
4 the switching machine. In other words a 50,000 line
5 switch may cost between \$5M and \$6M. Mr. Trimble's
6 cost estimate would seem to advocate recovering
7 nearly the entire cost of the switch each and every
8 month that it is in service. Such a recommendation
9 is simply not reasonable.

10

11 A better rough cut estimate of the monthly cost per
12 complete port can be obtained through the standard
13 formula (total investment * annual cost factor) /
14 12. Total investment per port can be estimated to
15 be \$110. Annual cost factors for switching
16 equipment typically fall into the range of .28 to
17 .34 depending upon the how the subelements are
18 developed. (Annual cost factors are developed to
19 include not only recovery of the initial investment,
20 but operational expenses, maintenance, and a
21 reasonable profit for the company as well.)
22 Therefore, the anticipated total monthly cost of a
23 complete port, with all feature capability, and
24 including a profit for the company, should be in the
25 range of \$2.57 to \$3.12 per month - significantly

1 less than Mr. Trimble's \$100 estimate.

2

3 **Q. MR. TRIMBLE IS ADVOCATING AN UNBUNDLED LOOP PRICE OF**
4 **\$33.08. IS THAT PROPOSAL REASONABLE?**

5

6 **A. No. Mr. Trimble's recommended price is almost 3**
7 times the costs of the loop as determined by the
8 Hatfield Model. The adoption of such a price would
9 merely serve to stifle the development of
10 competition in Florida.

11

12

13 **Q. HOW DOES MR. TRIMBLE JUSTIFY HIS PROPOSED PRICE?**

14

15 **A. At this point, it is not totally clear.**

16

17 Mr. Trimble states at page 25, lines 3 through 5,
18 that GTE will achieve some margin above cost. It is
19 not clear to me at this time as to what that margin
20 is or whether it bears any relationship to "forward-
21 looking" common costs.

22

23 Mr. Trimble states at page 19, lines 12 and 13, that
24 the rate is supported by GTE's cost study. At this
25 time, I have not had the opportunity to review this

1 study. AT&T has requested the study and associated
2 documentation through its formal data requests, but
3 has not yet received the documents. Each of these
4 documents will have to be reviewed to determine its
5 appropriateness, but it appears that GTE has
6 overstated its estimates by a sizable margin. (GTE
7 did provide limited cost information through the
8 negotiations process, but as noted in my direct
9 testimony, this information was not sufficient to
10 determine TSLRIC costs.)

11

12

13 **Q. WHAT ARE SOME OF THE ASSUMPTIONS THAT CAN CAUSE AN**
14 **OVERESTIMATION OF TSLRIC/TELRIC COSTS WITH RESPECT**
15 **TO LOCAL LOOP?**

16

17 **A.** There are several.

18

19 First, the study may contain some embedded or
20 obsolete technology. To the extent that the study
21 includes technology that is no longer being deployed
22 or no longer being deployed in the manner assumed by
23 the study, then the study is mis-specified and the
24 costs are likely overstated.

25 Second, the study must contain the appropriate

1 forward looking mix of copper versus pair-gain
2 systems. For example, if current technology
3 supports an efficient cross-over of 9 kilofeet, then
4 the study should reflect a 9 kilofeet cross-over.
5 Historical cross-over points are irrelevant, and to
6 the extent relied upon, can overstate costs.

7
8 Third, the study likewise should contain the
9 appropriate forward looking mix of integrated versus
10 non-integrated pair gain systems. Because
11 integrated systems are significantly more efficient,
12 an inappropriate mix favoring non-integrated systems
13 will significantly overstate the cost.

14
15 Fourth, annual cost factors must be appropriately
16 developed. If the company includes, for example, an
17 inappropriate return on equity, then it could
18 overstate its costs. If the maintenance and
19 operations factors are built from historical
20 (typically less efficient) plant and systems, then
21 the factors will tend to ascribe historical
22 inefficiencies to the new technologies and thereby
23 overestimate the cost.

24 These and other inputs must be thoroughly examined
25 to validate the supporting cost study(ies).

1 However, judging from the level of GTE's price
2 proposal with respect to local loops, it is likely
3 that some of these inputs have been inappropriately
4 specified.

5

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

7

8 A. Yes.