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

Re: Docket No. 960980-TP 960847

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Telecommunications Corporation in the above docket are the original and 15 copies of rebuttal testimony of the following:

Don Price 10460-96
Don Wood 10461-96
Steve Inkellis 10462-96
Paul Powers 10463-96
Timothy deCamp 10464-96
Sarah Goodfriend

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG 1 RDM/cc
- LIN 5 Enclosures
- OPC _____
- RCM _____
- SEP 1
- W/S 83293.1
- OTH _____

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

Very truly yours,

Richard D. Melson

Richard D. Melson

DOCUMENT NO. DATE

10460-96 9/3/96
FPSC - COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by hand delivery this 30th day of September, 1996.

Donna Canzano
Division of Legal Services
Florida Public Service Commission
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Tallahassee, FL 32399

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REBUTTAL TESTIMONY OF DON PRICE
ON BEHALF OF
MCI TELECOMMUNICATIONS CORPORATION AND
MCImetro ACCESS TRANSMISSION SERVICES, INC.

DOCKET NO. 960980-TP = 960847

September 30, 1996

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Price, and my business address is 701 Brazos, Suite 600,
Austin, Texas, 78701.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by MCI Telecommunications Corporation in the Southern
Region as Senior Regional Manager -- Competition Policy.

Q. ARE YOU THE SAME DON PRICE WHO HAS PREVIOUSLY FILED
TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this testimony is to rebut certain statements and allegations
made in the testimonies of GTE Florida, Incorporated ("GTE") witnesses
Charles F. Bailey, Rodney Langley, Beverly Y. Menard, Meade Seaman,
Douglas E. Wellemeyer, and Albert Wood. I will specifically provide rebuttal

1 to demonstrate the following: 1) that there is no basis for Mr. Seaman's claim
2 that GTE would experience "irreversible harm" under the scenario he
3 describes where rates are set at the FCC's proxy levels; 2) that there are
4 potential dialing parity issues raised by the testimony of Mr. Langley on the
5 topic of branding; 3) that notwithstanding the testimony of Mr. Wood on the
6 issue of line class codes, other means of providing "selective routing" of
7 operator and directory assistance calls exist; 4) that there is no basis for Ms.
8 Menard's conclusion that tariffing of interim number portability mechanisms
9 exempts carriers from the FCC's cost recovery guidelines; 5) that Mr. Bailey's
10 recommendations on rights-of-way are not founded in the Act and represent
11 bad public policy; and 6) that the recommendations of Mr. Wellemeyer
12 regarding resale are at odds with the requirements of the Act and sound public
13 policy, and would deny consumers the benefits of competition.

14
15 **NEGOTIATIONS BETWEEN MCI AND GTE**

16 Q. THE TESTIMONY OF GTE WITNESS SEAMAN STATES AT PAGE 8
17 THAT "IT APPEARS MCI WANTS GTE TO RESELL ... [NON-
18 TELECOMMUNICATIONS SERVICES] UNDER THE AVOIDED COST
19 RATE REFERENCED IN THE ACT." IS THAT WHAT MCI IS
20 REQUESTING IN THIS PROCEEDING?

21 A. No. MCI recognizes that certain services provided by GTE to end users are
22 not "telecommunications services." MCI should be able to resell such services
23 in order to compete with GTE. However, it is recognized that GTE's
24 obligation to price services at the discount mandated in Section 252(d)(3) of

1 the Act does not extend to non-telecommunications services provided on a
2 wholesale basis.

3

4 Q. MR. SEAMAN CLAIMS THAT GTE WOULD BE "IRREVERSIBLY
5 HARMED" IF THIS COMMISSION WERE TO IMPOSE PROXY RATES
6 ON SERVICES IN THIS PROCEEDING. WHAT IS YOUR REACTION TO
7 HIS CLAIM?

8 A. Mr. Seaman's claim that "the market cannot be retroactively corrected" is as
9 applicable to new local service providers such as MCI as it is to GTE. If,
10 instead of establishing rates that will compensate GTE for its forward looking
11 economic costs as required by the Act, this Commission were to set rates
12 based on GTE's poorly disguised make-whole proposals, the "irreversible
13 harm" that would occur would be to the competitive process and to
14 telecommunications users in GTE's Florida service territory.

15 The most telling thing about Mr. Seaman's claim is what it says about
16 GTE's confidence (or lack thereof) in its ability to market its services in a
17 competitive environment. Taking the situation that Mr. Seaman posits, the
18 "retroactive correction" would cause the new providers' rates to go up,
19 making their services less attractive. It is not obvious why the short term
20 effects of the scenario posited by Mr. Seaman would be "irreversible" unless
21 GTE is convinced that it simply will be unable to compete in the marketplace
22 under any circumstances.

23

24 Q. MR. SEAMAN ALSO TESTIFIES THAT THE TERM OF THE

1 AGREEMENT THAT WILL RESULT FROM THESE NEGOTIATIONS
2 AND ARBITRATION SHOULD BE "LIMITED TO NO MORE THAN TWO
3 YEARS." IS A TWO YEAR TERM ACCEPTABLE TO MCI?

4 A. No it is not. MCI requests that it be allowed to negotiate an interconnection
5 agreement with a term of up to 5 years. GTE should not be permitted to
6 dictate the term of the agreement.

7
8 **ANCILLARY SERVICES/ARRANGEMENTS**

9 **Branding**

10 Q. WHAT ARE YOUR COMMENTS REGARDING MR. LANGLEY'S
11 DISCUSSION OF BRANDING OF CALLS TO GTE'S REPAIR CENTER?

12 A. In his testimony at page 41, Mr. Langley discusses the situation of AT&T
13 having its own "repair center," such that AT&T would instruct callers to dial
14 a number other than the one they have traditionally used to reach GTE for
15 repair problems. I do not disagree with GTE's proposed treatment that it not
16 be required to brand calls *mistakenly* made to its repair center *so long as* the
17 dialing situation for reaching repair is at parity. I will discuss this situation
18 more fully below.

19
20 **Local Dialing Parity**

21 Q. WHAT "DIALING PARITY" ISSUES ARE RAISED BY MR. LANGLEY'S
22 DISCUSSION OF BRANDING CALLS TO GTE'S REPAIR CENTERS?

23 A. Mr. Langley states that new providers "will be able to have [their] own repair
24 center[s] along with [their] own discrete telephone number[s]." If by this

1 statement Mr. Langley is suggesting that MCI's or AT&T's customers must
2 dial a 7 or 10 digit number to reach their respective repair centers, while
3 GTE's customers can reach repair by dialing 611, the dialing parity
4 requirement will be violated.

5

6 Q. DO YOU HAVE A SUGGESTION THAT WOULD AVOID VIOLATION
7 OF THE DIALING PARITY REQUIREMENT OF THE ACT?

8 A. Yes. It is my understanding that Bell Atlantic, the RBOC with telephone
9 operations in the mid-Atlantic states, has agreed that it will no longer use 611
10 for access to its repair service centers. In the future, all local service
11 providers will utilize 1-800- (or 1-888-) numbers to reach their respective
12 repair service centers in the Bell Atlantic service territories, thereby achieving
13 dialing parity with regard to access to repair services. Note also that this
14 solution resolves the issue of branding for calls to repair service centers,
15 because if the local service provider chooses not to provide its own service
16 center functions but rather to have the incumbent provide those functions, the
17 use of discrete, carrier-specific 800- numbers facilitates the branding of service
18 calls by the incumbent's customer service representatives.

19

20 **Directory Assistance/Operator Services**

21 Q. HAVE YOU REVIEWED THE TESTIMONY OF GTE WITNESS ALBERT
22 E. WOOD, JR. REGARDING WHAT HE TERMS "SWITCH
23 UNBUNDLING?"

24 A. Yes, I have.

1 Q. DO YOU DISAGREE WITH MR. WOOD'S CONCLUSION THAT THERE
2 ARE SIGNIFICANT IMPLEMENTATION ISSUES PERTAINING TO THE
3 USE OF LINE CLASS CODES TO PERMIT CALLS FROM AT&T'S
4 CUSTOMERS TO BE ROUTED TO AT&T OPERATORS?

5 A. I am not qualified to render a technical opinion on Mr. Wood's conclusions. I
6 would, however, note that Bell Atlantic has recently agreed to provide such
7 selective routing, based not on the use of switch line class codes but rather on
8 Advanced Intelligent Network ("AIN") capability in its network. Although I
9 am not intimately familiar with the terms of that agreement, the fact that a
10 Regional Bell Company has agreed to provide that functionality suggests that it
11 is both technically feasible and economically within reason.

12

13 Q. MR. WOOD ALSO CONCLUDES AT PAGE 27 OF HIS TESTIMONY
14 THAT REQUESTS "FOR UNBUNDLING OF GTE'S [DIRECTORY
15 ASSISTANCE] DATABASE WOULD ALSO PRESENT TECHNICAL
16 DIFFICULTIES (SIC) THAT WOULD, AT THE VERY LEAST, REQUIRE
17 [ENTRANTS] TO COVER GTE'S COSTS OF IMPLEMENTATION."
18 WHAT IS MCI'S RESPONSE TO THIS CLAIM?

19 A. Permitting MCI's operators to access the GTE database is not our preferred
20 method of obtaining access to such information. Rather, MCI would prefer to
21 purchase the database from GTE and load the data onto MCI's operator
22 platform, so that MCI's operators would be able to query our systems, rather
23 than those of GTE, to respond to a request for directory assistance. Because
24 such an arrangement already exists today between MCI and BellSouth, it

1 should be clear that no technical feasibility issues -- such as the "distinct and
2 specific technical interface" issues discussed by Mr. Wood -- are presented.
3 Further, because the database can be loaded onto a magnetic tape(s) (and in
4 fact is likely stored on such media within GTE's systems today), there are no
5 implementation issues, and GTE's cost to provide DA information to MCI in
6 this manner should be close to zero.

7

8 **Interim Number Portability Issues**

9 Q. AT PAGE 14 OF HER TESTIMONY, MS. MENARD STATES THAT THE
10 FCC'S GUIDELINES FOR RECOVERY OF INTERIM NUMBER
11 PORTABILITY COSTS "DO NOT NECESSARILY APPLY" IN STATES
12 SUCH AS FLORIDA WHERE INCUMBENTS HAVE BEEN REQUIRED
13 TO FILE TARIFFS. DO YOU AGREE WITH HER CONCLUSION?

14 A. No I do not. Ms. Menard's testimony cites paragraph 127 of the FCC's
15 "Number Portability Order," and I disagree with her reading of that
16 paragraph. Clearly, this Commission has the authority to require the filing of
17 "tariffs for the provision of currently available number portability measures."
18 However, I see nothing in the FCC's order which suggests that the filing of a
19 tariff provides a safe haven for incumbent LECs permitting them to ignore the
20 FCC's cost recovery guidelines.

21

22 **Rights-of-Way**

23 Q. WHAT ARE YOUR COMMENTS REGARDING MR. BAILEY'S
24 TESTIMONY REGARDING RIGHTS-OF-WAY, CONDUITS, AND POLE

1 ATTACHMENTS?

2 A. I will address Mr. Bailey's recommendations that GTE should be permitted to
3 deny access on capacity, safety, and reliability grounds and that GTE must be
4 able to reserve capacity because of its "carrier of last resort" obligations. I
5 will also discuss briefly Mr. Bailey's discussion of taking.

6

7 Q. MR. BAILEY CLAIMS THAT GTE SHOULD BE PERMITTED TO
8 RESERVE IN ADVANCE FIVE YEAR'S WORTH OF CAPACITY FOR
9 ITSELF. IS SUCH A RIGHT PERMITTED GTE UNDER THE ACT?

10 A. Although I am not an attorney, it is my understanding that the Act provides no
11 basis on which GTE can claim such a right. The relevant provisions of the
12 Act are as follows:

13 (f)(1) A utility shall provide a cable television system or
14 any telecommunications carrier with nondiscriminatory
15 access to any pole, duct, conduit, or right-of-way owned
16 or controlled by it.

17 (2) Notwithstanding paragraph (1), a utility providing
18 electric service may deny a cable television system or
19 any telecommunications carrier access to its poles, ducts,
20 conduits, or rights-of-way, on a non-discriminatory basis
21 where there is insufficient capacity and for reasons of
22 safety, reliability and generally applicable engineering
23 purposes. (47 U.S.C. 224)

24 For GTE to reserve five year's of capacity for its own use prior to allowing

1 other telecommunications carriers to access its facilities appears to me to
2 violate the nondiscriminatory access obligation of section 224(f)(1).

3
4
5
6
7
8

Q. WHAT IS YOUR RESPONSE TO MR. BAILEY'S CLAIM AT PAGE 9 OF HIS TESTIMONY THAT "IT DEFIES LOGIC TO ALLOW ONLY ELECTRIC UTILITIES TO DENY ACCESS ON ... GROUNDS" OF CAPACITY, SAFETY, RELIABILITY AND GENERALLY APPLICABLE ENGINEERING PRACTICES?

9 A. As I stated, I am not an attorney. But the language of the provisions cited
10 above seems relatively straightforward. It would appear that Congress wanted
11 to distinguish between utilities providing telecommunications services and
12 those utilities providing electric services. It would be consistent with the
13 overall procompetitive thrust of the Act for Congress to have imposed different
14 obligations on telecommunications utilities, because the purpose of much of the
15 Act was to stimulate competition between providers of telecommunications
16 services. Electric utilities, as we say in Texas, "don't have a dog in that
17 fight." Congress appears to have recognized that if the exception granted to
18 electric utilities was also available to incumbent LECs such as GTE, the
19 development of competition could be harmed. Thus, the exception was
20 granted only to electric utilities. When viewed in that light, the logic of the
21 provisions complained of by Mr. Bailey seems quite clear.

22 The FCC also found logic in those provisions, stating in the 251 Order
23 at paragraph 1170 that:

24 Permitting an incumbent LEC, for example, to reserve

1 space for local exchange service, to the detriment of a
2 would-be entrant into the local exchange business, would
3 favor the future needs of the incumbent LEC over the
4 current needs of the new LEC. Section 224(f)(1)
5 prohibits such discrimination among telecommunications
6 carriers. As indicated above, this prohibition does not
7 apply when an electric utility asserts a future need for
8 capacity for electric service, to the detriment of a
9 telecommunications carrier's needs, since the statute does
10 not require nondiscriminatory treatment of all utilities;
11 rather, it requires nondiscriminatory treatment of all
12 telecommunications and video providers. (Emphasis
13 added.)

14
15 Q. WHAT IS YOUR RESPONSE TO MR. BAILEY'S DISCUSSION OF GTE'S
16 "SPECIAL SERVICE OBLIGATIONS BY VIRTUE OF [ITS] STATUS AS
17 [A] PROVIDER[] OF LAST RESORT"?

18 A. I recognize that Mr. Bailey's claim has a superficial appeal, but do not believe
19 that his claim can withstand scrutiny. First, as the Maryland Commission has
20 noted, the "carrier of last resort obligation" provides a powerful advantage to
21 incumbents by virtue of their ability to provide service (and thereby obtain
22 additional revenues) in many instances immediately and without having to
23 expend capital for the installation of new or additional facilities. Likewise,
24 GTE is in a unique position within its service territory by virtue of its

1 historical exclusive franchise that has permitted it to obtain public right-of-way
2 and to construct conduit and poles in that right-of-way to the doorstep of
3 virtually every potential customer. As noted above, the plain language of
4 Section 224 of the Act suggests that Congress wanted to preclude ILECs such
5 as GTE from using these advantages to discriminate against other
6 telecommunications service providers to the detriment of competition.

7 Second, Mr. Bailey ignores the fact that *all* service providers
8 competing in a market will desire to be able to meet whatever demand for
9 their services arises. Facilities-based competitors, therefore, will desire access
10 to GTE's rights-of-way, conduits, and poles in order to rapidly meet demand
11 for service that they otherwise could be unable to meet. The effect of a
12 competitor using GTE's conduit or poles, however, would -- all else equal --
13 reduce the extent to which GTE will need to use such conduit or pole space to
14 meet market demand. Stated differently, to the extent that meeting users'
15 demand for service is a zero sum game, permitting other service providers to
16 utilize its poles and conduits will have little or no effect on GTE's so-called
17 carrier of last resort obligations.

18 Third, even if we assume that GTE's conduit and poles become filled
19 by other service providers, GTE will be compensated for the space utilized. If
20 GTE anticipates a future need for conduit or pole space along a route where
21 available capacity has been taken by other service providers, it may be able to
22 expand capacity without having to bear the entirety of the expansion costs. By
23 virtue of GTE's advantageous access to information of other service providers,
24 GTE could consciously decide not to expand capacity along a certain route

1 with the expectation that another provider will seek an expansion. Such a
2 situation would have the other provider, rather than GTE, bear the lion's share
3 of that expansion cost. This result could significantly benefit GTE in at least
4 two ways. It would reduce GTE's cost to accomplish the expansion. Also,
5 GTE would be provided another source of revenues; i.e., rental fees for the
6 use of what may initially be unused capacity. To the extent that meeting
7 users' service demands is not a zero sum game, both of these results would
8 serve to benefit GTE.

9

10 Q. YOU STATED THAT YOU WOULD RESPOND TO MR. BAILEY'S
11 DISCUSSION OF "TAKING." WHAT IS THAT RESPONSE?

12 A. Mr. Bailey states that GTE's lawyers have advised him that the United States
13 Supreme Court:

14 ...made it clear, however, that if section 224 mandated
15 access, it would constitute a taking in violation of the
16 Fifth Amendment.

17 It is my understanding that Mr. Bailey is about half correct. I am advised that
18 there is a significant difference between there being a taking and that taking
19 being in violation of the Fifth Amendment, which merely requires that a
20 person whose property is taken receive just compensation. And I understand
21 that, for its arguments to prevail, GTE must prove that the payment scheme
22 set forth in 224(d)(1) of the Act fails to provide it with constitutionally just
23 compensation.

24

1 such telecommunications service, except that a State
2 commission may, consistent with regulations prescribed
3 by the Commission under this section, prohibit a reseller
4 that obtains at wholesale rates a telecommunications
5 service that is available at retail only to a category of
6 subscribers from offering such service to a different
7 category of subscribers.

8 My reading of Mr. Wellemeyer's testimony leads me to conclude that his
9 requested exceptions to resale are not consistent with GTE's obligations under
10 the Act.

11
12 Q. DOES MR. WELLEMAYER ARGUE THAT THE SERVICES HE
13 PROPOSES TO RESTRICT FROM RESALE ARE NOT
14 "TELECOMMUNICATIONS SERVICE[S]"?

15 A. No. Mr. Wellemeyer's rationale includes a variety of factors which are not
16 mentioned in the Act. For example, he claims that services alleged to be
17 priced "below cost" should be excluded so that GTE can "cover its total
18 costs." He further claims that GTE should not have to offer promotions for
19 resale because GTE must be allowed to "respond to competition on a retail
20 basis and gives its customers more choices." Lastly, Mr. Wellemeyer avers
21 that GTE should not have to offer at wholesale rates "services that have no
22 avoided retail costs." None of these claims have a basis in the statutory
23 language cited above.

24 As noted above, grandfathered services would be excluded in his

1 recommendation, although he does not argue that such services are not
2 telecommunications services provided at retail to end user subscribers. MCI's
3 concern with this exclusion is the potential for GTE to use grandfathering of a
4 service in the future to avoid its responsibility to resell retail
5 telecommunications offerings. This concern is not simply academic, because
6 MCI has seen grandfathering of services used for strategic purposes in other
7 jurisdictions.

8
9 Q. ARE CERTAIN RESTRICTIONS ON RESALE PERMITTED BY THE
10 ACT?

11 A. Yes. I recognized in my direct testimony that there are certain limitations on
12 resale that have a valid public policy purpose (as opposed to merely providing
13 GTE with a strategic competitive advantage). I listed those restrictions that
14 would meet a public policy test, including 1) resale of flat rate residential
15 service limited to residential customers, 2) resale of grandfathered services
16 limited to customers who took the grandfathered service from GTE, and 3)
17 resale of Lifeline and LinkUp limited to qualifying low income customers.
18 The limitation of the resale of flat rate residential service to residential
19 customers should resolve GTE's concern regarding services it alleges are
20 "below cost." That is because GTE should be neutral to whether it provides
21 such services on a retail or wholesale basis, since the wholesale discount will
22 reflect costs avoided by GTE. In other words, GTE's margin on such services
23 would be unaffected, and it will be no worse (or better) off than when
24 providing the service on a retail basis. Any restrictions other than those listed

1 above should be rejected as contrary to the Act and to the public interest.

2

3 **Calculation of the Wholesale Discount**

4 Q. WHAT IS THE PURPOSE OF CALCULATING A WHOLESALE
5 "DISCOUNT?"

6 A. The purpose of calculating a wholesale "discount" is to quantify the costs of
7 the incumbent LEC -- in this case, GTE -- that are *not* incurred in the
8 provision of services at wholesale. This is so the costs that are not incurred in
9 the provision of wholesale services (i.e., GTE's costs of retailing) can be
10 deducted from GTE's retail rates to yield appropriate wholesale rates. This is
11 what is required by Sect. 252(d)(3) of the Telecommunications Act of 1996
12 ("the Act"). The concept is relatively simple, and can be shown with the
13 following illustration:

14

		GTE's retail rate(s)
	minus	<u>GTE's costs of retailing</u>
	equals	GTE's wholesale rate(s)

18

19 Q. IS THE APPROACH YOU HAVE DESCRIBED CONSISTENT WITH THE
20 APPROACH TAKEN BY GTE'S WITNESS WELLEMAYER?

21 A. No. Mr. Wellemeyer states at page 8 of his testimony that he has defined
22 avoided costs as "the costs avoided when *a service* is offered through
23 wholesale, rather than retail, distribution channels." (Emphasis added.)
24 Because the Act requires that all of GTE's retail services be offered for resale,

1 however, Mr. Wellemeyer's use of the singular "service" in his definition
2 suggests that his analysis has not attempted to capture all of GTE's retailing
3 costs. Also at page 8, the testimony suggests that GTE's analysis sought to
4 answer a much different question; namely, what are the "true costs" for which
5 GTE should be compensated. While I readily agree with Mr. Wellemeyer that
6 it is important to establish wholesale rates at the appropriate level, I cannot
7 agree that GTE's "true costs" as he uses that phrase is a standard that is
8 consistent with the requirements of the Act.

9
10 Q. WHAT IS YOUR CONCERN WITH THE TERM "TRUE COSTS"?

11 A. My concern is that, if granted the right to recover whatever costs it claims are
12 associated with providing services on a wholesale basis, GTE would be given
13 incentives to wholesale services in ways that strategically benefit GTE and
14 harm retail competition. This concern is demonstrated by Mr. Wellemeyer's
15 discussion at page 9 where he states that GTE should be permitted to include
16 costs it claims are "associated with replacement wholesale activities" in
17 calculating the wholesale discount.

18 To the extent that new procedures and systems will be necessary to
19 provide wholesale services, GTE's mindset appears to be one of "cost plus,"
20 much like defense contractors whose compensation is based on whatever costs
21 they incur in the production of the good or service. There are well known
22 examples of cost excesses from the defense sector which stem from the
23 absence of compensation incentives to operate efficiently. If the "cost plus"
24 model were imported to the telecommunications industry as Mr. Wellemeyer

1 suggests, competitive distortions would arise, for at least two reasons. First,
2 GTE would face no incentive to wholesale efficiently, because the
3 compensation mechanism is designed to recover whatever costs GTE incurs,
4 regardless of whether such costs are efficiently incurred. Second, GTE would
5 have significant incentives to burden its retail competitors with excessive costs
6 as a means of gaining a competitive advantage in the retail market.

7

8 Q. ARE YOU SAYING THAT GTE SHOULD RECEIVE NO
9 COMPENSATION FOR ITS COSTS OF WHOLESALING?

10 A. No. In fact, my recommendation expressly recognizes, in compliance with the
11 FCC's 251 Order, that "some expenses ... will continue to be incurred with
12 respect to wholesale products and customers, and that some new expenses may
13 be incurred in addressing the needs of resellers as customers." (251 Order at
14 para. 928.) The approach Mr. Wellemeyer is suggesting, however, would
15 simply give GTE a blank check to recover whatever costs it claimed to be
16 associated with providing services at wholesale. As I stated above, such a
17 policy would encourage GTE to provide wholesale services as inefficiently as
18 possible. This would ultimately benefit GTE, whereas end users would bear
19 the "price" of a market that is less competitive than it otherwise could be.

20

21 Q. IN YOUR DISCOUNT CALCULATION, WHAT IS THE QUANTITY OF
22 GTE'S CONTINUING OR NEW COSTS ASSOCIATED WITH
23 WHOLESALING?

24 A. That amount is the difference between the "total direct" and the "avoided

1 direct" costs. Using the 1995 figures reported by GTE, that amount is \$8.4
2 million. (See, Exhibit ___ (DGP-5), lines 13 and 14.) The discount I have
3 recommended in this proceeding will, therefore, permit GTE to recover
4 continuing costs and new costs associated with wholesaling its services.

5

6 Q. YOU STATED EARLIER THAT THE PURPOSE OF THE DISCOUNT
7 CALCULATION IS TO QUANTIFY GTE'S COST OF RETAILING.
8 PLEASE EXPLAIN.

9 A. There is no argument that GTE will continue to be a retail provider of
10 telecommunications services or that it will incur retailing costs. But by
11 looking only at the costs that GTE will no longer incur, as Mr. Wellemeyer
12 suggests, the resulting discount would *overstate* the wholesale rates, place
13 GTE in an unfair competitive position in the retail market, and deny to end
14 users the benefits that resale competition could otherwise bring.

15 In contrast with what I believe is required by the Act, the effect of Mr.
16 Wellemeyer's approach can be shown graphically as follows:

17

18 GTE's retail rate(s)
19 minus some of GTE's retailing costs
20 plus GTE's claimed new wholesaling costs
21 equals GTE's wholesale rate(s) [*which includes the rest of*
22 *GTE's retailing costs, and new wholesaling costs*]

23

24 As this illustration demonstrates, by failing to take into account *all* of GTE's

1 retailing costs in calculating the discount, the resulting wholesale rates will
2 burden GTE's wholesale customers with recovery of the portion of GTE's
3 retail costs that were ignored in the calculation of the discount.

4

5 Q. HAVE YOU REVIEWED "GTE'S AVOIDED COST STUDY" AND MR.
6 WELLEMAYER'S RELATED TESTIMONY?

7 A. I have not yet obtained a copy of the cost study because of GTE's claims that
8 the study includes proprietary information. I have reviewed the portions of the
9 testimony related to the study.

10

11 Q. WHAT CONCLUSIONS HAVE YOU REACHED BASED ON MR.
12 WELLEMAYER'S DISCUSSION OF THE MODEL IN HIS TESTIMONY?

13 A. The results of Mr. Wellemeier's study appear to be driven by a number of
14 assumptions. As stated above, I have not seen the model and therefore have
15 no way of knowing the extent to which those assumptions impact his results.
16 However, there are a number of statements in his testimony that raise
17 questions about the accuracy of his study.

- 18 ● At page 10, we are told that the "substitute retail costs"
19 were based on a proxy as opposed to direct information,
20 and the cost of the proxy was "assumed to be the same"
21 as the costs the study was to identify.
- 22 ● At page 12, we learn that the study is based on GTE's
23 system-wide information rather than costs specific to
24 Florida operations.

- 1 ● At page 13, we are advised that the study examined
2 “changes in workcenter costs that result from offering
3 services on a wholesale, rather than a retail, basis” as
4 opposed to identifying the costs of retailing.
- 5 ● At pages 16-17, we are told that the study calculations
6 were based on “the number of calls for service orders ...
7 multiplied by the average length of a service order call”
8 and that result was then “expressed as a percentage of
9 the total time spent on all calls received.”
- 10 ● At page 18, we find that the costs associated with certain
11 call centers were “directly assigned,” although that
12 approach could not be taken for the entire study because
13 “sufficient information” was not available.
- 14 ● At pages 18-20, we learn that assignments of “affected
15 costs” were made based on a variety of methods,
16 including a) “each service’s share of consumer and
17 business uncollectibles,” b) “business revenues relative to
18 total revenues,” c) “1995 sales quotas for the [Business
19 Sales Center],” d) “the relative size of the 1995 sales
20 quotas,” e) “the combined allocation of other ... branch
21 service workcenters’ costs,” f) “the combined allocation
22 of both ... branch sales service costs,” g) “the combined
23 allocation of all branch sales services, BSC, National
24 Accounts and Business Operations Support Service

1 costs," and h) "the relative number of service-specific
2 calls received by the workcenter."

3

4 Q. WHAT ARE THE IMPLICATIONS OF THE USE OF THESE VARIOUS
5 ASSUMPTIONS?

6 A. There are several. First and foremost, these assumptions demonstrate that the
7 study did not attempt to take into account all of GTE's retailing costs.
8 Second, I am very skeptical of any quantification of "new costs" determined in
9 the study. Third, the testimony expresses the results of the study down to the
10 penny for certain services, and to the 1/1,000th of a penny for usage services.
11 (See, pages 21 and 25.) These figures imply a degree of precision in the study
12 that is totally at odds with the number of assumptions and allocations used to
13 derive the results. While I have not yet seen the study and thus have no basis
14 to conclude that errors were made in its conduct, the number of assumptions
15 and allocations used in the study is in my opinion sufficient to challenge the
16 implied precision in Mr. Wellemeyer's results. The Commission should recall
17 that even minor accounting adjustments can be worth tens of millions of
18 dollars in the local exchange industry. It is simply not credible to suggest that
19 GTE has been able to accurately quantify the costs of providing services on a
20 wholesale basis down to the penny, and certainly not to the thousandth of a
21 penny.

22

23 Q. DO YOU HAVE OTHER COMMENTS ON MR. WELLEMAYER'S
24 STUDY?

1 A. Yes. I would note that Mr. Wellemeyer's study, the "GTE's Avoided Cost
2 Study," does not appear to attempt to rebut any of the presumptions contained
3 in the FCC's rules, §51.609(d).

4

5 Q. DO YOU HAVE A RESPONSE TO MR. WELLEMAYER'S DISCUSSION
6 OF THE NEED TO INCLUDE "OPPORTUNITY COST" IN THE
7 CALCULATION OF THE DISCOUNT?

8 A. I will briefly discuss the proposal, but refer to the testimony of Dr.
9 Goodfriend for her discussion of this issue in the pricing of unbundled
10 elements.

11 First, I would note that there does not appear to be any basis in section
12 252(d)(3) of the Act for GTE to claim an "offset" to recognize opportunity
13 costs in the calculation of the wholesale discount.

14 Second, the FCC rejected the inclusion of "non-cost factors or policy
15 arguments" in establishing the wholesale discount. MCI had argued that
16 certain costs such as external relations should be taken into account in
17 calculating the discount. The FCC rejected that argument as well as
18 arguments similar to GTE's "opportunity cost" recommendation that the
19 calculation of the discount should take into account various non-cost policy
20 factors. (See, 251 Order at paragraph 914.) Based on that portion of the
21 FCC's decision, the model on which I based my recommendation has been
22 modified from that which MCI proposed to the FCC to eliminate such "non-
23 cost factors or policy arguments." (See, Exhibit ___(DGP-5), lines 24-47.)

24 Third, to adopt Mr. Wellemeyer's recommendation and take

1 "opportunity costs" into account would be bad public policy. The effect of the
2 recommendation would be to ensure that GTE's earnings are unaffected
3 regardless of whether it continues to offer services on a retail basis or solely as
4 a wholesaler. To protect GTE's earnings from changes in its retail market
5 share would blunt incentives for GTE's retail operations to respond to market
6 forces. Moreover, by raising the price a wholesaler pays above competitive
7 levels, such opportunity-cost pricing would discriminate against an equally-
8 efficient retail operation seeking to compete with GTE because the input prices
9 at wholesale to this retail entrant exceed GTE's economic cost of providing
10 wholesale services. Such preferential treatment of GTE's retail operations
11 would further blunt incentives for GTE's retail operation to respond to market
12 forces. Finally, adjusting wholesale prices for opportunity costs would, by
13 altering an entrant's choice between resale, partial-facilities-based competition
14 (or purchase of elements) and complete bypass of GTE facilities, induce
15 duplicative and inefficient investment by entrants. Such a result clearly is
16 inconsistent with the types of incentives that GTE should face in a local
17 exchange market that is experiencing the emergence of competition.

18
19 Q. DOES THE AVOIDED COST MODEL WHICH YOU SPONSORED IN
20 YOUR DIRECT TESTIMONY INCLUDE ALL OF GTE'S RETAILING
21 COSTS?

22 A. The model includes all such costs that are assigned to the intrastate jurisdiction
23 through the separations process. (To the extent that some retailing costs are
24 assigned to the interstate jurisdiction, the results of the model understate the

1 magnitude of the wholesale discount.) The model thus captures GTE's
2 retailing costs as required by Sect. 252(d)(3) of the Act and Part 51.609 of the
3 FCC's Rules, and thus provides a proper basis for calculating the wholesale
4 discount. As discussed previously Exhibit ___(DGP-5) shows the model's
5 calculation of the GTE-Florida discount based on the 1995 actuals in GTE's
6 ARMIS report.

7
8 Q. IN SUMMARY, HOW DOES MCI'S AVOIDED COST STUDY DIFFER
9 FROM THE OTHER STUDIES PRESENTED IN THIS PROCEEDING?

10 A. As noted above, the analysis presented by GTE through Mr. Wellemeyer's
11 testimony represents an approach which does not even attempt to overcome the
12 rebuttable presumption in Part 51.609(d) of the FCC's Rules with respect to
13 costs in certain accounts (i.e., accounts 6611-6613 and 6621-6623) which the
14 FCC concluded were presumed to be avoided. On the other hand, the analysis
15 presented by AT&T attempts to overcome the rebuttable presumption in Part
16 51.609(d) of the FCC's Rules with respect to costs in certain accounts (i.e.,
17 accounts 6110-6116 and 6210-6565) which the FCC concluded were presumed
18 to not be avoided.

19 In contrast with both these approaches, the model which I am
20 presenting and the result of which is reflected in Exhibit ___(DGP-5) does not
21 attempt to rebut any of the presumptions in Part 51.609(d) of the FCC's rules,
22 and included and excluded accounts strictly in accordance with the FCC's
23 presumptions in that section of its Rules. (See, column labeled
24 "Formula/Source" on Exhibit ___(DGP-5).)

1 **Application of the Wholesale Discount**

2 Q. DOES MR. WELLEMAYER'S TESTIMONY EXHIBIT AN
3 UNDERSTANDING OF THE DIFFERENCE BETWEEN THE
4 CALCULATION OF THE DISCOUNT AND ITS APPLICATION?

5 A. No. Throughout his testimony, Mr. Wellemeyer discusses how his analysis
6 was intended to quantify only those retailing costs that he believed would go
7 away. As I noted above, this is the wrong approach, because the question is
8 not the quantity of retailing costs that will go away, but the quantity of GTE's
9 retailing costs. I will readily acknowledge that there are a number of retailing
10 costs that GTE will continue to incur. But it would be wrong to set these
11 costs aside in calculating the wholesale discount.

12

13 Q. WHY?

14 A. It is wrong because the discount will *only* be applied to those services that
15 GTE provides on a wholesale basis. GTE will continue to recover its retailing
16 costs through every one of the services it continues to provide on a retail
17 basis. Thus, GTE will have ample opportunity to recover its retailing costs.
18 Because the wholesale discount will only be applied to those services that GTE
19 provides on a wholesale basis, the proper calculation of the wholesale discount
20 -- i.e., by including *all* of GTE's retailing costs -- is totally unrelated to the
21 question of whether GTE will be able to recover its retailing costs, and in no
22 way impairs GTE's ability to recover those costs.

23

24 **Separate Wholesale Discounts for Customer Classes**

1 Q. IS IT APPROPRIATE TO CALCULATE SEPARATE WHOLESale
2 DISCOUNTS FOR DIFFERENT CUSTOMER CLASSES OR DIFFERENT
3 SERVICES?

4 A. There is nothing theoretically wrong with calculating different discounts for
5 different customer classes or services. The problem that is presented by Mr.
6 Wellemeyer's recommendation is that I have not yet seen the study, and
7 obviously have no means at this time to vouch for the correctness or validity
8 of the allocations he has made in arriving at his various discounts. My
9 experience in state ratemaking proceedings, however, suggests that a number
10 of GTE's assumptions could be vigorously contested, as there are no easy
11 answers to questions of which costs are associated with which services.
12 Further, as I noted above, the figures Mr. Wellemeyer presents imply a degree
13 of precision to the study that is totally at odds with the number of assumptions
14 and allocations used to derive the results. The fact is that the analyst(s)
15 conducting GTE's Avoided Cost Study had to exercise judgment at a variety of
16 steps in the process to allocate costs to individual services. Without a means
17 of tracking through every one of those decisions and determining the
18 reasonableness of each one, the results cannot be validated. This is why I
19 stated earlier in my testimony that GTE should not exclude from its obligation
20 to permit resale, services that it claims have no avoided costs. In summary, I
21 have absolutely no confidence in Mr. Wellemeyer's results as indicative of
22 GTE's avoidable costs even at the aggregate level, much less at the individual
23 service level at which the results are presented.

24

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?
2 A. Yes, at this time.
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**GTE - Florida
Avoided Cost 1995**

Type of Cost	ARMIS		USOA		Line	Formula/Source	GTEFL
	Row Number	Row Name	Acct Number				
Direct	7000	TotMktng36/69	6610		1		26,021
		% Avoided			2	FCC 251 Order, para. 928	90.00%
		\$ Avoided			3		23,419
Direct	7060	TotTelOp36/69	6621+6622		4		16,280
		% Avoided			5	FCC 251 Order, para. 928	100.00%
		\$ Avoided			6		16,280
Direct	7076	TotPubDir36/69	remainder 6622		7		7,118
		% Avoided			8	FCC 251 Order, para. 928	100.00%
		\$ Avoided			9		7,118
Direct	7310	TotOthCSvc36/69	6623		10		57,583
		% Avoided			11	FCC 251 Order, para. 928	90.00%
		\$ Avoided			12		51,825
Total Direct					13	Sum of lines 1, 4, 7 & 10	107,002
Avoided Direct					14	Sum of lines 3, 6, 9 & 12	98,642
Indirect	4040	Uncollectible36/69	5301		15		23,263
		% Avoided			16	Line 49	13.63%
		\$ Avoided			17		3,172
Indirect	5010	GeneralSupp36/69	6120		18		72,686
		% Avoided			19	Line 49	13.63%
		\$ Avoided			20		9,909
Indirect	7334	TotCorpOper36/69	6710+6720		21		118,945
		% Avoided			22	Line 49	13.63%
		\$ Avoided			23		16,216
Excluded	5026	TotCOExp36/69	6210+6220+6230		24		50,539
		% Avoided			25	FCC 251 Order, para. 927	0.00%
		\$ Avoided			26		0
Excluded	5042	TotOthIOT36/69	6310		27		7,809
		% Avoided			28	FCC 251 Order, para. 927	0.00%
		\$ Avoided			29		0
Excluded	5076	TotC&WExp36/69	6410		30		45,204
		% Avoided			31	FCC 251 Order, para. 927	0.00%
		\$ Avoided			32		0
Excluded	6000	OtherPP&E36/69	6510		33		1,804
		% Avoided			34	FCC 251 Order, para. 927	0.00%
		\$ Avoided			35		0
Excluded	6010	NetworkOper36/69	6530		36		58,064
		% Avoided			37	FCC 251 Order, para. 927	0.00%
		\$ Avoided			38		0
Excluded	6012	Access36/69	6540		39		-1
		% Avoided			40	FCC 251 Order, para. 927	0.00%
		\$ Avoided			41		0
Excluded	6260	TotDep/Amort36/69	6560		42		238,583
		% Avoided			43	FCC 251 Order, para. 927	0.00%
		\$ Avoided			44		0
Excluded	5000	NetworkSupp36/69	6110		45		-361
		% Avoided			46	FCC 251 Order, para. 927	0.00%
		\$ Avoided			47		0
		Total Expenses			48	Sum of lines 13, 15, 18, 21, 24, 27, 30, 33, 36, 39, 42 & 45	723,537
		% Direct Expenses Avoided			49	Line 14 / Line 48	13.63%
		Total Avoided			50	Sum of lines 14, 17, 20 & 23	127,939
		Wholesale Discount			51	Line 50 / Line 48	17.68%