

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO. 960847-TP  
Petitions by AT&T Communications of : DOCKET NO. 960980-TP  
the Southern States, Inc., MCI :  
Telecommunications Corporation, MCI :  
Metro Access Transmission Services, :  
Inc., for arbitration of certain :  
terms and conditions of a proposed :  
agreement with GTE Florida :  
Incorporated, concerning :  
interconnection and resale under :  
the Telecommunications Act of 1996. :

SECOND DAY - AFTERNOON SESSION

VOLUME 11

PAGE 1256A through 1335

PROCEEDINGS: HEARING  
BEFORE: CHAIRMAN SUSAN F. CLARK  
COMMISSIONER J. TERRY DEASON  
COMMISSIONER JULIA L. JOHNSON  
COMMISSIONER DIANE K. KIESLING  
COMMISSIONER JOE GARCIA  
DATE: Tuesday, October 15, 1996  
PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida  
REPORTED BY: NANCY S. METZKE, RPR, CCR

APPEARANCES:  
(As heretofore noted.)

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P R O C E E D I N G S

(Transcript continues in sequence from Volume 10)

CHAIRMAN CLARK: And I see Mr. McLeod is on the witness stand. Mr. McLeod you have been sworn in, haven't you?

WITNESS McLEOD: Yes, I have.

CHAIRMAN CLARK: Okay. The exhibit marked DNM-1 which was part of Mr. Morris's testimony, that will be admitted in the record without objection.

Go ahead, Ms. Caswell.

MS. CANZANO: Excuse me, do we have a number for that exhibit?

CHAIRMAN CLARK: 29.

MS. CANZANO: Thank you.

MS. CASWELL: GTE calls Don McLeod.

Whereupon,

DONALD McLEOD

was called as a witness on behalf of GTE and, after being duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MS. CASWELL:

1 Q Please state your name and business address.

2 A My name is Donald W. McLeod, M-c-L-e-o-d. My  
3 business address is 600 Hidden Ridge, Irving, Texas, 75015.

4 Q And who is your employer?

5 A GTE Telephone Operations. I am currently  
6 employed as a vice president, local competition and  
7 interconnection.

8 Q Have you adopted two sets of direct testimony in  
9 this proceeding, one with regard to the MCI portion of the  
10 proceeding and one with regard to the AT&T portion of the  
11 proceeding?

12 A I have.

13 Q And was that the direct testimony of Meade Seamen  
14 in Dockets 960847 and 960980 respectively?

15 A That's correct.

16 Q And were there any exhibits associated with that  
17 direct testimony?

18 A Yes, I have --

19 Q I --

20 A Excuse me.

21 Q I'm sorry, go ahead.

22 A I was going to say I have two exhibits associated  
23 with my direct testimony.

24 Q And is the first of those exhibits labeled MCS-1,  
25 and that would be an exhibit to your direct testimony in

1 Docket 960980?

2 A That's correct.

3 Q And the second of those exhibits that you are  
4 sponsoring would be labeled GTE's Additional Background  
5 Documents that were submitted in Docket 960847, and those  
6 documents were associated with GTE's response to AT&T's  
7 arbitration petition; is that right?

8 A That's correct.

9 Q Do you have any --

10 CHAIRMAN CLARK: Ms. Caswell, where should I have  
11 that second exhibit? I do have MCS-1.

12 MS. CASWELL: Yes. The other exhibit is a binder  
13 that includes GTE's proposed contract, the core team  
14 matrix, subject-matter expert matrix.

15 CHAIRMAN CLARK: I've got it.

16 MS. CASWELL: And because it was in a binder, it  
17 was not attached to the testimony, but rather it was  
18 submitted along with our response to the petition.

19 CHAIRMAN CLARK: All right. Give me that title  
20 again.

21 MS. CASWELL: GTE's Additional Background  
22 Documents. That again is in Docket 960847.

23 CHAIRMAN CLARK: Okay.

24 BY MS. CASWELL:

25 Q Mr. McLeod, are there any changes to your direct

1 testimony or to the exhibits that you are sponsoring?

2           A       There is a change to the exhibit entitled GTE  
3 Additional Background, and what that simply is is an update  
4 to the GTE proposed agreement that was submitted in the  
5 original filing on September 10th, and what it does is it  
6 simply incorporates the agreements that have been reached  
7 to date between AT&T and GTE during the negotiation  
8 process, so it's simply an update to the material that has  
9 been filed insofar as the text of that material is  
10 concerned.

11                   In connection with my direct testimony -- excuse  
12 me, my rebuttal testimony, I have one correction to make.

13           CHAIRMAN CLARK: Ms. Caswell, have we done his  
14 rebuttal yet? Have we asked him about that?

15           MS. CASWELL: No, we have not. It was just the  
16 direct testimony.

17           CHAIRMAN CLARK: Okay. Mr. McLeod, let's deal  
18 with your direct testimony and get the exhibits labeled  
19 too, and then we'll move to your rebuttal. Are there any  
20 changes to your direct testimony in either docket?

21           WITNESS McLEOD: No, there are not.

22           CHAIRMAN CLARK: All right. So the record is  
23 clear, MCS-1 which is attached to the testimony in 960980  
24 will be marked as exhibit 30. And the GTE Additional  
25 Background Documents in Docket Number 960847 will be 31.

1 (SO MARKED EXHIBITS 30 AND 31)

2 MS. CASWELL: Okay. And I would like to point  
3 out that the attachments to the proposed contract remain  
4 the same as they were in the original submission so that we  
5 just have the text of the contract that has been updated.

6 CHAIRMAN CLARK: Let me be clear. Ms. Menard  
7 apparently --

8 MS. CASWELL: She is passing out the updated  
9 contract.

10 CHAIRMAN CLARK: Okay. So part of exhibit 31  
11 will include the updated contract that was just passed out?

12 MS. CASWELL: Correct. Correct.

13 MR. HATCH: Madam Chairman, can we get that  
14 marked as a separate exhibit, the updated version?

15 CHAIRMAN CLARK: Okay. All right, the update to  
16 the contract included in exhibit 31 will be marked as  
17 exhibit 32.

18 (SO MARKED EXHIBIT 32)

19 MS. CASWELL: Okay.

20 CHAIRMAN CLARK: And the prefiled direct  
21 testimony of Mr. McLeod in Docket Number 960 -- the  
22 prefiled direct testimony in Docket Number 960980 and  
23 960847 will be inserted in the record as though read.

24 MS. CASWELL: Thank you.

25 BY MS. CASWELL:

1 Q Now Mr. McLeod, did you file two sets of rebuttal  
2 testimony in this proceeding, one with regard to MCI and  
3 one with regard to AT&T?

4 A Yes, I did.

5 Q And do you have any changes to that rebuttal  
6 testimony?

7 A Yes, I have one change to my rebuttal testimony  
8 to MCI's file. If I can direct your attention to page 4 of  
9 that testimony, line 16, the statement "the 50 states"  
10 should read "the 28 states." That concludes my corrections  
11 to my rebuttal testimony.

12 MR. PELLEGRINI: I'm sorry, what page?

13 WITNESS McLEOD: Page 4, line 16, 50 should be  
14 changed to 28.

15 MS. CASWELL: Madam Chairman, with that  
16 correction, I would like to ask that Mr. McLeod's rebuttal  
17 testimony be inserted into the record as though read.

18 CHAIRMAN CLARK: I think we may have forgotten to  
19 ask him if his answers would be the same.

20 MS. CASWELL: I'm sorry, I wasn't aware I needed  
21 to do that.

22 BY MS. CASWELL:

23 Q Mr. McLeod, if I asked you those questions today,  
24 with that change that you've made to your rebuttal, would  
25 your answers remain true and correct to the best -- would

1 your answers remain the same, I'm sorry?

2 A They would.

3 Q And does that go for your direct testimony as  
4 well, if I asked you those questions again, would your  
5 answers remain the same?

6 A Yes, they would.

7 Q Thank you.

8 MS. CASWELL: Before Mr. McLeod gives us his  
9 summary I would like to make one minor change to the  
10 prehearing statement if I might. This is a change in the  
11 issues, the issues were misstated with respect to  
12 Mr. McLeod on page 7 of the prehearing statement.

13 MS. CANZANO: Kim, do you mean on page 8 of the  
14 prehearing order? I mean, or are you in an issue, a  
15 position and an issue?

16 MS. CASWELL: Let's just look at the issues in  
17 the prehearing order. Page 8 of the prehearing order  
18 Mr. McLeod should -- Mr. McLeod will be testifying to the  
19 additional issues 25 and 26, and then on page 9 of the  
20 prehearing order GTE would like to eliminate issues 25 and  
21 26 for Witness Munsell.

22

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**GTE FLORIDA INCORPORATED**  
**DIRECT TESTIMONY OF MEADE C. SEAMAN**  
**DOCKET NO. 960847-TP**

**Background**

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

A. My name is Meade C. Seaman. My business address is 600  
Hidden Ridge, Irving, Texas.

**Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

A. I am employed as Director -- Local Competition/Interconnection  
Program Office for GTE Telephone Operations, which has  
telephone operations in 28 states.

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND WORK EXPERIENCE.**

A. I graduated from the University of South Florida in 1976 with a  
Bachelor's degree in Accounting. In 1988, I graduated from  
Indiana Wesleyan University with an M.B.A.

I began my career in the telecommunications industry in 1976  
with General Telephone Company of Florida as a Business  
Relations Assistant. In 1983, I joined GTE Service Corporation in  
Irving, Texas, as Staff Manager--Interchanged Service

1 Compensation. In 1985, I was named Director--Regulatory and  
2 Industry Affairs, where I was responsible for the development and  
3 coordination of all non-rate case related proceedings. In October  
4 1994 I became Director-Demand Analysis and Forecasting, where  
5 my responsibilities included forecasting of all line-related and  
6 usage-related services. I was recently appointed to my current  
7 position as Director--Local Competition/Interconnection Program  
8 Management Office.

9

10 **Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES IN YOUR**  
11 **CURRENT POSITION?**

12 **A.** My principal responsibilities include negotiating interconnection,  
13 unbundling, and resale agreements with requesting carriers and  
14 developing policies relating to local competition. I also am  
15 responsible for leading GTE's arbitration efforts.

16

17 **Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS?**

18 **A.** Yes. I have testified before the commissions in Ohio, Indiana,  
19 Missouri, Pennsylvania, Wisconsin, Iowa and Illinois.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
22 **PROCEEDING?**

23 **A.** The purpose of my testimony is to (1) describe GTE's negotiations  
24 with AT&T, and (2) summarize GTE's Response to the  
25 fundamental issues raised in AT&T's Petition. But first, I will

1 briefly discuss the Telecommunications Act of 1996 and the  
2 FCC's implementing rules as they relate to GTE's pricing proposal.

3

4

5

**The Telecommunications Act and the FCC's Rules**

6

**Q. PLEASE COMMENT ON THE TELECOMMUNICATIONS ACT OF  
7 1996 (THE ACT) AND THE IMPLEMENTING RULES ADOPTED BY  
8 THE FEDERAL COMMUNICATIONS COMMISSION IN ITS FIRST  
9 REPORT AND ORDER.**

10

**A. The Act itself is unprecedented, and makes fundamental changes  
11 to the local telecommunications industry. Specifically, the Act is  
12 intended to encourage competition by requiring incumbent local  
13 exchange carriers (ILECs) such as GTE to provide interconnection  
14 and access to unbundled network elements at cost-based rates,  
15 and to offer services for resale at wholesale rates based on an  
16 ILEC's avoided costs.**

17

18

The FCC's rules, however, contradict the Act on several  
19 significant points. For example, AT&T requests interconnection,  
20 services, and unbundled elements under § 251(c) of the Act. The  
21 prices for these facilities and services are subject to the pricing  
22 standards set forth in § 252(d)(1)-(3). The Act expressly provides  
23 that the *State commissions* have exclusive authority to establish  
24 and apply these standards. The FCC, however, has set out  
25 detailed rules and methodologies of its own for these pricing

25

1 standards, precluding States from considering other  
2 methodologies.

3  
4 What is most troubling about the FCC's Order is that it  
5 establishes "default proxy rates" for wholesale services and  
6 unbundled elements that States may adopt as interim rates  
7 pending a hearing on the merits. GTE is very concerned with this  
8 proposal. First, as discussed in our prehearing brief, we believe  
9 the FCC improperly assumed the State's rate-setting function and  
10 exceeded its statutory authority. Second, we believe the FCC's  
11 default rates are erroneous, and while AT&T may disagree with  
12 us, we believe we are entitled to a hearing on the merits as well  
13 as an opportunity to present our case *before* rates can be  
14 imposed upon GTE.

15  
16  
17 A related concern is that the recombining of unbundled elements  
18 contemplated by the FCC Order would allow bypass of access  
19 charges and also allow avoidance of the appropriate resale pricing  
20 standards. The FCC's Order violates the intent of the Act not to  
21 change the level and application of carrier access charges. For  
22 example, the Order arbitrarily sets end office switching prices at  
23 the proxy range of 2 to 4 mils, and it arbitrarily reduces the  
24 residual interconnection charge (RIC) to three-quarters of its  
25 former level. As a further example, it established without hearing

1 or cause a sunset period for application of carrier common line  
2 charges and the three-quarters of the RIC.

3

4 Along these same lines, I would like to note that in my  
5 experience, regulatory bodies have devoted more time to general  
6 rate proceedings and other, more "common" regulatory matters  
7 than to this proceeding, where the Commission must resolve  
8 fundamental issues resulting from the reorganization of an entire  
9 industry. We recognize that the time lines are imposed by federal  
10 law, not State commissions, but we need to ensure that the  
11 fundamental issues -- such as those relating to pricing and costing  
12 -- receive the attention they deserve.

13

14 **Q. AT&T REQUESTS THAT THE FCC'S PROXY RATES BE IMPOSED**  
15 **ON GTE ON AN INTERIM BASIS WHILE ALL THESE ISSUES ARE**  
16 **BEING CONSIDERED. WOULD GTE BE HARMED BY THESE**  
17 **RATES, EVEN IF THE COMMISSION ALLOWED FOR A**  
18 **RETROACTIVE "TRUE-UP" MECHANISM?**

19 **A.** Yes, GTE would be irreversibly harmed. While it is conceivable  
20 that the State could order retroactive treatment from a revenue  
21 perspective, the market cannot be retroactively corrected. If  
22 unbundled rates are set at levels below cost, new entrants will  
23 have the ability to attract more customers than they otherwise  
24 would be capable of attracting away from GTE. Once this  
25 excessive share loss occurs, it would be impossible for the State

1 to correct for the problem from a customer perspective. It is very  
2 costly for all firms to win back a customer once lost to another  
3 competitor. For all these reasons, and for the reasons set forth  
4 in our Arbitration Brief and Response, GTE believes that the FCC's  
5 proxy rates should not be applied.

6

7 **Q. HAS GTE PROPOSED ITS OWN PRICES FOR WHOLESALE**  
8 **SERVICES, UNBUNDLED ELEMENTS, AND INTERCONNECTION?**

9 **A.** Yes, it has. However, the prices for network elements are not  
10 compensatory due to GTE's distorted rates. Wholesale rates and  
11 retail rates must be consistent and rational for all the rates set.  
12 GTE's wholesale rates for unbundled elements reflect market  
13 considerations, but GTE's retail rates were set with certain public  
14 policy goals in mind, most notably the goal of universal service.  
15 These goals allowed prices for some services to be set below  
16 their economic costs, while other services were priced far above  
17 costs as a source of contribution for the below-cost services.  
18 Other examples of historical ratemaking policy include statewide  
19 rate averaging and class of service pricing. As long as GTE was  
20 the single provider, the public policy goals could be achieved  
21 without harm to the Company or its customers.

22

23 Now, however, competition has been introduced in the local  
24 exchange market. In that event, there arises a mismatch  
25 between, on the one hand, the pricing methodology historically

1 used for determining retail and wholesale rates (where rates will  
2 not uniformly reflect costs) and, on the other hand, the cost-  
3 based pricing required by the Act for unbundled elements and  
4 interconnection.

5

6 For this reason, GTE respectfully requests that the Commission  
7 move expeditiously to establish a uniform and consistent set of  
8 pricing policies that can be applied to the pricing of all of GTE's  
9 services -- retail, wholesale, and unbundling.

10

11

**Background on AT&T Negotiations**

12

**Q. WOULD YOU BRIEFLY DESCRIBE THE HISTORY OF GTE'S  
13 NEGOTIATIONS WITH AT&T?**

14

15

**A. Yes. The parties spent many months negotiating hundreds of  
16 issues. The parties' efforts were reflected in comprehensive five-  
17 part matrix, which the parties used to outline their positions and  
18 describe the status of each issue. If the status column were  
19 shown as "closed," the parties reached agreement based on the  
20 position outlined in the GTE column. If the status of the item  
21 were shown as "open," the parties failed to reach agreement.  
22 Not surprisingly, the parties disagree on the fundamental issue of  
23 pricing methodology, and this core issue must be resolved here.**

24

25

**Q PLEASE ELABORATE ON HOW THIS MATRIX WAS DEVELOPED.**

**A. AT&T initiated the negotiations by issuing a list of nearly 500**

1 "requirements," and GTE and AT&T jointly agreed upon a process  
2 to negotiate efficiently these demands. First, we jointly  
3 established three levels of negotiations: (1) subject matter expert  
4 (SME) teams to deal with pricing, costing and a multitude of  
5 technical and operational issues; (2) a core team, which  
6 coordinated the SME team effort and set the agenda and timing  
7 on negotiation meetings; and (3) an executive team -- of which I  
8 was a member -- to deal with policy and dispute resolution.

9  
10 *The matrices are divided into five areas: (1) Billing, (2) Features*  
11 *and Services for Local Resale, (3) Pre-ordering/Ordering for Local*  
12 *Resale, (4) Interconnection/Unbundling, and (5) Pay Phone-Local*  
13 *Resale. The parties agreed that these issues could be screened*  
14 *into two separate categories: (1) those issues specifically*  
15 *addressed by the Act; and (2) those issues we considered to be*  
16 *"business" issues not governed by the Act. For example, two of*  
17 *the business-related issues we discussed were GTE's provisioning*  
18 *of voice messaging and inside wire maintenance to AT&T's*  
19 *customers. Both of these services are "below the line" services*  
20 *for GTE, which means they are not regulated. Again, the parties*  
21 *agreed that these were business issues unrelated to the Act.*  
22 *Now, however, it appears that AT&T wants GTE to resell these*  
23 *services under the avoided cost rate referenced in the Act. We*  
24 *believe these issues, and all other issues of this nature, should*  
25 *not be addressed in this arbitration because, as the parties agreed*

1 earlier, they are business-related issues unrelated to the Act's  
2 requirements. Of course, if we have misread AT&T's Petition and  
3 supporting documentation and AT&T is not raising these issues  
4 in this arbitration, then GTE will discuss these business issues  
5 outside of arbitration.

6

7 **Q. HOW DID THE PARTIES KEEP TRACK OF THE MANY ISSUES**  
8 **INVOLVED IN THEIR NEGOTIATIONS?**

9 A. The parties cooperated in developing the matrix I already  
10 described above to keep track of all the issues. Many of the  
11 items on which the parties had agreed were subject to only two  
12 qualifications: (1) that GTE must receive a fair price for its  
13 services and property, and (2) that GTE must recover the costs it  
14 incurs in accommodating AT&T's requests. Issues that could not  
15 be resolved at the SME level were grouped into "like" categories.  
16 These categories were then written up in greater detail to reflect  
17 each party's position and put into matrix form. This matrix is  
18 referred to as the "Core Team Matrix" and has been included in  
19 GTE's filing.

20

21 **Q. DID THE PARTIES NEGOTIATE A DRAFT CONTRACT?**

22 A. No. I want to emphasize that the supposedly "joint draft" contract  
23 that AT&T presented with its package of "Relevant Documents"  
24 is misleading. Contrary to AT&T's characterization of it, that  
25 draft contract does not reflect GTE's positions, or even significant

1 aspects of it. The process of drafting the contract never reached  
2 issues regarding unbundling network items, or many other issues.  
3 When AT&T first presented its proposed contract language to  
4 GTE on July 1, 1996, the voluminous terms largely reflected  
5 AT&T's initial demands, for the most part ignoring much of the  
6 progress in negotiations to date. The fact that the draft contract  
7 was introduced so late in the negotiations, did not reflect issues  
8 negotiated up to that point in time, and introduced hundreds of  
9 new conditions not previously discussed between the parties,  
10 meant that many sections of the contract were never negotiated.  
11 For purposes of reviewing the parties' positions, therefore, the  
12 draft contract presented by AT&T is not relevant to this  
13 proceeding.

14

15 **Q. IN LIGHT OF AT&T'S APPARENT REVERSAL OF THE POSITIONS**  
16 **IT TOOK DURING NEGOTIATIONS, WHAT IS GTE'S RESPONSE**  
17 **TO AT&T'S PROPOSED CONTRACT?**

18 **A.** GTE assumes that AT&T has not really agreed to anything, and  
19 therefore we felt compelled to rely on our original positions on  
20 almost every issue. It is unfortunate that we must do so here,  
21 but we are left with little choice.

22

23 **Summary of GTE's Response**

24 **Q. PLEASE SUMMARIZE GTE'S RESPONSE TO AT&T'S PETITION.**

25 **A.** In this summary, I have divided the issues into four major

1 categories: (1) wholesale services; (2) unbundled elements; (3)  
2 interconnection; and (4) "back office" issues such as ordering,  
3 provisioning, and systems implementation, functions that take  
4 place in the "back office" and that customers are usually not  
5 aware of. Finally, I review AT&T's proposed contract term and  
6 indemnification provisions, which are not fundamental issues but  
7 which warrant a brief discussion.

8  
9 **Wholesale Services**

10 **Q. WHAT SERVICES WILL GTE OFFER ON A WHOLESALE BASIS TO**  
11 **AT&T?**

12 **A. GTE will offer all the services it currently offers on a retail basis**  
13 **except for those set forth in the testimony of GTE's wholesale**  
14 **services/avoided cost witness. The services GTE will not offer on**  
15 **a wholesale basis include, for example, below-cost services,**  
16 **promotional services, and services that are already provided on a**  
17 **wholesale basis (e.g., special access sold to carriers and private**  
18 **line services offered predominately to carriers).**

19  
20 **Q. WHY DOES GTE EXCLUDE THESE SERVICES?**

21 **A. Let me first address GTE's position with respect to below-cost**  
22 **services. Under GTE's current rates, certain services are priced**  
23 **below cost. These services receive contributions from other**  
24 **services, such as intraLATA toll, access, and vertical and**  
25 **discretionary services, all of which are priced above incremental**

1 cost. If GTE were required to offer its below-cost services on a  
2 wholesale basis, then other carriers would (1) obtain avoided-cost  
3 discounts for both below-cost and above-cost services, and (2) be  
4 able to pocket the contributions from the above-cost services that  
5 had been used to price the other services below-cost.  
6 Accordingly, GTE could not cover its total costs unless these  
7 services are excluded from GTE's wholesale offerings or are  
8 repriced to cover their costs.

9  
10 Second, GTE should not be required to offer services such as  
11 promotions on a wholesale basis; otherwise GTE would not be  
12 able to differentiate its retail services from those of competing  
13 carriers. Put another way, a competitor will be able to offer any  
14 service it wants on any terms and conditions it desires to attract  
15 new customers, and GTE needs this same flexibility to respond to  
16 competition on a retail basis and give its customers more choices.

17  
18 For example, if GTE offers a special promotion to its customers  
19 but is required to provide that same promotion to AT&T on an  
20 avoided cost basis, then GTE could never differentiate its  
21 offerings from those of AT&T. Importantly, GTE would have  
22 absolutely no incentive to develop additional promotions and other  
23 new services that would benefit customers because AT&T could  
24 take and use them for its own marketing and economic  
25 advantage. In fact, GTE could never differentiate its offerings

1 from AT&T's. This result is contrary to the purpose of the Act by  
2 limiting choices to customers. The Act should be implemented in  
3 a manner that allows all carriers to respond to competition,  
4 including GTE.

5

6 **Q. HOW SHOULD THE SERVICES GTE OFFERS ON A WHOLESALE**  
7 **BASIS BE PRICED?**

8 A. These services should be priced as follows: Retail price minus  
9 GTE's actual avoided cost, plus the wholesale costs GTE incurs,  
10 plus opportunity cost. GTE's resale/avoided cost witness  
11 describes GTE's avoided cost methodology whereby costs are  
12 excluded on a work-element basis as opposed to using broad  
13 account categories. In this way, GTE's methodology captures  
14 GTE's true avoided costs, in accordance with the Act's  
15 requirements.

16

17 **Unbundled Elements**

18 **Q. PLEASE DESCRIBE THE UNBUNDLED ELEMENTS GTE WILL**  
19 **PROVIDE TO AT&T.**

20 A. GTE will offer on an unbundled basis the following:  
21 (1) the loop, which is in general the transmission facility which  
22 extends from a main distribution frame to the customer premises;  
23 (2) the port, which in general is the line card and associated  
24 peripheral equipment on a GTE end office switch that serves as  
25 the hardware termination for the customer's exchange service on

1 that switch, generates dial tone and provides the customer a  
2 pathway to the public switched telecommunications network; (3)  
3 transport, by which I mean the transmission facility which  
4 extends from a main distribution frame (MDF) to either another  
5 MDF or a meet point with transport facilities of AT&T (unbundled  
6 transport is provided under rates, terms and condition of the  
7 applicable tariff); (4) signaling, which in general is SS7 signaling  
8 and transport service in support of AT&T's local exchange  
9 service; and (5) certain databases in accordance with the rates,  
10 terms and conditions of applicable switched access tariff.

11

12 This description of unbundling means that AT&T may lease and  
13 interconnect to whatever of these unbundled elements it chooses,  
14 and may combine these unbundled elements with any facilities or  
15 services that AT&T may itself provide, pursuant to the following  
16 terms: first, the interconnection shall be achieved by expanded  
17 interconnection/collocation arrangements AT&T shall maintain at  
18 the wire center at which the unbundled services are resident; and  
19 second, that each loop or port element shall be delivered to  
20 AT&T's collocation arrangement over a loop/port connector  
21 applicable to the unbundled services through other tariffed or  
22 contract options; and third, AT&T shall combine unbundled  
23 elements with its own facilities but shall not recombine GTE  
24 unbundled elements.

25

1       **Q.    GTE DOES NOT PROPOSE TO UNBUNDLE ITS SWITCH. PLEASE**  
2       **EXPLAIN.**

3       A.    GTE will provide the port, as I described above. "Unbundling the  
4       switch" is a term AT&T has coined to describe what it wants: a-  
5       la-carte access to each switch function and feature. There are  
6       several problems with AT&T's approach. First, such unbundling  
7       is not technically feasible at this time, and it ignores the  
8       limitations on switch capacity. Second, it ignores the tremendous  
9       cost that would be associated with trying to develop these  
10      features into a-la-carte menu selections; they currently are not  
11      configured in that manner. Third, AT&T would be able to avoid  
12      paying access charges.

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14      **Q.    AT&T WANTS TO BE ABLE TO OBTAIN UNBUNDLED ELEMENTS**  
15      **FROM GTE AND THEN REASSEMBLE THEM TO OFFER END-TO-**  
16      **END SERVICE. WHAT IS GTE'S POSITION ON THIS ISSUE?**

17      A.    As I alluded to earlier when describing the nature of AT&T's  
18      access to the GTE unbundled elements, GTE strongly believes  
19      that AT&T should not be permitted to unbundle and then  
20      reassemble GTE's network. Such a proposal by AT&T would  
21      render meaningless the Act's required distinction between  
22      unbundled elements and wholesale services -- that they be priced  
23      *under different cost methodologies.*

24

25

1       **Q.    HOW SHOULD THE PRICES FOR UNBUNDLED ELEMENTS BE**  
2       **SET?**

3       A.    The prices should be cost-based, as required by the Act. They  
4       should be set in a manner to allow recovery of GTE's actual costs  
5       of its actual network and should not be based on the theoretical  
6       costs of a network that has never been built, as AT&T proposes.  
7       GTE has proposed a pricing methodology that meets the Act's  
8       requirements and that allows prices to be set by the market as  
9       competition develops. This methodology is discussed in detail in  
10      the Economic Report included in our Response.

11

12

13       **Interconnection**

14      **Q.    PLEASE DESCRIBE GTE'S POSITION ON THE APPROPRIATE**  
15      **PRICING OF INTERCONNECTION.**

16      A.    GTE's position on all pricing matters is that the Company should  
17      be given the opportunity to recover costs incurred in the  
18      operations of the Company from the "cost-causers." Sections  
19      251(b)(5) and 252(d)(2) of the Act, as well as the FCC's order  
20      released August 8, 1996, set forth the standard for establishing  
21      reciprocal compensation arrangements. These standards provide  
22      for the mutual and reciprocal recovery of each carrier's costs,  
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24      terminating calls originated by the other carrier. A bill-and-keep  
25      arrangement is inconsistent with these standards unless costs of

1 the two carriers are symmetrical and the volume of traffic  
2 terminated on each other's network is approximately equal.

3

4 **"Back Office" Issues**

5 **Q. PLEASE DISCUSS GTE'S POSITION ON ISSUES SUCH AS**  
6 **OPERATOR SUPPORT SYSTEMS, BILLING, PROVISIONING,**  
7 **MAINTENANCE, SYSTEMS INTERFACES, AND OTHER "BACK**  
8 **OFFICE" ISSUES.**

9 **A. GTE believes that many of these issues need to be approached on**  
10 **an industry-wide basis, especially as they relate to GTE, which**  
11 **operates in 28 states. System interfaces are an important issue**  
12 **not just for AT&T but for all competitive carriers that want to**  
13 **interconnect with GTE. For example, GTE uses a standard,**  
14 **nationwide billing system, and it would not be appropriate for**  
15 **each state to establish unique interface standards that simply will**  
16 **not work in a single system that serves many states and many**  
17 **competitive carriers. For this reason, GTE believes these back**  
18 **office issues are best resolved in an industry-wide setting or**  
19 **workshops after the fundamental issues of pricing and costing are**  
20 **resolved on a state-specific basis. A key issue that unites all of**  
21 **these issues is the very important element of cost. As and when**  
22 **changes are to be made to satisfy AT&T's particular desires, the**  
23 **carrier causing the change -- in this case AT&T -- must pay for**  
24 **the cost of making the change.**

25

1 The issues relating to specific back office functions and systems  
2 are discussed in the testimony of various GTE witnesses in this  
3 arbitration.

4

5 **Term of Agreement; Indemnification**

6 **Q: DOES GTE HAVE A POSITION ON THE TERM OF ANY**  
7 **AGREEMENT WITH GTE AND AT&T?**

8 A. Yes. GTE believes the term of the agreement should be limited to  
9 no more than two years. Given the unprecedented scope of the  
10 Act and all the issues raised, it would not be prudent to enter into  
11 a long-term contract.

12

13 AT&T has sought a term of five years, asserting that the length  
14 of that time will help them to get established in the market. In  
15 fact, a five-year period is likely to be far longer than the period of  
16 transition from monopoly regulation to competition, and would  
17 greatly prejudice GTE. AT&T does not need any such time to  
18 enter the market and to begin to effectively compete with GTE.

19

20 **Q AT&T HAS SOUGHT INDEMNITY FOR SO-CALLED UNBILLED**  
21 **AND UNCOLLECTED REVENUE. WOULD YOU EXPLAIN THIS**  
22 **ISSUE AND GTE'S POSITION?**

23 A. AT&T wants GTE to ensure that AT&T receives all revenues it  
24 expects to receive from traffic, regardless of whether the traffic  
25 was interrupted because of a system fault. AT&T's theory

1           apparently is that because GTE is the ILEC whose system AT&T  
2           wants to pick apart in order to rebuild a system for itself, then  
3           any system fault will necessarily be caused by GTE.  AT&T's  
4           proposed definition of GTE's liability, i.e., GTE is liable for its  
5           "own actions in causing, or its lack of actions in preventing"  
6           AT&T's lost revenue from work errors, software alterations, or  
7           unauthorized attachments to the loop, is the equivalent of strict  
8           liability.  If AT&T wants GTE to indemnify it, then AT&T should  
9           pay, not customers.

10

11       **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

12       **A.    Yes.**

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**GTE FLORIDA INCORPORATED**  
**DIRECT TESTIMONY OF MEADE C. SEAMAN**  
**DOCKET NO. 960980-TP**

**Background**

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

A. My name is Meade C. Seaman. My business address is 600 Hidden Ridge, Irving, Texas.

**Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

A. I am employed as Director -- Local Competition/Interconnection Program Office for GTE Telephone Operations, which has telephone operations in 28 states.

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND WORK EXPERIENCE.**

A. I graduated from the University of South Florida in 1976 with a Bachelor's degree in Accounting. In 1988, I graduated from Indiana Wesleyan University with an M.B.A.

I began my career in the telecommunications industry in 1976 with General Telephone Company of Florida as a Business Relations Assistant. In 1983, I joined GTE Service Corporation in Irving, Texas, as Staff Manager--Interchanged Service

1 Compensation. In 1985, I was named Director--Regulatory and  
2 Industry Affairs, where I was responsible for the development and  
3 coordination of all non-rate case related proceedings. In October  
4 1994 I became Director-Demand Analysis and Forecasting, where  
5 my responsibilities included forecasting of all line-related and  
6 usage-related services. I was recently appointed to my current  
7 position as Director--Local Competition/Interconnection Program  
8 Management Office.

9

10 **Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES IN YOUR**  
11 **CURRENT POSITION?**

12 **A.** My principal responsibilities include negotiating interconnection,  
13 unbundling, and resale agreements with requesting carriers and  
14 developing policies relating to local competition. I also am  
15 responsible for leading GTE's arbitration efforts.

16

17 **Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS?**

18 **A.** Yes. I have testified before the commissions in Ohio, Indiana,  
19 Missouri, Pennsylvania, Wisconsin, Iowa and Illinois.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
22 **PROCEEDING?**

23 **A.** *The purpose of my testimony is to (1) describe GTE's negotiations*  
24 *with MCI, and (2) summarize GTE's Response to the fundamental*  
25 *issues raised in MCI's Petition. But first, I will briefly discuss the*

1           Telecommunications Act of 1996 and the FCC's implementing  
2           rules as they relate to GTE's pricing proposal.

3

4

5

The Telecommunications Act and the FCC's Rules

6

**Q. PLEASE COMMENT ON THE TELECOMMUNICATIONS ACT OF  
7           1996 (THE ACT) AND THE IMPLEMENTING RULES ADOPTED BY  
8           THE FEDERAL COMMUNICATIONS COMMISSION IN ITS FIRST  
9           REPORT AND ORDER.**

10

**A. The Act itself is unprecedented, and makes fundamental changes  
11           to the local telecommunications industry. Specifically, the Act is  
12           intended to encourage competition by requiring incumbent local  
13           exchange carriers (ILECs) such as GTE to provide interconnection  
14           and access to unbundled network elements at cost-based rates,  
15           and to offer services for resale at wholesale rates based on an  
16           ILEC's avoided costs.**

17

18

The FCC's rules, however, contradict the Act on several  
19           significant points. For example, MCI requests interconnection,  
20           services, and unbundled elements under § 251(c) of the Act. The  
21           *prices for these facilities and services are subject to the pricing*  
22           standards set forth in § 252(d)(1)-(3). The Act expressly provides  
23           that the *State commissions* have exclusive authority to establish  
24           and apply these standards. The FCC, however, has set out  
25           detailed rules and methodologies of its own for these pricing

1 standards, precluding States from considering other  
2 methodologies.

3

4 What is most troubling about the FCC's Order is that it  
5 establishes "default proxy rates" for wholesale services and  
6 unbundled elements that States may adopt as interim rates  
7 pending a hearing on the merits. GTE is very concerned with this  
8 proposal. First, as discussed in our prehearing brief, we believe  
9 the FCC improperly assumed the State's rate-setting function and  
10 exceeded its statutory authority. Second, we believe the FCC's  
11 default rates are erroneous, and while MCI may disagree with us,  
12 we believe we are entitled to a hearing on the merits as well as  
13 an opportunity to present our case *before* rates can be imposed  
14 upon GTE.

15

16

17 A related concern is that the recombining of unbundled elements  
18 contemplated by the FCC Order would allow bypass of access  
19 charges and also allow avoidance of the appropriate resale pricing  
20 standards. The FCC's Order violates the intent of the Act not to  
21 change the level and application of carrier access charges. For  
22 example, the Order arbitrarily sets end office switching prices at  
23 the proxy range of 2 to 4 mils, and it arbitrarily reduces the  
24 residual interconnection charge (RIC) to three-quarters of its  
25 former level. As a further example, it established without hearing

1 or cause a sunset period for application of carrier common line  
2 charges and the three-quarters of the RIC.

3

4 Along these same lines, I would like to note that in my  
5 experience, regulatory bodies have devoted more time to general  
6 rate proceedings and other, more "common" regulatory matters  
7 than to this proceeding, where the Commission must resolve  
8 fundamental issues resulting from the reorganization of an entire  
9 industry. We recognize that the time lines are imposed by federal  
10 law, not State commissions, but we need to ensure that the  
11 fundamental issues -- such as those relating to pricing and costing  
12 -- receive the attention they deserve.

13

14 **Q. TO THE EXTENT THAT MCI WOULD SUPPORT IMPOSITION OF**  
15 **THE FCC'S PROXY RATES, EVEN ON AN INTERIM BASIS,**  
16 **WOULD GTE BE HARMED BY THESE RATES?**

17 **A.** Yes, GTE would be irreversibly harmed in ways that no retroactive  
18 "true-up" mechanism could correct. While it is conceivable that  
19 the State could order such retroactive treatment from a revenue  
20 perspective, the market cannot be retroactively corrected. If  
21 unbundled rates are set at levels below cost, new entrants will  
22 have the ability to attract more customers than they otherwise  
23 would be capable of attracting away from GTE. Once this  
24 excessive share loss occurs, it would be impossible for the State  
25 to correct for the problem from a customer perspective. It is very

1           costly for all firms to win back a customer once lost to another  
2           competitor. For all these reasons, and for the reasons set forth  
3           in our Arbitration Brief and Response, GTE believes that the FCC's  
4           proxy rates should not be applied.

5

6           **Q. IS GTE PREPARED TO PROPOSE ITS OWN PRICES FOR**  
7           **WHOLESALE SERVICES, UNBUNDLED ELEMENTS, AND**  
8           **INTERCONNECTION?**

9           A. Yes, it is. However, the prices for network elements are not  
10          compensatory due to GTE's distorted rates. Wholesale rates and  
11          retail rates must be consistent and rational for all the rates set.  
12          GTE's wholesale rates for unbundled elements reflect market  
13          considerations, but GTE's retail rates were set with certain public  
14          policy goals in mind, most notably the goal of universal service.  
15          These goals allowed prices for some services to be set below  
16          their economic costs, while other services were priced far above  
17          costs as a source of contribution for the below-cost services.  
18          Other examples of historical ratemaking policy include statewide  
19          rate averaging and class of service pricing. As long as GTE was  
20          the single provider, the public policy goals could be achieved.

21

22          Now, however, competition has been introduced in the local  
23          exchange market. In that event, there arises a mismatch  
24          between, on the one hand, the pricing methodology historically  
25          used for determining retail and wholesale rates (where rates will

1 not uniformly reflect costs) and, on the other hand, the cost-  
2 based pricing required by the Act for unbundled elements and  
3 interconnection.

4

5 For this reason, GTE respectfully requests that the Commission  
6 move expeditiously to establish a uniform and consistent set of  
7 pricing policies that can be applied to the pricing of all of GTE's  
8 services -- retail, wholesale, and unbundling.

9

10 **Background on MCI Negotiations**

11 **Q. WOULD YOU BRIEFLY DESCRIBE THE HISTORY OF GTE'S**  
12 **NEGOTIATIONS WITH MCI?**

13 **A.** Yes. The parties have held numerous meetings to identify MCI's  
14 requirements as detailed in MCI's Exhibit 2. The parties' efforts  
15 were reflected in this comprehensive document, which the parties  
16 used to outline their position on each issue. The status of each  
17 item was shown as disagree, agree, or conditional on a matrix  
18 (Executive Meeting, August 2). Not surprisingly, the parties  
19 disagree on the fundamental issue of pricing methodology, and  
20 this core issue must be resolved here.

21

22 **Q PLEASE ELABORATE ON HOW THIS MATRIX WAS DEVELOPED.**

23 **A.** The matrices are divided into eight areas: (1) Collocation, (2)  
24 Ancillary Services, (3) Business Processes, (4) Rights of Way, (5)  
25 Resale, (6) Interconnection and Reciprocal Compensation, (7)

1           Unbundling, and (8) Numbering. For example, two of the resale  
2           issues we discussed were GTE's provisioning of voice messaging  
3           and inside wire maintenance to MCI's customers. Both of these  
4           services are *non-telecommunications services* as defined by the  
5           FCC. Now, however, it appears that MCI wants GTE to resell  
6           these services under the avoided cost rate referenced in the Act.  
7           We believe these issues, and all other issues of this nature,  
8           should not be addressed in this arbitration because, as the parties  
9           agreed earlier, they are business-related issues unrelated to the  
10          Act's requirements. Of course, if we have misread MCI's Petition  
11          and supporting documentation and MCI is not raising these issues  
12          in this arbitration, then GTE will discuss these business issues  
13          outside of arbitration.

14  
15

16          **Q.    HOW DID THE PARTIES KEEP TRACK OF THE MANY ISSUES**  
17          **INVOLVED IN THEIR NEGOTIATIONS?**

18          A.    The parties cooperated in developing the matrix I already  
19          described above to keep track of all the issues. Many of the  
20          items on which the parties had agreed were subject to only two  
21          qualifications: (1) that GTE must receive a fair price for its  
22          services and property, and (2) that GTE must recover the costs it  
23          incurs in accommodating MCI's requests. Issues that could not  
24          be resolved at the SME level were put into a matrix and written  
25          up. This matrix is referred to as the "Core Team Matrix" and has

1           been included in GTE's filing as Exhibit No. MSC-1..

2

3           **Q.    DID THE PARTIES NEGOTIATE A DRAFT CONTRACT?**

4           A.    No.  However, draft contracts have been exchanged.  Detailed  
5           negotiations are ongoing.

6

7

**Summary of GTE's Response**

8           **Q.    PLEASE SUMMARIZE GTE'S RESPONSE TO MCI'S PETITION.**

9           A.    In this summary, I have divided the issues into four major  
10          categories: (1) wholesale services; (2) unbundled elements; (3)  
11          interconnection; and (4) "back office" issues such as ordering,  
12          provisioning, and systems implementation, functions that take  
13          place in the "back office" and that customers are usually not  
14          aware of.

15

16

**Wholesale Services**

17          **Q.    WHAT SERVICES WILL GTE OFFER ON A WHOLESALE BASIS TO**  
18          **MCI?**

19          A.    GTE will offer all the services it currently offers on a retail basis  
20          except for those set forth in the testimony of GTE's wholesale  
21          services/avoided cost witness.  The services GTE will not offer on  
22          a wholesale basis include, for example, below-cost services,  
23          promotional services, and services that are already provided on a  
24          wholesale basis (e.g., special access sold to carriers and private  
25          line services offered predominately to carriers).

1 Q. WHY DOES GTE EXCLUDE THESE SERVICES?

2 A. Let me first address GTE's position with respect to below-cost  
3 services. Under GTE's current rates, certain services are priced  
4 below cost. These services receive contributions from other  
5 services, such as intraLATA toll, access, and vertical and  
6 discretionary services, all of which are priced above incremental  
7 cost. If GTE were required to offer its below-cost services on a  
8 wholesale basis, then other carriers would (1) obtain avoided-cost  
9 discounts for both below-cost and above-cost services, and (2) be  
10 able to pocket the contributions from the above-cost services that  
11 had been used to price the other services below-cost.  
12 Accordingly, GTE could not cover its total costs unless these  
13 services are excluded from GTE's wholesale offerings or are  
14 repriced to cover their costs.

15  
16 Second, GTE should not be required to offer services such as  
17 promotions on a wholesale basis; otherwise GTE would not be  
18 able to differentiate its retail services from those of competing  
19 carriers. Put another way, a competitor will be able to offer any  
20 service it wants on any terms and conditions it desires to attract  
21 new customers, and GTE needs this same flexibility to respond to  
22 competition on a retail basis and give its customers more choices.

23  
24 For example, if GTE offers a special promotion to its customers  
25 but is required to provide that same promotion to MCI on an



1       A.    GTE will offer on an unbundled basis the following:  
2           (1) the loop, which is in general the transmission facility which  
3           extends from a main distribution frame to the customer premises;  
4           (2) the port, which in general is the line card and associated  
5           peripheral equipment on a GTE end office switch that serves as  
6           the hardware termination for the customer's exchange service on  
7           that switch, generates dial tone and provides the customer a  
8           pathway to the public switched telecommunications network; (3)  
9           transport, by which I mean the transmission facility which  
10          extends from a main distribution frame (MDF) to either another  
11          MDF or a meet point with transport facilities of MCI (unbundled  
12          transport is provided under rates, terms and condition of the  
13          applicable tariff); (4) signaling, which in general is SS7 signaling  
14          and transport service in support of MCI's local exchange service;  
15          and (5) certain databases in accordance with the rates, terms and  
16          conditions of applicable switched access tariff.

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18          This description of unbundling means that MCI may lease and  
19          interconnect to whatever of these unbundled elements it chooses,  
20          and may combine these unbundled elements with any facilities or  
21          services that MCI may itself provide, pursuant to the following  
22          terms: first, the interconnection shall be achieved by expanded  
23          interconnection/collocation arrangements MCI shall maintain at  
24          the wire center at which the unbundled services are resident; and  
25          second, that each loop or port element shall be delivered to MCI's

1 collocation arrangement over a loop/port connector applicable to  
2 the unbundled services through other tariffed or contract options;  
3 and third, MCI can combine unbundled elements with its own  
4 facilities but should not be allowed to recombine GTE unbundled  
5 elements.

6

7 **Q. GTE DOES NOT PROPOSE TO UNBUNDLE ITS SWITCH. PLEASE**  
8 **EXPLAIN.**

9 A. GTE will provide the port, as I described above. Unbundling the  
10 switch, in other words, a-la-carte access to each switch function  
11 and feature, presents substantial problems. First, such  
12 unbundling is not technically feasible at this time, and it ignores  
13 the limitations on switch capacity. Second, it ignores the  
14 tremendous cost that would be associated with trying to develop  
15 these features into a-la-carte menu selections; they currently are  
16 not configured in that manner. Third, MCI would be able to avoid  
17 paying access charges.

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19 **Q. MCI WANTS TO BE ABLE TO OBTAIN UNBUNDLED ELEMENTS**  
20 **FROM GTE AND THEN REASSEMBLE THEM TO OFFER END-TO-**  
21 **END SERVICE. WHAT IS GTE'S POSITION ON THIS ISSUE?**

22 A. As I alluded to earlier when describing the nature of MCI's access  
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24 should not be permitted to unbundle and then reassemble GTE's  
25 network. Such a proposal by MCI would render meaningless the

1 Act's required distinction between unbundled elements and  
2 wholesale services -- that they be priced under different cost  
3 methodologies.

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6 **SET?**

7 **A.** The prices should be cost-based, as required by the Act. They  
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10 costs of a network that has never been built, as MCI proposes.  
11 GTE has proposed a pricing methodology that meets the Act's  
12 requirements and that allows prices to be set by the market as  
13 competition develops. This methodology is discussed in detail in  
14 the Economic Report included in our Response.

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**Interconnection**

17 **Q. PLEASE DESCRIBE GTE'S POSITION ON THE APPROPRIATE**  
18 **PRICING OF INTERCONNECTION.**

19 **A.** GTE's position on all pricing matters is that the Company should  
20 be given the opportunity to recover costs incurred in the  
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23 released August 8, 1996, set forth the standard for establishing  
24 reciprocal compensation arrangements. These standards provide  
25 for the mutual and reciprocal recovery of each carrier's costs,

1 calculating such amounts on the basis of the additional costs of  
2 terminating calls originated by the other carrier. A bill-and-keep  
3 arrangement is inconsistent with these standards unless costs of  
4 the two carriers are symmetrical and the volume of traffic  
5 terminated on each other's network is approximately equal.

6

7

**"Back Office" Issues**

8 **Q. PLEASE DISCUSS GTE'S POSITION ON ISSUES SUCH AS**  
9 **OPERATOR SUPPORT SYSTEMS, BILLING, PROVISIONING,**  
10 **MAINTENANCE, SYSTEMS INTERFACES, AND OTHER "BACK**  
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12 **A. GTE believes that many of these issues need to be approached on**  
13 **an industry-wide basis, especially as they relate to GTE, which**  
14 **operates in 28 states. System interfaces are an important issue**  
15 **not just for MCI but for all competitive carriers that want to**  
16 **interconnect with GTE. For example, GTE uses a standard,**  
17 **nationwide billing system, and it would not be appropriate for**  
18 **each state to establish unique interface standards that simply will**  
19 **not work in a single system that serves many states and many**  
20 **competitive carriers. For this reason, GTE believes these back**  
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24 **these issues is the very important element of cost. As and when**  
25 **changes are to be made to satisfy MCI's particular desires, the**

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2 cost of making the change.

3

4 The issues relating to specific back office functions and systems  
5 are discussed in the testimony of various GTE witnesses in this  
6 arbitration.

7

8

**Term of Agreement; Indemnification**

9 **Q: DOES GTE HAVE A POSITION ON THE TERM OF ANY**  
10 **AGREEMENT WITH GTE AND MCI?**

11 **A. Yes. GTE believes the term of the agreement should be limited to**  
12 **no more than two years. Given the unprecedented scope of the**  
13 **Act and all the issues raised, it would not be prudent to enter into**  
14 **a long-term contract.**

15

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A. Yes.**

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**GTE FLORIDA INCORPORATED****REBUTTAL TESTIMONY OF DONALD W. MCLEOD****DOCKET NO. 960847-TP**1  
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25**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.****A. My name is Donald W. McLeod. My business address is 600 Hidden Ridge, Irving, Texas.****Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?****A. I am employed as Vice President - Local Competition/Interconnection Program Office for GTE Telephone Operations, which has telephone operations in 28 states.****Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND WORK EXPERIENCE.****A. I graduated from San Diego University in June 1966, receiving a Bachelor of Science degree in Business Administration with a Management major. Immediately upon graduation from college, I joined the Engineering Department of General Telephone Company of California, where I was involved in the preparation of Cost Separations Studies. In August 1969, I moved to General Telephone Company of the Northwest, as Settlements Administrator. In February 1971, I became Revenue Requirements Administrator with**

1 GTE Service Corporation. In that capacity, I was involved in  
2 settlement matters affecting all GTE telephone operating companies.

3

4 In December 1972, I was appointed to the position of Business  
5 Relations Manager with General Telephone Company of Florida,  
6 where I was responsible for the supervision of Division of Revenue  
7 Studies. I was promoted to the position of Director of Business  
8 Relations in December 1979, with responsibility for the preparation  
9 of separations studies, various cost valuation studies, connecting  
10 company matters, and the functional coordination of rate case  
11 activity.

12

13

14 In October 1981, I returned to GTE Service Corporation. During the  
15 next five years, I held various positions pertaining to the areas of  
16 strategic revenue planning, access and cost allocation issues, rate  
17 cases and carrier relations. I subsequently transferred to GTE North  
18 in July 1986, accepting the position of Director-Revenue Planning,  
19 where I was responsible for strategic revenue planning, capital  
20 recovery state and federal regulatory filings, and policy  
21 recommendations on revenue matters. In October 1988, I was  
22 appointed Director-Revenue & Earnings Management-North Area.  
23 In June 1991, I was appointed Director-Revenue & Earnings (South).  
24 In December 1993, I was appointed Vice President-External Affairs  
25 (Florida) and was appointed Regulatory and Governmental Affairs

1 Vice President (East) in October 1994. In March 1996, I accepted my  
2 present position.

3

4 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

5 A. No, but I am thereby adopting the Direct Testimony of Meade  
6 Seaman. Because the GTE Operating Companies are involved in  
7 numerous, concurrent arbitrations with various companies through the  
8 country, it is inevitable that scheduling conflicts will arise for the few  
9 witnesses that are available to testify on any given subject. It thus  
10 becomes necessary, as in my case, to substitute one witness for  
11 another after direct testimony is filed.

12

13 **Q. DO YOU WISH TO MAKE ANY SUBSTANTIVE REBUTTAL TO**  
14 **AT&T?**

15 A. Not at this time. I believe Mr. Seaman effectively rebutted AT&T's  
16 general policy position, as his testimony was based on AT&T's  
17 arbitration petition and direct testimony.

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19 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.

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**GTE FLORIDA INCORPORATED**  
**REBUTTAL TESTIMONY OF DONALD W. MCLEOD**  
**DOCKET NO. 960980-TP**

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

A. My name is Donald W. McLeod. My business address is 600 Hidden Ridge, Irving, Texas.

**Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

A. I am employed as Vice President - Local Competition/Interconnection Program Office for GTE Telephone Operations, which has telephone operations in 28 states.

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND WORK EXPERIENCE.**

A. I graduated from San Diego University in June 1966, receiving a Bachelor of Science degree in Business Administration with a *Management major*. Immediately upon graduation from college, I joined the Engineering Department of General Telephone Company of California, where I was involved in the preparation of Cost Separations Studies. In August 1969, I moved to General Telephone

1 Company of the Northwest, as Settlements Administrator. In  
2 February 1971, I became Revenue Requirements Administrator with  
3 GTE Service Corporation. In that capacity, I was involved in  
4 settlement matters affecting all GTE telephone operating companies.

5  
6 In December 1972, I was appointed to the position of Business  
7 Relations Manager with General Telephone Company of Florida,  
8 where I was responsible for the supervision of Division of Revenue  
9 Studies. I was promoted to the position of Director of Business  
10 Relations in December 1979, with responsibility for the preparation  
11 of separations studies, various cost valuation studies, connecting  
12 company matters, and the functional coordination of rate case  
13 activity.

14  
15 In October 1981, I returned to GTE Service Corporation. During the  
16 next five years, I held various positions pertaining to the areas of  
17 strategic revenue planning, access and cost allocation issues, rate  
18 cases and carrier relations. I subsequently transferred to GTE North  
19 in July 1986, accepting the position of Director-Revenue Planning,  
20 where I was responsible for strategic revenue planning, capital  
21 recovery state and federal regulatory filings, and policy  
22 recommendations on revenue matters. In October 1988, I was  
23 appointed Director-Revenue & Earnings Management-North Area.  
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1 (Florida) and was appointed Regulatory and Governmental Affairs  
2 Vice President (East) in October 1994. In March 1996, I accepted my  
3 present position.

4

5 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A. No, but I am thereby adopting the Direct Testimony of Meade  
7 Seaman. Because the GTE Operating Companies are involved in  
8 numerous, concurrent arbitrations with various companies through the  
9 country, it is inevitable that scheduling conflicts will arise for the few  
10 witnesses that are available to testify on any given subject. It thus  
11 becomes necessary, as in my case, to substitute one witness for  
12 another after direct testimony is filed.

13

14 **Q. DO YOU WISH TO MAKE ANY SUBSTANTIVE REBUTTAL TO**  
15 **MCI?**

16 A. Yes. I believe Mr. Seaman effectively rebutted MCI's general policy  
17 positions, and I adopt his testimony in response to MCI's positions.  
18 In addition, I have additional points to make regarding MCI's and  
19 AT&T's positions on quality of service standards, and regarding their  
20 request that GTE indemnify each ALEC against revenue lost because  
21 of failure in GTE's network or services. I also will address the  
22 question whether the interconnection agreement, once finalized,  
23 should be modified by later tariffs, and whether advance notice  
24 should be given to wholesale customers of engineering and other  
25 changes in GTE services.

1 Q. SHOULD GTEFL BE REQUIRED TO IMPLEMENT A PROCESS  
2 AND STANDARDS THAT WILL ENSURE THAT AT&T AND MCI  
3 RECEIVE SERVICES FOR RESALE, INTERCONNECTION AND  
4 UNBUNDLED NETWORK ELEMENTS THAT ARE AT LEAST  
5 EQUAL IN QUALITY TO THAT WHICH GTEFL PROVIDES ITSELF  
6 AND ITS AFFILIATES?

7 A. GTEFL already plans to provide service quality that is non-  
8 discriminatory and equal to that which GTEFL provides to itself and  
9 its affiliates. However, the petitioners in this proceeding seem to go  
10 beyond that in wanting to set their own quality standards on an  
11 individualized basis for service they obtain from GTE. In response,  
12 GTEFL believes that it should not be required to adhere to different  
13 metrics and to different standards of performance for different ALECs.  
14 This would be onerous, particularly when multiple ALECs begin to  
15 operate in this market. It is already difficult enough to address  
16 differing quality standards among the <sup>28</sup>~~50~~ states given different  
17 approaches taken by the various commissions. To divide up that  
18 measurement process and standards levels further among various  
19 ALECs would be totally unworkable and impose a tremendous and  
20 useless burden on GTEFL. Further it would not benefit the ALECs,  
21 for GTEFL already is committed to providing them non-discriminatory  
22 treatment with respect to the quality standards set in the public  
23 interest in each state.

24  
25

1       **Q.    WHAT ARE THE APPROPRIATE CONTRACTUAL PROVISIONS**  
2       **FOR LIABILITY AND INDEMNIFICATION FOR FAILURE TO**  
3       **PROVIDE SERVICE IN ACCORDANCE WITH THE TERMS OF THE**  
4       **ARBITRATED AGREEMENT?**

5       **A.    GTEFL's contracts with MCI and AT&T must include the standard**  
6       **provision that limits GTEFL's liability to the charges associated with**  
7       **the time out of service. If MCI and AT&T wish to cut back limitations**  
8       **of liability in their contracts with GTEFL, this provision must be**  
9       **negotiated. In such negotiations, and as a consequence of any such**  
10      **cutback, the prices for services and elements will be forced upward**  
11      **to account for the potential risk-shifting that the parties may agree**  
12      **upon. This question simply addresses risk-shifting, and as with every**  
13      **contract, the party that bears increasing amounts of risk necessarily**  
14      **must cover the cost of that risk by pricing the products and services**  
15      **accordingly. In sum, if AT&T and others want a comprehensive**  
16      **insurance policy, it cannot be done without GTEFL's agreement and**  
17      **the party's payment to GTEFL for such insurance.**

18  
19      This question in fact is related to the quality standards issue  
20      addressed in my previous answer. In order to determine the  
21      appropriate contractual provisions for liability and indemnification,  
22      one must know precisely what is being provided under the  
23      agreement. As I noted already, GTE should not be required to meet  
24      differing quality standards for different wholesale customers, or to  
25      meet standards different than those established by the commission

1 for GTEFL or those adhered to by GTEFL in its regular course of  
2 business. Accordingly, GTE should not be required to indemnify  
3 AT&T or MCI for any and all losses purportedly associated with the  
4 features or services GTEFL provides.

5

6 What is more, the rates and cost studies presented by GTEFL in this  
7 arbitration do not include the costs of insuring against AT&T's and  
8 MCI's risk of doing business.

9

10 **Q. MAY THE INTERCONNECTION AGREEMENT ULTIMATELY**  
11 **ACHIEVED BETWEEN GTEFL AND THE PETITIONING ALECs BE**  
12 **MODIFIED BY SUBSEQUENT TARIFF FILINGS?**

13 **A.** Of course. The agreement, once achieved, will address matters over  
14 which the parties have negotiated. GTEFL believes that negotiation  
15 is the most appropriate way to attain terms and conditions that will  
16 best produce a competitive marketplace.

17

18 But tariffs will continue to be filed from time to time pursuant to the  
19 Commission's rules and requirements. The Commission should not  
20 be hamstrung from having full authority to review and approve those  
21 tariffs at the time they are filed based upon all the considerations  
22 pertinent at that time, including the public interest and the competitive  
23 nature of the market. It makes neither good business sense nor good  
24 public policy for the ALECs to suggest that the Commission should  
25 restrain the authority it has for the future.

1       **Q.    AS A WHOLESALE VENDOR OF SERVICES, SHOULD GTE BE**  
2       **REQUIRED TO PROVIDE ADVANCE NOTICE TO ITS WHOLESALE**  
3       **CUSTOMERS OF CHANGES TO GTEFL'S SERVICES?**

4       A.   This issue of notification needs to be addressed in three categories  
5       of changes.  First is changes to existing service, such as price  
6       changes and discontinuance of an offering; second is deployment of  
7       new technology; and third is network changes, such as new NXX's,  
8       office homing arrangements, and NPA splits.  GTE is prepared to give  
9       notification to ALEC customers for these types of changes in certain  
10      time frames.

11  
12      **Q.    PLEASE DESCRIBE IN WHAT MANNER GTE WILL PROVIDE**  
13      **NOTIFICATION OF CHANGES TO EXISTING SERVICES WOULD**  
14      **BE MADE AND IN WHAT TIME FRAME.**

15      A.   For changes to existing services, GTE will file applicable tariffs with  
16      the Florida PSC.  A tariff filing *is*, in purpose and effect, a public  
17      notification.  That is, all ALECs have equal access to the Florida PSC  
18      and will have notice of changes upon filing of the tariff.  Typically,  
19      tariff filings occur prior to the effective date of the tariff.  The period  
20      between the filing date and the effective date therefore would be the  
21      advance notification period.  Because the PSC controls the approval  
22      process and time line associated with tariff filings, GTE believes this  
23      is an appropriate method of providing advance notification of changes  
24      to existing services.

25

1       **Q.    WHY COULDN'T GTEFL INFORM ALECs OF UPCOMING FILINGS**  
2       **AND THEIR ASSOCIATED DETAILS PRIOR TO THE FILING**  
3       **DATE?**

4       A.    Many times, the specific details of a filing are not known to GTEFL  
5       much more than a day or two prior to the actual filing. In today's  
6       market, where service development cycle times are constantly being  
7       compressed, details regarding ordering, billing, feature availability,  
8       and price level are determined literally days or hours before a filing.  
9       It would be impossible to anticipate all aspects of a filing days in  
10      advance, much less months in advance, of the actual filing itself.

11  
12      **Q.    PLEASE DESCRIBE IN WHAT MANNER NOTIFICATION FOR THE**  
13      **DEPLOYMENT OF NEW TECHNOLOGY WOULD BE MADE, AND**  
14      **IN WHAT TIME FRAME.**

15      A.    For the deployment of new technology into the network, GTEFL would  
16      be willing to meet periodically with interested ALECs, on an  
17      individualized basis, to hold joint planning meetings to discuss the  
18      deployment of new technology and the introduction of new service  
19      offerings. Local exchange carriers, including GTEFL, frequently do  
20      this now in the LEC/IXC relationship. Utilizing a similar process,  
21      advance notification of new technology and new offerings may occur  
22      six months or so in advance of general availability, although full  
23      details of the new technology are not available until later in the  
24      planning and development process. For this reason, notice of the  
25      deployment of new technology cannot be subject to a standardized

1 rule regarding advance notification, but must be handled by the two  
2 parties on a case-by-case basis. GTEFL suggests that each ALEC  
3 contact its account manager to establish a schedule for planning  
4 meetings.

5

6 **Q. PLEASE DESCRIBE IN WHAT MANNER NOTIFICATION FOR**  
7 **NETWORK CHANGES WOULD BE MADE AND IN WHAT TIME**  
8 **FRAME.**

9 A. Notification already exists today in GTEFL's local exchange  
10 company-IXC relationship. GTEFL routinely sends information  
11 pertaining to a number of network changes to many IXC's, AT&T and  
12 MCI included, regarding, for example, equal access conversions,  
13 NPANXX additions, NPA splits, CLLI code changes, and CLLI code  
14 assignments. Additionally, GTEFL provides to many IXC's a network  
15 activity schedule which includes equal access cut dates, C.O.  
16 conversion cut dates, intraLATA equal access conversion schedules,  
17 new host/remote relationships, and tandem re-homes.

18

19 **Q. WOULD GTEFL AGREE TO MAKE THIS INFORMATION**  
20 **AVAILABLE TO REQUESTING ALECs?**

21 A. Yes. Although many small ALECs may not desire all of the  
22 information that GTEFL typically provides to large carriers such as  
23 AT&T and MCI, GTEFL would be willing to provide the data  
24 mentioned in my last answer to ALECs who desire to do business  
25 with us.

1 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

2 A. Yes, it does.

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1 BY MS. CASWELL:

2 Q And Mr. McLeod, do you have a summary of your  
3 testimony for us today?

4 A Yes, I do.

5 Q Would you please give us that summary?

6 A Yes. Good afternoon, Chairman Clark and  
7 Commissioners. The GTE Telephone Operations conducted a  
8 long series of negotiations with AT&T and with MCI, and I  
9 have responsibility for those negotiations with all  
10 competing carriers under Section 251 and 252 of the  
11 Telecommunications Act of 1996, related policy matters and  
12 executive oversight of GTE's participation in arbitration  
13 proceedings initiated by competing carriers such as AT&T  
14 and MCI.

15 My responsibilities include all 28 states in  
16 which GTE Telephone Operating companies provide service.  
17 My testimony touches on many of the items identified for  
18 resolution in this proceeding. The witnesses that will  
19 follow will provide expert testimony on those issues;  
20 however, I believe there are approximately seven issues  
21 that deserve particular emphasis.

22 These issues focus on GTE's wholesale service  
23 offerings, the ALECs ability to arbitrage resale rates by  
24 combining unbundled network elements and issues pertaining  
25 to various contractual relationships between GTE, AT&T and

1 MCI. My prefiled testimony discusses the  
2 Telecommunications Act and the FCC order. GTE recognizes  
3 that the Act is entitled to open up the -- or excuse me, is  
4 intended to open up the local market to competition and  
5 that the exclusive telephone franchise is gone.

6 GTE supported passage of the Act and supports the  
7 concept of competition. The Act requires this monumental  
8 change in the telecommunications industry in a manner that  
9 is nondiscriminatory to the incumbent local exchange  
10 carriers, as well as alternative local exchange carriers.  
11 GTE recognizes that incumbents have facilities and services  
12 that must be available to new entrants in the market if  
13 competition is going to work.

14 The Act envisioned a process of voluntary  
15 negotiations between ALECs and ILECs as the foundation for  
16 establishing the business arrangements between competing  
17 carriers that would foster competition, but it also  
18 recognizes that companies may not be able to come to  
19 agreement on some issues and, therefore, provided the  
20 option to arbitrate open issues before state commissions.

21 Within the arbitration process, the Act continues  
22 its objectives to fairness to both parties by requiring  
23 that the incumbents recover full amounts of cost incurred  
24 for the facilities and services they provide and require a  
25 nondiscriminatory treatment of ALECs. The Act also gives

1 the Commission the task of determining just and reasonable  
2 rates for wholesale services, interconnection of facilities  
3 and for network elements. The Act, again, provides  
4 language that should ensure that the incumbents are  
5 properly compensated for these services by requiring prices  
6 to be based on the ILEC's cost, including a reasonable  
7 profit. The Act has set the stage for an environment in  
8 which no company has a prescribed advantage over another  
9 company whether they are an ALEC or an ILEC.

10           Regarding the FCC Interconnection Order, this  
11 Commission is well aware of GTE's views regarding the FCC's  
12 First Report and Order and the fact that the FCC order has  
13 been stayed, at least temporarily, and is on appeal in  
14 federal court court. GTE is looking to this Commission to  
15 determine prices for wholesale services, unbundled network  
16 elements and interconnection that are based on GTE's costs  
17 and prices as presented by Witnesses Trimble, Steele and  
18 Wellemeyer.

19           GTE is best suited to determine what prices to  
20 charge for its services in conformance with the provisions  
21 of the Act. While GTE is not involved in setting AT&T's or  
22 MCI's prices for services they offer, they are in the  
23 unique position to provide input to the prices GTE is  
24 proposing in this arbitration. The pricing and cost issues  
25 are the core issues to be determined by this Commission.

1           Prices and cost recovery have the greatest impact  
2 on the market place and GTE's, AT&T's and MCI's ability to  
3 compete fairly. If either AT&T or MCI's pricing proposals  
4 are adopted by this Commission, GTE will suffer irreparable  
5 financial harm, the market will be founded on false pricing  
6 signals, and GTE will lose the incentive to offer new  
7 services and make capital investments. GTE would also be  
8 at a disadvantage in attracting new capital. GTE is not  
9 asking for anything but an objective evenhanded resolution  
10 to all the issues being arbitrated in this proceeding.

11           In terms of operations support systems, paren,  
12 OSS, GTE is asking both AT&T and MCI to pay for expenses  
13 incurred in meeting their request for systems access and  
14 modifications. This approach properly places  
15 responsibility for payment on the cost causers.

16           My testimony pertaining to the negotiations  
17 between the parties provides a brief synopsis of the  
18 negotiations process utilized by GTE in its negotiations  
19 with AT&T and MCI respectively. GTE has negotiated in good  
20 faith and continues to negotiate outside the arbitration  
21 process. GTE has proposed a two-year contract. This is  
22 appropriate because of the enormous changes brought about  
23 by the Act and the substantial level of uncertainty about  
24 the ultimate market rules and market development yet to be  
25 determined.

1           AT&T's proposal that GTE indemnify it for lost  
2 revenues due to any GTE action or inaction, even  
3 unintentional or accidental occurrences, is plainly  
4 unreasonable. This kind of sweeping provision is not  
5 customary within the industry and opens GTE up to limitless  
6 liabilities. This is particularly troublesome because  
7 there is no way to determine the value of this insurance  
8 provision for inclusion in GTE's cost and, therefore, no  
9 way to recover it as required by the Act. This concludes  
10 my summary.

11           MS. CASWELL: GTE tenders Mr. McLeod for cross  
12 examination.

13           CHAIRMAN CLARK: Let me just make sure of one  
14 thing. Let the record reflect that the prefilled rebuttal  
15 testimony of Mr. McLeod in both dockets will be inserted in  
16 the record as though read.

17           Mr. Melson.

18           MR. MELSON: Thank you.

19                           CROSS EXAMINATION

20 BY MR. MELSON:

21           Q     Good afternoon, Mr. McLeod. I'm Rick Melson  
22 representing MCI.

23           A     Good afternoon.

24           Q     In your rebuttal testimony you state that GTE is  
25 entitled to a hearing on the merits before any rates could

1 be imposed on it, and you had reference in particular to  
2 the FCC default rates. Are you asking for some hearing  
3 other than the one we are in today?

4 A No, I am not. As long as GTE's costs and pricing  
5 proposals are reviewed by this Commission, I'm not asking  
6 for an additional hearing.

7 Q Would you turn to exhibit MSC-1 which has been  
8 identified as exhibit 30. It was attached to your  
9 testimony in the MCI portion of the docket.

10 A Yes.

11 Q Could you tell the Commission exactly what this  
12 document represents?

13 A This document is a summation of the issues that  
14 have been negotiated with MCI by GTE, and it simply sets  
15 out a very brief description of MCI's position and GTE's  
16 position relative to the issues that we have been  
17 discussing.

18 Q And was this a joint work product of MCI and GTE?

19 A Yes, it was.

20 Q All right. And did it accurately reflect GTE's  
21 position in the negotiations at the time it was submitted  
22 with your direct testimony?

23 A I believe at the time it was submitted that would  
24 be correct.

25 Q Could you turn to Page 3 of that exhibit? And

1 I'm looking at the bottom of the page. Does that indicate  
2 that GTE agreed that there would be no restrictions on how  
3 unbundled network elements could be combined so long as it  
4 was technically possible?

5 A That's what the one-line description states;  
6 that's not necessarily what our total position is.

7 Q Actually, your position today is that MCI should  
8 not be allowed to recombine elements if the effect is to  
9 create a service that corresponds to an existing GTE  
10 service; is that correct?

11 A Well, I'm sorry, I guess I interpreted the issue  
12 to be something different than you're interpreting it.

13 Q All right. What did you interpret this issue to  
14 be?

15 A My understand -- when I looked at that line, I  
16 made the assumption or interpretation that this is simply  
17 the interconnection of the facilities, not recombining of  
18 unbundled elements.

19 Q And that's despite the fact it appears on the  
20 page entitled "unbundling" rather than the page titled  
21 "interconnection?"

22 A Yes.

23 Q Let me turn to the next page, page 4 on resale  
24 where it says "offers available." If I understand it, the  
25 date of this document, GTE had agreed to resale of calling

1 plans, and grandfathered and new services would be  
2 available for resale; was that your position the date that  
3 this was prepared?

4 A You are looking at offers available?

5 Q Yes, sir.

6 A What I'm concerned about in looking at this is  
7 simply the term "conditional" because generally when we  
8 preface a position with conditional, it was subject to  
9 further review; otherwise, it would have indicated that it  
10 was an agreed-upon item.

11 Q I wondered because in this case it said  
12 "conditional" and then it said "all agreed except  
13 promotions," and I guess I took that to mean that you had  
14 agreed to resale of calling plans and resale of  
15 grandfathered services. Am I reading that correctly?

16 A You're not reading that incorrectly as it is  
17 stated on this document.

18 Q But as I understand it, GTE's position as we sit  
19 here today is that calling plans should not be resold and  
20 that existing grandfathered services should not be resold;  
21 is that correct?

22 A That's correct.

23 Q Would you agree with me that that appears to be a  
24 step backwards from at least what the language on this page  
25 would indicate?

1           A     Yes, I would.

2           Q     I believe you've stated in your prefiled  
3 testimony that GTE does not intend to provide below cost  
4 services for resale; is that correct?

5           A     That's correct.

6           Q     Can you list for me what services you would  
7 regard below cost?

8           A     There is only one service that we believe is --  
9 excuse me, using your terminology, regard it as below cost,  
10 and that is R-1 service.

11          Q     So it's GTE's position that it is not required by  
12 the Act to resell R-1 service; is that correct?

13          A     That's our interpretation of the intent of the  
14 Act, yes, and it's -- essentially what we are saying is  
15 that the Act does not intend for companies to not recover  
16 their cost of providing services, and it's very explicit in  
17 all of the provisions relative to unbundling and  
18 interconnection that costs are to be recovered and the  
19 profit element is to be included in the pricing of those  
20 elements, if you will, or services. And we think, our  
21 interpretation is that the same would hold -- the same  
22 philosophy would hold true relative to below-cost services.  
23 If you are going to lose money and not be able to recover  
24 your cost, in other words, the service is not required to  
25 be resold.

1 Q In reaching that conclusion, did you look at the  
2 provisions in Section 251(c) of the Act which impose a  
3 resale obligation on GTE and the other incumbent LECs?

4 A Yes.

5 Q And is there any reference in that section that  
6 would indicate that services would be exempted out of the  
7 resale obligation because of their current price/cost  
8 relationship?

9 A There is no specific language so stating.

10 Q On page 4 of your rebuttal testimony in the MCI  
11 docket, and I believe that is where you changed the 50  
12 states to 28 during your -- when we were looking at that  
13 testimony. Are you with me?

14 A Which page did you say?

15 Q I'm sorry, page 4.

16 A Yes.

17 Q You talk in this portion of your testimony about  
18 the difficulty of complying with state quality of service  
19 standards in 28 states and then complying with quality of  
20 service requests from carriers on top of that. Is that a  
21 fair characterization?

22 A What I'm saying -- let me start out and answer  
23 your question, yes, and then elaborate somewhat; and that  
24 is, that we have -- we operate in 21 states. State  
25 commissions, as this commission has, set standards of

1 service and review service, our service periodically. Our  
2 position is that there is no need to move to do anything in  
3 addition to that review by the state commissions to ensure  
4 quality, that quality service prevails. Commissions have  
5 done a very good job over the years making sure that GTE's  
6 service standards were met and their quality of service was  
7 up to snuff, if you will. And we have no incentives to do  
8 anything other than improve upon our service, and we are  
9 still under the service review process of various states  
10 that we operate in.

11 Q Isn't it fair to say that MCI is seeking a single  
12 level of service quality from GTE throughout it's 28  
13 states? MCI is not seeking 28 different standards in 28  
14 different states, is it?

15 A Well, let me help you with that. Our position is  
16 not directed at MCI or AT&T as individual companies. We  
17 are currently negotiating with 70 different companies, and  
18 that number grows weekly if not daily. So if we have to  
19 conform our systems and processes to respond to 70 or a  
20 hundred, or whatever that final number turns out to be,  
21 companies' requests for service standards, measurement  
22 reports, et cetera, there is just no way that we can  
23 administer that kind of a situation, and it's totally  
24 unnecessary.

25 You've had witnesses in this hearing room in the

1 last day and a half who have testified to the fact that GTE  
2 provides quality service. I think Mr. Shurter made that  
3 kind of a statement in cross, under cross examination. And  
4 we have traditionally provided good service in our service  
5 territories, so there is no need for anything other than  
6 what we ourselves are measured against. And we have to  
7 meet these criteria, state commission criteria, and we will  
8 meet those criteria as it relates to any services that are  
9 provided to a connecting carrier.

10 Q Okay. Let me try again. Is it fair to say that  
11 MCI is seeking a single standard for all 28 GTE states and  
12 is not seeking 28 different standards?

13 A I think that's fair relative to MCI as one entity  
14 out of a number of entities.

15 Q And is it also fair to say that not all of the 70  
16 companies that are negotiating with you are, in fact,  
17 seeking to negotiate specific service standards?

18 A I wouldn't anticipate that not all are because  
19 most of the companies are willing to accept existing  
20 commission standards.

21 Q You were present during the testimony just a few  
22 minutes ago of Mr. Inkellis, were you not?

23 A Yes, I was.

24 Q And it's my understanding that GTE at this point  
25 is unwilling to accept contract language that would impose

1 on it a responsibility for consequential damages in the  
2 event of repeated breaches of material obligations of its  
3 interconnection or resale agreement; is that correct?

4 A Are you asking me whether Mr. Inkellis said this  
5 or --

6 Q Okay. Let me try again. No, I'm asking is it --  
7 Is it true that GTE has been unwilling to accept a contract  
8 provision under which it would have liability for  
9 consequential damages from repeated breaches of material  
10 obligations of its agreement?

11 A I think you're asking me to make some kind of  
12 a legal judgment, and I'm not qualified to do that. I will  
13 say, having read Mr. Inkellis's testimony and having just  
14 my perspective, looking at what he is asking for, it would  
15 seem that MCI could make a claim on just about anything  
16 under the sun and try and collect damages from GTE in terms  
17 of the wording that's being proposed in your agreement. We  
18 have spent a lot of time talking about this subject between  
19 our two companies in the negotiation process and have yet  
20 to come to a satisfactory conclusion, obviously, or we  
21 wouldn't be here talking about that particular subject.

22 Q And I guess at this point I'm just asking, isn't  
23 it true that GTE has so far been unwilling to agree to the  
24 language that would impose liability for repeated breaches  
25 of material obligations in the agreement? That specific

1 contractual language is something that GTE has been  
2 unwilling to agree to?

3 A Again, you would have to define what repeated  
4 means. I think Mr. Inkellis indicated that it was anything  
5 more than one.

6 MS. CASWELL: I'm sorry, Mr. Melson, to the  
7 extent that the question is calling for a legal conclusion  
8 and an interpretation of the contract language that MCI has  
9 proposed, I would object to the question on that basis.

10 MR. MELSON: Commissioner Clark, I guess I  
11 don't --

12 CHAIRMAN CLARK: Yes, I'll help you out here. I  
13 don't think he is asking for that. He is simply asking if  
14 GTE has not agreed to that language, as I understand your  
15 question, Mr. Melson.

16 Do you know one way or the other?

17 WITNESS McLEOD: We have not.

18 CHAIRMAN CLARK: Okay.

19 WITNESS McLEOD: Thank you.

20 MR. MELSON: Thank you, Commissioner Clark.

21 BY MR. MELSON:

22 Q With the liability language that GTE has  
23 proposed, would it have any obligation to MCI in the event  
24 that it inadvertently repeatedly three times a month missed  
25 due dates for installation of interconnection services?

1           A     Three times a month? I would certainly think  
2 not. Assuming that the volume, that you're going to have a  
3 large volume of transactions, I would certainly think not.  
4 It strikes me that what we are being asked to do is  
5 guarantee a hundred percent performance and guarantee that  
6 switches won't go down, cables won't get cut, we won't have  
7 water damage due to floods, hurricanes, whatever, and I  
8 would anticipate that even if this Commission were to have  
9 allowed under the old regulatory scheme, GTE or any other  
10 local exchange carrier, to put in a failsafe hundred  
11 percent, goldplated network and say, we don't expect any  
12 failures from your network, there is no way in the world we  
13 could guarantee that. And it would be remiss of us as a  
14 business even to attempt to put in that kind of a network  
15 to serve our own customers or anybody else's customers.

16           Q     Let me explore this just a little further, and  
17 again, I don't want to ask you for a legal conclusion, but  
18 you do negotiate contracts on behalf of GTE, don't you?

19           A     In terms of interconnection contracts?

20           Q     Yes, sir.

21           A     Correct.

22           Q     And the type of flood damage or water damage you  
23 referred to in that last answer would be the type of thing  
24 that -- would that be the type of thing that you would  
25 typically expect would be included in a force majeure

1 clause?

2 A Yes.

3 MS. CASWELL: I'll have to object to that  
4 unless -- I think force majeure is a legal term.

5 CHAIRMAN CLARK: Now, Mr. Melson, I think you are  
6 venturing into asking him for legal conclusions.

7 WITNESS McLEOD: I apologize for practicing law.

8 MR. MELSON: Commissioner Clark, I guess I think  
9 I'm getting close to the line, but I don't think I have  
10 crossed it. He has testified that he negotiates these  
11 contracts on behalf of GTE, and I was asking him what his  
12 understanding was of, whether that type of situation would  
13 typically fall under a force majeure clause, and I took his  
14 answer to be that of a businessman who probably has a great  
15 deal of understanding of these matters.

16 CHAIRMAN CLARK: All right. With that  
17 understanding, I'll allow the question.

18 MS. CASWELL: Yeah, I think if you might give  
19 some definition to the term force majeure, we could solve  
20 our problems.

21 MR. MELSON: Well, the witness answered so  
22 quickly, I assumed he knew what it meant. I'll move on.

23 BY MR. MELSON:

24 Q If I understand, and I am changing subjects now,  
25 I understand it's GTE's position that any contract that

1 results from these arbitrations could be modified by GTE by  
2 subsequent tariff filings. Is that a correct understanding  
3 of your position?

4 A GTE is required as a regulated company,  
5 telecommunications provider, to file tariffs. So the only  
6 way we can introduce new retail services is to file a  
7 tariff, and I would anticipate that certainly under the  
8 wholesale resale provisions of the Act that MCI would want  
9 us to do that.

10 Q And you would view those as contract  
11 modifications? You would consider the offering of a new  
12 service a contract modification?

13 A Well, new services or more -- I'd say more  
14 precisely price changes would impact the contract assuming  
15 the contract has price lists in it, and I would think it  
16 would. But there is nothing static about our business, and  
17 we do have to file tariffs by law, we don't have a choice.

18 Q Okay. Let me, I'm trying to understand the  
19 extent to which GTE believes that subsequent tariff filings  
20 could modify the contract. Let me use a couple of specific  
21 examples and see whether they fall inside or outside of  
22 that. Could the prices of unbundled elements be increased  
23 via a tariff filing?

24 A If we were required to file tariffs, the answer  
25 would be yes.

1           Q     Could new restrictions on the resale of services  
2 be imposed via tariff filings?

3           A     Restrictions placed by GTE on --

4           Q     Correct.

5           A     I'm trying to understand why we would do that,  
6 but I suppose they could assuming that they weren't  
7 challenged. I would think if there was something that MCI  
8 was not pleased with or could not live with relative to  
9 anything we filed in the form of a tariff, you have the  
10 right to challenge that tariff.

11          Q     But in general, it's your position that anything  
12 that you could properly put in a tariff that also appeared  
13 in the contract, you could unilaterally change in essence  
14 through the filing of that tariff?

15          A     When you say anything -- I'm not sure I can agree  
16 to anything, and let me try it this way. Our preference as  
17 a company, from a business perspective, is to negotiate  
18 contracts and include as much in the contracts as we  
19 possibly can. We are not looking for regulatory cover or  
20 regulatory outs or increased regulation. I think that goes  
21 against what we want to do as a business, and it goes  
22 against what I would view the intent of the Act to be. But  
23 if we are in a situation where we need to file tariffs,  
24 then we should have the opportunity to file those tariffs;  
25 and you should have the opportunity to challenge those

1 tariffs.

2 Q Okay. Let me ask it this way, I understood --  
3 Earlier in your answer, you indicated that GTE would be  
4 able to file a tariff to change the rate of a service that  
5 was subject to resale, and I guess I certainly don't  
6 disagree with that, that's the typical kind of tariff that  
7 a telecommunications company would file. Other than those  
8 situations where you are modifying a retail service that  
9 may be subject to resale, are there other types of tariffs  
10 that you would intend to file or want to have the  
11 flexibility to file that could have the effect of altering  
12 the terms of the arbitrated agreement?

13 A Offhand I can't think of any. New services, I  
14 still have a question as to whether that alters the term of  
15 the agreement. I think it depends on what the terms of the  
16 agreement are. And since we don't have an agreement, I  
17 really can't answer that question.

18 Q In your rebuttal testimony at page 7, you talk  
19 about the notice that GTE intends to give to wholesalers  
20 when it makes changes to existing retail services. Am I  
21 correct that you propose to essentially notify wholesalers  
22 through your tariff filing process?

23 A That's correct.

24 Q How far in advance is GTE required to file  
25 tariffs in Florida?

1           A     In advance of what?

2           Q     In advance of effectiveness.

3           A     It depends on the type of service, but most  
4 services, 15 days and then others 30 days, if I recall  
5 correctly.

6           Q     Do you know what GTE's internal procedures are  
7 for notifying its sales and customer support personnel of  
8 tariff changes?

9           A     I haven't been close to that in a long time, but  
10 my recollection is that it's virtually within a day or two  
11 of the filing.

12          Q     To the extent --

13          A     And sometimes on the same day. You know, it's  
14 not a long time period.

15          Q     To the extent that it is some period of time in  
16 advance of the tariff filing, would GTE be willing to  
17 provide notice to MCI at parity with its internal  
18 notification procedures?

19          A     We might be able to negotiate that point. I had  
20 not thought about it in those specific terms. Personally,  
21 at this point in time, I don't have a great problem with  
22 that because it's -- I would also -- I would say to you,  
23 when you ask for that kind of thing, think about the fact  
24 that there is a risk associated with that. If you start  
25 expending funds to make any modifications to your systems

1 and we don't put the service in, I mean then you've wasted  
2 time and money that you would probably need to do if you  
3 just simply moved -- were notified of the date that the  
4 tariff was filed, but that's not a major issue.

5 Q Assuming that MCI were willing to accept that  
6 risk then, you don't see a major issue with providing  
7 notification to MCI at the same time you would be providing  
8 internal notification within GTE?

9 A No.

10 Q And one final question, Mr. McLeod, GTE elected  
11 price regulation in Florida effective early this year?

12 A I believe it was right around the first of the  
13 year.

14 Q All right. And GTE had the option, did it not,  
15 not to file that election and to remain under rate base  
16 rate of return regulation?

17 A That depends on who you talk to. I don't know.

18 Q Well, you recall the legislative process that led  
19 to that, the changes to the statute in Florida?

20 A Yes, I do.

21 Q And do you recall that was the option of GTE and  
22 the option of every LEC as to whether it chose price  
23 regulation or chose to remain under the old regime?

24 A It may have been the written option; it wasn't  
25 the practical option.

1 Q But you had that legal option?

2 A If you look -- if you simply ignore everything  
3 that went on during the give and take dealing with  
4 structuring or restructuring Part 364 and the negotiations  
5 that went on in that process by your company, Mr. Tye's  
6 company, our company and virtually every company carrier in  
7 the state, I don't think that there is -- I could find a  
8 legislator who would tell me that I had an option, so I  
9 think from a practical standpoint the answer is no. From a  
10 direct reading standpoint, you could say I had an option.

11 COMMISSIONER GARCIA: Just to satisfy my  
12 curiosity, who didn't have a choice, just Southern Bell was  
13 the one that in the law didn't have a choice, that they had  
14 to go to option? Is that a you remember it or you don't,  
15 or did everyone have the option?

16 WITNESS McLEOD: I think -- well, I don't recall  
17 the exact language. Southern Bell didn't have an option.

18 COMMISSIONER GARCIA: Right.

19 WITNESS McLEOD: But as a practical matter,  
20 neither did GTE, neither did Sprint.

21 COMMISSIONER GARCIA: Right.

22 WITNESS McLEOD: I don't want to speak for  
23 Sprint, but having been there as a practical situation, we  
24 did not have an option, but I'd -- So I'll just leave it  
25 at that.

1 Q Thank you very much, Mr. McLeod.

2 MR. MELSON: I've got nothing further.

3 CHAIRMAN CLARK: Excuse me, what did you say,  
4 nothing further?

5 MR. MELSON: Correct.

6 CHAIRMAN CLARK: Okay. We'll take a break until  
7 three o'clock.

8 (Transcript follows in sequence from Volume 12)

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