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October 31, 1996

VIA AIRBORNE

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

(461173-TP)

In Re: Docket No. 961173-TP Petition of Sprint Communications Company Limited Partnership for Arbitration of Proposed Interconnection Agreement with GTE Florida Incorporated Pursuant to the Telecommunications Act of 1996.

Dear Ms. Bayó:

Enclosed for filing, are the original and fifteen (15) copies of the prefiled rebuttal testimonies of Michael R. Hunsucker and David E. Stahly, on behalf of Sprint Communications Company Limited Partnership in the above proceeding. We are also including a 3 1/2" diskette, in microsoft word format.

We are enclosing an extra copy of this transmittal letter. We ask that you please acknowledge receipt thereon and return to the undersigned in the enclosed self addressed stamped envelope.

All parties of record have been served in accordance with the attached Certificate of Service.

Thank you for your cooperation.

Sincerely,

Benjamin W. Fincher

BWF:lk

cc: Everett Boyd
Parties of Record

cmu - 3
Legal - 2
Matilda - 2 + orig
Sec - 1

Hunsucker 11751-96
Stahly 11752-96


CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing Rebuttal Testimony of David E. Stahly and Michael R. Hunsucker, Docket No. 961173-TP, on behalf of Sprint Communications Company Limited Partnership via overnight express mail (Airborne) properly addressed to the following:

Monica Barone
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Anthony P. Gillman
GTE Florida Incorporated
One Tampa City Center
Tampa, FL 33601

This 31st day of October, 1996


Lorraine Kowalski

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the matter of :

Petition of Sprint Cmmunications Company Limited)
Partnership for Arbitration of Proposed Interconnection) Docket No. 961173-TP
Agreement wiht GTE Florida Incorporated Pursuant) Filed November 1, 1996
to the Telecommunications Act of 1996)

REBUTTAL TESTIMONY

OF

DAVID E. STAHLY

ON BEHALF OF

SPRINT COMMUNICATIONS COMPANY
LIMITED PARTNERSHIP

November 1, 1996

DOCUMENT NO. 96-1173-TP
11752 NOV-1 1996
FPSC-RECORDS/REPORTING

1 **Q. Please state your full name, position, and business address.**

2 A. My name is David E. Stahly. I am employed by Sprint Communications Company
3 Limited Partnership (Sprint) as a Manager of Regulatory Policy. My business
4 address is 8140 Ward Parkway, Kansas City, Missouri 64114.

5
6 **Q. Are you the same David Stahly that previously filed direct testimony in this
7 proceeding?**

8 A. Yes.

9
10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to outline Sprint's proposal for interim rates
12 for interconnection and to comment on GTE's cost study, in rebuttal to
13 GTE's response to Sprint's petition for arbitration. Regarding GTE's cost
14 study, I will comment on GTE's position on cost and pricing issues as
15 reflected in the direct testimony of GTE witness Michael J. Doane and
16 clarify Sprint's position as it relates to pricing of wholesale services.

17
18 **I. SPRINT'S POSITION**

19 **Q. What is Sprint's position regarding GTE's cost studies?**

20 A. GTE has failed to show that their proposed prices are just and
21 reasonable. Although GTE has submitted reams of paper, their costing
22 and pricing methodologies are based on assumptions that inconsistent
23 with the principles of the Federal Telecommunications Act of 1996 and
24 the FCC's Order in 96-98 which render the resultant prices meaningless.

DOCUMENT NUMBER 11752 NOV-1 1998
FPC-RECORDS/REPORTING

1 GTE's cost studies and prices should be rejected and other prices used
2 in their place.

3

4 **Q. If the Commission rejects GTE's cost studies, what does Sprint
5 propose for interim interconnection rates?**

6 A. Sprint is willing to accept, on an interim basis, all rates, terms, and
7 conditions that result from the outcome of the arbitration between AT&T
8 and GTE. This includes prices for unbundled network elements,
9 transport and termination under reciprocal compensation arrangements,
10 wholesale discounts, and all other services offered under such
11 interconnection agreements. In the event that the AT&T agreement is
12 revised by the Commission or a court on appeal, Sprint will abide by any
13 terms or conditions resulting from such appeal. However, in the event
14 such an appeal leads to the award of rates that are higher or discounts
15 that are lower than those awarded to AT&T in its arbitration, Sprint is
16 willing to give the new rates retroactive affect only if the Commission or
17 Court issuing the appeal order requires AT&T also to apply the new rates
18 retroactively.

19

20 **Q. Does the Federal Telecommunications Act support Sprint's
21 proposal to use the rates established in the AT&T arbitration?**

22 A. Yes. Section 252(i) of the Act states that:

23

1 "A local exchange carrier shall make available any
2 interconnection, service, or network element provided under an
3 agreement approved under this section to which it is a party to
4 any other requesting telecommunications carrier upon the same
5 terms and conditions as those provided in the agreement."
6

7 The Act clearly states that GTE is required to offer Sprint or any other
8 telecommunications provider the same terms and conditions for any
9 interconnection, service or network element that it offers AT&T. Sprint is
10 willing to accept all of the prices arbitrated in that agreement on an
11 interim basis.
12

13 **Q. What does Sprint propose for permanent interconnection rates?**

14 **A.** To establish permanent rates, Sprint proposes opening a generic cost
15 docket to review GTE's TELRIC, shared and common cost studies. In an
16 effort to make the most efficient use of the Commission's time and
17 resources, the docket should be open to all parties rather than conducted
18 as separate similar investigations of GTE's cost studies. Such a docket
19 should be scheduled to allow time for all parties to fully investigate and
20 determine the correct rates for interconnection.
21

22 **II. Rebuttal of Michael J. Doane**
23
24

1 **Q. Do you agree with Mr. Doane's impression of the intent of the**
2 **Telecommunications Act of 1996 ("Act")?**¹

3 A. Yes. Mr. Doane's response to the question accurately describes the
4 sweeping nature of the changes to the telecommunications market provided by
5 the Act. He also accurately states that the Act will provide for a new "pro-
6 competitive" framework for encouraging competition in all parts of the
7 telecommunications industry.

8
9 **Q. Which "segments" of the telecommunications industry will see this**
10 **increased competition?**

11 A. The Act provides for competition in the local exchange and long distance
12 segments of the telecommunications industry. As GTE allows competitive local
13 exchange companies ("CLECs") to interconnect to its network and begins to offer
14 resold services and unbundled network elements, consumers in Florida will be able
15 to see the benefits of local exchange competition. The Act also removes
16 restrictions on GTE's participation in the interLATA long distance market and as
17 GTE moves out into the interLATA long distance segment, Florida will see
18 increased long distance competition.

19
20 **Q. Have you reviewed Mr. Doane's concerns on Sprint's pricing proposal?**

21 A. Yes. On page 7 of Mr. Doane's direct testimony he states that Sprint's
22 proposal "will not allow GTE to recover its forward-looking costs." He goes on to
23 say that "monumental" subsidies will flow from GTE to Sprint and that Sprint

¹ Doane Direct Testimony, Page 3.

1 would be a "free rider" on GTE's network. Since Mr. Doane has not quantified
2 that amount of "monumental" subsidies which Sprint would receive, it is unclear
3 the economic impact of his concerns.
4

5 **Q. Do you agree with Mr. Doane's criticism of Sprint's pricing proposal?**

6 A. No. Sprint is not attempting to obtain a "free ride" on GTE's network. It is
7 Sprint's position that prices for unbundled elements should be based on the total
8 element long run incremental cost ("TELRIC") of providing the element plus a
9 reasonable allocation of common costs. An appropriately developed GTE
10 TELRIC cost study will identify all direct costs caused by Sprint's use of GTE's
11 network elements. These direct costs will include the incremental cost of
12 facilities and operations dedicated to the network element as well as the
13 incremental cost of shared facilities and operations. These shared facilities and
14 operations are interpreted by Sprint to mean "joint costs". It is obvious that
15 Sprint desires to pay for all costs which it directly causes on GTE's network.
16

17 **Q. Do you agree with Mr. Doane's specific concern with Sprint's**
18 **pricing proposal related to the handling of common costs?**

19 A. No. On page 8 of his testimony, he criticizes the use of a uniform markup
20 above TELRIC as arbitrary. He states that markups should be "market-based" in
21 response to competition. Uniform markups are not arbitrary, to the contrary they
22 are the fairest method for GTE to use to recover its common costs. GTE, at
23 least for some time to come, is essentially monopoly provider of network
24 elements. While some very limited competition does exist, e.g., competitive

1 access providers (CAPs), GTE should be expected to have virtually 100% of the
2 unbundled network market. Since common costs, by definition, do not vary
3 based on the number of unbundled elements offered, then establishing different
4 markups for differing unbundled elements in a non-competitive market would
5 simply be arbitrary.

6

7 **Q. Does Mr. Doane mischaracterize Sprint's positions as it relates to**
8 **wholesale pricing?**

9 A. Yes. Again, Mr. Doane accuses Sprint of wishing to "freeride" on GTE's
10 network by mischaracterizing its positions as it relates to wholesale pricing.²
11 Appropriately developed avoidable cost studies will isolate those costs which will
12 go way when GTE provides wholesale services. An appropriately developed
13 avoidable cost study will not create "excessive discounts" as described by Mr.
14 Doane, but will accurately reflect the cost avoidance GTE should realize as an
15 efficient firm.

16

17 **Q. Mr. Doane states that Sprint is inconsistent in its argument for**
18 **uniform markups while calling for discounts by service category. Do you**
19 **agree?**

20 A. No. Apparently Mr. Doane does not understand the difference between a
21 uniform markup to recover common costs (costs which do not vary based on the
22 quantity of network elements) and avoidable costs discounts for wholesales
23 service categories. Markups to recover common costs should be uniform

² Doane Direct Testimony, Page 11.

1 because no cost-causation can be established between the total amount of
2 common costs and an individual network element. Contrast this to Sprint's call
3 for wholesale service categorization. Wholesale services should be grouped
4 together since a cost-causation can be reasonably established between
5 categories of services.

6

7 **Q. Do you agree with Mr. Doane's M-ECPR pricing proposal found on**
8 **page 14 of his direct testimony?**

9 A. No. Mr. Doane states that "[t]he M-ECPR price for an unbundled
10 network element is equal to the sum of its TELRIC plus its opportunity costs, as
11 constrained by market forces." He goes on to say that "[o]ppportunity costs refers
12 to the net return that an unbundled network element will bring GTE if it is not sold
13 at wholesale to a competitor." Essentially Mr. Doane recommends that GTE be
14 allowed to price unbundled elements at existing retail rates. As an example, in
15 GTE witness Trimble's testimony, GTE recommends that loop prices be set
16 based on existing interstate 2-wire special access rates. In the case of loop
17 prices, allowing GTE to simply charge its special access rate for 2-wire service to
18 CLEC's removes the "cost-basis" for the rates. By simply charging the tariff rate,
19 it makes no difference what the incremental cost is since the TELRIC of the
20 unbundled loop has no effect on final rate charged to CLEC's (e.g., if the TELRIC
21 were lower the opportunity cost would simply be increased to get the price equal
22 to the tariffed rate). Additionally, Mr. Doane's M-ECPR pricing proposal ignores
23 the FCC's direction that, in keeping with the cost-based pricing standard of the
24 Act, rates for unbundled elements must be deaveraged.

1

2 **Q. Mr. Doane goes on to propose that a end-user charge should be**
3 **established. Do you agree?**

4 A. No. Absent in Mr. Doane's analysis is the reality that GTE is currently
5 moving into the interLATA long distance market. As described in my testimony
6 above, the Act is bringing competition to all segments of the telecommunications
7 industry - both local exchange and long distance. GTE is currently offering
8 interLATA services to its existing customers in many states. It is reasonable to
9 expect GTE to receive a sizable amount of additional revenues for this new line of
10 business. If GTE is concerned about losing revenues due to local exchange
11 competition, those revenues should be made up through their participation in the
12 interLATA long distance market.

13

14 **II. SPRINT'S POSITION ON PRICING OF WHOLESALE SERVICES**

15

16 **Q. Has Sprint petitioned with the Florida Public Utilities Commission**
17 **("Commission") for a generic docket on costing issues?**

18 A. Yes. Due to the importance and complexity of cost-related issues and
19 limited time-frames available to the Commission in this arbitration, Sprint has
20 petitioned the Commission to initiate a generic proceeding on rates of BellSouth
21 Telecommunications, Inc. for interconnection, unbundled elements, transport and
22 termination, and resale. As suggested in Sprint's petition for a generic cost
23 proceeding, Sprint does not believe that the Commission should attempt to
24 establish permanent rates at the current time. Instead it should adopt interim

1 rates. With respect to the interim prices, Sprint requests that whatever prices
2 are ordered in the AT&T/GTE arbitration be adopted in this proceeding until
3 permanent rates are approved by the Commission.
4

5 **III. RECOMMENDATIONS**
6

7 **Q. What does Sprint recommend that the Commission do at this time?**

8 A. To quickly establish interim rates, Sprint recommends that the
9 Commission order GTE to offer Sprint the same pricing agreement that
10 will result from the outcome of the arbitration between AT&T and GTE.
11 This includes rates, terms, and conditions for unbundled network
12 elements, transport and termination under reciprocal compensation
13 arrangements, wholesale discounts, and all other services offered under
14 such interconnection agreements. Additionally, in the event that the
15 AT&T agreement is revised by the Commission or a court on appeal,
16 Sprint will abide by any terms or conditions resulting from such appeal.
17 However, in the event such an appeal leads to the award of rates that
18 are higher or discounts that are lower than those awarded to AT&T in its
19 arbitration, Sprint is willing to give the new rates retroactive affect only if
20 the Commission or Court issuing the appeal order requires AT&T also to
21 apply the new rates retroactively.
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23 **Q. What does Sprint propose for permanent interconnection rates?**

1 A. To establish permanent rates, Sprint proposes opening a generic cost
2 docket to review GTE's TELRIC, shared and common cost studies. In an
3 effort to make the most efficient use of the Commission's time and
4 resources, the docket should be open to all parties rather than conducted
5 as separate similar investigations of GTE's cost studies. Such a docket
6 should be scheduled to allow time for all parties to fully investigate and
7 determine the correct rates for interconnection.

8

9 **Q. How does Sprint's proposal to adopt the AT&T agreement promote**
10 **competition?**

11 A. By allowing Sprint to operate under the same pricing structure as AT&T,
12 Sprint is placed on a level playing field with one of its larger competitors.
13 While GTE, Sprint's largest competitor for local service, still would retain
14 an enormous cost advantage over Sprint, at least Sprint would not be
15 disadvantaged relative to other new entrants.

16

17 **Q. What are the benefits to the Commission and the citizens of Florida**
18 **of adopting Sprint's proposal?**

19 A. Sprint's proposal quickly resolves the plethora of issues surrounding the
20 costing and pricing of all services that Sprint would seek to purchase from
21 GTE in order to operate as a CLEC in Florida. This saves the
22 Commission's resources allowing them to focus on other issues and
23 opens the door to promoting local competition in Indiana and providing
24 the citizens of Indiana with the benefits of competition for all

1 telecommunications services. The brief history of competition in the long
2 distance toll market clearly shows the benefits that accrue to customers.
3 Today, long distance customers enjoy dramatically lower toll rates,
4 discount calling plans that don't require customers to call at midnight, a
5 plethora of calling card and voice mail products, multilingual operators,
6 and other services too numerous to mention. I believe that competition
7 will bring the same product innovation and benefits to the local
8 telecommunications market.

9

10 **Q. Does this conclude your testimony?**

11 **A. Yes, it does.**

12