

ORIGINAL
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GTE FLORIDA INCORPORATED
DIRECT TESTIMONY OF DENNIS B. TRIMBLE
DOCKET NO. 961537-TP

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.
A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75015. I am employed by GTE Telephone Operations as Assistant Vice President - Marketing Services and am representing GTE in this arbitration with ACSI.

Q. WILL YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. I received a B.A. in Business in 1970 and an M.B.A. in 1973, both from Washington State University. In 1972, I became an Assistant Professor at the University of Idaho, where I taught undergraduate courses in statistics, operations research and decision theory. From 1973 through 1976, I completed course work towards a Ph.D. degree in Business at the University of Washington, majoring in quantitative methods with minors in computer science, research methods, and economics. I began my career with GTE in 1976 as an Administrator - Pricing Research with General Telephone Company of the Northwest ("GTENW"). Through 1985, I held various jobs with GTENW and GTE Service Corporation, almost all related to demand analysis, market research, and/or strategic planning. In 1985, I was named Director - Market Planning for GTE Florida Incorporated

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FPSC-RECORDS/REPORTING

1 (GTEFL) and in 1987, I became GTEFL's Director - Network Services
2 Management. During most of 1988 and early 1989, I was also Acting
3 Vice President - Marketing for GTEFL. From 1989 through most of
4 1994, I was employed by GTE Telephone Operations as Director -
5 Demand Analysis and Forecasting. In October of 1994, I became
6 Director - Pricing and Tariffs for GTE Telephone Operations and
7 assumed the additional responsibilities of the Assistant Vice
8 President - Marketing Services position in August, 1995.

9
10 **Q. HAVE YOU PREVIOUSLY TESTIFIED ON BEHALF OF GTE?**

11 **A.** Yes. I have presented testimony on behalf of GTE before the
12 California Public Utilities Commission, the Florida Public Service
13 Commission and the Hawaii Public Utilities Commission.

14
15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THE**
16 **DOCKET?**

17 **A.** In response to ACSI's request for arbitration filed with this
18 Commission, I will address GTE's proposed pricing for: (1) certain
19 unbundled network elements and associated ordering/provisioning
20 non-recurring charges (NRCs) placed in issue by ACSI, (2) local
21 interconnection elements, (3) collocation elements, and (4) service
22 provider number portability (SPNP), also known in the industry as
23 interim number portability (INP). I will also address the estimation
24 and magnitude of the Company's "common costs" as well as the
25 inappropriateness of any pricing proposals resembling the Federal

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Communications Commission's ("FCC") proxy rates (which a U.S. appeals court has stayed) for unbundled network elements.

The economic rationale supporting the pricing policies employed by GTE in the development of its proposed rates for unbundled network elements is the subject of the Dr. Doane's Economic Presentation in this proceeding. In addition, GTE's costing procedures are addressed by the direct testimony of GTE witness Bert Steele.

PRICING PRINCIPLES FOR UNBUNDLED NETWORK ELEMENTS

Q. WHAT OVERRIDING PRINCIPLES DID GTE FOLLOW IN THE DEVELOPMENT OF ITS UNBUNDLED NETWORK ELEMENT PRICES?

A. As discussed in GTE's Economic Presentation, one of the principles GTE employed was to base rates for unbundled network elements on their Total Element Long-Run Incremental Cost (TELRIC) (TELRIC is a term coined by the FCC. See the FCC's First Report and Order issued in CC Docket No. 96-98 on August 8, 1996; hereinafter referred to as the First Report) plus a reasonable contribution to the Company's "common costs." The other major principle discussed in GTE's Economic Presentation is to incorporate competitive market assumptions into GTE's ratemaking process that limit rates to less than or equal to the stand-alone-cost (SAC) of that network element.

1 Q. WHAT TESTIMONY ARE YOU OFFERING IN RESPONSE TO
2 ACSI'S PETITION?

3 A. ACSI makes clear that it is disputing pricing for only three unbundled
4 network elements, for collocation of remote switching units and cross-
5 connection, and for interim number portability. My testimony
6 addresses these points as disputed pricing issues. I generally
7 discuss pricing principles as background for those disputed issues;
8 however, this general discussion (of, for example, pricing for
9 unbundled network elements) is not intended to raise new issues for
10 arbitration.

11

12 Q. PLEASE DESCRIBE THE MAJOR UNBUNDLED ELEMENTS GTE
13 PROPOSES AND HOW THEY CAN BE USEFULLY COMBINED
14 WITH THE ALTERNATIVE LOCAL EXCHANGE CARRIERS'
15 (ALECS') SELF-PROVISIONED NETWORKS AND SERVICES TO
16 DELIVER COMPETITIVE LOCAL EXCHANGE SERVICE.

17 A. GTE's major proposed unbundled services are:

18 • Unbundled Loops. The unbundled loop provides a
19 voice-grade path between an end user and a GTE wire center.
20 An ALEC may obtain this loop from GTE and connect it to a
21 cross connect available at the end office through a collocation
22 arrangement. The ALEC could self-provision the transport
23 facilities from GTE's end office to the ALEC's own switching
24 center. In such an arrangement the ALEC would provide,
25 through its own switch, all related switching services such as

1 local usage, custom calling services, switched access service
2 (both originating and terminating), and toll services. Today,
3 most of these are high-margin services which provide GTE
4 with significant contributions (revenues minus costs) to cover
5 its common costs and overheads, thus enabling GTE to
6 support the level of investment in infrastructure necessary to
7 operate as a carrier of last resort (COLR) and achieve the
8 Commission's public policy objectives (e.g., universal service).

9
10 GTE is also offering loop conditioning services for unbundled
11 loops that assures that loops have the technical capability to
12 handle enhanced end user services (e.g., ISDN, switch data).

- 13
14 • Unbundled Port / Local Switching. The unbundled port
15 provides access to switching services from a GTE switch to be
16 used with an ALEC-provided loop. This element would apply
17 in areas where ALECs have loop facilities but do not have a
18 local switching center in service. In this situation, the ALEC
19 will cross connect its loop with GTE's switch through a
20 collocation arrangement. Through the port, the ALEC can
21 obtain access to both the local switching capability of GTE's
22 switch (e.g., local calling, switch features) and the capability to
23 route calls from the trunk side of the switch (e.g., switched
24 access, toll service, E-911 service, directory service, etc.).
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- Collocation. GTE filed a physical collocation tariff on October 2, 1996 with an expected implementation date of November 16, 1996. GTE proposes to use the rates, terms and conditions in this tariff for all collocation elements. The cross connections contained in that tariff are used to facilitate the physical delivery of a loop from GTE's main distribution frame to the ALEC's collocated facilities.

- SS7 Interconnection. SS7 interconnection allows an ALEC to connect to GTE's SS7 network at a Signal Transfer Point (STP). This connection enables ALECs to exchange SS7 messages without providing the underlying SS7 network. It also provides access to database services (e.g., Database 800 Carrier Selection Service and Line Information Database (LIDB)). This interconnection will also support efficient call setup and delivery of SmartCall™ services without first connecting to a GTE switch. Because there is such a vast array of possible services provided with SS7 interconnection, the Company proposes that interconnection arrangements be provided subject to negotiated contracts. With negotiated contracts, agreements can be customized to meet the specific SS7 requirements of each ALEC. These contracts would reference the signal links and STP ports currently tariffed in the GTOC Tariff FCC No. 1.

1 **COMMON COSTS**

2 **Q. DO GTE'S TSLRIC OR TELRIC STUDIES INCORPORATE JOINT**
3 **AND COMMON COSTS?**

4 A. The methodology GTE currently employs to develop its TELRIC
5 estimates does not incorporate common costs. (Throughout this
6 testimony, Total Service Long-Run Incremental Cost (TSLRIC) will be
7 used as synonymous with TELRIC.) These costs must be recovered
8 through the pricing of services.

9
10 **Q. WHAT TYPE OF EXPENSES MAKE UP GTE'S COMMON COSTS?**

11 A. GTE's current TELRIC methodology for services and unbundled
12 elements includes the following expenses: (a) depreciation, (b) return
13 on investment, (c) income taxes, (d) plant-specific maintenance and
14 repair, (e) central office land and buildings, (f) customer operations
15 (e.g., sales), and (g) miscellaneous fees and taxes (e.g., ad valorem
16 tax, gross receipts tax). GTE's TELRIC methodology does not
17 include the following expense items (and they are the ones
18 considered to be common expenses of the Company): (a) plant
19 specific expenses (e.g., network support, general support, and
20 general purpose computers), (b) plant non-specific expenses (e.g.,
21 network planning, engineering), (c) general support assets (e.g.,
22 furniture, office support equipment, company communications
23 equipment, and general purpose computers), (d) land and buildings
24 (other than central offices), (e) indirect labor, (f) corporate expenses,
25 and (g) other taxes and fees, such as local franchise taxes, federal

1 superfund taxes, local and state business license and occupation
2 taxes). It is not unusual for these expenses to make up from 40% to
3 60% of the Company's total direct costs (i.e., sum of TSLRICs).
4 Exhibit No. DBT-1 estimates GTE's total "forward-looking" common
5 costs for Florida.

6
7 **Q. GTE'S BASIC PRICING PHILOSOPHY FOR A NETWORK**
8 **ELEMENT IS BASED ON TELRIC PLUS A REASONABLE SHARE**
9 **OF COMMON COSTS. BUT ACSI SEEMS TO BELIEVE THAT**
10 **GTE'S "COMMON COSTS" ARE EITHER NONEXISTENT OR DE**
11 **MINIMIS. DO YOU AGREE?**

12 **A. No.** GTE, as with most full-service local exchange companies,
13 exhibits significant levels of common costs. As shown in Exhibit No.
14 DBT-1, the annual common costs for GTE's operations in this state
15 exceed \$455 million, which translates to about 36% of GTE's total
16 revenues. These common costs should not be arbitrarily allocated
17 to the various TELRICs for aggregate network elements (loops,
18 switching, transport, etc.); such an allocation would be a step
19 backward to so-called fully distributed costing procedures. Recovery
20 of these forward-looking costs must be addressed in the development
21 of the prices at issue in this arbitration. GTE is not asking the ALECs
22 to pay for all of GTE's common costs. It is asking only that they
23 contribute their "fair share" towards covering these costs. The
24 Company's common costs are integral to the efficient operation of
25 GTE and support all the network elements requested by ALECs.

1 Q. ACSI DOES NOT SEEM TO BELIEVE IT SHOULD BE REQUIRED
2 TO CONTRIBUTE ITS FAIR SHARE TO THE RECOVERY OF
3 GTE'S "COMMON COSTS" BECAUSE IT HAS ITS OWN COMMON
4 COSTS TO RECOVER. WOULD YOU PLEASE COMMENT ON
5 THIS POSITION?

6 A. GTE's proposed rates include only a fair share of contribution. GTE's
7 common cost structure supports those elements that the ALECs
8 purchase from GTE; GTE must be allowed to set network element
9 prices that include a reasonable allocation of the Company's forward-
10 looking common costs. In fact, this was properly recognized by the
11 FCC in its First Report (see paragraph 682 and Sections 51.503 and
12 51.505).

13
14 Q. HOW WERE GTE'S ESTIMATES OF ITS TOTAL FORWARD-
15 LOOKING COMMON COSTS DEVELOPED?

16 A. As described in GTE's Economic Presentation, GTE computed its
17 forward-looking common costs as the difference between its 1995
18 revenues and the sum of its total directly attributable forward-looking
19 costs (i.e., TELRIC and TSLRIC). This computation was performed
20 using the data presented in Exhibit No. DBT-1 and resulted in a fixed
21 allocator of 47%. If the prices for all of GTE's network elements and
22 services were to include a level of contribution equal to this fixed
23 allocator, then GTE's prices would exactly recover its total forward-
24 looking costs. GTE does not support this method of price
25 development in all cases, as it is likely that this methodology does not

1 introduce rational market considerations into the development of price
2 sets.

3

4 **Q. WHY ARE THE COMMON COSTS YOU DEFINED ABOVE**
5 **EXCLUDED FROM GTE'S TELRIC METHODOLOGY?**

6 A. The total amounts in these common cost categories are appropriately
7 excluded from GTE's TELRIC studies because GTE's Universal
8 System of Accounts (USOA)-based accounting system records do not
9 contain sufficient information to directly attribute (if appropriate) any
10 of these expenses to specific network elements, and/or there is not
11 a cost-causative method to associate these to specific elements of
12 the network. The USOA-driven accounts, which GTE has identified
13 as representing common costs, might include many items that are, in
14 reality, service (or element) specific. However, as I have previously
15 stated, those costs cannot be separately identified because the
16 USOA-based accounting system does not contain a level of detail
17 sufficient to allow direct attribution of those costs to their appropriate
18 service (or network element). Thus, the USOA-based accounting
19 processes limit GTE from identifying any remaining costs that may
20 belong in the FCC's definition of TELRIC. However, even if GTE
21 possessed an elaborate (and expensive) managerial accounting
22 system that facilitated the direct assignment (when appropriate) of
23 these common costs to specific network elements, this capability
24 would result in only a minor change in the level of GTE's "total"
25 common costs. The USOA accounts that GTE currently incorporates

1 in its TELRIC studies represent a vast majority of all directly
2 assignable costs.

3
4 **Q. TO WHAT PRODUCT CATEGORIES HAS GTE ALLOCATED ITS
5 COMMON COSTS?**

6 A. GTE's TELRIC studies do not attempt to perform this allocation of
7 common costs. (Paragraph 694 of the First Report states: "Certain
8 common costs are incurred in the provision of network elements. As
9 discussed above, some of these costs are common to only a subset
10 of the elements or services provided by the incumbent LEC's. Such
11 costs shall be allocated to that subset, and should then be allocated
12 among the individual elements of services in that subset, to the
13 greatest possible extent." (Emphasis added).) Allocation of these
14 common costs to specific products for recovery is accomplished
15 through GTE's pricing activities, not through GTE's incremental
16 costing activities. Thus, GTE's TELRIC methodologies (as currently
17 employed) will lead to incremental cost estimates that will assuredly
18 be substantially below what the FCC intended to be incorporated in
19 the development of TELRICs.

20
21 **Q. DID GTE USE ANY OTHER METHODOLOGY TO ASSESS THE
22 LEVEL OF ITS COMMON COSTS?**

23 A. Yes. GTE also performed an independent analysis of its USOA data
24 for 1995 to verify the magnitude of its common costs. Page 2 of
25 Exhibit No. DBT-1 presents GTE's analysis and illustrates the type of

1 costs GTE considers to be common to all network elements as well
2 as GTE's network services. All the work activities depicted in Exhibit
3 No. DBT-1 are integral to the operation of an efficient
4 telecommunications network.

5
6 **Q. DO THE TWO METHODOLOGIES THAT GTE EMPLOYED TO**
7 **ESTIMATE ITS FORWARD-LOOKING COMMON COSTS RESULT**
8 **IN THE SAME ESTIMATES?**

9 A. No, but the real issue is not whether the resulting percentages are
10 identical but whether they are reasonably close and also whether they
11 are significantly different from zero; which they are. The FCC
12 seemed to believe that many of these common costs should be
13 allocated to the Company's TELRICs. But that arbitrary allocation
14 would just result in higher TELRIC estimates (and thus artificially
15 lower the level of common costs). GTE believes that the implied
16 allocation of common costs should not be done during the TELRIC-
17 costing exercise, but is only appropriately done during the
18 development of element-specific pricing.

19
20 **Q. WHICH OF THE TWO COMMON COST FIGURES DID YOU**
21 **EMPLOY IN YOUR PRICING DEVELOPMENT?**

22 A. To be conservative, in those instances where the Company has
23 employed the average contribution to common costs in the
24 development of its proposed prices, GTE has elected to use the lower
25 percentage presented in Exhibit No. DBT-1.

1 PRICING

2 NON-RECURRING CHARGES

3 Q. **BASED ON GTE'S ANALYSIS OF NON-RECURRING COSTS,**
4 **WHAT WHOLESALE NRCS ARE YOU PROPOSING?**

5 A. In general, charges have been designed to recover separately the
6 costs of service ordering and installation activities, recognizing to the
7 extent possible any like functions required for various types of local
8 service request (LSR) activity. By structuring the NRCs in this way,
9 common charges are established that apply to all types of ordering
10 activities, simplifying administrative processes for both the Company
11 and the ALECs.

12
13 The proposed NRC structure reflects the remaining differences in
14 anticipated costs for various types of ordering activities, and enables
15 a reasonable relationship between the service connection charges
16 and the incurred costs of associated work functions on an order-by-
17 order basis.

18
19 Service ordering and installation charges are proposed both for
20 unbundled services and resale services.

21
22 Q. **HOW WERE THE SERVICE ORDERING CHARGES FOR**
23 **UNBUNDLED SERVICES DESIGNED?**

24 A. These NRCs were designed to recover the costs of work functions
25 performed by GTE's National Open Market Center (NOMC) on a per-

1 order basis. The Initial service order charge is based on the costs for
2 the install, summary bill master, disconnect and all other ordering
3 functions, plus system processing.

4

5 Separate charges are proposed for a transfer of service and for a
6 customer service record search. The transfer of service charge will be
7 administered as required by the type of LSR; a transfer of service
8 charge is required on any change in service from GTE to an ALEC
9 where GTE must continue end user billing on the account (for CPE or
10 directory advertising, for example).

11

12 Customer service record research is performed at the request of the
13 ALEC to obtain a summary of an end user's services. The customer
14 service record research charge will be administered whenever
15 account information is requested.

16

17 A subsequent service order charge will be applied on LSRs
18 requesting a service change on an existing account, and is designed
19 to recover the costs of work functions performed by the NOMC on a
20 per-order basis for all service change requests.

21

22 **Q. HOW WERE THE INSTALLATION CHARGES FOR UNBUNDLED**
23 **SERVICES DESIGNED?**

24 **A.** Installation NRCs were designed to recover the costs of work
25 functions performed by facility assignment, dispatch assignment and

1 customer zone technician personnel. A separate loop facility charge
2 for outside facilities work by customer zone technicians will be
3 administered when such work is required to complete LSRs for
4 unbundled loop services. The balance of the installation costs is
5 recovered through installation charges on a per-line or per-port basis.
6

7 **Q. WOULD YOU PLEASE EXPLAIN THE CIRCUMSTANCES WHICH**
8 **WOULD CALL FOR APPLICATION OF THE PROPOSED RESALE**
9 **NRCS?**

10 **A.** Yes. There are two resale scenarios, which I will refer to as "new"
11 and "conversion." A new resale service is one for an end user who
12 establishes service within a GTE local service area, but chooses a
13 ALEC reseller for local service. A conversion represents the loss of
14 an existing GTE retail end user to an ALEC reseller.
15

16 Since the anticipated GTE ordering activities required to complete the
17 associated LSRs are the same, and since the installation charges will
18 be applied only when the installation work is required (e.g., for new
19 services) there was no need to distinguish between these two cases.
20

21 **Q. WHAT NRC RATES IS GTE PROPOSING TO THE ALECS FOR**
22 **SERVICE ACTIVITIES?**

23 **A.** GTE's proposed rate structure and rate levels for NRCs are
24 presented in Exhibit No. DBT-2. These rates are, in most cases, at
25 the direct cost of the specific NRC activity.

UNBUNDLED NETWORK ELEMENTS

1
2 Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR
3 UNBUNDLED NETWORK ELEMENTS?

4 A. Exhibit No. DBT-3A presents GTE's proposed rates for the various
5 unbundled elements. Although the elements identified in Exhibit No.
6 DBT-3A are priced as though they are unbundled elements, GTE
7 does not believe that all the elements in Exhibit No. DBT-3A are
8 "network elements" under the Telecommunications Act of 1996 (Act).

9
10 Q. WHAT IS THE BASIS UPON WHICH THESE UNBUNDLED
11 NETWORK ELEMENT RATES WERE DEVELOPED?

12 A. The procedure employed by the Company along with the economic
13 (and practical) rationale supporting the procedure are the topic of
14 Company's Economic Presentation in this proceeding. Based on the
15 procedures prescribed in the Economic Presentation, the
16 development of the specific rates for each element presented above
17 will be described in the following testimony.

18 1. Unbundled Loops

19 The basic unbundled loop was priced at GTE's estimate of its
20 SAC. This \$33.08 estimate is not only supported by GTE's
21 cost study submission but also by GTE's analysis of the
22 Benchmark Cost Model - Version II ("BCM 2") (Sprint, MCI, US
23 West, and NYNEX have actively sponsored the BCM. See
24 "Benchmark Cost Model," submitted to the FCC, CC Docket
25 No. 80-286, September 12, 1995), which provided another

1 independent estimate of GTE's TELRIC for unbundled loops.
2 The unbundled loop cost estimates resulting from the BCM
3 analysis are presented in Tab 21 of GTE's cost study
4 submission and supported by Company witness Mr. Bert
5 Steele.

6
7 2. Collocation

8 These elements were priced at GTE's proposed interstate
9 tariffed rates.

10
11 3. Transport (Dedicated and Common), Multiplexing and SS-7
12 Services

13 All of these network elements were priced at existing Facilities
14 for Interstate Access tariff rates.

15
16
17 Q. WHAT WOULD BE THE COST IMPLICATION OF ALLOWING
18 ALECS TO COMBINE UNBUNDLED NETWORK ELEMENTS OR
19 REQUIRING GTE TO OFFER A "COMBINATION" OF NETWORK
20 ELEMENTS?

21 A. The concern arises when ALECs wish to obtain multiple unbundled
22 elements from GTE only to recombine them into services GTE offers
23 for resale. Absent valid and complete rate rebalancing, such a
24 proposal would render meaningless the Act's clear and intentional
25 distinction between unbundled network elements, which are priced

1 according to cost plus reasonable profit, and resale of retail services,
2 which are priced at a wholesale discount.

3

4 **A. UNBUNDLED LOOPS**

5 **Q. HOW HAVE YOU EVALUATED THE REASONABLENESS OF THE**
6 **COMMON COSTS RECOVERED IN YOUR PROPOSED**
7 **UNBUNDLED LOOP RATES?**

8 A. In addition to the pricing rules described in GTE's Economic
9 Presentation, I utilized three basic criteria to assure myself of the
10 overall reasonableness of GTE's proposed unbundled loop rates.
11 These are: (1) an evaluation of the relationship of GTE's unbundled
12 loop TELRICs to their respective Interstate special access (special
13 access is a functionally equivalent service to an unbundled loop)
14 rates; (2) the overall (looking at all services, both wholesale and
15 retail) GTE average percentage contribution levels, above direct cost
16 (I am defining direct cost here as TELRIC and/or TSLRIC) required
17 to achieve full recovery of the Company's forward-looking common
18 costs; and (3) the "upper bound" loop price presented in the
19 Economic Presentation.

20

21 **Q. PLEASE EXPLAIN YOUR APPLICATION OF THE ECONOMIC**
22 **PRESENTATION'S "UPPER BOUND" LOOP PRICE.**

23 A. The upper bound loop price can be considered an assumed price
24 level that would preserve GTE's overall levels of contribution to
25 common costs. If GTE were to propose an unbundled loop price

1 above the upper bound, it would potentially make ore revenue
2 contributions (and maybe net income) than it does without the
3 introduction of unbundled loops. Thus, GTE's pricing proposals for
4 unbundled loops have a constrained ceiling, even if the upper bound
5 price is below GTE's estimate of entrants' SAC for unbundled loops.
6
7

8 **Q. WHY DID YOU RELY ON AN EVALUATION OF THE INTERSTATE**
9 **SPECIAL ACCESS RATES IN DETERMINING THE**
10 **REASONABLENESS OF THE COMMON COSTS RECOVERED IN**
11 **YOUR UNBUNDLED LOOP RATES?**

12 **A.** Special access elements (i.e., two-wire and four-wire special
13 access/entrance facilities) are functionally equivalent to basic
14 unbundled loops. In addition, the FCC stated at paragraph 821 of its
15 First Report that it believes interstate special access rates to be at or
16 close to their economic cost levels. Thus, I reviewed GTE's interstate
17 rates to determine their appropriateness as a benchmark for GTE's
18 unbundled loop rates. When this evaluation indicated that the
19 interstate rate for a 2-wire facility was reasonable (above its TELRIC
20 with some contribution to common costs and also below the estimate
21 of upper-bound ceiling price), the current two-wire Interstate
22 Entrance Facility rate was proposed for the two-wire unbundled loop.

23
24 **Q. WHERE THE TELRIC EXCEEDED THE CURRENT INTERSTATE**
25 **ENTRANCE FACILITY RATE, HOW DID YOU DETERMINE THE**

1 **REASONABLENESS OF THE COMMON COSTS RECOVERED IN**
2 **YOUR UNBUNDLED LOOP RATES?**

3 A. When the current Interstate Entrance Facility rate was not a good
4 indicator of the economic costs of an unbundled loop (i.e., below
5 TELRIC), the company relied on the TELRIC as a price floor and the
6 upper-bound price as a ceiling for the unbundled loop rate. That is,
7 if the TELRIC was above the current Interstate Entrance Facility rate,
8 then this rate could not be a good indicator of the economic costs of
9 the unbundled loop element. In those cases, the Company
10 determined a mark-up to provide a reasonable contribution to
11 common costs. The proposed rate in this instance provides minimal
12 contribution when compared to the rate required to recover an equal
13 percentage mark-up. Again, in no case do I propose a rate for an
14 unbundled loop that I consider to be above the SAC of an unbundled
15 loop.

16
17 **Q. PLEASE EXPLAIN WHY YOU COMPARED GTE'S PROPOSED**
18 **UNBUNDLED LOOP RATES TO A RATE DERIVED FROM AN**
19 **"EQUAL PERCENTAGE MARK-UP" CALCULATION.**

20 A. The FCC in its First Report at paragraph 696 concluded that "one
21 reasonable allocation method would be to allocate common costs
22 using a fixed allocator, such as a percentage markup over the directly
23 attributable forward looking cost." Although GTE disagrees with this
24 methodology, we wanted to check our results against the FCC's
25 proposal.

1 Q. IF THE COMPANY WOULD HAVE EMPLOYED AN EQUAL
2 PERCENTAGE (FIXED ALLOCATOR) MARK-UP RATE AS
3 ADVOCATED BY THE FCC, HOW WOULD THOSE RESULTS
4 COMPARE WITH THE COMPANY'S METHODOLOGY?

5 A. The comparative results of this evaluation are presented in Exhibit
6 No. DBT-3A. As this Exhibit shows, GTE's proposed 2-wire
7 unbundled loop rate generates less contribution to the Company's
8 common costs than would the FCC's fixed allocator procedure. But
9 even though the FCC's methodology would result in higher rates for
10 GTE than GTE's methodology, GTE does not advocate adoption of
11 the FCC's methodology.

12
13 Q. WHAT PERCENT MARGIN CONTRIBUTION WILL GTE MAKE
14 FROM ITS PROPOSED RATES FOR UNBUNDLED LOOPS?

15 A. Based on an average unbundled loop cost of \$23.26, GTE will
16 achieve an approximate 42% margin above cost with its proposed
17 \$33.08 unbundled loop rate. We believe this is a reasonable
18 contribution to the Company's common costs, since on the average,
19 across all product offerings, GTE must achieve a 47% margin above
20 all TELRICs (directly attributable forward looking costs) to fully
21 recover its "forward-looking" common costs.

22
23
24 Q. COULD GTE'S PROPOSED RATES FOR UNBUNDLED LOOPS BE
25 CONSIDERED "MAKE-WHOLE" RATES?

1 A. Absolutely not. The major contributor to this "not-make-whole"
2 situation is GTE's proposed unbundled 2-wire loop price of \$33.08.
3 As GTE's Economic Presentation demonstrates, the upper bound
4 price (contribution-preserving price) for an average business
5 unbundled loop would be \$64.56. The difference between the \$64.56
6 and GTE's proposed rate of \$33.08 represents a permanent loss of
7 contributions to the Company; \$31.48 on the average will be lost for
8 every unbundled loop provisioned to an ALEC's business customers.
9 If ALECs target business customers with above-average usage, the
10 losses in contributions that the Company will experience will greatly
11 exceed \$31.48 per unbundled loop. As can be seen from Exhibit No.
12 DBT-4, this loss of contributions results from the loss of high-margin
13 services (toll, switched access, and vertical services) that will
14 certainly be lost when an ALEC provides a GTE unbundled loop to a
15 business customer. Exhibit No. DBT-4 presents similar data for
16 GTE's average residential customers and presents the computed
17 rates that GTE would be required to charge if it were to be made
18 whole (\$64.56 for business, \$29.47 for residence, or \$38.49 for an
19 average unbundled loop), ignoring market realities. GTE's proposed
20 unbundled loop rate of \$33.08 is substantially lower than any make-
21 whole rate.

22
23 It should be noted that the upper bound loop rate of \$64.56 is the
24 result of many decades of pricing services based on their perceived
25 "value of service" along with the complementary outcome that

1 revenue contributions from business customers should be used to
2 keep residential rates low. GTE's current rate structure, as mandated
3 by regulation, continues to provide incentives for the inefficient entry
4 of competitors whose major objective will be to capture the above-
5 market contributions that are used by the Company to support public
6 policy objectives. ALECs will use these captured contributions to
7 finance their entry into the local market.

8
9 **Q. ASSUMING THE COMMISSION ACCEPTS GTE'S PROPOSED**
10 **UNBUNDLED LOOP RATE, WILL SUCH A RATE PROVIDE**
11 **REVENUE AND CONTRIBUTION OPPORTUNITIES FOR ALECS**
12 **TO EFFECTIVELY COMPETE WITH GTE?**

13 **A.** Yes, and the ALECs do not have to be as efficient as GTE for this to
14 occur. Equally efficient entrants would be just incented to enter the
15 marketplace if GTE's unbundled loop rate were priced at the upper
16 bound; but market conditions preclude this rate from being proposed.
17 As illustrated in Exhibit No. DBT-4, the financial opportunities
18 available to ALECs, in terms of their ability to earn additional
19 contributions to their common costs and overheads, would equal the
20 difference between any revenues GTE would have received from the
21 end users (assuming the ALECs match GTE's retail rates) less the
22 rate of GTE's unbundled loop and any self-provisioned elements.

23
24 At a \$33.08 unbundled loop rate, ALECs should be highly motivated
25 to attract GTE's business customers, whose revenue streams exceed

1 \$69.00. For illustrative purposes let's assume that the ALEC obtains
2 10 percent of GTE's end user customers through the use of GTE's
3 unbundled loop. Under this scenario, the annual revenue
4 contributions available to the ALEC, assuming its price and cost
5 structures mirror GTE's, would be nearly \$4.7 million per year, as
6 shown in Exhibit No. DBT-4.

7
8 To look at it another way, GTE (on the average for combined
9 business and residence lines) obtains approximately \$15.23
10 contribution per month (see Exhibit No. DBT-4), which provides for
11 recovery of the Company's forward-looking common costs. From
12 Exhibit No. DBT-4, one can compute that an equally-efficient ALEC
13 (which we will assume the ALEC is) should be able to generate
14 approximately \$28.31 in contribution from an average business
15 customer. Actual contribution levels for ALECs should be larger since
16 they are not likely to be targeting an average business customer, but
17 more likely high-volume business customers. In addition, by
18 purchasing GTE's unbundled loop, ALECs will most likely not have
19 any of the common costs that result from the provision of loops; thus
20 it is likely that their level of common costs will be significantly below
21 GTE's average per line amount (\$15.23). Of course the ALECs'
22 contribution gains are also GTE's contribution losses.
23
24
25

B. UNBUNDLED PORTS / LOCAL SWITCHING

1
2 Q. MR. TRIMBLE, DO YOU HAVE A PROPOSAL REGARDING THE
3 PRICING OF LOCAL SWITCHING ELEMENTS?

4 A. As a part of my work on behalf of GTE, I addressed local switching
5 pricing. However, it is my understanding that ACSI does not raise an
6 issue for arbitration concerning the pricing of the switch.

7
8 **C. APPLICATION OF ACCESS CHARGES**

9 Q. WHAT ACCESS CHARGES, IF ANY, SHOULD BE COLLECTED ON
10 A TRANSITIONAL BASIS FROM CARRIERS WHO PURCHASE
11 GTE'S UNBUNDLED LOCAL SWITCHING ELEMENT?

12 A. GTE will assess a per minute charge to the ALEC for all traffic
13 switched by GTE (local, intraLATA toll, and interLATA toll—both intra-
14 and interstate). For calls that "traverse" an unbundled local switching
15 element (i.e., port) that was purchased by the ALEC and would incur
16 access charges in today's environment, GTE will assess the local
17 switching rate plus the Carrier Common Line Charge (CCLC) and the
18 residual interconnection charge (RIC). These charges should not be
19 referred to as "access charges." Rather, they are local switching
20 charges that provide continued contributions in lieu of access
21 access charges. They do not alter the ALEC's right or obligation to assess
22 access charges. The ALEC will be responsible for assessing access
23 charges on the IXC. Note that for calls that do not traverse an
24 unbundled port, full switched access rates will apply.

25

1 The FCC notes that application of these elements is intended to
2 provide continued contribution to universal service and local service
3 rate support objectives. Therefore, application of the rates should
4 continue at their currently tariffed levels and not at the diminished
5 levels contained in the FCC's First Report. To do so would be
6 arbitrary and capricious ratemaking, as no justification has been
7 provided for applying only 75% of the RIC. In addition, GTE has not
8 been given an opportunity to rebalance rates that are currently
9 supported by the contributions from the RIC and CCLC rate elements.
10

11 **Q. HOW LONG SHOULD ANY TRANSITIONAL PERIOD LAST?**

12 **A.** Application of these rate elements should continue until a
13 "reassignment" of revenues associated with these elements to
14 appropriate rate elements is fully addressed. This is likely to occur
15 through access reform, universal service and some form of rate
16 rebalancing. GTE fully supports efforts to rationalize all rates,
17 including local and access. Only when rates have been fully
18 rationalized can the magnitude of the funding issues associated with
19 public policy choices be identified and addressed. Further, GTE
20 believes that funding of these public policy choices must be
21 accomplished in a competitively neutral manner.
22

23 **LOCAL INTERCONNECTION**

24 **Q. WHAT RATE LEVEL DOES GTE PROPOSE FOR THE**
25 **TERMINATION OF LOCAL TRAFFIC?**

1 A. Compensation for termination of local traffic should be based on cost
2 plus a reasonable contribution. GTE is willing initially to accept a bill-
3 and-keep arrangement in the interest of expediting the initiation of the
4 competitive process. However, as soon as traffic becomes out of
5 balance by plus-or-minus 10% or more, GTE would require a mutual
6 compensation provision. GTE proposes to charge its interstate
7 switched access rates for all minutes terminated to GTE that exceed
8 that 10% threshold of balanced traffic.

9
10 **Q. WHY DO YOU BELIEVE THAT GTE'S CURRENT TARIFF RATES**
11 **FOR INTERSTATE SWITCHED ACCESS ARE REASONABLE**
12 **RATE LEVELS FOR LOCAL INTERCONNECTION?**

13 A. Interstate switched access rates are rates that represent our current
14 wholesale offering to interexchange carriers (IXCs). GTE has no
15 desire to continually introduce new rate levels that vary by class of
16 wholesale customer (e.g., ALEC versus IXC, etc). The current
17 switched access rates have been blessed by the FCC as appropriate
18 rates for wholesale switching elements, and with GTE's bill-and-keep
19 proposal, these proposed rates would not be effective until traffic
20 becomes out of balance. The arbitration process must account for
21 the impacts that the arbitration decision will have on GTE's entire
22 non-ALEC product offerings (i.e., decisions in this proceeding should
23 neither exacerbate nor accelerate arbitrage under GTE's existing
24 tariffs).

25

1 Q. DO MUTUAL COMPENSATION AGREEMENTS CREATE ANY
2 ADDITIONAL RATEMAKING ISSUES?

3 A. Yes. Traditionally, in instances where GTE has paid other local
4 exchange carriers (LECs) to terminate GTE-originated traffic, rate
5 structures have allowed GTE to recover those costs by levying
6 charges to end users. Toll charges and extended area service (EAS)
7 adders are examples of such rate structures. Historically, when GTE
8 did not have a mechanism to levy charges to end users, GTE did not
9 pay for the termination of its traffic. With mutual compensation,
10 GTE's expenses will increase. Recovery of such costs will
11 necessitate a rate structure that allows charges to end users (the
12 cost-causer) for originating such traffic. ILECs, as well as all other
13 telecommunications providers, should have the option of
14 implementing such end user charges. This may require charging all
15 end users for all originating traffic (perhaps with a provision for the
16 terminating customer to accept such charges).

17
18 COLLOCATION

19 Q. WHAT RATES ARE PROPOSED BY GTE FOR PHYSICAL
20 COLLOCATION?

21 A. GTE's proposed rates for physical collocation can be found in Exhibit
22 No. DBT-5. These rates were filed with the FCC on October 2, 1996
23 and became effective on November 16, 1996. In general, the
24 proposed non-recurring rate levels are set at the direct cost of the
25 specific element, while the monthly recurring rates provide a

1 reasonable level of contribution toward the recovery of common
2 costs.

3
4

SERVICE PROVIDER NUMBER PORTABILITY

5 **Q. WHAT RATES ARE PROPOSED BY GTE FOR SPNP?**

6 A. GTE's proposed rates for SPNP can be found in Exhibit No. DBT-3A.
7 The rate structure proposed by GTE includes a price per number
8 ported. If an end user desires additional simultaneous call paths,
9 then an additional call path price applies to each requested
10 simultaneous path. The prices for both of these rate elements were
11 set at GTE's TELRIC estimates with an approximate 10% contribution
12 to common cost.

13
14

FCC's PROXY RATES

15 **Q. SHOULD THIS COMMISSION GIVE ANY CONSIDERATION TO THE**
16 **FCC'S PROXY RATES?**

17 A. No. This Commission should not give any consideration to using the
18 default proxy rates proposed by the FCC in its First Report as
19 amended by the FCC's September 27, 1996 announcement of
20 reconsideration. First, those sections of the FCC's First Report that
21 dealt with pricing rules, including proxy rates, were stayed by the
22 U.S. Court of Appeals for the Eighth Circuit (pending final judicial
23 review) on October 15, 1996. The Court imposed the stay with a
24 detailed opinion, pending its final judicial review of the merits of
25 GTE's objections. This fact alone eliminates the proxy rates from

1 consideration by this Commission. In addition, I will address two
2 points that conclusively illustrate that the FCC's proxy rates are
3 absolutely inappropriate: (a) The results of cost studies prepared by
4 GTE using the FCC's prescribed methodology, when compared with
5 the FCC's mandatory proxy price ceilings, show that GTE's TELRIC
6 costs are not covered by the proxy rates. Consideration of GTE's
7 common costs, as required by the Act, would exacerbate this
8 situation; and (b) GTE would experience a severe, prejudicial
9 revenue shortfall under the FCC's proxy rates, as demonstrated by
10 comparing, on the one hand, the revenues that would be obtained
11 using the FCC's proxy prices from an average customer in GTE's
12 service area to, on the other hand, both the revenues generated from
13 elements priced at GTE's TELRICs and to current average per line
14 revenues.

15 **Q. DESCRIBE THE RESULTS WHEN YOU COMPARE, AS YOU HAVE**
16 **DESCRIBED, GTE'S TELRICs WITH THE FCC'S PROXY PRICE**
17 **CEILINGS.**

18 **A.** As Exhibit Nos. DBT-6 and DBT-7 demonstrate, when GTE applies
19 the FCC's prescribed costing methodology, the costs that result are
20 much higher than the FCC's proxy ceiling prices. Specifically, GTE's
21 loop costs (without the NID) average at least 50 percent larger than
22 the FCC's ceiling price for unbundled loops, and GTE's unbundled
23 end office switching costs average at least two times the FCC's price
24 ceiling of \$0.004 per minute plus \$2.00 for a switch port, even when
25

1 all possible switching features and functions are not included.
2 Moreover, as Exhibit No. DBT-8 shows, when GTE compares the
3 revenues that would be obtained from the FCC's proxy prices to
4 either the revenues from elements priced at the TELRICs computed
5 by GTE or to current revenues per line, a large gap exists. It is also
6 obvious that the effective discount from the equivalent retail service
7 price using the FCC proxy prices is much larger than the discount
8 ceiling established by the FCC for resold services (25 percent).

9
10 **Q. PLEASE EXPLAIN HOW EXHIBIT NO. DBT-6 WAS DEVELOPED**
11 **AND WHAT IT SHOWS.**

12 **A.** GTE's TELRIC cost studies are based upon the methodology
13 prescribed by the First Report (at ¶¶ 672-702). GTE first calculated
14 the direct forward-looking cost of each network element. GTE then
15 determined the common costs that could not be attributed to any
16 particular element or sub-group of elements. These latter costs are
17 to be allocated to all network elements during the pricing process.

18
19 The First Report specified (at ¶ 744) that the rate for unbundled local
20 loops be a flat, per-month charge. Further, the FCC specified (at ¶
21 794, Appendix D) the statewide weighted average ceiling price that
22 a state regulatory agency could adopt in an arbitration proceeding
23 unless the state commission had completed its review of cost studies
24 that comport to the FCC methodology. Exhibit No. DBT-6 shows the
25 results of the GTE cost studies for loops in several states where GTE

1 serves a large number of customers. The cost developed using a
2 TELRIC methodology averages 50 percent larger than the FCC's
3 statewide weighted average proxy ceiling price. This difference
4 clearly supports my conclusion that the FCC's statewide weighted
5 average loop proxy price is arbitrary and inappropriate (at least as it
6 applies to GTE) because it is based upon a mixture of cost estimates
7 for only the bare incremental cost of a loop, rather than being based
8 upon a TELRIC methodology. Further, to assure a proper
9 comparison, neither the proxy price nor the GTE TELRIC results
10 described above include any allocation of common costs as the
11 FCC's own cost methodology requires.

12
13 **Q. WHAT ASSUMPTIONS DID YOU EMPLOY IN THE DEVELOPMENT**
14 **OF YOUR LOCAL SWITCHING COMPARISON FOUND IN EXHIBIT**
15 **NO. DBT-7, AND WHAT WERE THE RESULTS?**

16 **A.** The First Report specified (at ¶ 412) that the unbundled local
17 switching network element is to include not only line-to-line and line-
18 to-trunk "basic switching," but also all of the features, functions, and
19 capabilities, such as a telephone number, directory listing, dial tone,
20 signaling, and access to 911, operator services and directory
21 assistance, all vertical features including custom calling and CLASS
22 features, Centrex, and any technically feasible customized routing
23 functions. The unbundled local switching rate structure was required
24 to include "a combination of a flat-rated charge for line ports, which
25 are dedicated to a single new entrant, and either a flat-rate or per-

1 minute usage charge for the switching matrix and for trunk ports,
2 which constitute shared facilities, best reflects the way costs for
3 unbundled local switching are incurred." Id. at ¶ 810. Unless a state
4 regulatory agency has completed its review of cost studies that
5 comport with the FCC's costing methodology, it would have been
6 required (Id. at ¶ 815) to set the rate for unbundled local switching "so
7 that the sum of the flat-rated charge for line ports and the product of
8 the projected minutes of use per port and the usage-sensitive charges
9 for switching and trunk ports, all divided by the projected minutes of
10 use, does not exceed 0.4 cents (\$0.004) per minute of use and is not
11 lower than 0.2 cents (\$0.002) per minute of use." The FCC's
12 September 27 order on reconsideration introduced an additional
13 fixed-rate port charge in the range of \$1.10 to \$2.00 per month.

14
15 Exhibit No. DBT-7 compares the FCC's proxy price for unbundled
16 local switching to the results of cost studies prepared by GTE using
17 the FCC's TELRIC methodology. Shown are GTE's cost estimates for
18 three end office switching cost elements for a number of states where
19 GTE serves a large number of customers. Those elements are: (i) a
20 per minute cost to switch a call; (ii) a per line per month cost for the
21 non-usage sensitive components of a switch (e.g., port); and (iii) a per
22 line per month cost for a representative feature package. The cost
23 element of a per line, per month cost for the feature package was
24 chosen to comply with the FCC's mandate that a rate structure
25 recover costs "in a manner that efficiently apportions costs among

1 users." First Report at ¶ 755. It is very important to note that the
2 feature package selected for illustrative purposes does not include all
3 of the features, functions and capabilities that a switch may be
4 capable of providing. The package selected includes many of the
5 most commonly used features (e.g., Call Waiting, Speed Calling,
6 Time of Day Routing). Also not included in any of the three cost
7 estimates in Exhibit No. DBT-7 are the costs associated with a
8 directory listing or the more esoteric switch features such as
9 customized routing and Meet-Me Conference Bridging. For
10 comparison purposes, the analysis was performed twice for two
11 states, Indiana and Ohio, to show the potential cost impact resulting
12 from the incorporation of additional or advanced features.

13 To provide a logical comparison, GTE converted the two per line, per
14 month cost elements into an equivalent per minute cost by dividing by
15 the average switched minutes of use per month, including minutes
16 associated with both local and long distance calls. The result of this
17 calculation is a composite TELRIC per minute cost that is three times
18 the FCC's upper price ceiling (even ignoring the two instances that
19 incorporated feature packages which include extraordinary features).
20 These results confirm my conclusion that the FCC's local switching
21 proxy price was based upon information that estimated the
22 incremental cost of line-to-line or line-to-trunk basic switching, but did
23 not, as the FCC's own methodology requires, include either the costs
24 related to other switch features and functions, or common costs. If
25

1 GTE were to integrate all of the vertical features that its switches
2 could provide into a "you get them all with switching" package, GTE's
3 required price per minute of use would be astronomical. If each port
4 came with a full complement of vertical services, the full TELRIC cost
5 of the "free" vertical services could exceed \$100 per month (see Tab
6 23 of GTE Cost Study Submission for the TELRICs of most vertical
7 services), which could never be recovered with a \$2.00 port charge
8 and a \$0.004 per minute of use switching charge. Even for a
9 reasonable level of vertical services, prices for a local switching
10 network element would have to be in the \$0.03 to \$0.05+ per minute
11 range for the Company to recover its forward-looking costs.

12
13 **Q. IF THE DEFAULT PROXY RATES WERE IMPLEMENTED, WOULD**
14 **GTE EXPERIENCE A SUBSTANTIAL REVENUE SHORTFALL?**

15 **A.** Exhibit No. DBT-8 compares the FCC's proxy price for a combination
16 of unbundled local switching and an unbundled local loop (i.e., the
17 reassembled equivalent of local service) to both the results of GTE's
18 TELRIC study, and to GTE's current average revenues per line. To
19 prepare this comparison, GTE derived the average monthly usage per
20 line, including local and toll minutes of use, for an average of
21 residence and business lines. This average number of minutes was
22 multiplied by the FCC's proxy price ceiling of \$0.004 per minute, and
23 that switched usage revenue amount was added to the flat rate
24 components that would also be needed to comprise reassembled
25 local service (i.e., a port at the FCC's \$2.00 rate, a local loop and a

1 NID). GTE also derived the current revenues per line for an average
2 of-business lines, including flat rate local charges, local and toll
3 usage charges, and vertical feature charges. When the unbundled
4 network elements of switching (including the port), a loop and a NID
5 are combined to replicate local service, the revenues from those
6 elements when priced at the FCC's proxy rates are only fifty-seven
7 percent of GTE's TELRIC for the combined service (Exhibit No. DBT-
8 8, \$21.30 compared to \$37.31 per month). This comparison of price
9 to cost understates the shortfall, because by definition TELRIC does
10 not include an allocation of common costs. Further, the FCC's proxy
11 prices would provide new entrants with approximately a 62 percent
12 discount off GTE's current average business retail revenue per line
13 (Exhibit No. DBT-8, \$21.30 compared to \$56.27 per month). Clearly
14 neither the FCC proxy price nor the TELRIC methodology come
15 anywhere close to providing revenues that cover GTE's cost of
16 providing service.

17
18 Moreover, the 62 percent discount that results from the FCC proxy
19 price cannot be squared with the FCC's interim wholesale rates.
20 Section 51.611 of the FCC's rules required that resale discounts
21 should be "no more than 25 percent." Thus, the FCC's proposed
22 requirements for its two pricing mechanisms (resale and unbundling)
23 were totally inconsistent. The potential discount is significantly below
24 the Company's costs and would result in GTE subsidizing competitive
25 entry.

1 Based upon my and my staff's review of the FCC's First Report and
2 FCC's subsequent September 27, 1996 reconsideration, I am
3 convinced that the FCC's proxy price ceilings for unbundled loops
4 and local switching are significantly understated.

5
6 **Q. SHOULD THE FCC'S PROPOSED LOOP PROXY RATES, AS**
7 **PUBLISHED IN ITS FIRST REPORT, PLAY ANY PART IN THE**
8 **ARBITRATION PROCEEDING?**

9 **A.** No. The FCC's proposed proxies have no relationship to reality. To
10 begin with, they are subject to the Eighth Circuit's stay order. Further,
11 for this state, the FCC's unbundled loop proxy price is \$13.68. But
12 GTE's 2-wire unbundled loop TELRIC is \$23.26. A simple
13 comparison of these two numbers summarily illustrates that the FCC's
14 proxy rate is significantly understated. Similarly, the FCC's price is
15 also significantly understated when compared with the BCM 2
16 produced TELRIC (\$25.44). (See Tab 21 of GTE's Cost Study
17 Submission.) This Commission must reject from consideration the
18 FCC proxy rates and any other proposed rates that resemble the
19 FCC's rates.

20
21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 **A.** Yes.
23
24
25

FLORIDA
 GTE

RECOVERY OF JOINT AND COMMON COSTS

	<u>Revenue</u>	<u>TSLRIC (1)</u>	<u>Contribution</u>
Local			
1 Residence	\$274,482,117	\$420,151,824	(\$145,669,707)
2 Business	\$250,180,256	\$142,037,160	\$108,143,096
3 Vertical Services	\$50,874,520	\$4,554,206	\$46,320,314
4			
5 Total Local (2)	\$575,536,893	\$566,743,190	\$8,793,703
6			
7 IntraLATA Toll	\$53,792,000	\$5,693,863	\$48,098,137
8			
9 Switched Access	\$320,896,000	\$32,479,466	\$288,416,534
10 2W & 4W Private & SAL (3)	\$13,810,152	\$12,764,952	\$1,045,200
11			
12 Other	\$305,000,935	\$196,216,241	\$108,784,714
13			
14 Total	\$1,269,036,000	\$813,897,712	\$455,138,288

Note:

(1) Total Service Long-Run Incremental Cost.
 (2) Excludes other miscellaneous local services.
 (3) Excludes transport and supplemental features.

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What's in GTE Florida's Common Costs

(a) 1995 Total Regulated Revenues \$1,269,036 K
 (b) Total Direct Costs \$813,898 K
 (c) Estimated Forward-Looking Common Costs (a-b) \$455,138 K
 (d) Estimated Common Costs as a % of Direct Costs (c/b) 56%

USOA Account	Common Cost Category	1995 Costs \$K	Notes	
21XX	General Support Costs	\$10,201	Capital Costs: Depreciation Return, and taxes associated with the indicated capital account. (Non Central Office Only)	
2112	Motor Vehicle	\$0		
2114	Special Purpose Vehicle	\$322		
2115	Garage Work Equipment	\$7,832		
2116	Other Work Equipment	\$41,661		
2121	Building + Land	\$1,797		
2122	Furniture	\$2,113		
2123	Office Support Equipment	\$11,835		
2123	Company Communications Equipment	\$22,825		
2124	General Purpose Computers	\$98,486		
	TOTAL 21XX			
61XX	Plant Specific Operations	\$1,486		81% of Account (19% not Common)
611X	Network Support Expenses	\$95		
6112	Motor Vehicle Expense	\$0		
6115	Garage Work Equipment Expense	\$2,346		
6116	Other Work Equipment	\$4,734		
612X	General Support Expenses	\$48,415		
6122	Furniture	\$54,838		
6123	Office Equipment			
6124	General Purpose Computers			
	TOTAL 61XX	\$2,385		
66XX	Plant Non-Specific Operations	\$18,814		
6612	Provisioning Expense	\$22,283		
663X	Network Operations Expenses	\$19,802		
6532	Network Administration	\$8,910		
6533	Testing	\$71,974		
6534	Plant Operations Administration			
6535	Engineering			
	TOTAL 66XX	\$4,889		
67XX	Corporate Operations	\$3,045	87% of Account (13% not Common)	
671X	Executive and Planning	\$14,152		
6711	Executive	\$8,367		
6712	Planning	\$11,009		
672X	General and Administrative	\$85,873		
6721	Accounting and Finance	\$2,125		
6722	External Relations	\$1,836		
6723	Human Resources	\$4,515		
6724	Information Management	\$47,647		
6725	Legal	\$153,138		
6726	Procurement			
6727	Research and Development			
6728	Other G & A			
	TOTAL 67XX			
TOTAL COMMON COSTS		\$378,636 K		
Percent of Direct Costs (i.e., TELRUCs) =		47%		

GTFL
 GTE Florida

WHOLESALE SERVICE NRCs

UNBUNDLED SERVICES

	\$47.25
<i>Service Ordering (loop or port)</i>	\$16.00
Initial Service Order, per order	\$24.00
Transfer of Service Charge, per order	\$5.25
Subsequent Service Order, per order	
Customer Service Record Research, per request	
<i>Installation</i>	\$10.50
Unbundled Loop, per loop	\$10.50
Unbundled Port, per port	
<i>Loop Facility Charge, per order (see Note 1)</i>	\$62.50

RESALE SERVICES

	\$41.50
<i>Service Ordering</i>	\$24.00
Initial Service Order, per order	
Subsequent Service Order, per order	\$26.25
<i>Installation, per line</i>	Note 2
<i>Outside Facility Connection Charge, per order (see Note 2)</i>	

SERVICE PROVIDER NUMBER PORTABILITY

SPNP, per number ported	\$10.50
-------------------------	---------

Note 1: The Loop Facility Charge will apply when field work is required for establishment of a new unbundled loop service.

Note 2: The Outside Facility Connection Charge will apply when field work is required for establishment of a new resale service. The terms, conditions and rates that apply for this work are described in the Company's retail local service tariffs.

Total Element Long Run Incremental Cost ("TELRIC")
 Unbundled Network Elements
 GTE - Florida

Unbundled Element	TELRIC /1		Current Rates	% Contribution	Weighted "Upper Bound"
	Element/minute	Minutes			
			\$33.08	42.22%	\$38.49
			\$32.93	68.19%	
(1) LOCAL LOOPS	\$23.36		\$1.80	13.84%	
Local Loop	\$28.13		\$2.10	11.11%	
2 Wire Loop	\$1.20				
4 Wire Loop	\$1.89				
Network Interface Device					
Basic NID					
12x NID					
(2) LOCAL INTERCONNECTION		\$0.0031891	\$6 and Keep	GTDC #1	
A Bill and Keep +/- 10% Traffic			\$0.0107432		
B Out of Balance Terminating Traffic Average MOU			\$5.10		
			\$3.10		
(3) SERVICE PROVIDER NUMBER PORTABILITY	\$4.85				
- Service Provider Number Portability per number ported	\$2.75				
- Simultaneous Call Capability - Additional					
	47%				

Note: GTE's Fixed Allocator

Table 1
 NUMERICAL EXAMPLE: UNBUNDLED LOOP RATE
 CALCULATION BASED ON AVERAGE BUSINESS CUSTOMER
 (DOLLARS PER LINE PER MONTH)

GTE
 ACSI

	<u>Revenue</u>	<u>TSLRIC (1)</u>	<u>Contribution</u>
Basic Retail Service	\$37.49	\$24.60	\$12.89
End-User Line Charge	\$5.84	\$0.00	\$5.84
Local Toll	\$3.32	\$0.45	\$2.87
Vertical Services	\$1.33	\$0.63	\$0.70
Switched Access			
Interstate			\$6.69
CCLC (2)	\$6.69	\$0.00	\$4.79
Other	\$6.49	\$1.70	\$7.52
Intrastate	\$8.05	\$0.53	\$41.30
Total	\$89.21	\$27.91	

Notes:

- (1) Total Service Long-Run Incremental Cost.
 (2) Carrier Common Line Charge.

"UPPER BOUND" LOOP PRICE

Unbundled Loop TSLRIC (1)	\$23.26
Plus	n/a
Incremental Marketing Costs	
Plus	\$41.30
Opportunity Costs (Forgone Contribution)	\$64.56
Total	

Note:

- (1) Total Service Long-Run Incremental Cost.

Table 2
NUMERICAL EXAMPLE: UNBUNDLED LOOP RATE
CALCULATION BASED ON AVERAGE RESIDENTIAL CUSTOMER
(DOLLARS PER LINE PER MONTH)

GTE
 ACSI

	<u>Revenue</u>	<u>TSLRIC (1)</u>	<u>Contribution</u>
Retail Rate	\$12.42	\$24.36	(\$11.94)
End-User Line Charge	\$3.50	\$0.00	\$3.50
Local Toll	\$2.01	\$0.18	\$1.83
Vertical Services	\$2.50	\$0.05	\$2.45
Switched Access			
Interstate			
CCLC (2)	\$3.13	\$0.00	\$3.13
Other	\$3.04	\$0.79	\$2.25
Intrastate	\$5.33	\$0.34	\$4.99
Total	\$31.93	\$25.72	\$6.21

Notes:

(1) Total Service Long-Run Incremental Cost.

(2) Carrier Common Line Charge.

"UPPER BOUND" LOOP PRICE

Unbundled Loop TSLRIC (1)	\$23.26
<i>Plus</i>	
Incremental Marketing Costs	n/a
<i>Plus</i>	
Opportunity Costs (Forgone Contribution)	\$6.21
<i>Total</i>	\$29.47

Note:

(1) Total Service Long-Run Incremental Cost.

Table 3
 Contribution Preserving Loop Rates
 (Upper Bound Ceiling Price)

GTE
 ACSJ

	Unbundled Loop Cost	Lost Contribution to Margin	Total (Rate)
Business	\$23.26	\$41.30	\$64.56
Residence	\$23.26	\$6.21	\$29.47
WTD Bus/Res	\$23.26	\$15.23	\$38.49

Table 4
 Margin Opportunities for CLC's

	Market Share (10%) (a)	CLC's Retail Revenue (b)	CLC's Expense (c)	Annual Margin (d = a * (b-c) * 12)
Business	49,704	\$69.21	\$40.90	\$16,885,443
Residence	143,730	\$31.93	\$38.95	(\$12,107,815)
WTD Bus/Res				\$4,777,628

**Total Element Long Run Incremental Cost ("TELRIC")
 Unbundled Network Elements
 GTE - FLORIDA**

<u>Collocation Elements</u>	<u>Rating Element</u>	<u>TELRIC /1 Costs</u>	<u>Proposed Rates /2</u>
(1) Nonrecurring Costs			
Physical Engineering Fee	Per Request	\$ 6,946.00	\$ 6,948.00
Building Modifications			
Simple	Per Central Office	\$ 13,484.00	\$ 13,490.00
Moderate		\$ 18,448.00	\$ 18,450.00
Complex		\$ 23,514.00	\$ 23,520.00
DC Power			
Cable Pull	Per 40 Amps	\$ 2,900.00	\$ 2,900.00
Cage Enclosure	Per 12 Fibers	\$ 1,213.00	\$ 1,206.00
	Per Cage	\$ 4,559.00	\$ 4,558.00
(2) Monthly Recurring			
Partitioned Space	Per Sq. Ft	\$ 1.59	\$ 2.38
DC Power	Per 40 Amps	\$ 368.24	\$ 443.91
Cable Space	Per 12 Fibers	\$ 12.60	\$ 14.00
(3) Monthly Recurring for EIS			
DS0 level connection		\$ 1.43	\$ 2.36
DS1 level connection		\$ 3.59	\$ 5.93
DS3 level connection		\$ 27.81	\$ 45.91

1/ Includes volume sensitive and average volume insensitive costs.
 2/ Filed in GTOC #1 10/02/96, to be effective 11/16/96.

LOOPS

STATE	FCC LOOP PROXY CEILING PRICE (a)	TELRIC UNBUNDLED LOOP (b)	PROXY PRICE TO TELRIC DIFFERENCE (c = b / a)
GTE California	\$11.10	\$23.09	208.02%
Contel California	\$11.10	\$34.98	315.14%
GTE California West Coast	\$11.10	\$37.78	340.36%
GTE Florida	\$13.68	\$21.94	160.38%
GTE Hawaii	\$15.27	\$18.63	122.20%
GTE Indiana	\$13.29	\$19.72	148.38%
Contel Indiana	\$13.29	\$22.48	169.15%
Alltel Indiana	\$13.29	\$24.43	183.82%
GTE Kentucky	\$16.70	\$26.91	161.14%
GTE Michigan	\$15.27	\$19.54	127.96%
Alltel Michigan	\$15.27	\$21.59	141.39%
GTE Minnesota	\$14.81	\$31.61	213.44%
GTE Missouri	\$18.32	\$31.52	172.05%
GTE North Carolina	\$16.71	\$26.00	155.60%
Contel North Carolina	\$16.71	\$30.16	180.49%
GTE Ohio	\$15.73	\$20.28	128.93%
GTE Oregon	\$15.44	\$21.49	139.18%
GTE Pennsylvania	\$12.30	\$19.04	154.80%
Contel Pennsylvania	\$12.30	\$20.18	164.07%
GTE Texas	\$15.49	\$22.46	145.00%
Contel Texas	\$15.49	\$35.08	226.47%
GTE Virginia	\$14.13	\$32.16	227.60%
Contel Virginia	\$14.13	\$28.63	188.46%
GTE Washington	\$13.37	\$22.20	166.04%

END OFFICE SWITCHING

STATE	TELRIC PER MINUTE (a)	TELRIC PER PORT (b)	TELRIC FEATURE PACKAGE (c)	COMPOSITE TELRIC PER MINUTE (d = a + (b + c) / MOU)	FCC PROXY PER MOU (e)	FCC PROXY PER PORT (f)	COMPOSITE FCC PROXY PER MOU (g = e + (f / MOU))	RATIO: TELRIC TO FCC UPPER BOUND (h = d/g)
				\$0.0107	\$0.0040	\$2.00	\$0.0080	1.79
			\$2.81	\$0.0122	\$0.0040	\$2.00	\$0.0080	2.02
			\$2.81	\$0.0131	\$0.0040	\$2.00	\$0.0084	2.04
GTE California	0.0034840	\$4.83	\$2.81	\$0.0179	\$0.0040	\$2.00	\$0.0085	2.73
Centel California	0.0048379	\$4.89	\$6.80	\$0.0244	\$0.0040	\$2.00	\$0.0088	3.58
GTE California West Coast	0.0042122	\$4.51	\$6.89	\$0.0256	\$0.0040	\$2.00	\$0.0083	4.07
GTE Florida	0.0033592	\$5.22	\$15.87	\$0.0156	\$0.0040	\$2.00	\$0.0083	2.49
GTE Hawaii	0.0073568	\$4.08	\$8.97	\$0.0269	\$0.0040	\$2.00	\$0.0083	2.85
GTE Indiana	0.0030568	\$4.08	\$15.87	\$0.0167	\$0.0040	\$2.00	\$0.0081	3.91
GTE Indiana (Feature Pak 1000)	0.0030568	\$4.08	\$8.97	\$0.0238	\$0.0040	\$2.00	\$0.0081	2.42
Centel Indiana	0.0038611	\$4.08	\$15.87	\$0.0147	\$0.0040	\$2.00	\$0.0085	2.42
Centel Indiana (Feature Pak 1000)	0.0038611	\$4.48	\$8.97	\$0.0115	\$0.0040	\$2.00	\$0.0083	1.77
Alltel Indiana	0.0027508	\$4.48	\$8.97	\$0.0119	\$0.0040	\$2.00	\$0.0081	1.90
Alltel Indiana (Feature Pak 1000)	0.0027508	\$4.48	\$3.21	\$0.0138	\$0.0040	\$2.00	\$0.0084	2.27
GTE Kentucky	0.0031122	\$3.83	\$4.08	\$0.0081	\$0.0040	\$2.00	\$0.0081	1.25
GTE Michigan	0.0031419	\$3.83	\$4.08	\$0.0080	\$0.0040	\$2.00	\$0.0082	1.44
Alltel Michigan	0.0054817	\$3.95	\$0.87	\$0.0090	\$0.0040	\$2.00	\$0.0081	1.78
GTE Minnesota	0.0039068	\$2.55	\$2.85	\$0.0108	\$0.0040	\$2.00	\$0.0086	2.01
GTE Minnesota	0.0025909	\$3.04	\$4.48	\$0.0133	\$0.0040	\$2.00	\$0.0083	4.13
GTE Missouri	0.0020931	\$3.85	\$4.48	\$0.0262	\$0.0040	\$2.00	\$0.0083	2.08
GTE North Carolina	0.0026439	\$3.85	\$15.29	\$0.0133	\$0.0040	\$2.00	\$0.0085	2.55
Centel North Carolina	0.0030980	\$4.48	\$4.24	\$0.0188	\$0.0040	\$2.00	\$0.0088	1.82
GTE Ohio	0.0030980	\$4.48	\$5.97	\$0.0120	\$0.0040	\$2.00	\$0.0088	1.95
GTE Ohio (Feature Pak 1000)	0.0040910	\$3.97	\$5.97	\$0.0123	\$0.0040	\$2.00	\$0.0083	2.29
GTE Oregon	0.0027488	\$4.79	\$2.38	\$0.0147	\$0.0040	\$2.00	\$0.0084	2.75
GTE Pennsylvania	0.0039834	\$4.79	\$2.45	\$0.0178	\$0.0040	\$2.00	\$0.0085	1.37
Centel Pennsylvania	0.0035126	\$4.39	\$4.80	\$0.0088	\$0.0040	\$2.00	\$0.0083	1.27
GTE Texas	0.0088937	\$4.08	\$4.88	\$0.0077	\$0.0040	\$2.00	\$0.0080	1.51
Centel Texas	0.0034657	\$2.35	\$2.10	\$0.0098	\$0.0040	\$2.00	\$0.0084	2.38
GTE Virginia	0.0030802	\$2.42	\$2.10	\$0.0098	\$0.0040	\$2.00	\$0.0084	2.07
Centel Virginia	0.0030802	\$3.15	\$2.08					
GTE Washington	0.0034332							
							Average	2.38
							Average w/standard feature packages	2.07

* Nonstandard feature packages

Docket No. 961537-TP
 Direct Testimony of
 Dennis B. Trimble
 Exhibit DBT-7
 Page 1 of 1
 FPSC Exhibit No. _____

**COMPARISON OF PROXY PRICES
WITH
GTE FLORIDA TELRIC AND REVENUES**

Attachment 8

	TELRIC	FCC Proxy Prices	Current GTE Avg Bus Rev per Line per Month
Local Loop	\$21.94	\$13.68	Local Service Price \$38.90
Network Interface Device	\$1.32	\$1.32	Switched Access \$7.08
Switching with Port	\$14.05	\$5.15	100% TIC \$1.22
75% TIC	n/a	\$1.15	Local Switching \$4.43
			Vertical Services \$1.33
			IntraLATA Toll \$3.32
Per Line	\$37.31	\$21.30	Total Revenues \$56.27

Notes: Switched access transport excluded from costs & revenues above.
 Carrier Common Line revenues excluded from all calculations
 Subscriber Line Charge revenues included in average rate per switched access line.
 TIC = Transport Interconnection Charge

Docket No. 961537-TP
 Direct Testimony of
 Dennis B. Trimble
 Exhibit DBT-8
 Page 1 of 1
 FPSC Exhibit No. _____

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FILE COPY



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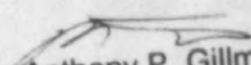
January 24, 1997

Re: Docket No. 961537-TP
Petition by American Communications Services, Inc., and its local exchange
operating subsidiaries, for Arbitration with GTE Florida Incorporated pursuant to
the Telecommunications Act of 1996

Dear Ms. Bayo:

Please find enclosed for filing an original and fifteen copies of the direct testimony of
Kirby D. Cantrell, Michael J. Doane, Gregory M. Duncan, Donald W. McLeod,
Beverly Y. Menard, William E. Munsell, Bert I. Steele, and Dennis B. Trimble on behalf
of GTE Florida Incorporated in the above matter. Service has been made as indicated
on the Certificate of Service. If there are any questions regarding this matter, please
contact me at (813) 483-2615.

Very truly yours,


Anthony P. Gillman
APG:tas
Enclosures

- Cantrell - 00930-97*
- Doane - 00931-97*
- Duncan - 00932-97*
- McLeod - 00933-97*
- Menard - 00934-97*
- Munsell - 00935-97*
- Steele - 00936-97*
- Trimble - 00937-97*

CERTIFICATE OF SERVICE

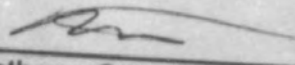
I HEREBY CERTIFY that copies of the direct testimony of Kirby D. Cantrell, Michael J. Doane, Gregory M. Duncan, Donald W. McLeod, Beverly Y. Menard, William E. Munsell, Bert I. Steele, and Dennis B. Trimble on behalf of GTE Florida Incorporated in Docket No. 961537-TP were sent via overnight delivery on January 23, 1997, to the parties listed below.

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