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June 3, 1994

ORIGINAL
FILE COPY

HAND DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
101 E. Gaines Street
Tallahassee, Florida 32301

Re: In re: Petition for expanded interconnection for
alternate access vendors within local exchange company
central offices by Intermedia Communications of Florida,
Inc.; Docket Nos.: 931074-TP, 930955-TL, 940014-TL,
940020-TL, 940190-TL

ACK Dear Ms. Bayo:

AFA 2
APP _____ Enclosed for filing and distribution are the original and
CAF _____ fifteen copies of the Revised Testimony of Joseph Gillan on Behalf
EMU Reith of the Interexchange Access Coalition filed by Rachel Rothstein in
DTR _____ the above docket. The testimony has been reformatted. There are
no substantive changes from that which was originally filed on May
23, 1994.

ERG _____ Please acknowledge receipt of the above on the extra copy
LES Casper enclosed herein and return it to me. Thank you for your
LRY orig assistance.

OPC _____

RCH _____

SEC 1

WAS _____

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Enclosures

cc: Parties of Record

Sincerely,

Joe A. McGlothlin
Joseph A. McGlothlin

DOCUMENT NUMBER-DATE

05466 JUN-3

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for expanded inter-) DOCKET NO. 921074-TP
connection for alternate access)
vendors within local exchange company)
central offices by INTERMEDIA)
COMMUNICATIONS OF FLORIDA, INC.)

In Re: Request for approval of) DOCKET NO. 930955-TL
tariff filing to restructure Switched)
Access Local Transport by BELLSOUTH)
TELECOMMUNICATIONS, INC. d/b/a)
SOUTHERN BELL TELEPHONE AND TELEGRAPH)
COMPANY (T-93-552 FILED 9/15/93))

In Re: Request for approval of) DOCKET NO. 940014-TL
tariff filing to restructure local)
transport element of switched access)
service by UNITED TELEPHONE COMPANY)
OF FLORIDA (T-93-728 FILED 12/17/93))

In Re: Request for approval of) DOCKET NO. 940020-TL
tariff filing to restructure local)
transport element of switched access)
service by CENTRAL TELEPHONE COMPANY)
OF FLORIDA (T-93-727 FILED 12/17/93))

FILED: June 3, 1994

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Revised Direct Testimony of Joseph Gillan on Behalf of the Interexchange Access Coalition, which has been reformatted without substantive change, has been furnished by hand delivery* or by U.S. Mail to the following parties of record, this 3rd day of June, 1994:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL
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In re: Petition of Expanded)
Interconnection for Alternative) DOCKET NO. ~~931074-SP~~
Access Vendors Within Local Exchange)
Company Central Offices by)
Intermedia Communications of Florida.)

In re: Request by United Telephone)
Company of Florida for Approval of a) DOCKET NO. 940014-TL
Proposed Tariff Restructuring the)
Switched Access Local Transport)
Element.)

In re: Request by Central Telephone)
Company of Florida for Approval of a) DOCKET NO. 940020-TL
Proposed Tariff Restructuring the)
Switched Access Local Transport)
Element.)

In re: Request by General Telephone)
Company of Florida for Approval of a) DOCKET NO. 940190-TL
Proposed Tariff Restructuring the)
Switched Access Local Transport)
Element.)

In re: Request by Southern Bell)
Telephone and Telegraph Company for) DOCKET NO. 930955-TL
Approval of a Proposed Tariff)
Restructuring the Switched Access)
Local Transport Element.)

REVISED DIRECT TESTIMONY

OF JOSEPH GILLAN

ON BEHALF OF THE INTEREXCHANGE ACCESS COALITION

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Expanded)
Interconnection for Alternative) DOCKET NO. 921074-TP
Access Vendors Within Local Exchange)
Company Central Offices by)
Intermedia Communications of Florida.)

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Approval of a Proposed Tariff)
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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE:)	
Petition of Expanded Interconnection for Alternative Access Vendors Within Local Exchange Company Central Offices by Intermedia Communications of Florida))))	Docket 92-1074-TP
Request by United Telephone Company of Florida for Approval of a Proposed Tariff Restructuring the Switched Access Local Transport Element))))	Docket 94-0014-TL
Request by Central Telephone Company of Florida for Approval of a Proposed Tariff Restructuring the Switched Access Local Transport Element))))	Docket 94-0020-TL
Request by General Telephone Company of Florida for Approval of a Proposed Tariff Restructuring the Switched Access Local Transport Element))))	Docket 94-0190-TL
Request by Southern Bell Telephone and Telegraph Company for Approval of a Proposed Tariff Restructuring the Switched Access Local Transport Element))))	Docket 93-0955-TL

**REVISED
TESTIMONY OF JOSEPH GILLAN
ON BEHALF OF THE
INTEREXCHANGE ACCESS COALITION**

1 I. Introduction

2 Q. Please state your name and business address.

3 A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando, Florida,
4 32854.

5 Q. What is your occupation?

6 A. I am an economist with a consulting practice specializing in telecommunications. My
7 clients encompass the full spectrum of interests and have included state public utility
8 commissions, interexchange carriers, local telephone companies, large business users,
9 cable television companies, competitive access providers, and consumer advocates.

10 Q. Please briefly outline your educational background and related experience.

11 A. I am a graduate of the University of Wyoming where I received B.A. [1978] and M.A.
12 [1979] degrees in economics. My graduate program concentrated on the economics of
13 public utilities and regulated industries with course work emphasizing price theory and
14 statistics.

15 In 1980, I joined the Illinois Commerce Commission where I prepared policy
16 arguments for Commission filings before the U.S. District Court and the Federal
17 Communications Commission, and provided staff testimony in various Commission
18 proceedings concerning telecommunications. While at the commission, I served on the
19 staff subcommittee for the NARUC Communications Committee and was appointed to
20 the Research Advisory Council overseeing NARUC's research arm, the National
21 Regulatory Research Institute.

22 From 1985 to the end of 1986, I was employed by US Switch where I became
23 its Vice President of Strategic Planning and Marketing. In 1987, I left US Switch to
24 begin my consulting practice. I have testified in over two dozen proceedings in sixteen
25 states, I have appeared before the telecommunications subcommittees of three state

1 legislatures, and I have been actively involved in several proceedings before the Federal
2 Communications Commission.

3 I currently serve on the Advisory Council for New Mexico State University's
4 Center for Public Utilities and as outside faculty for a program on public utility issues
5 at the University of Wyoming. A detailed listing of publications, testimony and
6 qualifications is provided in Exhibit (JPG-1) _____.

7 Q. On whose behalf are you testifying in this proceeding?

8 A. I am testifying on behalf the Interexchange Access Coalition (IAC). This coalition is an
9 ad hoc group of "third tier" interexchange carriers formed to address the local transport
10 issue in a number of key states. The members of IAC are: LDDS/Metromedia, Cable
11 and Wireless, WilTel, LCI and US Long Distance.

12 Q. What is the purpose of your testimony?

13 A. This docket presents the Commission with a number of policy issues that will define the
14 future of telecommunications competition in Florida. My testimony focuses on one of
15 the most critical aspects of the proceeding, the proposed restructuring of access transport
16 service. The request by the LECs to restructure transport rates represents a fundamental
17 departure from the Commission's existing policy and will influence interexchange
18 competition for years to come.

19 The proposed restructuring of access transport service provides the LECs a
20 format that could be abused to discriminate between interexchange carriers. This
21 discrimination would seriously damage interexchange competition, thwart the potential
22 development of nascent access transport competition, as well as encourage uneconomic
23 reconfigurations of the LECs' own networks.

24 The opportunity for discrimination stems from the format of the proposed
25 restructure which introduces separate and distinct prices for different transport options.

1 Which option a long distance company selects will primarily be determined by that
2 carriers' market share. If the LECs use the new structure to "market-base" the prices of
3 these options (i.e., by providing rate relief to some IXCs while denying others) this
4 discrimination could seriously disrupt long distance competition.

5 At the outset I would like to make clear that IAC is not opposing the adoption
6 of the new structure. The new structure -- properly implemented with price relationships
7 that match cost relationships -- is preferable to the way transport has been historically
8 priced. But, the Commission must also recognize that the new structure brings with it
9 a new danger -- discrimination -- that must be prevented for any benefit to be realized.

10 The purpose of my testimony, plain and simple, is to show that the rate levels
11 proposed by the LECs are discriminatory, inherently favoring larger interexchange
12 carriers over smaller ones, and larger metropolitan areas over more rural communities.

13 Q. How is the remainder of your testimony organized?

14 A. The remainder of my testimony is organized into five sections:

15 Section II describes the basic components of access transport and the format of
16 the new structure for access transport rates. The section also compares the new structure
17 to the transport policy that the Florida Commission has embraced since divestiture.

18 Section III explains the importance of establishing cost-based rate relationships
19 among the access options. Because the transport options relate to traffic volume, falling
20 to establish cost-based rate relationships under the new structure is tantamount to
21 sanctioning discrimination between interexchange carrier customers. The section
22 recommends a two-prong policy that would combine cost-based rate differentials with the
23 continued recovery of contribution in a competitively neutral manner.

24 Section IV uses cost information supplied by BellSouth to establish cost-based
25 rates. These rates are compared to the prices proposed by Southern Bell to expose the

1 level of discrimination that would occur if their approach were adopted.

2 Section V addresses a variety of miscellaneous, yet important, issues. First, it
3 discusses a simplified approach to establish transport prices where detailed cost
4 information is not available. Second, it discusses the need to modify the Commission's
5 policies which govern LEC-provided toll services -- "imputation" and "interLEC access"
6 rates -- to reflect the revised access transport structure. And finally it addresses the
7 attempts by some LECs to use "reconfigured demand" to estimate transport revenues.

8 Section VI summarizes and concludes the testimony.

9 **II. Basic Principles of Transport**

10 **Q. Please describe the basic elements of access transport service.**

11 **A. Transport is the portion of access service that carries calls to/from the networks of**
12 **interexchange carriers to the end-offices that serve the subscriber. The other components**
13 **of switched access service are the local loop that connects the end-user and the local**
14 **switch that processes the call.**

15 A clear discussion of access transport service requires an understanding of two
16 fundamental concepts: (a) the distinction between entrance facilities and interoffice
17 transport, and (b) the distinction between the three interoffice transport options: tandem-
18 switched, dedicated DS1, and dedicated DS3.

19 **Q. Please explain the terms "entrance facility" and "interoffice transport".**

20 **A. Although historically priced as a single service, transport more accurately consists of two**
21 **discrete components:**

- 22 a) **Entrance Facilities** which connect a specific IXC's network to the
23 **LEC's network, and**
24 b) **Interoffice Transport** which provides transport between LEC offices
25 **over the shared-use LEC network.**

1 Entrance facilities are typically *unique* to a particular IXC location (called a point of
2 presence, or POP). At the LECs' central office, the IXCs' traffic/circuits are combined
3 with others on the LECs' interoffice network for transport to distant end-offices.
4 Interoffice transmission is *shared* by multiple IXCs in addition to the LECs' own local
5 and toll traffic.

6 **Q. Do all interexchange carriers use the interoffice network the same way?**

7 **A. No.** Transport over the interoffice network to a distant end-office can take two forms:
8 it can either be dedicated or tandem-switched.

9 **Dedicated** transport reserves specific transmission capacity for the exclusive use
10 of a single interexchange carrier. Under this configuration, the circuit utilization (i.e.,
11 minutes per circuit) is controlled by the interexchange carrier.

12 **Alternatively**, an interexchange carrier can request **tandem-switched** transport
13 through an intermediate switch (called a tandem) which provides temporary connections
14 to a number of "subtending" end-offices. Under this configuration, circuits between the
15 end-office and the tandem can be used by any interexchange carrier when idle, and the
16 circuits which connect the tandem to the interexchange carrier can be used more
17 efficiently.

18 **It should be noted** that dedicated transport users typically rely on tandem-switched
19 transport for overflow needs. By using the tandem as a second route, these interexchange
20 carriers can achieve high traffic loadings on their dedicated circuits.

21 **Q. How has transport historically been priced in Florida?**

22 **A. The Florida Commission** has long recognized the interrelationship between access policy,
23 interexchange competition and the (potentially) disparate incentives that could exist to
24 serve less dense markets.

25 **In 1983**, the Florida Commission broke from the federal access system to

1 establish "equal access exchange areas" (EAEAs). The Commission adopted a flat rate,
2 non-distance sensitive rate, for all access traffic within the EAEA to encourage carriers
3 to serve both large and small communities. Importantly, the EAEAs were developed to
4 match the (then expected) configuration of access tandems to encourage carriers to use
5 these switches for traffic aggregation.

6 As recently as 1990, the Commission reiterated its commitment to using an
7 averaged transport charge to encourage interexchange competition:

8 Our decision to establish EAEAs was a result of dissatisfaction
9 with the way equal access and interexchange competition were being
10 handled at the federal level.

11 We focused on the ability of all end users to access all available
12 IXCs. The primary tool the Commission chose for this purpose was the
13 implementation of a statewide average local transport rate. An average
14 rate removed the incentive for an IXC to connect directly to an
15 individual end office in a high volume area and to avoid low volume
16 distant offices in an effort to avoid transport charges.

17 (Order 23540, Docket 880812-TP, pages 17 and 18, Issued 10-01-1990.)

18 The EAEA approach has effectively outlived its usefulness and is inconsistent
19 with a competitive environment. The policy was expressly devised to assure that none
20 of the engineering complexities identified above -- the distinction between entrance
21 facilities and interoffice transport, the transport configuration, or its capacity -- effected
22 the access rates paid by IXCs. As these new components are introduced into the rate
23 structure, however, the critical test becomes whether relative rate relationships reflect
24 *only* cost differences so that the correct incentives result.

25 Q. How are the rates proposed to be restructured?

1 A. A comparison of the proposed transport structure and the EAEA structure that it replaces
2 is illustrated in Exhibit (JPG-2) _____. As noted earlier, IAC is not opposing this new
3 structure, but is vitally concerned that the relative rate levels properly reflect costs.

4 There are three fundamental differences between the "EAEA" structure and
5 proposed restructure.

6 First, entrance facilities are unbundled. Under the equal charge structure, the
7 cost of these carrier-specific facilities were averaged into the interoffice transport rate.
8 Now, separate charges will apply depending upon the interface ordered by the carrier.
9 Typically, interfaces will be digital, operating at either 1.544 Mbps (known in the
10 industry as a DS1 and from which 24 voice grade circuits can be derived), or 45 Mbps
11 (known as a DS3 and which can be demultiplexed to 672 voice grade circuits).

12 Second, there will be three choices for interoffice transport, each with its own
13 price. Carriers will be able to request:

- 14 (1) Tandem-switched transport (TST) which will be priced on a usage basis
15 with separate charges for transmission and tandem switching,
16 (2) Dedicated transport at a DS1 level priced on a flat rate basis, and
17 (3) Dedicated transport at a DS3 level priced on a flat rate basis. (Dedicated
18 transport will also be offered at the DS0 level, i.e. a single voice
19 equivalent circuit. Demand for this option is not expected to be great,
20 and therefore it will be dropped from further discussion).

21 Third, a separate rate element called the residual interconnection charge (RIC)
22 is proposed to maintain LEC transport revenues at current levels. This charge is applied
23 against usage measured by the local telephone companies' switch.

24 **III. The Importance of Cost-Based Transport Prices**

25 Q. What policy should replace the Commission's EAEA policy?

1 A. The guiding policy should be the establishment of cost-based rate differentials combined
2 with the continued recovery of contribution in a competitively neutral manner. The term
3 "contribution" is used here to refer to amount embedded in transport prices, over and
4 above the direct incremental cost of the service, used as "contribution" to the local
5 telephone company's other costs and profits.

6 Cost-based rate differentials are critical for two reasons. First, the rate
7 differentials will drive the relative impact on interexchange carriers and, as a result,
8 interexchange competition.

9 Second, it is relative pricing that determines which transport option carriers will
10 select as they reconfigure their access services in response to the restructure. So long
11 as the savings the interexchange carrier realizes by moving from one transport option to
12 another matches the savings realized by the LEC, then optimal reconfiguration decisions
13 will be made. However, any distortion in relative prices (such as the discriminatory
14 recovery in contribution) will lead to uneconomic reconfiguration decisions.

15 Q. Why does your testimony equate the three interoffice transport options to carriers
16 of differing size?

17 A. Because the choice among the transport options is based on a carriers' traffic volume to
18 a end-office. Importantly, there are substantial differences in markets share among
19 interexchange carriers. AT&T, with an estimated 60% of the (interstate) market is far
20 larger than its closest rival MCI (with roughly 18%). Because of its size, AT&T can be
21 expected to disproportionately favor DS3 dedicated transport. MCI/Sprint (and perhaps
22 in Florida, LDDS) will rely relatively more heavily on DS1 transport, while smaller
23 interexchange carriers will be more dependent upon tandem-switched transport.

24 If the relative prices for these transport options do not reflect relative cost
25 differences, then a system of artificial cost advantages will be introduced that will

1 translate into real competitive disadvantages in the market.

2 Q. Is there also a geographic impact that will effect competition in less populated
3 markets?

4 A. Yes. Even for AT&T the DS3 transport option will be possible mostly in dense urban
5 environments, while the tandem-transport option will typify the access arrangement to
6 smaller markets. As a result, artificially increasing the price of the tandem transport
7 option will increase the relative cost to serve less populous areas. Inflating the cost to
8 serve small markets will ultimately lead to fewer choices in rural areas or possibly lead
9 to deaveraged retail rates.

10 It is useful to again consider the Commission's existing EABA policy. While the
11 pricing approach no longer makes sense, the goal remains valid. The Commission
12 should be particularly concerned that the transport restructure not be used as an excuse
13 to introduce uneconomic and unnecessary barriers to serving smaller markets. IAC does
14 not see cost-based transport rates as materially disadvantaging secondary markets. The
15 greater threat is from any policy which sanctions an unequal recovery of contribution
16 which could lead to higher access rates in these areas because they lack competitive
17 choices.

18 Q. What policy should apply to recovery of contribution from transport service?

19 A. By definition, the contribution in transport prices is there to recover costs unrelated to
20 the provision of transport service. The level of contribution recovered from access
21 service is a policy decision, as is the portion of that contribution that should be recovered
22 from the transport component of access service. Whatever level of contribution is
23 selected, however, the Commission should not allow the LECs to distort interexchange
24 competition by selectively reducing this level for some interexchange carriers but not
25 others. Contribution should continue to be recovered under an "equal charge" approach.

1 It is useful to understand that in this respect the current policy has been saddled
2 with an undeserved reputation. Admittedly, the EAEA environment had its flaws, but
3 it did perform one role extremely well: contribution was uniformly recovered from
4 interexchange carriers in a competitively neutral manner. In the post equal-charge
5 environment, this result should continue.

6 Q. Must a policy of equal contribution apply to all services?

7 A. No, that would be unnecessary. But access service is unique. Its sole purpose is as an
8 intermediate input to the production of long distance services by interexchange carriers.
9 The *reason* that regulators must police discrimination so tightly in this market is that the
10 *consequences* of discrimination are so serious.

11 In retail markets, contribution is frequently shifted among customers and markets
12 in response to competitive conditions. But, no single customer dominates these markets
13 in the way AT&T dominates other access-purchasers, and AT&T can use this dominance
14 to gain an artificial advantage over its rivals. Because access is a substantial portion of
15 the costs of providing interexchange service, even relatively small access-cost advantages
16 can translate to very real competitive disadvantages.

17 There can be no justification for a pricing policy which allows the contribution
18 extracted from a customer through its long distance prices to vary according to which
19 carrier the customer chooses. Why should a call carried by AT&T make a smaller
20 contribution to the LECs' common costs than an identical call, from the very same
21 customer, that uses MCI, Sprint . . . or any other long distance company?

22 Further, all interexchange carriers ultimately compete in the same market for the
23 retail traffic of end-users. This fact carries an important implication for the recovery of
24 different contribution levels from different interexchange carriers. Because IXCs
25 essentially compete for the same customer base, attempting to impose a higher

1 contribution burden on AT&T's rivals cannot be sustained. Ultimately these carriers will
2 lose market share as customers shift to AT&T and, in the extreme, the LEC would
3 receive reduced contribution from *all* traffic -- but only because interexchange
4 competition would have become a memory.

5 The LECs should not be permitted to selectively shift the contribution burden
6 among interexchange carriers to satisfy their own strategic objectives. To do so is
7 tantamount to placing the LECs in control of the shape of the long distance industry.
8 This concern is particularly acute given the potential for federal legislation that could
9 allow Southern Bell to once again offer these services with strong incentives to favor
10 their own products. If it is unacceptable for Southern Bell to favor its own products
11 tomorrow, why should it be acceptable for them to favor AT&T today?

12 Q. In which rate elements should "transport's contribution" be recovered?

13 A. One consequence of the transport restructure is that it divides transport revenues between
14 "facilities-related" rate elements and the "residual interconnection charge". Significantly,
15 this distinction parallels a division between elements that are subject to (potential)
16 competitive pressures and a RIC that is effectively protected.

17 Assuming that the Commission allows intrastate collocation, CAP networks could
18 be used by IXCs to reach the central office instead of dedicated transport. As a result,
19 the prices for the facilities-related components -- in particular, entrance facilities and
20 dedicated interoffice transport -- are (at least potentially) competitive. To avoid the RIC,
21 however, carriers would have to avoid LEC switched access in its entirety by connecting
22 directly with the end-user. The transport restructure only tangentially changes the
23 economics of this choice and the contribution in the RIC is subject to no more
24 competitive pressure with the introduction of expanded interconnection than it is today
25 under the existing structure.

- 1 Therefore, the Commission faces two policy choices with respect to contribution.
- 2 The first is whether to continue historic levels of contribution or reduce them. The
- 3 second question the Commission must decide is how much of the contribution from
- 4 transport it will protect (i.e., place in the RIC) or subject to competitive challenge (by
- 5 recovering it in the actual prices for transport service).
- 6 The important condition is to assure that this decision not distort interexchange
- 7 competition. Again, whatever level of contribution the Commission decides to retain in
- 8 the facilities prices for transport service, this contribution *must* be reflected to the same
- 9 degree in the prices of each transport option.
- 10 Q. Are the goals of "revenue neutrality" and "equal-contribution" linked?
- 11 A. Yes. In a system where the LEC is guaranteed the same revenues, any price discount
- 12 granted one carrier *must* be recovered from some other. If the price discount is not
- 13 clearly justified by a cost differential, then revenue neutrality simply shifts this
- 14 contribution burden to other competitors.
- 15 Combining discriminatory rates (such as an unjustified volume discount) with
- 16 LEC revenue neutrality gives rise to a competitive "double jeopardy". First, smaller
- 17 carriers are placed at a competitive disadvantage as larger IXCs enjoy reduced access
- 18 costs that are denied them. Second, however, these carriers are then asked to fund this
- 19 discrimination so that the LEC remains "revenue neutral".
- 20 The bottom line is this: The only way that a Commission can reasonably
- 21 introduce restructured local transport rates and satisfy the LECs' desire to remain revenue
- 22 neutral is to first assure that relative rate differences are cost-based.
- 23 Q. Will the LECs be able to compete under a cost-based rate system such as you have
- 24 proposed?
- 25 A. Certainly. The LECs would still be free to reduce the contribution they recover in their

1 facilities-related prices to compete with other vendors. What the LECs will not be able
2 to do is selectively reduce the contribution for only some access customer(s), while
3 maintaining higher levels on captive interexchange carriers that have no (or less) choice.
4 It is important to recognize that there will be fundamental differences in the degree of
5 competition among the three transport options. DS3 service will be the most competitive
6 since it represents high concentrations of traffic between two (or more) set points. DS1
7 service will be less so. Tandem-switched transport, by comparison, represents a highly
8 unconcentrated demand that requires connections to every end-office and represents a
9 relatively small portion of the market. As a result, this option will see competition last,
10 if at all.

11 As noted, nothing in this policy prevents rate reductions. What the LEC is not
12 permitted, however, is to continue to recover higher levels of contribution from captive
13 customers. Such a requirement -- the essence of discrimination protection -- should not
14 unfairly disadvantage the LECs in their competition with the CAPs. After all, the CAPs
15 have no captive customers to disproportionately recover contribution from, and with the
16 LECs practicing non-discrimination, the CAPs will not be able to either.

17 Finally, the cost-based rates that I advocate are lower than the discriminatory
18 rates sought by the LECs. Thus, their ability to compete is actually better under a cost-
19 based system.

20 Q. Please summarize your testimony regarding the importance of non-discriminatory
21 access rates.

22 A. The first is that discriminatory access rates could have a dramatic impact on
23 interexchange competition. Access service is frequently the largest variable cost
24 component of providing long distance service, and transport typically represents at least
25 a third of an IXC's access cost. Any access rate-differential which is not justified by a

1 cost-differential confers an unfair advantage on some interexchange carriers at the
2 expense of others.

3 Second, is the effect that discriminatory transport rates would have on smaller
4 communities and rural areas. The Florida Commission has been especially concerned
5 that the benefits of competition -- lower prices, improved choices and innovation -- are
6 enjoyed by all regions, not just those residences and businesses located in metropolitan
7 areas. For this goal to be realized, the access cost to reach less dense and isolated
8 markets must not be artificially inflated.

9 Finally, the effect on network design. Access transport rate relationships provide
10 incentives for interexchange carriers to reconfigure their access services to minimize cost.
11 If -- and the important word here is *if* -- prices reflect costs properly, then network
12 changes will be economic and efficient; any non-cost differential, however, will
13 encourage network reconfigurations that are irrational, increasing costs for all users.

14 IV. Cost-Based Transport Rates for Southern Bell

15 Q. Are you proposing that the Commission adopt cost-based local transport rates?

16 A. Yes. The key to establishing correct rate relationships begins with the recognition that
17 there is a single, shared interoffice network. While each interoffice transport option --
18 tandem switched, DS1 or DS3 -- may involve slightly different configurations, they each
19 are transported on the same interoffice network.

20 The relevant technology for the economic pricing of interoffice transport is fiber
21 optics. For instance, Southern Bell has deployed this technology in nearly 92% of its
22 interoffice network in Florida (GTE's deployment is even better) and it is clearly the
23 choice for future network expansions. Importantly, in a fiber network Southern Bell will
24 provide all transport as part of a DS3, no matter which interoffice option is ordered.
25 Therefore, the logical starting point (or building block) for the cost of interoffice

- 1 transport should be the cost of a DS-3.
- 2 Q. What level of contribution do you recommend be recovered in the prices of the
- 3 facilities-related transport services?
- 4 A. A reasonable contribution level to establish initial rates is the level embedded in the
- 5 current price of a DS3. By using this as the starting point, the Commission can assure
- 6 that the same contribution is reflected in each transport price. Each interchange
- 7 carrier's contribution is effectively the same and not distorted by the carrier's size or
- 8 choice of transport option. Furthermore, to not use the DS3's contribution as a starting
- 9 point would require that the Commission either sanction discrimination, prevent DS3s
- 10 from being offered, or require that these rates be increased. Adopting the DS3's
- 11 contribution level as the baseline is the preferable course.
- 12 Q. How should the price of each transport option then be established?
- 13 A. Exhibit (JPG-3) _____ illustrates the basic approach to arriving at cost-based rates for each
- 14 option where cost information is available. It requires that the price differences among
- 15 the transport options reflect the underlying cost differences. So long as prices reflect
- 16 underlying cost relationships, the contribution will be equal.
- 17 Q. Have you estimated the cost-based rate differences between DS3 service and the
- 18 other transport options?
- 19 A. Yes. To identify the cost-based differences between DS1 and DS3 service I reviewed
- 20 regionwide cost studies that BellSouth most recently used to justify its interstate DS1 and
- 21 DS3 prices. While it is not clear whether these are LRIC studies, the studies clearly
- 22 indicated that they considered only the direct costs of the facilities.
- 23 Exhibit (JPG-4) _____ provides details the calculation of cost-based DS1 rates
- 24 using BellSouth's cost studies to estimate the cost difference between a DS1 and DS3.
- 25 This was a two stage process.

1 The first stage identified the cost difference between obtaining a DS1 individually
2 and obtaining a DS1 as part of a DS3. This cost was estimated using BellSouth's cost
3 information for a DS3 in a typical interoffice configuration (i.e., DS3 capacity must be
4 demultiplexed to DS1 speed for interconnection with the switch) to establish the per unit
5 (DS1) cost. This cost was compared to BellSouth's estimated cost of a DS1 obtained
6 separately. The difference between these costs (\$4.69 per DS1 and \$0.37 per mile)
7 should be the additional cost that BellSouth incurs when providing a DS1 separately from
8 a DS3.

9 The second stage of the process then added these additional costs to the per unit
10 price of a DS1 obtained as part of a DS3 to determine the appropriate price of a DS1
11 obtained separately.

12 In addition, I have reviewed Southern Bell's cost for tandem switching. Southern
13 Bell claims that this cost information is proprietary (presenting an obvious impediment
14 to cost-based rate relationships). The cost-based tandem switching rate will be provided
15 in a separate exhibit as soon as an acceptable arrangement for its disclosure can be agreed
16 upon. Using the information, however, I have calculated cost-based rates for each of the
17 transport options which include the non-discriminatory recovery of the contribution
18 embedded in the DS3 rate.

19 Q. Are you endorsing these cost-studies?

20 A. No. I have simply applied the results from these studies without conducting an
21 independent review or judging their validity. Before the transport restructure is
22 implemented, Southern Bell (and the other LECs) should be required to file cost studies
23 which support their rate relationships. These studies should be carefully scrutinized to
24 assure that relative cost relationships are accurately presented.

25 Q. How do your cost-based rates compare with those proposed by Southern Bell?

1 A. Exhibit (JPG-5) ___ compares Southern Bell's proposed prices to cost-based rates for a
2 typical transport mileage.

3 Exhibit (JPG5) ___ exposes the discrimination that would be introduced if the
4 Commission were to condone Southern Bell's proposal. The rates for the transport
5 options that will most frequently be used by AT&T's rivals are inflated by between 56%
6 and 135% above cost.

7 The reason is that the contribution levels imposed on TST and DS1 users are
8 dramatically inflated. The estimated contribution (per voice equivalent circuit) imposed
9 on DS3 users in the above comparison is \$5.94 per circuit. DS1 contribution exceeds
10 \$17/circuit, however, and the tandem switched transport users would pay a contribution
11 exceeding \$13/circuit.

12 Q. What can the Commission expect if it fails to adopt cost-based rates in this
13 proceeding?

14 A. Absent Commission direction, these relationships can be expected to worsen. BellSouth
15 has recently filed at the federal level an additional 21% reduction in its DS3 mileage rate
16 without any corresponding reductions in the rates for the other interoffice options -- even
17 though each option is provided as part of a DS3.

18 Q. Are you recommending that the Commission retain the current level of contribution
19 that is embedded in DS3 rates?

20 A. No, not necessarily. The Commission could decide to reduce DS3 prices towards cost
21 and thus reduce the contribution from this service. Alternatively, the Commission could
22 shift more contribution from the RIC to the DS3 service. In either event, the price of
23 the other options should be adjusted accordingly to reflect the reduced/increased
24 contribution. Regardless of the contribution level that is recovered from the facilities-
25 related elements, the principle of non-discrimination must continue to apply.

1 Q. Would you recommend that Southern Bell receive less contribution from transport
2 service in total as a result of the restructure?

3 A. Again, not necessarily. As I noted before, IAC believes that the level of contribution
4 from transport is a policy issue separate from discrimination. Because IAC's proposed
5 rates carefully guard against discrimination, no competitive damage would result from
6 allowing the LEC to remain revenue neutral by adjusting the RIC to recover existing
7 contribution levels.

8 The Commission may in the future reduce the contribution required from access.
9 Alternatively, the Commission may seek (or agree to approve) a different balance in how
10 contribution is recovered between the RIC and the transport rates. While current levels
11 are maintained, however, it is important that the burden continue to be shared equally.

12 Q. Your testimony has not yet addressed how entrance facilities should be priced. Do
13 you have a recommendation?

14 A. Yes. The same strategy should be applied to the pricing of entrance facilities where cost
15 information is available. With appropriate cost information it should be possible to
16 identify the cost difference between a DS1 and a DS3 entrance facility. Equal
17 contribution should be added to these rates to establish a cost-based difference in the
18 prices for these services.

19 Q. Please summarize your testimony regarding Southern Bell's rates.

20 A. A review of BellSouth provided cost information demonstrates that the observed rate
21 differences in Southern Bell's transport tariff stem principally from the discriminatory
22 recovery of contribution.

23 Transport is a single service, used by interexchange carriers to compete with one
24 another. A strategy of discriminatory contribution among the different transport options
25 is equivalent to favoring large carriers over small, and favoring urban areas over

1 provide toll services for calls that are intraLATA.

2 The Commission has established policies which govern how access charges are
3 "applied" to the toll services of local telephone companies. These policies are imputation
4 (for the LECs' own toll service) and the "access billing compensation" system (for the
5 toll services of other LECs). One of the objectives for these policies is to assure that the
6 toll services of the local telephone companies face the same access charge schedules that
7 apply to long distance companies.

8 To continue to satisfy these objectives, the access transport restructure should be
9 applied to the toll services of local telephone companies as well as interexchange carriers.
10 The LECs should be required to file modified "MABC" tariffs and data indicating the
11 network routing of their toll traffic to establish appropriate imputation tests.

12 Q. If the LECs are permitted to remain revenue neutral, should they be permitted to
13 modify demand quantities to project for so-called reconfigurations?

14 A. No. First, appropriate transport rate relationships should parallel underlying cost
15 relationships. Consequently, most (if not all) of any reduction in revenue should be
16 offset by savings.

17 Second, the LECs are not capable of "reconfiguring" IXC networks since they
18 do not maintain traffic data to optimally design IXC connections, they are not privy to
19 growth expectations, and do not have the right to arbitrarily establish the IXC's
20 acceptable grade of service.

21 As an example of both GTE's inability to forecast demand and an indictment of
22 the price signals in their proposed tariff, GTE forecasts an increase in transport capacity
23 of more than 50% to serve the same traffic volumes. Such a "reconfiguration" is
24 patently uneconomic, yet this is the "assumed" network that underlies their filing.

25 General Telephone and United/Centel should be required to refile their transport

1 secondary markets.

2 To prevent unreasonable discrimination requires that price relationships match
3 cost relationships, with an (effectively) equal recovery of contribution from each option.

4 **V. Other Issues**

5 **Q. Are the rates of the other LECs cost-based?**

6 **A. No.** None of the LECs have proposed rates which are cost-based or supported by cost
7 information.

8 **Q. Can the Commission establish transport prices without detailed cost-studies?**

9 **A. Yes.** There is a reasonably simple approach that focuses on the relative cost of the
10 different interoffice transport options that starts with the price of a DS3 and then
11 investigates only the cost of the additional equipment needed to derive DS1s.
12 Establishing the cost of tandem switching, however, would still require cost analysis.

13 Exhibit (JPG-6) ___ illustrates this simplified approach to estimating cost-based
14 rates for each option. In a fiber environment, every option is provided using a DS3 so
15 the price of this option can be the starting point. All that is necessary is to add to this
16 price for underlying transmission the cost of the additional functions used in each option.
17 These functions are multiplexing (for DS1 service) and tandem switching (for tandem
18 switched transport). This approach will assure that the contribution recovered in the
19 price of DS3 service is reflected in each of the other options.

20 This approach minimizes the cost analysis that must be performed but should
21 yield results quite close to taking the differences in cost from separate cost analysis (used
22 above). In fact, in theory they would be virtually identical.

23 **Q. Are there other policies which must be modified if the Commission adopts a new
24 structure for transport service?**

25 **A. Yes.** IXCs are not the only providers of toll services. Local telephone companies also

EXPERT TESTIMONY

- Tennessee Re: Southern Central Bell's Proposed Tariff Restructuring the Switched Access Local Transport Element, Docket 93-08865, on behalf of LDDS, Inc.
- Ohio Re: Application of Ohio Bell for an Alternative Form of Regulation, Docket 93-487-TP-ALT, on behalf of Allnet, LCI and LDDS.
- Mississippi Re: Southern Central Bell's Proposed Tariff Restructuring the Switched Access Local Transport Element, Docket 93-UN-0843, on behalf of LDDS-II.
- S Carolina Re: Southern Bell's Proposed Tariff Restructuring the Switched Access Local Transport Element, Docket 93-756-C, on behalf of the Interexchange Access Coalition.
- Georgia Re: Southern Bell's Proposed Tariff Restructuring the Switched Access Local Transport Element, Docket 4817-U, on behalf of the Interexchange Access Coalition.
- Louisiana Re: Generic Hearing to Clarify the Pricing/Imputation Standard, Docket No. U-20710, on behalf of LDDS.
- Ohio Re: In the Matter of Western Reserve Telephone Company's Request for an Alternative Form of Regulation, Case Nos. 93-230-TP-ALT and 92-1525-TP-CSS, on behalf of an IXC Coalition (MCI, Allnet and LCI).
- New Mexico Re: Inquiry by the Commission into the Local Calling Area for the Albuquerque Metropolitan Area, Docket No. 93-218-TC, on behalf of LDDS Communications.
- Illinois Re: Application of Illinois Bell for Alternative Regulation, Docket 92-0048, on behalf of LDDS Communications.
- Mississippi Re: Notice of South Central Bell Telephone Company to Introduce Banded Rates for MTS, WATS and 800 Services, Docket 93-UN-0038, on behalf of LDDS Communications.
- Florida Re: Petition of Intermedia Communications of Florida for Expanded Interconnection for AAVs within LEC Central Offices, Docket 92-1074TP, on behalf of the Florida Interexchange Carriers Association.
- Louisiana Re: Objection to the Filing of Reduced WATSSAVER Service Rates, IntraLATA, State of Louisiana, Docket U-20237 on behalf of LDDS, MCI and AT&T Communications.

**Qualifications, Publications and Testimony
Joseph Paul Gillan**

EDUCATION

B.A. Economics, University of Wyoming, 1978.

M.A. Economics, University of Wyoming, 1979.

Concentration in the economics of public utilities and regulated industries with an emphasis on price theory and statistics.

EMPLOYMENT HISTORY

1986 - Present

Private consulting practice specializing in the economic evaluation of regulatory policies and related business opportunities in the telecommunications industry. Economic and market analysis, product development, expert testimony, and regulatory planning services.

1985 - 1986 U.S. Switch; Vice President, Strategic Planning/Marketing

Responsibilities included project management, marketing and regulatory objectives for *Centralized Equal Access*, a networking concept design to provide equal access to rural areas while positioning independent telephone companies for competition.

1980 - 1985 Illinois Commerce Commission; Director, Market Structure Program

Primary staff responsibility for Commission policy concerning the level and structure of competition in the telecommunications and energy industries. Designed regulatory framework for IX competition, intralata market structure and developed intrastate access charge plan. Responsible for Commission representation in the Sunset process and all filings before federal agencies.

1979 Mountain States Telephone Company; Demand Analyst

Performed statistical analysis of the demand for access by residential subscribers.

1 rates with supporting cost justification and a RIC calculated to provide revenue neutrality
2 (if at all) based on the existing network.

3 **VI. Summary**

4 **Q. Please summarize your testimony.**

5 **A. This proceeding presents the Commission with a fundamental policy question: Should**
6 **access prices be permitted to discriminate among interexchange carriers? How the**
7 **Commission answers this question will have a pronounced impact on interexchange**
8 **competition, the availability of competitive services in rural and secondary markets, and**
9 **the way the network is designed and configured.**

10 My testimony recommends a policy where relative prices reflect relative costs,
11 and contribution is recovered evenly from all interexchange carriers. Under this system,
12 the status quo (i.e., the EAEA structure) can be replaced, the restructure of transport
13 rates can move forward, and discrimination can be effectively prevented. And because
14 rates diverge only to the extent justified by costs, the Commission can (if it chooses)
15 maintain transport contribution at existing levels.

16 In contrast, the prices proposed by the LECs would inject non-cost rate
17 differentials into the access tariff, adversely impact interexchange competition and
18 unjustly increase the cost to serve less urban markets. To add insult to injury, the LECs
19 desire for revenue neutrality would force those who are disadvantaged by its
20 discrimination to fund it.

21 The LECs' proposed prices are unacceptable. The Commission should reject
22 LECs' proposed rates and restructure access transport with cost-based rates as
23 recommended by my testimony.

24 **Q. Does this conclude your direct testimony?**

25 **A. Yes.**

EXPERT TESTIMONY (continued)

- S Carolina Re: Application of Southern Bell to Introduce Area Plus Service, Docket 93-176-C, on behalf of LDDS and MCI Telecommunications Corporation.
- Mississippi Re: Application of South Central Bell Telephone Company for Adoption and Implementation of a Rate Stabilization Plan, Case 89-UN-5453, on behalf of LDDS and Advanced Telecommunications Corporation.
- Illinois Re: Development of a Statewide Policy Regarding Local Interconnection Standards, Docket 92-0398, on behalf of the Competitive Carrier Coalition.
- Louisiana Re: Petition of the Louisiana Payphone Association for Implementation of Dial Around Compensation, Docket U-19993, on behalf of MCI Telecommunications Corporation.
- Maryland Re: Petition of the Middle Atlantic Payphone Association to Implement Dial Around Compensation, Docket 8525, on behalf of MCI Telecommunications Corporation.
- S Carolina Re: Petition of the South Carolina Public Communications Association for Implementation of Dial Around Compensation, Docket 92-572-C, on behalf of MCI.
- Georgia Re: Application of the Georgia Communications Association for Dial Around Compensation, Docket 4206-U, on behalf of MCI.
- Delaware Re: The Diamond State Telephone Company's Application for a Rate Increase, Docket 91-47, on behalf of MCI.
- Florida Re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of Southern Bell, on behalf of the Florida Interexchange Carriers Association.
- Mississippi Re: Order of the Mississippi Public Service Commission to South Central Bell to (1) Expand ACP Calling Area, and (2) Include Calls to the County Seat in Capped Local Calling, 92-UA-100, on behalf of LDDS and ATC.
- Florida Re: Application for a Rate Increase by GTE Florida Incorporated 1992, Docket 920188-TL, on behalf of MCI and FIXCA.
- Wisconsin Re: Investigation Into the Extent of Competition in the IntraLATA Toll Telecommunications Market, 05-TI-119, on behalf of MCI and Schneider Communications.

EXPERT TESTIMONY (continued)

- Florida Re: Investigation Regarding the Appropriateness of Payment for Dial Around Compensation from Interexchange Telephone Companies to Pay Telephone Providers, Docket 920399-TP, on behalf of MCI and FIXCA.
- California Re: The Matter of Alternative Regulatory Frameworks for Local Exchange Carriers and Related Matters, L87-11-033, on behalf of Intellical, Inc.
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Office of Public Counsel and the Florida AdHoc Users Group.
- New York Re: Impact of the Modification of Final Judgment and FCC Docket 78-72 on the Provision of Toll Service in New York, Case 28425 Phase III, on behalf of Empire/Altel.
- Wisconsin Re: Investigation of Intrastate Access Costs and Intrastate Access Charges, Docket 05-TR-103, on behalf of Wisconsin CompTel and MCI.
- Mississippi Re: Order of the Mississippi Public Service Commission Initiating Hearings Concerning (1) IntraLATA Competition and (2) Payment of Compensation by Interexchange Carriers and Resellers to Local Exchange Companies, Docket 90-UA-0280, on behalf of Intellical, Inc.
- Louisiana Re: Investigation of the Revenue Requirement, Rate Structure, Charges, Services, Rate of Return, and Construction Program of Central Bell Telephone Company, Docket No. U-17949, Sub-Docket B (IntraLATA Competition), on behalf of Cable & Wireless Communications and ATC.
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Investigation of Intrastate Access Costs and Intrastate Access Charges, Docket 05-TR-103, on behalf of Wisconsin CompTel.
- Florida Re: Generic Investigation into the Operations of Alternate Access Vendors, Docket No. 890813-TP, on behalf of Intermedia Communications Inc.
- Alaska Re: In the Matter of Consideration of Regulations Governing the Market Structure for Intrastate Telecommunications Service, Docket R-90-1, on behalf of Telephone Utilities of Alaska.

EXPERT TESTIMONY (continued)

- Minnesota Re: In the Matter of the Minnesota Independent Equal Access Corporation's Application for a Certificate of Public Convenience and Necessity, Docket P-3007/NA-89-76, on behalf of MCI and Telecom*USA.
- Florida Re: Investigation into Equal Access Exchange Areas, Toll Monopoly Areas, 1+ Restriction to the Local Exchange Carriers, and Elimination of the Access Discount, Docket 880812-TP, on behalf of the FIXCA.
- Wisconsin Re: Investigation of Intrastate Access Costs, Settlements and Intralata Access Charges, Docket 05-TR-102, on behalf of Wisconsin CompTel.
- Wisconsin Re: Investigation of Application of Wisconsin Independent Telecommunications Systems, Inc. (WITS) for CPCN to Offer Centralized Equal Access, etc..., Docket 6655-NC-100, on behalf of Wisconsin CompTel.
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Application of Various Interexchange Carriers for Authority to Provide Certain IntraLATA Toll Telecommunications Services (Not Including WATS and MTS), Docket 05-NC-100, on behalf of Wisconsin CompTel.
- Florida Re: Forbearance from Earnings Regulation of AT&T and Waiver of Rules, Docket 870347-TL, on behalf of FIXCA.
- Illinois Re: Investigation Concerning the Appropriate Methodology for the Calculation of Intrastate Access Charges for all Illinois Telephone Utilities, Docket 83-0142, on behalf of Illinois Consolidated Telephone Company.
- Texas Re: Inquiry of the General Counsel into the WATS Prorate Credit, Docket 8218, on behalf of TEXALTEL.
- Iowa Re: Iowa Network Access Division, Docket RPU 88-2, on behalf of MCI and Teleconnect.
- Florida Re: Investigation into Regulatory Flexibility for Local Exchange Carriers, Docket 871254-TL, on behalf of Microtel.
- Wisconsin Re: Investigation of Intrastate Interexchange Access Charges and Related Intralata and Interlata Compensation Matters, Docket 05-TR-5 Part B, on behalf of the Wisconsin State Telephone Association.

EXPERT TESTIMONY (continued)

Florida Re: Investigation into NTS Cost Recovery - Phase II, Docket 860984, on behalf of the Florida Association of Concerned Telephone Companies.

Legislative testimony before state legislatures of Illinois, Wisconsin and Indiana.

PROFESSIONAL APPOINTMENTS

Advisory Council: New Mexico State University, Center for Regulation

Faculty: Summer Program, Public Utility Research and Training Institute, University of Wyoming

Contributing Editor: Telematics: The National Journal of Communications Business and Regulation, 1985 - 1989

Member: NARUC Staff Subcommittee on Communications 1984-1985

Advisory Committee: National Regulatory Research Institute, 1985

SELECTED PUBLICATIONS

"Consumer Sovereignty: An Proposed Approach to IntraLATA Competition", Public Utilities Fortnightly, August 16, 1990.

"Reforming State Regulation of Exchange Carriers: An Economic Framework", Third Place, University of Georgia Annual Awards Competition, 1988, Telematics: The National Journal of Communications, Business and Regulation, May, 1989.

"Regulating the Small Telephone Business: Lessons from a Paradox", Telematics: The National Journal of Communications, Business and Regulation, October, 1987.

"Market Structure Consequences of IntraLATA Compensation Plans", Telematics: The National Journal of Communications, Business and Regulation, June, 1986.

"Universal Telephone Service and Competition on the Rural Scene", Public Utilities Fortnightly, May 15, 1986.

"Strategies for Deregulation: Federal and State Policies", with Sanford Levin, Proceedings, Rutgers University Advanced Workshop in Public Utility Economics, May 1985.

"Regulatory Considerations in the Introduction of Competition into the Telecommunications Industry", with Sanford Levin, Proceedings of the Thirteenth Annual Telecommunications Research Conference, April, 1985.

"Charting the Course to Competition: A Blueprint for State Telecommunications Policy", Telematics: The National Journal of Communications Business, and Regulation, with David Rudd, March, 1985.

"Detariffing and Competition: Options for State Commissions", Proceedings of the Sixteenth Annual Conference of Institute of Public Utilities, Williamsburg, Virginia, December 1984.

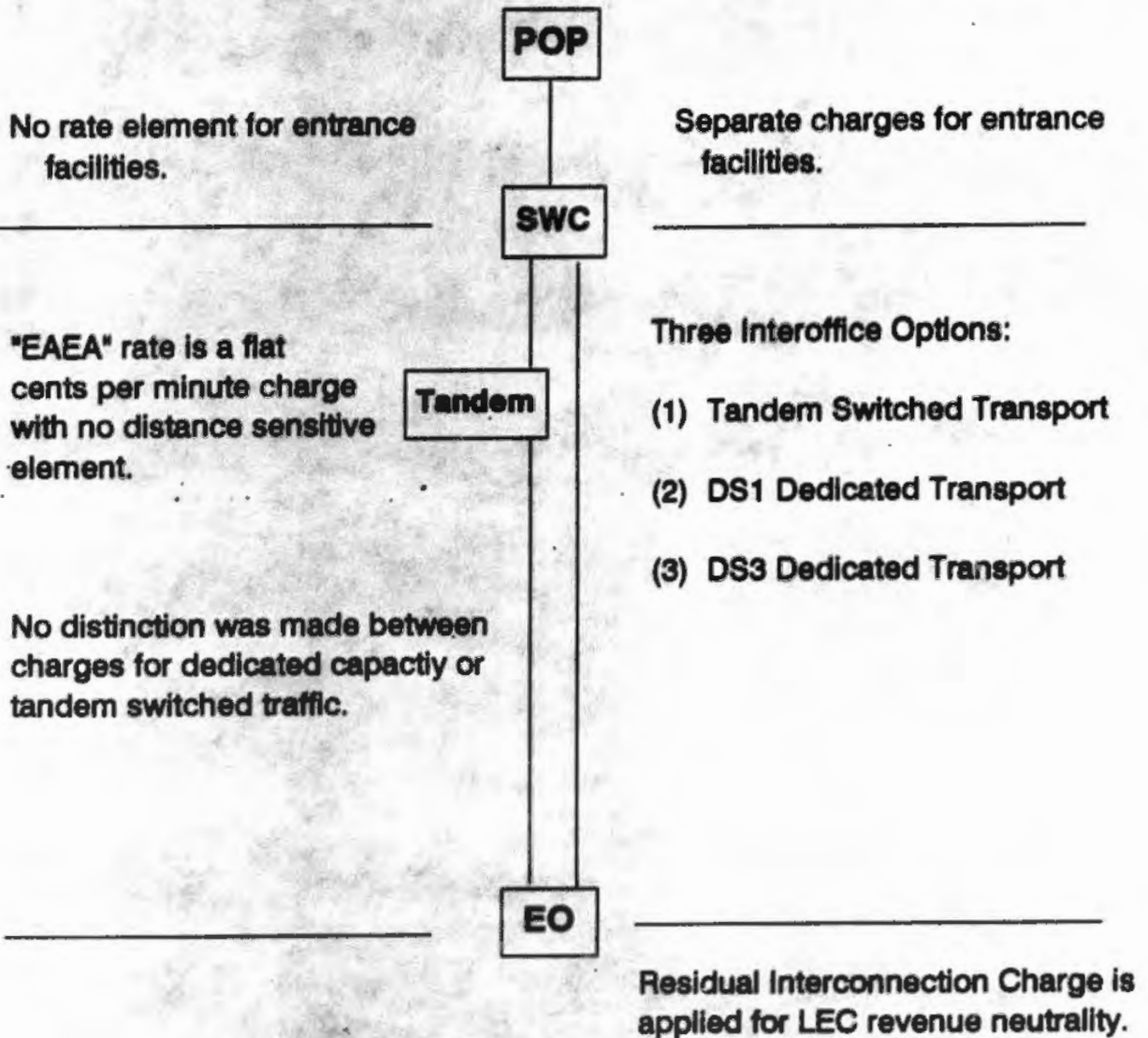
"Externalities, Competition and Telecommunications Pricing: Access and You Shall Receive", Proceedings, NARUC/NRRI Biennial Regulatory Information Conference, September 1982.

"Analyzing the Allocative Efficiency of Lifeline Electricity Rates", Proceedings of ISSUE 82, SPSS Users Conference, August, 1982.

**Figure 1: Comparing Florida's EAEA Structure
With the Proposed Restructure**

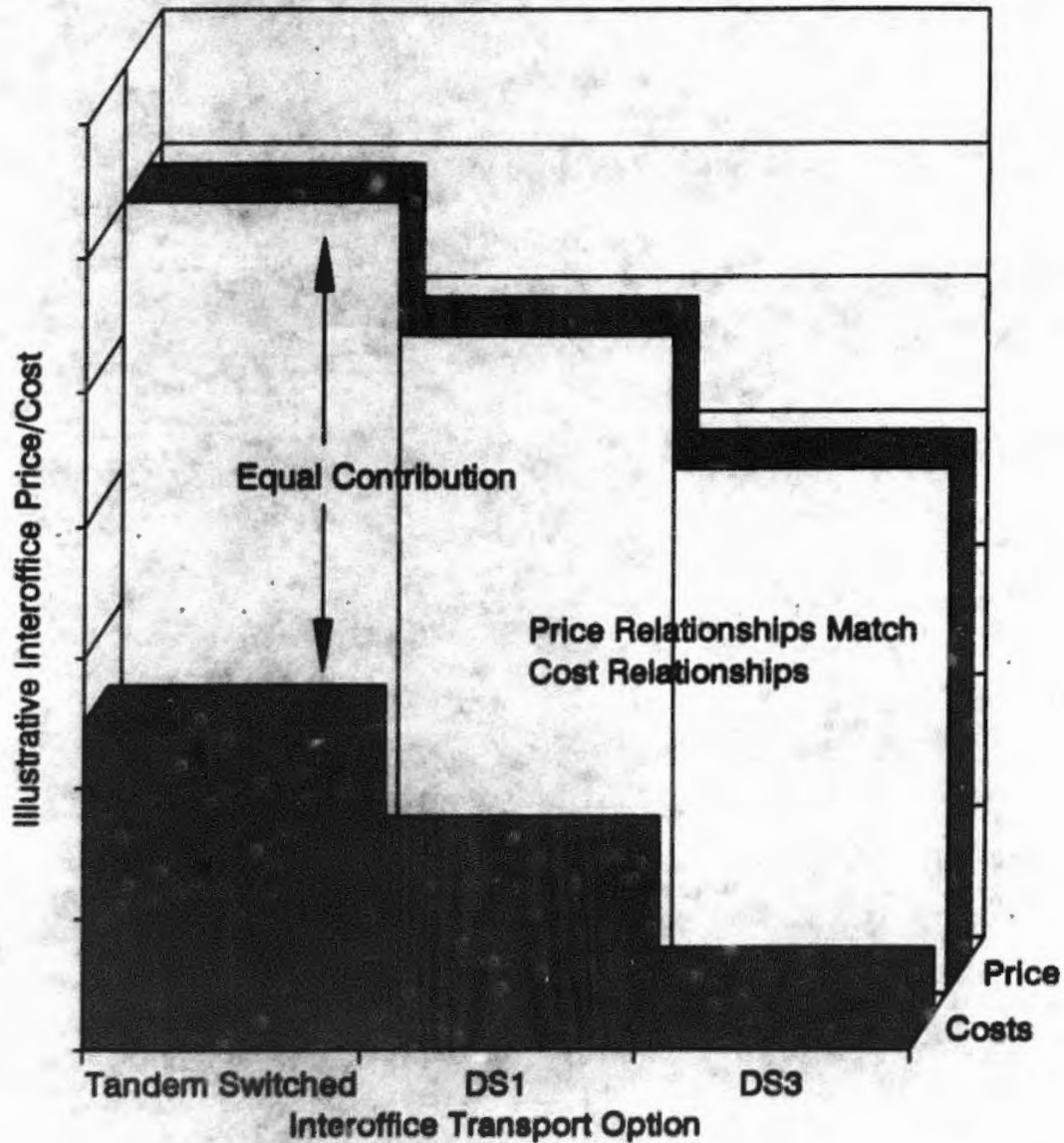
Florida EAEA Rate Structure

Proposed Restructure



POP = Point of Presence (end of IXC network).
SWC = Serving Wire Center (LEC office serving IXC POP).
EO = End Office (LEC switch serving end user).

Figure 2: A Cost-Based Approach to Rate Development



**Establishing a Cost-Based Rate Relationship
Between DS3 and DS1 Dedicated Capacity**

Estimating the Cost	Fixed	Mileage
Southern Bell's Cost of a DS3	\$1,061.88	\$21.65
Per unit cost of DS1 purchased as a DS3.	\$37.92	\$0.77
Estimated Cost of DS1 purchased separately.	\$42.61	\$1.14
Increase in cost from purchasing DS1 individually rather than as part of a DS3.	\$4.69	\$0.37
Establishing the Cost-Based Price		
Price of DS3	\$1,541.84	\$253.33
Per unit price of a DS1 purchased as DS3	\$55.07	\$9.05
Additional cost of obtaining DS1 individually.	\$4.69	\$0.37
Cost-Based Price of a DS1	\$59.75	\$9.41

Source: Direct costs for DS1 local channels and interoffice transport were provided by BellSouth in FCC Transmittal 140, filed August 31, 1993.

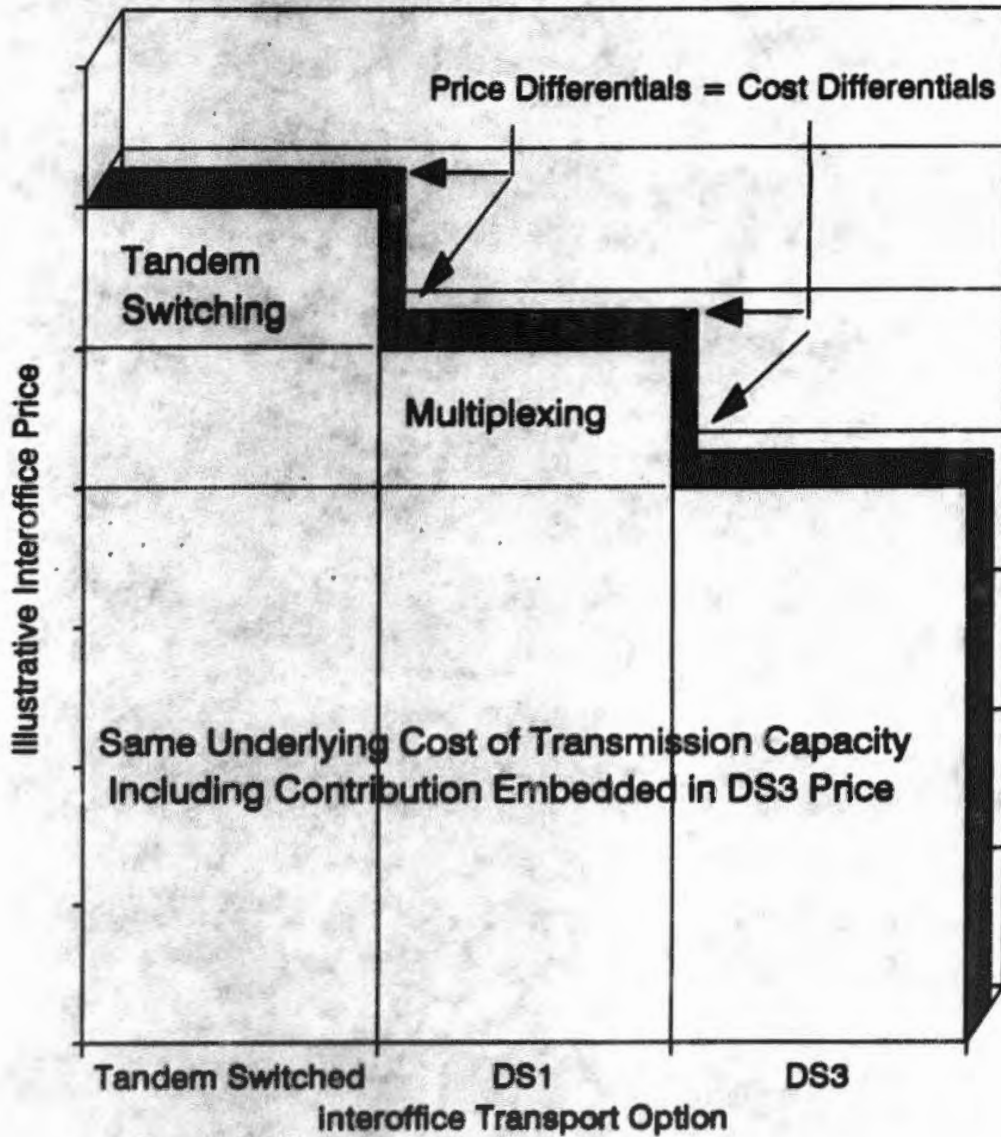
Direct costs for DS3 local channels and interoffice transport were developed from BellSouth's LightGate filing, FCC Transmittal No. 53, filed July 31, 1992.

**Comparison of Cost-Based Interoffice Transport Rates
to Southern Bell's Proposal**

Transport Configuration	IAC Proposal (Cost-Based)	Bell Proposal (Copy FCC)	Difference
DS3 Dedicated	\$7.95	\$7.95	Same
DS1 Dedicated	\$8.37	\$19.60	134.1%
DS1 Dedicated	\$12.57	\$19.71	56.8%

Costs expressed as a rate per voice equivalent circuit. Tandem switched transport converted using a conversion factor of 9,000 minutes/circuit traffic loading.

**Figure 3: A Simplified Approach to Estimating
Cost-Based Relationships**



CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Testimony of Joseph Gillan on Behalf of the Interexchange Access Coalition has been furnished by hand delivery* or by U.S. Mail to the following parties of record, this 23rd day of May, 1994:

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