



4:00 pm

Marceil Morrell*
Vice President & General Counsel - Florida

GTE Telephone Operations

Leslie Reicin Stein
Associate General Counsel

One Tampa City Center
Post Office Box 110, FLTC0007
Tampa, Florida 33601
813-224-4001
813-228-5257 (Facsimile)

Attorneys

Lorin H. Albeck M. Eric Edgington
Kimberly Caswell Joe W. Foster
Franklin H. Deak Ernesto Mayor, Jr.

* Not Admitted in Florida

ORIGINAL
FILE COPY

July 27, 1994

Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

Re: Docket No. 921074-TP
Expanded Interconnection Phase II and Local Transport
Restructure

Dear Ms. Bayo:

Please find enclosed for filing in the above matter an original and 15 copies of the Rebuttal Testimony of Edward C. Beauvais on behalf of GTE Florida Incorporated.

Service has been made on the parties of record as evidenced by the Certificate of Service.

Very truly yours,

Kimberly Caswell
Kimberly Caswell

KC:tas
Enclosures

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A part of GTE Corporation

DOCUMENT NUMBER-DATE

07656 JUL 27 1994

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Rebuttal Testimony of Edward C. Beauvais on behalf of GTE Florida Incorporated in Docket No. 921074-TP were sent by U.S. mail on July 27, 1994, to the parties on the attached list.



Kimberly Caswell

Staff Counsel
Florida Public Service
Commission
101 East Gaines Street
Tallahassee, FL
32399-0865

Harris R. Anthony
J. Phillip Carver
c/o Marshall Criser III
150 S. Monroe Street
Suite 400
Tallahassee, FL 32301

Patrick K. Wiggins
Kathleen Villacorta
Wiggins & Villacorta
P. O. Drawer 1657
Tallahassee, FL
32302

David B. Erwin
Young VanAssenderp
225 S. Adams St.
Suite 200
Tallahassee, FL 32302

Michael W. Tye
AT&T Communications Inc.
106 East College Avenue
Suite 1410
Tallahassee, FL 32301

Peter M. Dunbar
Haben Culpepper
Dunbar & French
P. O. Box 10095
Tallahassee, FL
32302

Office of Pub. Counsel
Claude Pepper Building
111 W. Madison Street
Room 812
Tallahassee, FL 32399-
1400

Harriet Eudy
ALLTEL Florida, Inc.
P. O. Box 550
Live Oak, FL 32060

Jeff McGehee
Southland Tel. Co.
210 Brookwood Road
P. O. Box 37
Atmore, AL 36504

Lee L. Willis
Ausley McMullen McGehee
Carothers & Proctor
P.O. Box 391
Tallahassee, FL 32302

Joseph McGlothlin
Vicki Gordon Kaufman
McWhirter Grandoff and
Reeves
315 S. Calhoun St.
Suite 716
Tallahassee, FL 32301

Daniel V. Gregory
Quincy Tel. Co.
P. O. Box 189
Quincy, FL 32351

John A. Carroll, Jr.
Northeast Fla. Tel. Co.
P. O. Box 485
Macclenny, FL 32063-
0485

Charles L. Dennis
Indiantown Tel. Sys. Inc.
P.O. Box 277
Indiantown, FL 34956

Joseph P. Gillan
Gillan and Assoc.
P.O. Box 541038
Orlando, FL 32854-
1038

Brad Mutschelknaus
Danny E. Adams
Rachel Rothstein
Wiley Rein Fielding
1776 K Street N.W.
Washington, DC 20006

F. B. Poag
Dir.-Tariffs & Reg.
Sprint/United-Florida
P.O. Box 165000
Mail Code #5326
Altamonte Springs, FL
32716-5000

C. Everett Boyd Jr.
Ervin Varn Jacobs
Odom & Ervin
305 S. Gadsden St.
Tallahassee, FL
32301

Chanthina R. Bryant
Sprint
3065 Cumberland Circle
Atlanta, GA 30339

Paul Jones
Time Warner Cable
Corporate Hdqtrs.
300 First Stamford Pl.
Stamford, CT
06902-6732

Jodie L. Donovan
Regulatory Counsel
Teleport Comm. Group
1 Teleport Drive
Suite 301
Staten Island, NY
10311

Mickey Henry
MCI Telecomm. Corp.
780 Johnson Ferry Rd
Suite 700
Atlanta, GA 30342

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Expanded Interconnection)
Phase II and Local Transport)
Restructure)

Docket No. 921074-TP
Docket No. 930955-TL
Docket No. 940014-TL
Docket No. 940020-TL
Docket No. 931196-TL
Docket No. 940190-TL

Filed: July 27, 1994

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REBUTTAL TESTIMONY

of

EDWARD C. BEAUVAIS, Ph.D.

On Behalf of

GTE FLORIDA INCORPORATED

DOCUMENT NUMBER-DATE

07656 JUL 27 1994

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Edward C. Beauvais; my business address
3 is 600 Hidden Ridge, Irving, TX 75038. I am em-
4 ployed by GTE Telephone Operations as Senior Econo-
5 mist in the Regulatory Planning and Policy Depart-
6 ment.

7 Q. DID YOU PREVIOUSLY PRESENT TESTIMONY AND EXHIBITS
8 TO THIS COMMISSION IN THIS DOCKET?

9 A. Yes, I presented direct testimony and exhibits
10 previously in this docket, both in Phase I, dealing
11 with Expanded Interconnection for Special Access
12 Transport, and in Phase II in which the Commission
13 is considering similar issues associated with
14 Switched Access Transport. I also presented Sup-
15 plemental Direct Testimony in Phase II, in which I
16 addressed the implications for this Commission of
17 the recent Court of Appeals reversal of the FCC's
18 physical collocation mandate.

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

20 A. My testimony today responds to assertion in certain
21 parties' testimony and focuses on the public policy
22 aspects of this case. To the extent that specific
23 issues arise with respect to the transport restruc-
24 ture, Mr. Kirk Lee will address them.

25

1 Q. ASIDE FROM THE COURT'S REVERSAL OF THE FCC, HAVE
2 ANY EVENTS OCCURRED WHICH SHOULD BE BROUGHT TO THE
3 NOTICE OF THIS COMMISSION IN THIS DOCKET?

4 A. Yes. On June 17, 1994, the U.S. Supreme Court
5 ruled that the FCC acted without legal authority
6 when it moved to relieve "non-dominant" carriers
7 from the responsibility of filing tariffs. While I
8 do not believe that this decision has any legal
9 implications for the Florida Public Service Commis-
10 sion in this docket, I do think that it has impli-
11 cations for the correct public policy to be pursued
12 as to what entities should be required to file
13 tariffs with this Commission.

14 Q. WHAT ARE THOSE IMPLICATIONS FOR COMMISSION POLICY
15 ARISING FROM THE U.S. SUPREME COURT DECISION?

16 A. Tariffs can serve both as a regulatory mechanism
17 and an information source for consumers. New
18 entrants to the marketplace arising from the adop-
19 tion of expanded interconnection, or for any other
20 reason, should be subject to the same type of
21 tariffing requirements as established carriers.
22 This is more than simply a "level playing field"
23 argument and has very little to do with arguments
24 about relative possession of market power by a
25 firm. It is fundamentally a consumer safeguard

1 argument and an argument promoting the efficient
2 functioning of a market. The efficient functioning
3 of a marketplace relies on the flow of information
4 to customers relative to the availability of ser-
5 vices, as well as the price and quality of those
6 services. Tariffs filed by all companies at a
7 single location clearly facilitate comparison
8 shopping among consumers by minimizing the search
9 costs. Ready access to this information will
10 become even more important as AAVs and others begin
11 to serve smaller customers. This availability of
12 information in turn contributes to a more efficient
13 marketplace. Thus, those parties opposing the
14 filing of tariffs are mistaken from a current
15 public policy perspective. Any firm offering
16 transport and/or access services in the market
17 today should be required to file tariffs with the
18 Florida Commission.

19 Q. IN GTEFL'S PROPOSED TARIFFS, DOES GTEFL OFFER
20 EXPANDED INTERCONNECTION AND COLLOCATION AT ITS
21 ACCESS TANDEMS?

22 A. Yes, GTEFL proposes to offer such service to all
23 parties not only at our tandem offices, but at our
24 end offices where space is available and where the
25 facilities are otherwise qualified and capable of

1 offering such functions.

2 Q. IN HIS TESTIMONY, MR. ANDREASSI OF TELEPORT ARGUES
3 THAT LECS SHOULD BE ORDERED TO UNBUNDLE TANDEM
4 SIGNALLING AND PERMIT COMPETITION FOR TANDEM ROUTED
5 TRAFFIC. HOW IS THIS RELATED TO THE ISSUE OF
6 EXPANDED INTERCONNECTION AT AN ACCESS TANDEM?

7 A. In Phase II of its CC Docket No. 91-141, the FCC
8 released an order on May 27, 1994 that requires
9 Tier 1 LECs to provide signalling information to
10 any third party collocated within an equal access
11 end office so that tandem switching networks can be
12 constructed to compete with LEC tandem switching
13 services. This means that if Signalling System 7
14 (SS7) signalling is available in a central office,
15 the LEC must offer a choice of either SS7 or multi-
16 frequency (MF) signalling to competing firms. Note
17 that this is not a requirement to build SS7 capa-
18 bility if it is not already available at the end
19 office. In the same order, the FCC sensibly aban-
20 doned its original proposal that SS7 signalling be
21 delivered at all end offices. Instead, the FCC
22 specified that SS7 interconnection should take
23 place only at Signal Transfer Points (STPs).

24
25 The FCC also determined that by modifying switch

1 software to treat alternative tandems as if they
2 were the LEC's own tandem, it would be possible for
3 LECs to provide signalling in a short amount of
4 time and without large expenditures. However, due
5 to the many technical shortcomings that would
6 require large investments to overcome, signalling
7 is not required to be delivered to tandem switching
8 providers (TSPs) collocated at LEC tandem loca-
9 tions. In addition, LECs are not required to allow
10 TSPs to install their switching equipment within a
11 central office.

12
13 With respect to Mr. Andreassi's demand that LECs be
14 required to unbundle tandem signalling, it is not
15 clear what he is asking for. If he is requesting
16 that this Commission simply adopt the FCC standards
17 for LECs, that would appear to be an efficient
18 approach, given the integrated nature of the switch
19 and of the traffic. However, if Teleport is argu-
20 ing that LECs must be ordered to deliver signalling
21 to TSPs--possibly including Teleport--collocated at
22 LEC tandems, then I must oppose Teleport's request
23 as a very inefficient approach to the marketplace.

24 Q. WHAT ABOUT MR. ANDREASSI'S ASSERTION THAT LECs MUST
25 PERMIT COMPETITION FOR TANDEM ROUTED TRAFFIC?

1 **A.** I would simply point out that this is not up to the
2 LEC one way or the other. If Teleport wants to
3 compete for such traffic in an exchange where GTEFL
4 currently provides traffic, there is nothing that
5 GTEFL does which prevents them from doing so.
6 Teleport simply needs to make the investments and
7 induce customers to subscribe to the services it
8 provides. It is, indeed, true that under current
9 Florida statutes, AAVs such as Teleport are prohib-
10 ited from being in the switched business, but that
11 is not something the LEC controls. I would also
12 point out that the dedicated hi-cap services of-
13 fered by AAVs are very much a substitute for tandem
14 switching arrangements, as the sole function of
15 tandem switching in a LEC network is the aggrega-
16 tion of traffic. For those customers with hi-cap
17 facilities, such traffic aggregation has already
18 been performed and the tandem essentially provides
19 little additional value. Since Teleport and other
20 CAPs are in the special access business, they
21 already compete with the LECs' tandem-routed traf-
22 fic business.

23 **Q.** **YOUR LAST STATEMENT SUGGESTS THAT LECs ALREADY FACE**
24 **SOME DEGREE OF COMPETITION IN THE SWITCHED ACCESS**
25 **PORTION OF THEIR BUSINESS. FURTHER, IN YOUR DIRECT**

1 TESTIMONY IN THIS PHASE, YOU STATED THAT THE CON-
2 TRIBUTION CURRENTLY DERIVED FROM THE TRANSPORT OF
3 SWITCHED SERVICES SHOULD BE RESTRUCTURED TO ENHANCE
4 THE ECONOMIC EFFICIENCY OF THE MARKETPLACE. YET A
5 STATEMENT MADE BY MR. GILLAN WOULD SEEM TO INDICATE
6 THAT CONTRIBUTION SHOULD BE RECOVERED UNDER AN
7 EQUAL CHARGE APPROACH. IS THIS THE CORRECT POLICY
8 TO PURSUE?

9 A. I believe that Mr. Gillan is incorrect in a number
10 of his statements in this regard. While Mr. Lee
11 will address the details, I can offer some public
12 policy guidelines in this regard. Mr Gillan in
13 this instance seems to regard the level of competi-
14 tion as most fragile in the interexchange market-
15 place--even contemplating that interexchange compe-
16 tition will "become a memory" if the Commission
17 does not adopt IAC's recommendations. Mr. Gillan
18 attributes the purported fragility of this market-
19 place to AT&T's size relative to that of the other
20 players and to the pricing structure put forward by
21 LECs.

22
23 If the former is a problem, then Mr. Gillan and the
24 IAC should certainly support the entry of firms
25 such as GTEFL and Southern Bell back into the

1 interLATA market, as such action would certainly
2 reduce the market power of AT&T. However, I believe
3 that Mr. Gillan misstates his case when he says
4 that, "The LECs should not be permitted to selec-
5 tively shift the contribution burden among inter-
6 exchange carriers to satisfy their own strategic
7 objectives. To do so is paramount to placing the
8 LECs in control of the shape of the long distance
9 industry."

10

11 I suppose GTEFL and the other LECs should be flat-
12 tered that IAC believes we are that powerful in the
13 marketplace. However, I don't believe it. Even if
14 I did, what objectives does Mr. Gillan believe that
15 LECs should pursue in the marketplace, if not their
16 own? If the objective of this Commission is to
17 foster a competitive marketplace, then it is neces-
18 sary to encourage LECs to act on the same incen-
19 tives as firms in a non-regulated market. The
20 price structure proposed by GTEFL simply recognizes
21 and attempts to reflect as far as possible the
22 economies of scale available to the firm. This is
23 not a matter of shifting contribution selectively
24 among interexchange carriers to benefit one rela-
25 tive to another.

1 It will, in fact, be true that some interexchange
2 carriers will be in a better position than others
3 to take advantage of the more efficient price
4 structure that GTEFL has proposed. This price
5 structure could be made even more efficient by
6 granting the LECs additional pricing flexibility,
7 such as volume-discounted switched services and
8 term discounts. Each of these actions will once
9 again result in differential impacts across inter-
10 exchange carriers, depending upon their customers'
11 usage profiles. Once again, however, that is not
12 tantamount to placing the LECs in control of the
13 long distance industry. It is a course of action
14 which makes one of the inputs used by the long
15 distance industry more efficiently priced. It is
16 implausible that making an input more efficient in
17 the marketplace makes the overall market structure
18 less efficient.

19
20 The optimal price structure does not necessarily
21 result in a uniform level of mark-up of price
22 relative to incremental cost. In fact, as I have
23 testified previously, an efficient price structure
24 would recover contribution in roughly inverse
25 proportion to the price elasticity of demand for

1 that service. Furthermore, it can be shown that
2 non-linear tariffs based around these inverse
3 elasticity prices are even better at meeting the
4 requirements of a competitive marketplace. In
5 these tariffs, contribution is certainly not recov-
6 ered uniformly, but the degree of contribution on a
7 per-minute basis decreases as the quantity demanded
8 increases. Much of the contribution is collected
9 from inframarginal units of output, rather than the
10 marginal unit. This allows the marginal price of
11 the service to more closely approximate the margin-
12 al cost of the service--a very desirable result.

13 **Q. ICI'S WITNESS, DOUGLAS S. METCALF, THROUGHOUT HIS**
14 **TESTIMONY REFERS TO CONSTRAINTS PLACED ON AAVS--**
15 **SPECIFICALLY, THAT THEY CANNOT PROVIDE SWITCHED**
16 **SERVICES OR TRANSPORT BETWEEN UNAFFILIATED ENTI-**
17 **TIES. HE TERMS THESE CONSTRAINTS "REGULATORY**
18 **BARRIERS." DO YOU AGREE WITH THAT CHARACTERIZA-**
19 **TION?**

20 **A. No. It is incorrect. As this Commission recog-**
21 **nized in its AAV order (Docket No. 890183-TL, Order**
22 **No. 24877, August 2, 1991), these restrictions**
23 **placed on AAVs derive from Chapter 364. They are**
24 **not simply a matter of Commission policy, as Mr.**
25 **Metcalfe appears to believe. Indeed, in its AAV**

1 order the Commission recognized that: "There is
2 agreement among the parties that AAVs are not
3 authorized to provide switched services. ICI
4 states that it does not intend to provide switched
5 services. MFS also stated that AAVs should be
6 prohibited from providing switched services." (AAV
7 Order at 19.)

8

9 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

10 **A. Yes, it does.**

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CERTIFICATE OF SERVICE

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Kimberly Caswell

Staff Counsel
Florida Public Service
Commission
101 East Gaines Street
Tallahassee, FL
32399-0865

Harris R. Anthony
J. Phillip Carver
c/o Marshall Criser III
150 S. Monroe Street
Suite 400
Tallahassee, FL 32301

Patrick K. Wiggins
Kathleen Villacorta
Wiggins & Villacorta
P. O. Drawer 1657
Tallahassee, FL
32302

David B. Erwin
Young VanAssenderp
225 S. Adams St.
Suite 200
Tallahassee, FL 32302

Michael W. Tye
AT&T Communications Inc.
106 East College Avenue
Suite 1410
Tallahassee, FL 32301

Peter M. Dunbar
Haben Culpepper
Dunbar & French
P. O. Box 10095
Tallahassee, FL
32302

Office of Pub. Counsel
Claude Pepper Building
111 W. Madison Street
Room 812
Tallahassee, FL 32399-
1400

Harriet Eudy
ALLTEL Florida, Inc.
P. O. Box 550
Live Oak, FL 32060

Jeff McGehee
Southland Tel. Co.
210 Brookwood Road
P. O. Box 37
Atmore, AL 36504

Lee L. Willis
Ausley McMullen McGehee
Carothers & Proctor
P.O. Box 391
Tallahassee, FL 32302

Joseph McGlothlin
Vicki Gordon Kaufman
McWhirter Grandoff and
Reeves
315 S. Calhoun St.
Suite 716
Tallahassee, FL 32301

Daniel V. Gregory
Quincy Tel. Co.
P. O. Box 189
Quincy, FL 32351

John A. Carroll, Jr.
Northeast Fla. Tel. Co.
P. O. Box 485
Macclenny, FL 32063-
0485

Charles L. Dennis
Indiantown Tel. Sys. Inc.
P.O. Box 277
Indiantown, FL 34956

Joseph P. Gillan
Gillan and Assoc.
P.O. Box 541038
Orlando, FL 32854-
1038

Brad Mutschelknaus
Danny E. Adams
Rachel Rothstein
Wiley Rein Fielding
1776 K Street N.W.
Washington, DC 20006

F. B. Poag
Dir.-Tariffs & Reg.
Sprint/United-Florida
P.O. Box 165000
Mail Code #5326
Altamonte Springs, FL
32716-5000

C. Everett Boyd Jr.
Ervin Varn Jacobs
Odom & Ervin
305 S. Gadsden St.
Tallahassee, FL
32301

Chanthina R. Bryant
Sprint
3065 Cumberland Circle
Atlanta, GA 30339

Paul Jones
Time Warner Cable
Corporate Hdqtrs.
300 First Stamford Pl.
Stamford, CT
06902-6732

Jodie L. Donovan
Regulatory Counsel
Teleport Comm. Group
1 Teleport Drive
Suite 301
Staten Island, NY
10311

Mickey Henry
MCI Telecomm. Corp.
780 Johnson Ferry Rd
Suite 700
Atlanta, GA 30342