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pm



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June 26, 1995

ORIGINAL  
FILE COPY

Mrs. Blanca S. Bayo, Director  
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Florida Public Service Commission  
2540 Shumard Oak Boulevard  
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Re: Docket No. ~~920260-TL~~

Dear Mrs. Bayo:

Enclosed for filing in the above referenced docket are an original and fifteen (15) copies of the Direct Testimony of Mike Guedel on behalf of AT&T.

Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

Yours truly,

Michael W. Tye

- ACK
- AFA 2
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMO Wester
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEC 1
- LDI 5
- CFE \_\_\_\_\_
- FDI Vincent
- SSD 1
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

Attachments

cc: J. P. Spooner, Jr.  
Parties of Record

RECEIVED & FILED  
  
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

05953 JUN 26 95

FPSC-RECORDS/REPORTING

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: COMPREHENSIVE REVIEW OF  
THE REVENUE REQUIREMENTS  
AND RATE STABILIZATION  
PLAN OF SOUTHERN BELL  
TELEPHONE AND TELEGRAPH  
COMPANY

DOCKET NO. 920260-TL

DIRECT TESTIMONY OF

MIKE GUEDEL

ON BEHALF OF AT&T

JUNE 26, 1995

DOCUMENT NUMBER-DATE  
05953 JUN 26 1995  
FPSC-RECORDS/REPORTING

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

3 A. My name is Mike Guedel and my business address is  
4 AT&T, 1200 Peachtree Street, NE, Atlanta, Georgia,  
5 30309. I am employed by AT&T as Manager-Network  
6 Services Division.

7

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK  
9 EXPERIENCES.

10

11 A. I received a Master of Business Administration with  
12 a concentration in Finance from Kennesaw State  
13 College, Marietta, GA in 1994. I received a  
14 Bachelor of Science degree in Business  
15 Administration from Miami University, Oxford, Ohio.  
16 Over the past years, I have attended numerous  
17 industry schools and seminars covering a variety of  
18 technical and regulatory issues. I joined the Rates  
19 and Economics Department of South Central Bell in  
20 February of 1980. My initial assignments included  
21 cost analysis of terminal equipment and special  
22 assembly offerings. In 1982, I began working on  
23 access charge design and development. From May of  
24 1983 through September of 1983, as part of an AT&T  
25 task force, I developed local transport rates for

1 the initial NECA interstate filing. Post  
2 divestiture, I remained with South Central Bell with  
3 specific responsibility for cost analysis, design,  
4 and development relating to switched access services  
5 and intraLATA toll. In June of 1985, I joined AT&T,  
6 assuming responsibility for cost analysis of network  
7 services including access charge impacts for the  
8 five South Central States (Alabama, Kentucky,  
9 Louisiana, Mississippi, and Tennessee).

10

11 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

12

13 A. My current responsibilities include directing  
14 analytical support activities necessary for  
15 intrastate communications service in Florida and  
16 other southern states. This includes detailed  
17 analysis of access charges and other LEC filings to  
18 assess their impact on AT&T and its customers. In  
19 this capacity, I have represented AT&T through  
20 formal testimony before the Florida Public Service  
21 Commission, as well as regulatory commissions in the  
22 states of South Carolina and Georgia.

23

24 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

25

1 A. The purpose of my testimony is twofold:

2

3 First, I will demonstrate that none of the three  
4 proposals currently before the Commission  
5 appropriately dispose of the available \$25 million.  
6 The Southern Bell proposal is an attempt to "re-  
7 monopolize" a market that this Commission has  
8 previously deemed to be competitive. The  
9 Communications Workers of America (CWA) proposal  
10 includes reductions in the prices for services that  
11 are already affordably priced today. And the McCAW  
12 proposal, while having some merit, will likely not  
13 fully dispose of the available \$25 million.  
14 Clearly, the Commission needs to seek other  
15 alternatives.

16

17 Second, I will offer an alternative that will be  
18 more consistent with recent Florida legislation. My  
19 proposal would use available revenues to remove some  
20 existing barriers to competition inherent in  
21 Southern Bell's pricing of PBX trunk and Direct  
22 Inward Dialing (DID) services.

23

24 **Q. SOUTHERN BELL HAS PROPOSED EXTENDED CALLING SERVICE**  
25 **(ECS). WHY IS THIS PROPOSAL INAPPROPRIATE?**

1 A. The Southern Bell Extended Calling Service (ECS) is  
2 simply an attempt to "re-monopolize" the provision  
3 of toll service throughout a significant portion of  
4 Southern Bell's operating territory. The plan is  
5 not unlike the Extended Local Service (ELS) proposal  
6 that Southern Bell withdrew in conjunction with the  
7 stipulated agreement settling the issues in this  
8 case.

9  
10 The Extended Calling Service proposal does include  
11 an itemization of the specific routes involved.  
12 However, considering the breadth of the proposal,  
13 and the fact that Southern Bell has not included  
14 "community of interest" studies generally required  
15 by this Commission to support Extended Area Service  
16 (EAS) arrangements, the proposal cannot be  
17 interpreted as EAS relief. The ECS proposal is  
18 another attempt to offer discounted toll service to  
19 Southern Bell customers.

20  
21 Further, it does not appear that the prices  
22 associated with the ECS proposal cover the  
23 underlying costs, including imputed access charges,  
24 as prescribed by the recent legislation. Southern

1 Bell has not presented any evidence in its testimony  
2 that this pricing plan will meet those requirements.

3

4 Therefore, Southern Bell's proposal is not in the  
5 public interest. The Extended Calling Plan would  
6 only deny rate payers the benefits of competition -  
7 benefits that this Commission has previously found  
8 to be in the public interest.

9

10 **Q. CWA HAS PROPOSED REDUCTIONS IN BASIC RESIDENTIAL**  
11 **RATES AND RELATED "LIFELINE" PROGRAMS. WHY IS THIS**  
12 **PROPOSAL INAPPROPRIATE?**

13

14 **A.** CWA has proposed reductions in the prices of  
15 services that are already affordably priced or in  
16 fact priced below cost today.

17

18 First, CWA has proposed reductions in Southern  
19 Bell's residential local service rates. This  
20 service, however, with rates between \$7.30 and  
21 \$10.65 depending on applicable rate group, is  
22 reasonably priced today. In fact, the rates charged  
23 for residential service in Florida are currently  
24 among the lowest residential rates offered by  
25 BellSouth (parent of Southern Bell) in any of the

1 nine states in which it operates. Further, evidence  
2 offered by Southern Bell in this docket indicates  
3 that these rates are currently priced significantly  
4 below the cost that Southern Bell incurs in  
5 providing the service.

6  
7 Second, CWA has proposed a couple of "lifeline"  
8 services. AT&T supports well targeted "lifeline"  
9 services, but AT&T submits that such services exist  
10 in Florida today. In conjunction with the  
11 stipulation that settled the general issues in this  
12 case, Southern Bell introduced "lifeline" discounts  
13 for customers who demonstrated a need for the  
14 service. These discounts already provide  
15 significant price breaks for "lifeline" candidates.

16  
17 **Q. MCCAW HAS PROPOSED THAT SOME OF THE AVAILABLE**  
18 **REVENUES BE SET ASIDE FOR POSSIBLE REDUCTIONS IN**  
19 **CELLULAR INTERCONNECTION RATES IN CONJUNCTION WITH**  
20 **DOCKET 940235-TL. WOULD YOU COMMENT ON THIS**  
21 **PROPOSAL?**

22  
23 **A.** McCaw has proposed that some of the available  
24 revenues be set aside on a contingency basis to be  
25 used as required in setting cellular interconnection



1 rates following the decisions (yet to be taken) in  
2 Docket 940235-TL.

3  
4 Traditionally, the level of cellular interconnection  
5 charges in Florida has been linked to the level of  
6 intrastate switched access charges. Thus when  
7 intrastate switched access charges have been  
8 reduced, cellular interconnection rates have been  
9 likewise reduced. This linkage is currently being  
10 reviewed in Docket 940235-TL. The Commission may  
11 decide to continue this linkage or opt for another  
12 arrangement.

13  
14 In any event, cellular interconnection service, like  
15 switched access service although not to the same  
16 degree, is currently priced significantly above the  
17 cost that Southern Bell incurs in providing the  
18 service. Rates for this service need to be reduced.  
19 Therefore, the Commission should consider utilizing  
20 some of the available revenues to reduce cellular  
21 interconnection rates.

22  
23 **Q. WOULD YOU DEFINE YOUR ALTERNATIVE PROPOSAL?**

24

1 A. Yes. My proposal requires that the Commission  
2 utilize the available revenues to reduce the level  
3 of discriminatory pricing which exists in Southern  
4 Bell's provision of certain local exchange  
5 facilities and services - specifically local loops  
6 and direct inward dialing (DID).

7  
8 Currently, the price a customer pays to Southern  
9 Bell for a local loop depends upon that customer's  
10 selection of a vendor for PBX/PBX-like features and  
11 functions. If a customer selects Southern Bell  
12 ESSX<sup>®</sup> service, she/he pays less for the loop than if  
13 that same customer had selected a PBX from a  
14 competitive vendor. This situation tends to  
15 artificially distort the related competitive market  
16 for PBX/PBX-like features and functionality and  
17 needs to be remedied. Therefore, I recommend that  
18 the available revenues be used to reduce PBX trunk  
19 rates and/or rates associated with DID services  
20 provided to PBX customers.

21

22 **Q. DOES ESSX SERVICE DIRECTLY COMPETE WITH PBX/KEY**  
23 **SYSTEMS?**

24

1 A. Certain features and functions included in the ESSX  
2 tariff are directly competitive with PBX and key  
3 systems. These include: intercom, call forwarding  
4 associated with intercom, conferencing associated  
5 with intercom, automatic route selection (ARS),  
6 station message detail recording (SMDR) and many  
7 others. A customer seeking these competitive  
8 features and functions could purchase ESSX service  
9 from Southern Bell or he/she could purchase a PBX or  
10 key system from a variety of switching vendors.  
11 Therefore, in the market for PBX/PBX-like features  
12 and functions Southern Bell directly competes with  
13 PBX vendors.

14  
15 Other elements contained in the ESSX tariff are  
16 clearly monopoly bottleneck facilities or services.  
17 These can generally be characterized as being  
18 associated with "dial 9" functionality and include:  
19 local exchange access (loops), local usage, direct  
20 inward dialing (DID) and telephone number  
21 assignments. There are no competitive alternatives  
22 for these services at this time. Whether a customer  
23 selects ESSX or PBX for competitive features and  
24 functions, she/he must obtain these monopoly

1 bottleneck facilities and services from Southern  
2 Bell.

3

4 **Q. WHY IS IT IMPORTANT FOR SOUTHERN BELL TO OFFER THE**  
5 **MONOPOLY SERVICES ON A NONDISCRIMINATORY BASIS?**

6

7 A. When an exchange service monopoly provider also  
8 competes in the market for PBX/PBX-like features and  
9 functions (as Southern Bell does with ESSX), the  
10 monopoly provider has the opportunity to encourage  
11 potential customers to purchase competitive elements  
12 from it by offering substantial discounts on  
13 exchange facilities and services. By enforcing non-  
14 discriminatory pricing of the monopoly elements, the  
15 Commission can eliminate this opportunity and  
16 thereby promote fair and equal competition in those  
17 markets where competition can function.

18

19 **Q. COULD YOU DESCRIBE THE PRICE DISCRIMINATION**  
20 **ASSOCIATED WITH LOCAL LOOPS?**

21

22 A. Yes. Exhibit 1 to my testimony demonstrates that a  
23 PBX customer is charged \$38.11 for a local loop  
24 including the applicable subscriber line charge.  
25 However, the ESSX customer can purchase the same

1           loop for as little a \$6.30 if he/she is located  
2           within 2.5 miles of a central office. Even at  
3           greater distances, the most an ESSX customer would  
4           be required to pay would be \$13.50. (This example  
5           includes rate group 12 prices for the PBX trunk and  
6           the NAR. ESSX loop prices are based upon a medium  
7           configuration at a 60 month contract.)

8

9   **Q.   HOW DID YOU ESTIMATE THE RATE THAT A PBX CUSTOMER**  
10 **PAYS FOR THE LOCAL LOOP?**

11

12 A.   A PBX trunk is equivalent to an ESSX loop plus an  
13   ESSX Network Access Register (NAR). The loop  
14   provides connectivity between a telephone company  
15   switch and a customer's terminal equipment. The NAR  
16   provides the "dial 9" capability, i.e., local  
17   exchange usage and switched connectivity to  
18   interchange service providers. Each NAR provides  
19   the same quantity of "dial 9" capability as a PBX  
20   trunk. Therefore, assuming that there is no  
21   discrimination in the pricing of the "dial 9"  
22   services, the price a customer pays for a PBX loop  
23   can be estimated by subtracting the price of the NAR  
24   from the price of a PBX trunk.

25

1 Q. ARE THERE OTHER EXAMPLES OF DISCRIMINATORY PRICING  
2 IN SOUTHERN BELL'S CURRENT RATES THAT COULD AFFECT  
3 THE COMPETITIVE MARKET FOR PBX/PBX-LIKE FEATURES AND  
4 FUNCTIONS?

5  
6 A. Yes. Another example would include direct inward  
7 dialing (DID) and telephone number assignments. If  
8 a customer who has selected a PBX desires these  
9 features, Southern Bell charges him/her \$21.80 per  
10 DID trunk and \$4.00 per group of 20 numbers per  
11 month. If the customer had purchased ESSX service,  
12 Southern Bell would provide these monopoly services  
13 at no charge.

14  
15 Q. WHY SHOULD THE COMMISSION ADOPT YOUR PROPOSAL TO  
16 REDUCE PBX TRUNK AND/OR DID RATES RATHER THAT  
17 SOUTHERN BELL'S PROPOSAL TO IMPLEMENT EXTENDED  
18 CALLING SERVICE?

19  
20 A. My proposal succeeds for the very reason that  
21 Southern Bell's proposal fails - the relative  
22 effects on competition. As the telecommunications  
23 industry moves into the new era of competition  
24 envisioned by the recent legislation, it is  
25 imperative that all vestiges of monopoly advantage

1 be removed. Southern Bell and all competitive  
2 suppliers must be afforded an environment where they  
3 can compete on fair and equal terms. As noted  
4 above, Southern Bell's proposal would raise new  
5 barriers to competition. For this reason, it must  
6 be rejected. On the other hand, lowering rates for  
7 PBX trunks and/or DID services will begin to remove  
8 one of the remaining barriers to fair and equal  
9 competition in the market for PBX/PBX-like features  
10 and functions.

11

12 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY AND YOUR**  
13 **RECOMMENDATIONS?**

14

15 **A.** Yes. The proposals offered by Southern Bell and the  
16 CWA are inappropriate for reasons discussed above.  
17 These proposals should be rejected.

18

19 The proposal submitted by McCaw has merit. Cellular  
20 interconnection is currently priced well above cost,  
21 and relief with respect to these prices is  
22 warranted.

23

24 Further, because the McCaw proposal will not require  
25 all of the available dollars, the Commission should

1 use the remaining revenues to foster competition as  
2 envisioned by the recent legislation. To this end,  
3 the Commission should reduce or eliminate the  
4 charges associated with DID when purchased by a  
5 customer selecting a PBX alternative, or it should  
6 reduce the prices for PBX trunks.

7

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

9

10 **A. Yes.**



DOCKET NO. 920260-TL  
 GUEDEL EXHIBIT 1  
 Loop Comparisons

PBX Trunk	49.47
PBX Trunk Usage (1)	17.26
PBX Loop	32.11
SLC	<u>6.00</u>
Resultant Loop Charge	38.11

ESSX Loops

<u>Miles</u>	<u>Price (2) +</u>	<u>SLC (3)</u>	=	<u>Price with Credit</u>
0-2 1/2	5.70	.60		6.30
over 2 1/2	12.90	.60		13.50

- (1) Equal to price for a Network Access Register (NAR)
- (2) Assumes 60 month contract
- (3) Assumes 10 lines per NAR

CERTIFICATE OF SERVICE

DOCKET NO. 920260-TL

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties of record this 26<sup>th</sup> day of June, 1995:

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