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February 6, 1996

Mrs. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 950985-TP
MFS/GTE

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

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Attachments

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

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CERTIFICATE OF SERVICE

DOCKET NO. 950985-TP

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by next day express mail, U. S. Mail or hand-delivery to the following parties of record this 6th day of February, 1996.

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Michael W. Tye

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NONDISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR INTERCONNECTION INVOLVING LOCAL EXCHANGE COMPANIES AND ALTERNATE LOCAL EXCHANGE COMPANIES PURSUANT TO SECTION 364.162, FLORIDA STATUTES	DOCKET NO. 950985-TP (MFS/GTE PORTION)

DIRECT TESTIMONY OF

MIKE GUEDEL

ON BEHALF OF AT&T COMMUNICATIONS

OF THE SOUTHERN STATES, INC.

FEBRUARY 6, 1995

Q. WILL YOU PLEASE IDENTIFY YOURSELF?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCES.

A. I received a Master of Business Administration with a concentration in Finance from Kennesaw State College, Marietta, GA in 1994. I received a Bachelor of Science degree in Business Administration from Miami University, Oxford, Ohio. Over the past years, I have attended numerous industry schools and seminars covering a variety of technical and regulatory issues. I joined the Rates and Economics Department of South Central Bell in February of 1980. My initial assignments included cost analysis of terminal equipment and special assembly offerings. In 1982, I began working on access charge design and development. From

May of 1983 through September of 1983, as part of an AT&T task force, I developed local transport rates for the initial NECA interstate filing. Post divestiture, I remained with South Central Bell with specific responsibility for cost analysis, design, and development relating to switched access services and intraLATA toll. In June of 1985, I joined AT&T, assuming responsibility for cost analysis of network services including access charge impacts for the five South Central States (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee).

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. My current responsibilities include directing analytical support activities necessary for intrastate communications service in Florida and other southern states. This includes detailed analysis of access charges and other LEC filings to assess their impact on AT&T and its customers. In this capacity, I have represented AT&T through formal testimony

before the Florida Public Service Commission, as well as regulatory commissions in the states of South Carolina and Georgia.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is twofold:

First, I will describe in a generic sense the characteristics of interconnection and collocation arrangements that are necessary to provide inter-carrier connections that are both technically efficient and economically sensible, and thus competitively effective.

Second, I will specifically address the issue of mutual compensation associated with call completion as described in the petition and testimony of Metropolitan Fiber Systems of Florida, Inc., ("MFS-FL") and I will recommend a compensation arrangement that is consistent with the generic principles discussed above.

Q. WHAT IS MEANT BY THE TERM INTERCONNECTION?

A. Interconnection refers to the act of linking two networks together such that calls or messages that originate on one of the networks may transit or terminate on the other network. Traditionally, in the switched environment, interconnection has taken place on either the line-side or the trunk-side of a local exchange company's switch. Typical interconnection arrangements have included switched access, cellular interconnection, Enhanced Service Provider(ESP) interconnection, and the interconnection of end user Customer Provided Equipment (CPE) through local service arrangements.

In the implementation of local competition, these traditional types of interconnection will still be useful, but may not be sufficient to meet all of the needs of all potential interconnectors. A more open or "unbundled" set of interconnection options and interconnection architectures will need to be made available.

Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY "UNBUNDLED" INTERCONNECTION ARRANGEMENTS?

A. Unbundling is the identification and disaggregation of useful components of the local exchange network into a set of elements, or Basic Network Functions (BNFs) which can be individually provided, costed, priced, and interconnected in such a manner as to provide other telecommunications service offerings. For example, local exchange service can be "unbundled" into loops, local switching, and transport.

AT&T has identified 11 components or BNFs associated with local exchange services which may be effectively and usefully unbundled. These include: loop distribution, loop concentration, loop feeder, switching, operator systems, dedicated transport links, common transport links, tandem switching, signaling links, signal transfer points, and signal control points.

Further, it must be noted that the list of BNFs described above must not be considered static or necessarily complete. Additional functional elements may continue to be identified as telecommunications technology evolves.

Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY INTERCONNECTION ARCHITECTURES?

A. The two basic architectures for implementing interconnection are physical and virtual collocation.

Physical collocation is an arrangement whereby an interconnector leases floor space (and access to floor space) within a LEC central office for purposes of installing, maintaining and managing telecommunications equipment used in the provision of the interconnector's service(s). Under this arrangement, the interconnector can gain entry to its designated space within the LEC central office (generally with security escort) to install, maintain, and/or repair its own equipment.

Virtual collocation is an arrangement whereby the local exchange company installs, maintains, and repairs the interconnector's designated telecommunications equipment. Under this arrangement, there is no segregated space rented by the interconnector. Rather, there would be equipment designated to the interconnector in the central office, but the actual location would be determined by the LEC. The interconnector could maintain monitoring and control ability, but would not be able to physically access the equipment within the central office.

Q. ARE THERE OTHER TYPES OF INTERCONNECTION ARRANGEMENTS?

A. Yes, there are other types of interconnection where the actual point of interconnection is not in a central office. These are generally called "mid-span meets." In a mid-span meet arrangement, each carrier builds and is responsible for operating trunk facilities out to some agreed upon point between central

offices. Another way of thinking about this arrangement is that each carrier provides one half of the circuit. Under such an arrangement the carriers are jointly responsible for the traffic traversing the circuit.

In addition, there may be other interconnection arrangements that LECs have used or that may be useful to potential interconnectors.

Q. WHAT ARE THE NECESSARY CHARACTERISTICS OF INTERCONNECTION NEEDED TO OFFER AN EFFECTIVE AND EFFICIENT WAY OF PROMOTING LOCAL EXCHANGE COMPETITION?

A. First, interconnection must be available at all technically and logically possible unbundled interfaces to the LEC network.

Second, interconnection must be made available to new carriers under the same rates, terms and conditions as apply to the LECs' own service.

Third, it is important that no restrictions be placed on interconnection standards and offerings that would limit these requirements to just the existing inventory of LEC network functions. In order for interconnection to encourage the growth of competition over time, it must apply to all new LEC network services as they are developed.

Fourth, LECs must not be permitted to discriminate in any respect against new entrants. Any discrimination in the interconnection of new entrants to LEC network components vis-à-vis interconnection of the LEC's own services - be it in the form of delays in the offering of new arrangements, inferior provisioning, installation or maintenance of these arrangements, or uneconomic pricing of these arrangements, will thwart new competition.

Furthermore, the compensation arrangements for interconnection must also allow for the maximum feasible development of local exchange competition. To do so, carrier compensation

arrangements should be nondiscriminatory and tariffed at rates that accurately reflect underlying costs.

Q. HAS MFS-FL RAISED THESE GENERIC ISSUES OF UNBUNDLING AND INTERCONNECTION ARCHITECTURES IN ITS PETITION?

A. Yes. MFS-FL is seeking specific interconnection arrangements which fall within these generic guidelines. Presumably, the requested arrangements will compliment MFS's existing or anticipated network and its business plan. It must be noted, however, that other arrangements may be required by other ALECs that chose to organize their businesses in a different manner.

The purpose of this initial section of testimony is to demonstrate the complexity of the issues surrounding interconnection and the need for incumbent LECs to make available an extensive variety of interconnection

arrangements if the development of competition is to have any chance at all.

While it is imperative that GTE make available to all potential entrants the same interconnection arrangements that it is offering to MFS-FL, it must be recognized that these arrangements may not be sufficient. In other words, the MFS-FL arrangement must not be considered the generic solution to interconnection.

Q. MFS-FL IS SEEKING SPECIFIC RELIEF FROM THE PROPOSED CHARGES OF GTE ASSOCIATED WITH CALL TERMINATION. WOULD YOU DEFINE CALL TERMINATION IN THE CONTEXT OF ALEC/LEC LOCAL INTERCONNECTION?

A. Yes. Call termination is the function of receiving a call from an interconnecting company at the terminating company's switch and delivering the call to an end user customer (a customer of the terminating company).

For example, assume that two companies are offering competitive local telephone service in a given geographic territory. One company is the incumbent local exchange company (LEC) and the other is an alternative local exchange company (ALEC). Further assume that these companies have established interconnecting facilities linking their respective switches. When a customer of the ALEC places a call to a customer of the LEC, the call is transmitted over the interconnecting facility to the LEC switch. Likewise when a customer of the LEC places a call to a customer of the ALEC, the call can be transmitted over the same interconnecting facility to the ALEC switch. The function of call completion, in either case, includes the reception of the call at the terminating company switch and the delivery of the call to the end user customer.

Q WHY ARE THE CHARGES ASSOCIATED WITH THIS TYPE OF CALL COMPLETION REFERRED TO AS "MUTUAL COMPENSATION" ARRANGEMENTS?

A. If competition develops, each of the competing local service providers in a given territory will serve a certain number of customers. In order for each of these companies to offer ubiquitous local service to their respective customers, each will have to rely on the other(s) to complete calls, and each will expect some form of compensation for completing other companies' calls. "Mutual Compensation" refers to this interdependent need for call completions.

Q. WHAT ARE THE APPROPRIATE TERMS AND PRICES FOR MUTUAL COMPENSATION ARRANGEMENTS?

A. Initially, the best solution may be the "bill and keep" arrangement. Under this arrangement no dollars change hands. The compensation that one company offers to another for the completion of its calls is the agreement to complete the other companies' calls in a like manner.

The beauty of this arrangement is its simplicity. There is no bill preparation or bill rendering involved, nor is there the need to review bills for accuracy. Further, this arrangement can be implemented without the development of cost studies that would be required to establish and justify specific prices.

This arrangement could be implemented very quickly, and because the initial volumes of interconnected traffic will be very small, it should not burden any of the interconnecting companies.

Q. IS "BILL AND KEEP" A VIABLE LONG RUN SOLUTION?

A. It may be. If traffic deliveries are determined to be relatively balanced and the costs are similar among LECs and ALECs, then a bill and keep arrangement could work indefinitely.

However, if effective competition for local service does develop, and some of the complications of billing and costing are sorted out, then a more likely long term scenario would include actual billing at prices based upon the total service long run incremental cost incurred in providing call termination.

This latter method would more likely ensure that each company is accurately compensated for the particular services that it provides.

Q. IF THE COMMISSION DETERMINES THAT A RATE FOR CALL COMPLETION IS APPROPRIATE, AT WHAT LEVEL SHOULD THE COMMISSION SET THE RATE?

A. The rates charged for call termination should be set at the Total Service Long Run Incremental Cost (TSLRIC) that the LEC incurs in providing the service. No additional mark-up should be allowed. A LEC should be permitted to recover the costs that it incurs in providing call termination arrangements, but it should not be allowed to exact any

additional mark-up from potential competitors simply for the right to do business in its territory.

Q. WHY IS IT NECESSARY TO ESTABLISH THE RATE AT COST?

A. In the current environment, the incumbent LECs have an overwhelming market advantage. The incumbent LECs have essentially all of the existing customers in the local exchange telephone market.

If alternative providers are to have a competitive chance, barriers to competition, if not completely eliminated, must be minimized. Barriers should not be enhanced by allowing the incumbent LECs to exact additional mark-up through the rates charged for providing call termination.

Q. ARE CURRENT TERMINATING SWITCHED ACCESS CHARGES THE APPROPRIATE RATES FOR INTERCONNECTION COMPENSATION?

A. No. In fact, current terminating switched access charges are not even appropriate for switched access. The rates are simply too high. Assuming that GTE's cost of providing switched access is similar to that of BellSouth and United (i.e., stated to be around 5 tenths of a cent per access minute of use), GTE's current terminating rates (approximately 6.8 cents) include a mark-up above cost in excess of 1200%.

By pricing interconnection services at these exorbitant levels, GTE could effectively foreclose local competition before it ever has a chance to develop.

Q. ARE THERE NOT ADVANTAGES TO PRICING LOCAL INTERCONNECTION AT THE SAME RATES AS SWITCHED ACCESS?

A. Yes, there are advantages. Pricing these services at equal levels would greatly simplify the reporting and billing processes. Further, from an economic standpoint, recognizing that the cost of providing these respective services is essentially the same, it would make sense to price them the same.

But the appropriate reconciliation is not to begin pricing local interconnection arrangements at the inflated prices of switched access. Rather, local interconnection should be priced at the appropriate TSLRIC rate and switched access should be reduced to that level.

Q. GTE HAS APPARENTLY TAKEN THE POSITION THAT IF IT PROVIDES THE TANDEM SWITCHING IN A MEET-POINT SWITCHED ACCESS ARRANGEMENT (I.E., A SITUATION WHERE MFS-FL SUBTENDS A GTE TANDEM) THAT IT (GTE) SHOULD BILL AND KEEP ITS RESIDUAL INTERCONNECTION CHARGE (RIC). DO YOU SUPPORT THAT POSITION?

A. No. The RIC has been purposefully dissociated from the local transport function and associated with end office switching in the Local Transport Restructure (LTR) environment. GTE has traditionally supported this arrangement. In a situation where a company (CAP, LEC, etc.) provides local transport and GTE provides the end office switching, it would be GTE's position that it (GTE) should be entitled to bill the RIC. The same rules should apply to ALECs. In a meet point arrangement where an ALEC provides the end office switching, GTE should not be entitled to RIC revenue.

Of course the optimal solution would be to eliminate the billing of the RIC altogether. There is no underlying direct cost associated with the RIC and even with its elimination, GTE's switched access charges would still be many hundred percent above cost.

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

A. Yes.