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occurs, the price for the unbundled service should be set at a level that is no higher then the stand-alone facility-based costs of providing the unbundled element.

## A. UNBUNDLED LOOPS

Q. Using the methodology presented by Dr. Duncan in his direct testimony, what price would you derive for an unbundled 2-wire loop?

A. Given the Company's very disparate retail rates for residential lines versus business lines, I will provide support for both an unbundled basic business exchange loop and an unbundled basic residential exchange loop. For this exercise, I will use approximate cost and revenue per line figures (although it will become apparent that magnitude errors in these approximations will not change the Company's ultimate pricing recommendation). The numbers required for this analysis are based on GTEFL's estimates of revenue contributions derived from its current customers as presented in Table 1 (Exhibit DBT-1) for business customers and Table 2 (Exhibit DBT-2) for residential customers.

This analysis dramatically points out the fact that GTEFL's current disoriented rate structure results in a significant level of contribution (          per month) being derived from business customers. Ignoring the issues of rate rebalancing, universal service support and the possibility of uneconomic bypass, the methodology employed by the company would imply that the          in total average contribution from business customers should be added to the long run incremental cost of a basic business loop to yield the appropriate price for an unbundled basic business loop (since the offering of an unbundled loop will cause to Company to lose almost all of the existing contributions derived from the business customer). This loss of contribution due to the selling of unbundled loops is a very serious issue which must be addressed in the development of unbundled rate levels if GTEFL is to maintain its financial viability and impermissible confiscation of its property is to be avoided.

Turning to GTEFL's residential customers, as presented in Table 2, we observe a dramatically different picture. The average residential customer only provides about per month in contribution to support the Company's common costs and overheads.

I don't believe the low level of monthly contributions derived by the Company from residential customers should surprise anyone. The fact that the Company and the Commission have diligently strived to support public policy objectives (e.g., universal service) and keep residential rates as low as possible is well understood.

Based on approximations of GTEFL's current estimates of costs, Table 3 (Exhibit DBT-3) describes the level of unbundled loop rates that would result using the methodology presented by Dr. Duncan.

Q. **Mr. Trimble, is GTEFL proposing that the rates presented in Table 3 are the rates it deems appropriate for unbundled loops?**

A. No. As Dr. Duncan explains in his testimony, the procedure that GTEFL believes is appropriate for the development of an unbundled loop rate includes a critical element of reality (a rate cap test) that states: "if the rate developed exceeds the stand-alone costs of an entrant to self provide the unbundled element, then the rate should be discounted to mitigate inefficient or uneconomic bypass." The contribution-preserving business rate of $62.47 is, in my estimation, significantly above the costs of an entrant to self-provision that service, and thus must be reduced to a price level that is sustainable in the market (i.e., does not incent inefficient entry of facility-based providers).

It should be noted that the contribution-preserving price of $62.47 for an unbundled business loop is the result of many decades of pricing services based on their perceived "value of service," along with the complementary outcome that excessive revenue contributions from business customers could be used to keep contributions lost to GTEFL would be approximately per year as shown in Table 4 (Exhibit DBT-4).

Even under the assumption of only a 10% loss of market share, the resulting annual loss in contributions will significantly affect the Company. Over time, GTEFL has deployed capital in good faith to support customer needs as well as public policy objectives and in return was allowed to earn a fair rate of return on its invested capital. Unbundling the local network will increase the financial risks to the Company and these risks must be diligently addressed during this proceeding. It is unfair and unreasonable to expect GTEFL to suffer financial hardship for the sake of subsidizing the development of a competitive marketplace. The general public of Florida will only benefit from the entry of efficient competitors; GTEFL's current price structures present significant arbitrage opportunities for inefficient entrants.

## ISSUES

Q. **Mr. Trimble, could you please summarize the major issues that you believe the Commission should address during this proceeding?**

A. Yes. In addition to (and in concert with) the financial issues facing the Company, the Commission should address: (a) how this proceeding integrates with universal service activities, (b) the potential for the Company to move toward rebalancing its retail rates (both between customer sets and geographically) to correctly reflect efficient price sets, while considering current Florida legislation, and (c) the recovery of one-time implementation costs.

Q. **In terms of one-time implementation costs, does the Company have an estimate of the costs for GTEFL? If so, how would the Company propose to recover them?**

A. The Company has estimated incremental implementation costs associated with local competition for GTEFL to be approximately $2.2 million over a three-year planning period beginning in 1996. This only includes one-time incremental implementation

**Table 1**

**Average Business Customer - Contribution Analysis**

| | Revenue (per Line) | TSLRIC (per Line) | Contribution (per Line) |
|---|---|---|---|
| **Local Exchange Line** | $35.46 | | |
| **EUCL (CALC)** | $6.00 | | |
| **Toll** | $4.06 | | |
| **Vertical Services** | $1.12 | | |
| **IS - Switched Access** | | | |
| *** CCLC** | $4.83 | | |
| *** Other** | $5.33 | | |
| **ST - Switched Access** | $8.11 | | |
| **TOTAL** | $64.91 | | |

**Table 2**

**Average Residential Customer - Contribution Analysis**

| | Revenue (per Line) | TSLRIC (per Line) | Contribution (per Line) |
|---|---|---|---|
| Local Exchange Line | $10.85 | | |
| EUCL (CALC) | $3.50 | | |
| Toll | $1.83 | | |
| Vertical Services | $2.35 | | |
| IS - Switched Access | | | |
| • CCLC | $3.37 | | |
| • Other | $3.71 | | |
| ST - Switched Access | $5.66 | | |
| TOTAL | $31.27 | | |

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**Table 3**

**Contribution Preserving Unbundled Loop Rates**

| | TSLRIC Unbundled Loop | TSLRIC Wholesale Costs | Lost Contribution to Margin | Total (Rate) |
|---|---|---|---|---|
| **Business** | | | | $62.47 |
| **Residential** | | | | $28.93 |
| **Avg Bus + Res** | | | | $37.58 |

**Table 4**

**Revenue Impacts of Unbundling Loops**

| | Lost Customer Lines (10%) (a) | Retail Contribution (b) | Unbundled Loop Contribution (c) | Annual Loss (d) = (a)*(b-c)*12 |
|---|---|---|---|---|
| **Business** | 50,000 | | | |
| **Residential** | 144,000 | | | |
| TOTAL | | | | |