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REPLY TO:
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February 20, 1996

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

via Hand Delivery

Re: Resolution of Petition(s) to establish 1995 rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes; Docket No. 950985-TP

Dear Ms. Bayo:

ACK
AFA _____
APP _____
CNE _____
CTR _____
EAC _____
EAG 1
EIN 5
EPC _____
ECH _____
SEC 1
WAS _____
JTH _____

Enclosed for filing please find an original and fifteen copies of the Rebuttal Testimony of Don J. Wood on behalf of Time Warner AXS of Florida, L.P. and Digital Media Partners for the above-referenced docket.

You will also find a copy of this letter enclosed. Please date-stamp the copy of the letter to indicate that the original was filed and return to me.

If you have any questions regarding this matter, please feel free to contact me. Thank you for your assistance in processing this filing.

Respectfully,

PENNINGTON, CULPEPPER, MOORE,
WILKINSON, DUNBAR & DUNLAP, P.A.

Peter M. Dunbar
Peter M. Dunbar

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PMD/tmz
Enclosure

cc: All Parties of Record (w/ enclosure)

DOCUMENT NUMBER-DATE

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CERTIFICATE OF SERVICE
DOCKET NO. 950985-TP

I HEREBY CERTIFY that a true and correct copy of the Rebuttal Testimony of Don J. Wood on behalf of Time Warner AxS of Florida, L.P. and Digital Media Partners has been served by either *Federal Express or Hand Delivery on this 20th day of February, 1996, to the following parties of record:

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PETER M. DUNBAR, ESQ.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **DOCKET NO. 950985-TP**
3 **REBUTTAL TESTIMONY OF**
4 **DON J. WOOD**
5 **ON BEHALF OF TIME WARNER AXS OF FLORIDA, L.P.**
6 **AND DIGITAL MEDIA PARTNERS**
7 **FILED: FEBRUARY 20, 1996**

8
9 **Q: PLEASE STATE YOUR NAME AND ADDRESS.**

10 **A: My name is Don J. Wood, and my business address is**
11 **914 Stream Valley Trail, Alpharetta, Georgia**
12 **30202. I provide consulting services to the**
13 **ratepayers and regulators of telecommunications**
14 **utilities.**

15
16 **Q: ON WHOSE BEHALF ARE YOU TESTIFYING TODAY?**

17 **A: I am testifying on behalf of Time Warner AxS of**
18 **Florida, L.P. ("Time Warner AxS") and Digital Media**
19 **Partners ("DMP") (collectively "Time Warner").**

20
21 **Q: HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
22 **PROCEEDING?**

23 **A: Yes.**

1 Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. The purpose of my testimony is to respond to the
3 direct testimony of Dr. Nina W. Cornell on behalf
4 of MCI Metro Access Transmission Services, Inc.
5 ("MCIMetro") and Mr. F. Ben Poag on behalf of
6 United Telephone Company of Florida and Central
7 Telephone Company of Florida ("Sprint United").

8
9 In my direct testimony filed December 21, 1995, and
10 rebuttal testimony filed January 26, 1996, I
11 described the importance of a regulatory framework
12 for local interconnection between Time Warner (and
13 other ALECs generally) and the network of Sprint
14 United. Specifically, I described the importance
15 of a compensation scheme that 1) compensates each
16 carrier while avoiding the creation of unnecessary
17 costs, 2) avoids the creation of excessive per unit
18 costs for new entrants with relatively low initial
19 levels of traffic, 3) prevents, to the extent
20 possible, the ability of Sprint United to create a
21 price squeeze for new entrants, and 4) does not
22 create, through inconsistent cost/rate
23 relationships, artificial incentives for new
24 entrants to make inefficient investments. In
25 addition, any compensation arrangement for local

1 interconnection should not artificially limit the
2 ability of competitive market forces, as they
3 develop, to encourage all carriers -- including
4 both incumbents and new entrants -- to operate as
5 efficiently as possible. The cost savings that
6 result from these efforts will translate into lower
7 prices from consumers. These same objectives
8 should be met in any framework for local
9 interconnection adopted for GTE Florida,
10 Incorporated ("GTE-FL"). Each of the
11 recommendations in my previous testimony can, and
12 should, be applied to GTE-FL. Accordingly, the
13 Commission should also order for GTE-FL that a
14 "payment in kind," rather than "payment in cash,"
15 compensation arrangement be implemented, and that
16 if a "payment in cash" arrangement is adopted, that
17 an effective imputation standard be applied and
18 that rate/cost relationships not be permitted that
19 will distort the information available to a new
20 entrant when making a "build or buy" decision.

21

22 Q. IN YOUR PREVIOUS TESTIMONY, YOU DESCRIBED
23 ADDITIONAL COSTS THAT WILL BE INCURRED BY BOTH
24 INCUMBENT LECS AND NEW ENTRANTS IF A "PAYMENT IN

1 **CASH" ARRANGEMENT IS ADOPTED. DOES THE TESTIMONY**
2 **OF OTHER WITNESSES SUPPORT YOUR OBSERVATIONS?**

3 A. Yes. Specifically, I described my review of cost
4 information provided by other LECs that suggests
5 that measurement and billing costs constitute the
6 bulk of the reported incremental cost of
7 terminating a local call originated by a co-
8 carrier. In other words, it is likely that over
9 half of the incremental cost incurred by Sprint
10 United or GTE-FL to provide local interconnection
11 on a per minute basis *can be avoided* if a "payment
12 in kind" arrangement is adopted, thereby
13 eliminating the need for measuring and billing this
14 traffic. At p. 14 of her testimony, Dr. Cornell
15 points out a similar experience: "based on
16 information that I have seen in other states,
17 developing such a measurement and billing system
18 could more than double the total service long run
19 incremental cost of the switching function for
20 terminating traffic from the cost without
21 measurement and billing." As in his previous
22 testimony, Mr. Poag at p. 15 also describes the
23 necessary measurement and billing software as
24 "relatively expensive," and again goes on to state
25 that because of this expense, Sprint United will

1 only be providing this capability at access
2 tandems. Clearly, if a capability that is
3 "relatively expensive" enough to constitute more
4 than half of the incremental cost of providing
5 local interconnection can be avoided, customers of
6 both incumbents and new entrants will benefit. A
7 "payment in kind" arrangement provides such an
8 opportunity.

9

10 **Q. IN YOUR PREVIOUS TESTIMONY YOU DESCRIBED THE**
11 **IMPORTANCE OF AN EFFECTIVE IMPUTATION STANDARD IF A**
12 **"PAYMENT IN CASH" ARRANGEMENT IS ADOPTED. DO OTHER**
13 **WITNESSES AGREE WITH YOUR ASSESSMENT?**

14 **A. Yes. At pp. 20-23 of her testimony, Dr. Cornell**
15 **describes in details why a price squeeze will be**
16 **created if Sprint United or GTE-FL is permitted, as**
17 **proposed, to charged switched access rates to co-**
18 **carriers for local interconnection. I whole-**
19 **heartedly agree with her conclusion at p. 21 that**
20 **"use of switched access charges for compensation**
21 **for terminating local traffic under Sprint/GTEFL's**
22 **currently regulatory restrictions would deny the**
23 **public all of the benefits that could come from**
24 **local exchange competition." Since existing local**
25 **exchange rates are capped (and to permit Sprint**

1 United or GTE-FL to increase rates in order to meet
2 an imputation test would hardly constitute a
3 benefit to consumers), it is necessary to adjust
4 the proposed interconnection charges in order for a
5 price squeeze to be avoided.

6
7 The most administratively simple and least costly
8 method of avoiding a price squeeze is "payment in
9 kind" mechanism. If a "payment in cash" mechanism
10 is adopted, rates for interconnection elements
11 should be set at a level equal to the total
12 service, long run incremental cost ("TSLRIC") of
13 the incumbent LEC of providing them. With such a
14 rate level, incumbent LECs will be fully
15 compensated (including a fair return on capital)
16 for all costs incurred as a result of offering
17 local interconnection. End users, meanwhile, will
18 have the opportunity to fully benefit from the
19 action of competition market forces, without the
20 artificial constraints imposed by a rate structure
21 that establishes the rates for "wholesale"
22 services, such as local interconnection, at a level
23 above TSLRIC.

1 Q: DOES THIS CONCLUDE YOUR TESTIMONY?

2 A: Yes, it does.