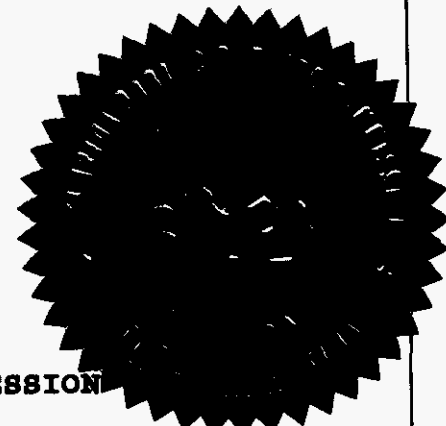


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In Re: Resolution of
petition(s) to establish
nondiscriminatory rates, terms,
and conditions for
interconnection involving local
exchange companies and
alternative local exchange
companies pursuant to Section
364.162, Florida Statutes.

DOCKET NO. 950985-TP



SECOND DAY - MID AFTERNOON SESSION

VOLUME 9

PAGES 939 through 1106

PROCEEDINGS:

HEARING

BEFORE:

CHAIRMAN SUSAN F. CLARK
COMMISSIONER J. TERRY DEASON
COMMISSIONER JULIA L. JOHNSON
COMMISSIONER DIANE K. KIESLING
COMMISSIONER JOE GARCIA

DATE:

Tuesday, March 12, 1996

TIME:

Commenced at 8:30 a.m.

PLACE:

Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY:

LISA GIROD JONES, RPR, RMR

APPEARANCES:

(As heretofore noted.)

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(Transcript continues in sequence from Volume 8.)

Q (By Ms. Weiske) Dr. Cornell, there's a statute in Florida that requires that the charge for the -- that the cost of furnishing interconnection must be recovered in the charge. Are you generally familiar with that?

A Yes.

Q I'm not asking this question as -- of you as a lawyer, but as an economist. If this Commission would adopt your recommendation of bill and keep, and traffic were out of balance sufficiently to the detriment of the incumbent LEC, how is it that the LEC would be able to recover their costs in the charges for interconnection?

A I think I've got to go back to what I tried to say earlier, which is I cannot believe that that statute means that this Commission must order something inefficient. That is, if the amount by which those costs supposedly are not recovered is very small and the cost of putting in a system in place to recover it is very large -- so that if we're talking, my example before of if the amount out of balance is \$1,250 a month, given that the statute is supposed to promote efficiency in competition, it makes no sense to read it

1 as -- and I'm only speaking as a layperson -- to read it
2 as saying that even so, you must impose this huge
3 inefficiency to capture \$1,250. It just -- this does
4 not, to me, make any public policy sense, and I do not
5 believe a statute is that irrational.

6 MS. WEISKE: Thank you, Dr. Cornell. That's
7 all I have.

8 CHAIRMAN CLARK: Dr. Cornell, I wanted to
9 follow up on something she had asked with regard to your
10 explanation about the costs that would be involved in
11 measuring traffic so you could make sure you have
12 accurate information about who owes whom. And I wanted
13 to -- you described using SS7, taking the tapes and the
14 auditing function and whatnot. But listening to
15 Mr. Devine this morning, I got a sense that there was a
16 far less complicated method, not as precise, but not as
17 complicated, that may serve the purpose well; that for
18 engineering purposes you do estimate how much traffic
19 you are carrying, or you do measure the total traffic,
20 and then you use the PLU to determine what is local, and
21 you would compensate on that basis. Does that have
22 large costs that we should be concerned about? It seems
23 to me that's a system in place already that we could be
24 using.

25 WITNESS CORNELL: My understanding of what

1 Mr. Devine said this morning -- and I'm not an expert on
2 how MFS does it -- is that they use the peak hour
3 measurement tapes, not 24-hour-a-day measurement tapes.
4 That 24-hour-a-day is not what is normally done, from
5 talking around the country to switch engineers now, in
6 terms of measuring minutes. Peak is done precisely
7 because you engineer to peak, and so you want to make
8 sure you're monitoring for failure, and are you
9 overloading the circuits? Is it time to reinforce? And
10 all those good engineering questions.

11 If you stock to the peak load measurement that
12 people make now times a PLU supplied by the originating
13 carrier, you have only added the billing, the tapes, the
14 auditing costs. These are not trivial, but you are
15 right, that's all you've added in terms of the total
16 transactions cost. My problem with that is that you are
17 to some extent now going to set up gaming the system,
18 who has a better peak-to-off-peak ratio, or
19 off-peak-to-peak ratio more accurately, because they get
20 away with more traffic than the person who's got more
21 peak to off-peak. You are --

22 CHAIRMAN CLARK: You mean that will incent
23 them to encourage their customers to call it, like,
24 "Fridays are free," or whatever it is now?

25 WITNESS CORNELL: Whatever it is. Yes, you do

1 start playing games with the system, basically. But the
2 second thing is -- and I think you should not
3 underestimate what you are setting yourself up for,
4 yourself, you, the Commission. Because in every state,
5 state after state, the LECs have come in at some point
6 and said, "We don't trust them. We want a system where
7 we measure and sort ourselves, because we don't trust
8 the report."

9 CHAIRMAN CLARK: And at that point we say to
10 them, "Fine, measure it, but you're not going to be
11 compensated for it."

12 WITNESS CORNELL: Well, you certainly can tell
13 them --

14 CHAIRMAN CLARK: "If you think it's worth your
15 while, have at it."

16 WITNESS CORNELL: Personally I don't. I very
17 honestly believe that for the next couple of years, or
18 until you at least got up to exchanging an ALEC to an
19 incumbent, at least 50 million minutes a month, that it
20 just isn't worth letting these costs get brought into
21 the system, that there's nothing gained. You are -- I
22 don't know how to say this more strongly: The end
23 result is always going to be paid for by consumers in
24 Florida. And why urge this on them until there's any
25 evidence it's really needed? And that day may never

1 come.

2 CHAIRMAN CLARK: Thank you. Mr. Gillman.

3 MR. EDGINGTON: No cross.

4 CHAIRMAN CLARK: Mr. Fons.

5 MR. FONTS: No cross.

6 CHAIRMAN CLARK: Staff?

7 MR. HATCH: Actually, you've been quite nice
8 in eliminating a lot of my cross. I don't think I have
9 too much.

10 CHAIRMAN CLARK: Excuse me? You don't have
11 much?

12 MR. HATCH: I don't think I have too much.

13 CROSS-EXAMINATION

14 BY MR. HATCH:

15 Q Dr. Cornell, I believe that in your testimony
16 that you advocate mutual traffic exchange. I think
17 that's fairly clear; is that correct?

18 A Yes. If it wasn't clear, I hope it is now.

19 Q And for LEC toll intercompany you advocate
20 current switched access charge; is that correct?

21 A That's correct.

22 Q And you don't really mention, essentially,
23 interexchange carrier access -- call it interLATA access
24 for our purposes for now. Would your access charge
25 system be the same for interexchange carriers, or would

1 it be different access rates, rate structure?

2 A Oh no. For intraLATA toll calls -- let me put
3 it -- let me try again. I do not advocate that one
4 carrier get to pay a different rate for the same kind of
5 traffic as another carrier -- than another carrier. So
6 if you are going to charge interexchange carriers
7 intraLATA switched access charges, ALECs should pay for
8 intraLATA toll calls, intraLATA switched access
9 charges. I didn't discuss at all interLATA switched
10 access because, frankly, it didn't look to me that that
11 was within the boundaries of the case.

12 If you want my recommendation on it, I'm happy
13 to give it to you, but that -- switched access, I
14 thought, was outside of it, except as to the question of
15 what ALECs and incumbents should pay each other for
16 terminating the other carrier's intraLATA toll calls.

17 Q In some respects probably it is, but if I
18 understand you correctly, an access minute is an access
19 minute, and you would not treat them differently for
20 pricing purposes; is that correct?

21 A Over the long haul that's absolutely correct,
22 and I think, quite bluntly, that as you move into the
23 competitive world, if you want the full benefits of
24 competition across all telecommunications markets, all
25 of the arguments I have made here about why local

1 interconnection should be priced, if you're going to put
2 a cash price on it, no higher than TSLRIC, apply with
3 equal force and validity to interLATA, as well as
4 intraLATA switched access charges.

5 Q When an ALEC terminates a minute to an
6 incumbent LEC, the incumbent LEC's network, is there any
7 technical difference for that network in terminating
8 either a toll call or a local call?

9 A If I remember the network engineering sessions
10 I have sat through, literally speaking, intraLATA toll
11 and local come in over the same trunks which do the same
12 thing to the switch. Switched access, however, is a
13 different story. It comes in over a different set of
14 trunks which activate some different systems within the
15 local exchange or the tandem switch. So there are
16 slightly different functions performed, in a very
17 technical sense, between switched access and
18 local/intraLATA toll.

19 Q Those functions would be recording and
20 measuring; would that be correct?

21 A That's essentially correct. More information
22 is passed on the switched access trunk, but it then
23 prevents you from sending some other stuff. My
24 engineering is beginning to -- I need a refresher
25 course, but -- in this.

1 Q That's probably as far as I'm going with
2 engineering.

3 If a minute is a minute is a minute, and the
4 difference between switched access and toll and local
5 really has to do with recording and measuring, perhaps
6 billing functions, but when the network actually starts
7 to transport those minutes they all look the same to the
8 network, yet, we're talking about different rate regimes
9 for each of those classes. Why is that?

10 A Well, what you're really dealing with is the
11 holdover of the old rate of return monopoly way of
12 thinking, to be very blunt about it, and switched access
13 was perhaps the biggest victim of that way of thinking
14 of making companies whole in a cost plus environment.
15 If you want to have a competitive regime, and if, as we
16 move forward under the federal act, at some point this
17 is going to have to be faced squarely that you're
18 talking about a very different kind of competitive
19 regime than we've had up until now, you are really going
20 to have to worry about the level of switched access
21 rates.

22 My advice, for what it's worth, or my policy
23 recommendation maybe is a better way to put it, is that
24 you get local interconnection right, and then move to
25 deal -- which you will have to do fairly soon -- move to

1 deal with the rest of it, in order to set up all
2 telecommunications markets to finally bring the real
3 benefit of both lower cost and more rapid introduction
4 of technological change. You've had that in the
5 interLATA market, but with an artificially high price
6 floor caused by the contribution built into switched
7 access.

8 Q You advocate, essentially, multiple points of
9 interconnection between ALECs and LECs; is that correct?

10 A That's correct.

11 Q Anywhere from one premise of the ALEC to the
12 premise of the LEC and anywhere in between, is that sort
13 of the universe?

14 A That's correct.

15 Q Does your multiple points include connection
16 to the access tandem?

17 A Yes.

18 Q Are there any special arrangements in terms of
19 how you would handle connections with terms of just the
20 operational questions, regarding access tandems versus
21 meet-point billing versus end office connections?

22 A I'm not sure I understand the question.

23 Q For example, you're familiar with meet-point
24 billing?

25 A I'm less familiar with the details of

1 meet-point billing. I know roughly what it means. But
2 I don't know -- I couldn't sit here and tell you
3 precisely how it works.

4 Q Would you equate mid-span meet with meet-point
5 billing? Is that the same to you?

6 MR. FONS: Madam Chairman, I'm going to object
7 to this line of questioning. It's obvious this is not
8 covered in Dr. Cornell's direct or rebuttal testimony.

9 MR. HATCH: On the contrary.

10 MR. FONS: She said she doesn't know the
11 difference between the two.

12 MR. HATCH: She has talked about multiple
13 points of interconnection, and I'm trying to explore her
14 concept and her understanding and how those should be
15 treated.

16 CHAIRMAN CLARK: Mr. Hatch, will you ask your
17 question again?

18 MR. HATCH: I asked her originally what her
19 understanding was of meet-point billing.

20 CHAIRMAN CLARK: And your answer?

21 WITNESS CORNELL: My answer was that I was
22 familiar with the concept; I didn't know the details of
23 it operationally, I mean exactly how you measure various
24 things and so on.

25 MR. HATCH: And then there's another term that

1 has been bandied about in these proceedings called
2 mid-span meet, and my question to her is did she
3 understand mid-span meet to be the same as meet-point
4 billing.

5 CHAIRMAN CLARK: I'll allow her to answer that
6 question.

7 WITNESS CORNELL: I believe the answer is not
8 entirely the same. That is, mid-span meet has at least
9 the meaning of an interconnection between two adjacent
10 LECs who are having an EAS route, and they have a
11 mid-span meet for the facilities that transmit that
12 traffic. Meet-point billing is often when you've got
13 several LECs involved in the ultimate origination or
14 termination of a switched access service, or an
15 interLATA toll call. And meet-point billing involves
16 how you divide up and assess access charges in that
17 world where you're using the facilities of several LECs
18 at one end of that toll call.

19 Q (By Mr. Hatch) Would you have or would you
20 view that there would be any limitations or requirements
21 on ALECs in terms of interconnecting with each other
22 when they are collocated at the same central office?

23 A I do not think there should be any artificial
24 bar to that interconnection in the same local central
25 office. It is, of course, appropriate to require

1 whatever is necessary, but genuinely necessary, to
2 preserve the integrity of the incumbent's local central
3 office, but absolutely nothing more than that.

4 Q Let me see if I understand that. You would
5 allow, for example, LECs to cross connect without going
6 through the LEC's network in that central office?

7 A That's right. I mean, if you've got two cages
8 side by side, there should be no reason why the
9 facilities in cage 1 can't interconnect with the
10 facilities of cage 2, period.

11 Q And in those instances where you would
12 actually utilize the LEC network to get back and forth,
13 then you would impose -- would you impose any sort of
14 transiting charge?

15 A I would certainly say that if you're using --
16 if you're coming in and going through, for example, the
17 access tandem to get to -- or a local tandem, to get to
18 the cage of another ALEC, or to get to the facilities of
19 another ALEC, that the TSLRIC, or the average TSLRIC
20 cost, of performing that function is an appropriate
21 charge.

22 Q In respect to your rates, would those rates be
23 set at TSLRIC?

24 A At average TSLRIC, yes, no contribution. As I
25 said, that covers all of the costs caused by providing

1 that interconnection.

2 Q What about ALEC to ALEC that cross connect
3 within a CO that don't transit a LEC network?

4 A If there are costs that are caused by that, if
5 it uses floor space not otherwise compensated for, it's
6 appropriate to charge the average TSLRIC cost of that
7 which it uses. If in my earlier example you literally
8 have two cages that abut each other, there's no
9 additional cost, there should be no charge.

10 Q When you're referring to two cages next to
11 each other, are you referring to physical collocation?

12 A Yes.

13 Q Are you familiar with the term "virtual
14 collocation"?

15 A Yes.

16 Q What is your understanding of virtual
17 collocation?

18 A Virtual collocation, as I understand it, is
19 that the carrier brings a facility -- not quite to the
20 front door, but up to the central office, or the access
21 office, whatever you want to call it, and it is then
22 taken by the LEC, who provides the rest of that
23 facility, and connected to equipment that is specified
24 by the collocator, who has to pay for that equipment,
25 but it's provided, it's inserted and so on, by the LEC,

1 in the office, let me put it that way, the building, of
2 the LEC.

3 Q In a virtual collocation scenario, how would
4 you handle the transiting between ALEC to ALEC in terms
5 of rating, that we talked about with respect to physical
6 collocation?

7 A That is a tough one. The theoretical answer
8 is it should be at literally just the cost of making
9 that connection once again. The reason, when I said
10 it's tough, when I talk about it in a physical
11 collocation world, and you literally have two cages that
12 abut each other side by side, you can have a technician
13 in one stick a piece of fiber through to the other and
14 you never have to use the LEC. And so the two companies
15 can try to look for the least-cost way to do that. You
16 need some check on what is argued to be the least-cost
17 way when it's a virtual collocation. And I haven't
18 thought about that very much. Partly because I'm still
19 trying to figure out what the federal law means for all
20 of collocation.

21 Q Have you reviewed either General's or
22 Centel/United's costs data that they have submitted
23 regarding the cost of local interconnection in this
24 proceeding?

25 A I looked at it last night.

1 Q In your review, do those cost studies contain
2 anything that you would not otherwise advocate being
3 included in the cost studies?

4 A I could not tell what was included in the
5 Sprint-United/Centel study, but its numbers were vastly
6 higher than I would have expected to see.

7 Q And what would you conclude from that?

8 A There are two conclusions. They're either
9 very inefficient or they've done a very bad cost study.

10 Q Assuming they're efficient and they did a bad
11 cost study, is it your position that they've included
12 things in their costs that shouldn't otherwise be there?

13 A They would have had to to get to that number.

14 Q If --

15 A Excuse me, may I say "those numbers"? There
16 were a number of out-of-line numbers, not just one.

17 Q If the Commission is looking to establish some
18 sort of an interconnection rate, and we don't have any
19 kind of TSLRIC number or numbers that give us any
20 reasonable comfort, what would you advocate as some sort
21 of a surrogate until those numbers can be derived?

22 A Well, I look at what's going on around the
23 country and where you can see -- I would look at the
24 lowest rate that has been put out by another state that
25 still claims to have contribution in it. I think at

1 this point we're looking at Maryland at three-tenths of
2 a cent for end office. I frankly think that the real
3 costs -- that even at my hypothetical earlier today of a
4 quarter of a cent a minute, you are above, or at least
5 you are certainly recovering TSLRIC and probably above,
6 that that would be appropriate if you felt you had to do
7 a number. I still hope you will do mutual traffic
8 exchange.

9 Q Let's go back for a second. I believe you
10 said that you had looked at United's cost data?

11 A Yes.

12 Q Have you looked at General's?

13 A Yes, I did.

14 Q Did you -- are they the same? Are they
15 different?

16 A Oh, they're very different. General's is much
17 lower than Sprint's and more in line with -- I won't say
18 perfectly because I -- excuse me -- I don't carry with
19 me confidential numbers I've seen elsewhere. But it
20 seems much more in line with what I've seen. I still go
21 by what I said publicly is available, is that at
22 three-tenths of a cent end office interconnection, the
23 Maryland Commission stated clearly that had contribution
24 in it.

25 Q That's all we have. Thank you, Dr. Cornell.

1 Oh, one more thing, I'm sorry, I have an exhibit.

2 Dr. Cornell, do you have before you a copy of
3 your deposition transcript that was taken 2-28-96?

4 A Yes, and I have two corrections to it if I
5 may. They are very tiny, but I think necessary to
6 understand more clearly. On Page 9, Line 20, I would
7 put a period after the word "output," which is the third
8 word in, and then insert the word "it." And on Page 15,
9 Line 22, the phrase, capital R, new word, B-O-X, should
10 be capital R-B-O-C, small S.

11 COMMISSIONER JOHNSON: What was that?

12 WITNESS CORNELL: The phrase R --

13 COMMISSIONER JOHNSON: What page?

14 WITNESS CORNELL: I'm sorry, Page 15, Line 22.
15 I used an acronym, and the court reporter clearly did
16 not understand.

17 MR. HATCH: RBOCs.

18 COMMISSIONER JOHNSON: I got you.

19 Q (By Mr. Hatch) Are there any other changes or
20 corrections you need to make to that?

21 A No.

22 Q Everything in there still true and correct?

23 A Yes.

24 MR. HATCH: Madam Chairman, could we have that
25 marked as an exhibit, please?

1 CHAIRMAN CLARK: NCW-2 will be marked as
2 Exhibit No. 24.

3 MR. HATCH: Let the record reflect that we
4 inadvertently entitled it NCW. It should be NWC.

5 (Exhibit No. 24 marked for identification.)

6 CHAIRMAN CLARK: Commissioners?

7 CHAIRMAN CLARK: Redirect?

8 MR. MELSON: No redirect. I think I got my
9 earlier question answered, and I would move No. 22.

10 CHAIRMAN CLARK: Exhibit 22 is entered in the
11 record without objection.

12 MR. HATCH: Staff would move 23.

13 CHAIRMAN CLARK: 24.

14 MR. HATCH: 24, sorry.

15 CHAIRMAN CLARK: Exhibit 24 will be entered in
16 the record without objection.

17 (Exhibit Nos. 22 and 24 received into
18 evidence.)

19 CHAIRMAN CLARK: I've been asked to take --
20 Dr. Cornell, you're excused. Thank you very much.

21 WITNESS CORNELL: Thank you.

22 (Witness Cornell excused.)

23 * * *

24 CHAIRMAN CLARK: I have been asked to take
25 inventory on our remaining witness and how long we

1 expect them to take. They are Dr. Beauvais, Ms. Menard,
2 Mr. Poag and Mr. Michaelson.

3 Ms. Wilson, can you give me an estimate of the
4 cross-examination you have collectively for these
5 witnesses?

6 MS. WILSON: It depends on their response. I
7 would say probably about an hour and a half tops.

8 CHAIRMAN CLARK: Mr. Crosby?

9 MR. CROSBY: Hopefully not much more than an
10 hour.

11 CHAIRMAN CLARK: No cross examination? None?
12 Mr. Melson?

13 MR. MELSON: I would say about 45 minutes
14 total.

15 CHAIRMAN CLARK: Mr. Logan?

16 MR. LOGAN: Very limited.

17 CHAIRMAN CLARK: You're just like my son. I
18 want a figure here. I want something that's specific,
19 not quality.

20 MR. LOGAN: Less than 15 minutes.

21 CHAIRMAN CLARK: Okay. Mr. Horton.

22 MR. HORTON: Probably only 15 or 20, but I
23 would expect my questions are going to be asked before I
24 get to them.

25 CHAIRMAN CLARK: Mr. Rindler?

1 MR. RINDLER: I would say 15 minutes to a half
2 an hour, but if I'm following Mr. Melson, probably none.

3 CHAIRMAN CLARK: Ms. Weiske?

4 MS. WEISKE: About an hour.

5 CHAIRMAN CLARK: Staff?

6 MS. CANZANO: About an hour and a half.

7 CHAIRMAN CLARK: Is that what it is? Six
8 hours? Well, let's plow on then.

9 MR. WAHLEN: While we're on that subject, I've
10 talked to some of the lawyers. I haven't had a chance
11 to poll all of them, but it would be United's interest
12 in having Mr. Poag appear after Mr. Michaelson. That
13 isn't reflected in the prehearing order.

14 CHAIRMAN CLARK: Is there an objection to
15 having Mr. Poag appear after Mr. Michaelson?

16 MS. WEISKE: Your Honor, for Time Warner it
17 kind of depends on where we go after tonight, in terms
18 of what day we go into. Assuming we're not going to
19 finish tonight, and I don't think we've addressed that
20 yet.

21 CHAIRMAN CLARK: No, I haven't. What
22 difference does it make?

23 MS. WEISKE: Because I'm not available
24 Friday. I have a deposition scheduled against
25 Southwestern Bell in Texas, and so I was trying to

1 anticipate if I had to get local counsel --

2 CHAIRMAN CLARK: And you have more questions
3 for Mr. Poag than Mr. Michaelson?

4 MS. WEISKE: I have about 45 minutes for
5 Mr. Poag, depending how he answers, half hour to 45
6 minutes. Nothing for Mr. Michaelson.

7 MR. WAHLEN: Part of our interest would be in
8 having our out-of-town witness be in a position to not
9 have to come back if we have to come back.

10 CHAIRMAN CLARK: And that is Mr. Michaelson?

11 MR. WAHLEN: That is Mr. Michaelson from
12 Washington, state of Washington.

13 CHAIRMAN CLARK: Mr. Poag is from out of town
14 too.

15 MR. WAHLEN: Mr. Poag is moving to
16 Tallahassee.

17 CHAIRMAN CLARK: Oh, how nice. I meant that
18 sincerely.

19 MR. WAHLEN: And I'm sure he appreciates your
20 sincere thoughts.

21 CHAIRMAN CLARK: Ms. Weiske, I don't envision
22 going Friday. And in fact, if we do anything, it will
23 be tomorrow, but I presume we will plow on and try and
24 get this done this evening. I'm hoping that despite the
25 fact that you have given me six hours of

1 cross-examination, that a lot of that is duplicative and
2 we have a good shot at finishing it tonight.

3 MR. RINDLER: Thank you, Your Honor.

4 CHAIRMAN CLARK: So with that, let's start
5 with Dr. Beauvais.

6 MR. GILLMAN: Thank you, Madam Chairman.
7 Madam Chairman, before I start, I want to mention
8 something about the exhibits proposed by Commission
9 Staff.

10 CHAIRMAN CLARK: Yes, sir.

11 MR. GILLMAN: The Commission Staff divided
12 these various exhibits up depending -- based upon a
13 conversation I had with Ms. Canzano before I talked with
14 my witnesses, and we've worked it out as to which
15 witness will sponsor which exhibit, but possibly for the
16 parties' benefit I need to advise them that Bev Menard
17 will testify regarding all of the interrogatories, as
18 well as the specific cost studies that were produced in
19 this docket in response to discovery. And Mr. Beauvais
20 would be available to answer theoretical economic
21 questions about studies in general, but the actual
22 number crunching, it would be more appropriate for the
23 parties to ask Ms. Menard about those -- direct those
24 questions to Ms. Menard.

25 CHAIRMAN CLARK: Mr. Gillman, will it be

1 acceptable to you that I go ahead and identify them as
2 Staff cross-examines Dr. Beauvais and if they cannot be
3 moved in at that time and they need to wait for
4 Ms. Menard to verify them, then so be it.

5 MR. GILLMAN: That's fine.

6 CHAIRMAN CLARK: And I would anticipate people
7 will ask their questions. If Dr. Beauvais needs to
8 indicate that the particulars are within the expertise
9 of Ms. Menard, he can do that.

10 MR. GILLMAN: That's fine.

11 CHAIRMAN CLARK: Mr. Melson?

12 MR. MELSON: I was just going to comment that
13 based on our conversations with GTE, we believe that
14 substantially all, if not all, the questions we're going
15 to direct to Dr. Beauvais will be directed to
16 Ms. Menard, and I did not plan to ask them twice. I was
17 going to take the representation.

18 CHAIRMAN CLARK: So you know what you're
19 doing. Good. All right.

20 Let me get to Dr. Beauvais's testimony. One
21 piece of testimony; is that right?

22 MR. GILLMAN: One piece of testimony.

23 CHAIRMAN CLARK: Thank you. Go ahead,
24 Mr. Gillman.

25 EDWARD C. BEAUVAIS

1 was called as a witness on behalf of GTE Florida
2 Incorporated, and having been duly sworn, testified as
3 follows:

4 DIRECT EXAMINATION

5 BY MR. GILLMAN:

6 Q Could you state your name and by whom are you
7 employed, please?

8 A My name is Edward C. Beauvais. It's
9 B-E-A-U-V-A-I-S, since nobody ever gets it right. I am
10 employed by GTE Telephone Operations. Business address
11 is 600 Hidden Ridge, Irving, Texas 75038.

12 Q And have you prepared direct testimony that
13 was filed -- prefiled in this docket on February 6th,
14 1996?

15 A Yes.

16 Q And do you have a copy of that testimony in
17 front of you?

18 A I do.

19 Q Now you did not file any rebuttal in this
20 case; is that correct?

21 A That's correct.

22 Q Now, as a result of the stipulation between
23 GTE and MFS, are you in a position now to strike certain
24 portions of your testimony that have been addressed by
25 that stipulation?

1 A Yes, sir, I am. As a result of the
2 stipulation, I think there's portions of the testimony
3 that can be removed, starting on Page 29, Lines 6
4 through 24.

5 COMMISSIONER KIESLING: Repeat the page
6 number, please.

7 WITNESS BEAUVAIS: Page 29, Lines 6 through
8 24. Page 30, you can zap the whole thing.

9 CHAIRMAN CLARK: Dr. Beauvais.

10 WITNESS BEAUVAIS: Ma'am.

11 CHAIRMAN CLARK: Are you saying -- 24 asks a
12 question. Do you mean 25?

13 WITNESS BEAUVAIS: On Page 29?

14 CHAIRMAN CLARK: Yeah. I mean if you strike
15 Line 24 -- are you striking Line 24?

16 WITNESS BEAUVAIS: Yes. Because all of Page
17 30 goes as well.

18 CHAIRMAN CLARK: What about Line 25?

19 WITNESS BEAUVAIS: I have no Line 25.

20 MS. WEISKE: We do.

21 WITNESS BEAUVAIS: Whoops.

22 MR. GILLMAN: There is a problem.

23 WITNESS BEAUVAIS: I guess Line 25 is history
24 as well. Apparently my testimony had been prestruck.

25 CHAIRMAN CLARK: Just so I'm clear, on Page

1 29, you're striking everything from Line 6 through the
2 end of that page?

3 WITNESS BEAUVAIS: Yes, ma'am.

4 CHAIRMAN CLARK: And then on Line 30, excuse
5 me, Page 30?

6 WITNESS BEAUVAIS: Page 30, the entire page
7 goes. Page 31, Line 1 through 13. Page 35, Lines 12
8 through 24, and apparently 25 goes too.

9 CHAIRMAN CLARK: Page 35, 12 through --

10 WITNESS BEAUVAIS: 25.

11 CHAIRMAN CLARK: Okay.

12 WITNESS BEAUVAIS: And on Page 36, Line 1
13 through 11.

14 Q (By Mr. Gillman) Do you have any additional
15 testimony to strike?

16 A I believe that's it. But there may be some
17 line numbers missing in my life.

18 Q Do you have any changes, additions or
19 modifications to your testimony?

20 A No, I don't.

21 Q Now, with -- as stricken, would your answers
22 be the same today here under oath if I asked you the
23 same questions which appear in your testimony?

24 A Yes, they would.

25 MR. GILLMAN: At this time, Madam Chairman, I

1 would ask that the direct testimony of Edward C.
2 Beauvais, filed on February 6th, 1996 be inserted into
3 the record as though read.

4 CHAIRMAN CLARK: The prefiled direct testimony
5 of Dr. Beauvais will be inserted in the record as though
6 read with those modifications previously noted.

7 Q (By Mr. Gillman) Mr. Beauvais, do you also
8 have some exhibits that you attached to your testimony?

9 A Yes, I do.

10 Q And could you describe what those exhibits
11 are?

12 A I think the first exhibit was a summary of my
13 resume, along with appearances. And Exhibit No. 2
14 consisted of two pages, I believe, explaining
15 hypothetical long term rate structure.

16 MR. GILLMAN: Madam Chairman, I would ask that
17 those two exhibits be marked either separately or as a
18 composite exhibit.

19 CHAIRMAN CLARK: I will mark them as a
20 composite Exhibit 25.

21 (Exhibit No. 25 marked for identification.)
22
23
24
25

GTE FLORIDA INCORPORATED**DIRECT TESTIMONY OF EDWARD C. BEAUVAIS, PH.D.****DOCKET NO. 950985 - TP**

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A. My name is Edward C. Beauvais. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75038. I am employed by GTE Telephone Operations as Senior Economist in the Regulatory Policy Department and am representing GTE Florida, Inc. ("GTEFL") in this proceeding.

Q. WILL YOU PLEASE STATE YOUR EDUCATION AND BUSINESS EXPERIENCE?

A. I received my undergraduate degree in economics from the Virginia Polytechnic Institute in 1971. I continued my education taking courses in finance, math and computer science at Virginia Commonwealth University from 1972 to 1973 while employed by the Virginia Electric and Power Company, responsible for forecasting loads and electricity sales, as well as pricing for natural gas and electricity. I hold both a Masters and a Doctor of Philosophy in Economics from the Center for the Study of Public Choice at the Virginia Polytechnic Institute and have taken postgraduate courses at the Massachusetts Institute of Technology. I have served as a Professor of Economics both at the University of Alabama and the University of Connecticut. I am currently on the visiting faculty at the

1 currently on the visiting faculty at the University of Kansas. For the
2 past nineteen years, I have been with GTE. At GTE, I have held
3 numerous positions dealing with costing, pricing, demand analysis,
4 forecasting and public policy issues. I have provided expert witness
5 testimony before the following state and federal regulatory
6 commissions: Federal Power Commission (now FERC), Federal
7 Communications Commission, Virginia State Corporation
8 Commission, North Carolina Utilities Commission, West Virginia
9 Public Service Commission, Public Service Commission of Wisconsin,
10 Public Utility Commission of Ohio, Hawaii Public Utilities Commission,
11 California Public Utilities Commission, Illinois Commerce Commission,
12 Kentucky Public Service Commission, South Carolina Public Service
13 Commission, Georgia Public Service Commission, Florida Public
14 Service Commission, Corporation Commission of Oklahoma, Indiana
15 Utility Regulatory Commission, Michigan Public Service Commission,
16 Iowa Utilities Board, Pennsylvania Public Utility Commission, Public
17 Utility Commission of Texas, Public Utility Commission of Oregon,
18 Washington Utilities and Transportation Commission, Idaho Public
19 Utilities Commission, and Alabama Public Service Commission.

20
21 In addition to the testimony before state and federal regulatory
22 bodies, I have also presented legislative testimony before the Indiana
23 House Commerce Committee, the Illinois Public Utilities Committee,
24 the Florida House of Representatives and the Virginia General
25 Assembly.

1 Finally, I have written numerous articles for academic and
2 professional journals in the areas of public finance, public choice and
3 the economics of the electric and telecommunications industries, as
4 well as articles and presentations to industry organizations and
5 publications. My professional resume is attached as Exhibit ECB-1.

6

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **DOCKET?**

9 **A.** In response to the testimony of Timothy T. Devine, dated January 23,
10 1996 and a Petition filed by Metropolitan Fiber Systems of Florida,
11 Inc. ("MFS") on that same date, my testimony will address certain
12 economic issues associated with the interconnection of companies
13 entering the local exchange market; in particular, I will focus on the
14 appropriate and economically efficient compensation arrangements
15 to be made between and among companies for the termination of
16 traffic in the local exchange market. I will explain why MFS-FL's bill
17 and keep proposal for the exchange of traffic should be rejected in
18 favor of an originating responsibility plan. Ms. Beverly Menard will
19 address the remainder of the issues associated with interconnection
20 in this docket.

21

22 **Q. DO YOU TAKE ISSUE WITH MR. DEVINE'S ASSERTION (AT**
23 **PAGES 9-10 OF MFS' DIRECT TESTIMONY) THAT**
24 **INTERCONNECTION OF MFS' FACILITIES WITH GTEFL'S**
25 **NETWORK IS A REQUIREMENT IN A COMPETITIVE LOCAL**

1 **EXCHANGE MARKET?**

2 **A.** Not at all. In fact, GTEFL strongly agrees that every telephone user,
3 not only in Florida, should be able to place and to receive calls from
4 every other user, regardless of the carrier selected by any customer
5 to provide service. By definition, therefore, interconnection of
6 networks is required for the exchange of traffic between and among
7 companies. Included in facilitating this exchange of traffic will be a
8 variety of companies utilizing a variety of technologies. Some
9 companies will provide wireless services, others will use wireline
10 technologies; still others will combine the technologies. Some
11 companies may be primarily transport providers, others may
12 concentrate on providing switching services to customers. Network
13 interconnection is required and signalling and billing information is a
14 part of this interconnection. All of these companies may well be
15 considered co-carriers competing with each other in the local
16 exchange marketplace. But even though these companies are (and
17 must be) interconnected, they are also competitors of each other, a
18 fact which must be recognized by the Commission in establishing
19 interconnection policies. No entity--LEC or ALEC--should be
20 responsible for assuring the financial viability of its competitors. Yet
21 this seems to be the assumption underlying many of MFS-FL's
22 positions.

23
24 At the same time, it is important to recognize that GTEFL has in no
25 manner suggested that any customer electing to take service from

1 MFS or any other company will not be able to call all other
2 customers. Neither has GTEFL suggested that MFS customers must
3 use inconvenient dialing patterns, experience call set-up delays, or
4 pay excessive prices to GTEFL for the use of its facilities. To the
5 extent Mr. Devine is suggesting that GTEFL has done so, then he is
6 simply wrong.

7

8 **Q. ONE OF THE SO-CALLED CO-CARRIER ARRANGEMENTS**
9 **DEMANDED BY MFS RAISES THE ISSUE OF COMPENSATION**
10 **FOR EXCHANGED TRAFFIC. DO YOU AGREE THAT THIS IS AN**
11 **AREA THAT MUST BE RESOLVED?**

12 **A.** Absolutely. Mr. Devine is correct that an intercompany
13 compensation plan is important, not only to ALECs, but to LECs as
14 well. The possibility that a compensation plan may more dramatically
15 affect MFS than it does initially GTEFL (as he indicates on page 25
16 of his testimony) simply reflects that GTEFL is relatively that much
17 larger than MFS when MFS is first starting out as a local exchange
18 carrier in Florida. Moreover, Mr. Devine's apparent concern about
19 the potentially negative impact on MFS is undercut by other of his
20 statements suggesting that traffic between the GTEFL and MFS-FL
21 networks is likely to be in balance. (Devine Direct Testimony at 30.)
22 These inconsistencies and uncertainties serve only to emphasize my
23 point that the relative size of the interconnecting carriers has little
24 bearing on whether any compensation plan is an efficient one--which
25 should be a principal concern in this docket.

1 **Q. WHAT IS THE APPROPRIATE STRUCTURE AND PRICING FOR**
2 **LOCAL ACCESS SERVICES?**

3 **A.** First, it is important to recognize that services provided by a local
4 exchange company as well as new entrants are subject to
5 economies of both scope and scale, with very large amounts of
6 common costs present. Thus, if one is truly interested in evaluating
7 an efficient rate structure, then the pricing of services provided out
8 of this common plant should not be examined in piece-parts, as MFS
9 suggests. Rather, the rate structure should be examined on an
10 integrated basis. *The presence of economies of scope and scale*
11 also imply that it will simply not be possible to price all services
12 simultaneously equal to incremental costs--as MFS-FL advocates for
13 the long-term--and to have the firm break even financially. Rather,
14 prices must depart from their optimal first-best prices in an economic
15 sense. *This, of course, involves questions as to what is the most*
16 efficient source for generating such contribution, bringing in the
17 demand side of the marketplace. The brief answer on the demand
18 side will be that those services subject to the greater competitive
19 pressures will make less of a contribution to generating revenues to
20 covering the firm's common costs while services subject to less
21 competitive pressure will make more of a contribution. This is
22 certainly a change from traditional policies pursued in the United
23 States, including Florida, where services such as toll and access,
24 which have historically generated the most contribution to common
25 costs, also exhibit the greatest elasticity of demand. Obviously, this

1 cannot continue in light of the competitive entry which has and
2 continues to occur, as evidenced by MFS in the instant proceeding.

3
4 Prospectively, GTEFL is concerned with migrating the current price
5 structure from the fragmented patchwork of toll, access, and local
6 rates that exist today toward a single integrated structure, much as
7 our rival companies, particularly the cellular carriers, have already
8 been able to do. In this pricing structure, telephone companies must
9 develop rates designed to recover the amount of subscriber "loop"
10 costs and prices to cover the traffic sensitive switching and transport
11 costs. Further, these latter prices must become time and distance
12 sensitive, where cost and demand justified, for all classifications of
13 service that are presently offered: interstate access, intrastate
14 access, intraLATA toll, EAS, and local. All prices in this competitive
15 pricing structure must be derived from the market forces of supply
16 and demand. Aligning all prices to at least recover long run
17 incremental costs avoids cross-subsidization among customers,
18 reduces reliance on arbitrary class of service and rate group
19 characterizations, achieves equity, promotes price stability, and
20 allows GTEFL and consumers greater flexibility in responding to
21 competitive alternatives. In fact, it may even allow GTEFL's
22 competitors the ability to develop creative alternatives.

23
24 Under this unitary pricing approach, there would be a single multi-
25 part tariff applicable to both intra- and intercity calling. For example,

1 a basic monthly rate for network access would be charged and a
2 usage rate structure applied to all calling. The total cost of an
3 intercity call would be the usage charge for end office switching on
4 each end plus the applicable transport charge (including any
5 compensation costs which might be incurred), but still offered to
6 customers as a composite rate or in service packages, if the firms so
7 desired. This is illustrated graphically in GTEFL Exhibit ECB-2, page
8 1, entitled Representative Rate Structure. In this Exhibit, inside wire
9 and customer premise equipment are assumed to be deregulated
10 and are priced on a competitive basis. The loop and line sensitive
11 portion of the LEC central office would be priced on a monthly
12 recurring (flat-rated) basis with the same rate applicable to all
13 customers for a given set of service functional characteristics. This
14 network connection, or network access, charge is the first part of the
15 multi-part tariff.

16
17 The second part of the tariff is a usage charge, applicable to all end
18 office switching and transport of usage, regardless whether the call
19 is toll, access, local, or EAS under today's definitions. As drawn, this
20 rate structure reflects both time-of-day and distance in the applicable
21 prices. In the upper diagram, labeled Peak Usage, two distance
22 bands are shown. The illustrative price per minute of use is given for
23 marginal minutes of use in each of the distance bands: \$0.01 for
24 intraoffice usage; \$0.03 for distance band 1. As drawn, these prices
25 display a declining block structure within each distance band to

1 reflect the anticipated cost characteristics of the newer technologies.
2 Inframarginal prices would be somewhat higher than those shown for
3 marginal usage to satisfy the "revenue requirement." The price
4 structure for off-Peak usage is similar with two distance bands again
5 illustrated. For illustrative purposes, the off-peak marginal prices are
6 50% of those applicable in the peak period.

7

8 **Q. WHAT ARE THE ADVANTAGES OF THIS APPROACH TO THE**
9 **PRICING OF NETWORK SERVICES RELATIVE TO TRADITIONAL**
10 **PRICING APPROACHES?**

11 **A.** This approach has definite advantages over traditional practices. For
12 example, the enforcement and definition problems inherent in placing
13 a differential access charge on "intercity" facilities and usage alone
14 are avoided. Customers are not given an economic signal to switch
15 from a direct to an indirect method of access to the network. Also,
16 such an approach would appear substantially easier to apply in a
17 way that is equitable to all customers and competitors in the
18 telecommunications market. For example, the definition debate
19 which the parties and the Commission might have to go through to
20 determine which minutes are local and which are toll under a bill and
21 keep type plan for local, along with the associated costs, can be
22 avoided. An additional advantage offered by this approach is the
23 flexibility it offers to both customers and to the company, including
24 establishing a framework and reference points for unbundled service
25 provision.

1 The key to long-run success in an increasingly competitive market is
2 flexibility and adaptation, not only in pricing which is my immediate
3 concern here, but in all areas of the GTEFL's operations. The
4 emphasis given to price level and structure is based on empirical
5 evidence in the intercity market that a key element of competition in
6 the future will be price; it will not be the sole playing field on which
7 the game is contested, others will include quality and advertising, but
8 that pricing policy will be a principal method by which rivalry among
9 firms manifests itself.

10

11 **Q. ARE THERE ANY OTHER IMPLICATIONS OF THE PROPOSAL**
12 **YOU ARE MAKING HERE?**

13 **A.** Yes. The existence of competition combined with the decided
14 possibility of resale implies that a sustainable pricing structure must
15 eschew the traditional mechanisms of segmenting users (such as
16 residence, business, interexchange carrier), uses (such as voice,
17 data, or video), and regulatory jurisdiction (interstate, intrastate, toll/
18 local). Rather, feature requirements and the volume of usage along
19 with the costs of providing service will have to become the basic
20 mechanisms for developing prices in the marketplace. In particular,
21 the usage elements of such a competitive pricing structure should
22 specify prices that vary with the quantity of usage in the form of a
23 nonlinear multi-part tariff. GTE Florida Exhibit ECB-2, page 2,
24 illustrates such a rate structure.

25

1 In the top half of this Exhibit, the prices to be charged for each block
2 of usage are illustrated. Units of output between zero and Q_1 are
3 charged at a rate of P_1 ; between Q_1 and Q_2 , price P_2 prevails;
4 between Q_2 and Q_3 , price P_3 applies; all units subsequent to Q_3
5 would be priced at the rate of P_4 which approximate the marginal
6 cost of usage. This same rate structure will also incorporate
7 distance and time-of-day considerations. That is, if rates P_1 to P_4
8 are thought of as the peak period prices, then in this Schedule, the
9 prices P_1 to P_4 would represent the nonlinear multi-part rate
10 structure associated with off-peak usage prices. Careful note should
11 be taken that these off-peak rates may, in fact, be equal to zero in
12 some cases, as is the example shown for P_4 . The element of
13 distance would be included by appropriately increasing the individual
14 prices for subsequent mileage bands. That is, the nonlinear multi-
15 part structure would be repeated for longer distance bands, but with
16 the individual prices within each subsequent band being higher than
17 in the previous band to reflect the costs associated with the longer
18 length of transport.

19
20 In the bottom half of Exhibit ECB-2, page 2, these prices are
21 translated into revenues on a per end user line basis including the
22 recurring monthly connection price. Point A represents the monthly
23 network connection price to be collected on a flat rate basis. The
24 slope of each line segment in the bottom half of the exhibit
25 corresponds to the price of usage in the upper half of the exhibit. In

1 this sense, the nonlinear multi-part structure is equivalent to providing
2 volume discounts to the end user, regardless of his identity.

3
4 Such a nonlinear competitive pricing structure offers several
5 advantages. First, the notion of paying less per incremental unit for
6 large volumes of usage may appear to be intuitively fair, especially
7 when, on the low end of the usage spectrum, this is coupled with a
8 targeted lifeline rate option for low-income customers, such as the
9 FCC's Link-Up America Plan. Second, the nonlinear multi-part
10 competitive pricing structure avoids the economic distortions created
11 by the traditional market segmentation definitions currently employed
12 in the telephone industry. This, in turn, could reduce the regulatory
13 costs necessary to enforce and police the prevailing market
14 segmentation classification. For example, all users of line-side
15 network connections, whether residence, business, or interexchange
16 carrier, would pay for line-side network connection and usage
17 pursuant to the same nonlinear multi-part rate structure, thereby
18 eliminating all tariff restrictions based on user identity or the purpose
19 of the usage. That is, GTEFL becomes indifferent to both the use to
20 which the network is put and the identity of the user of the network.
21 The nonlinear multi-part structure also recovers costs which are
22 directly attributable to the switching and transport of network usage
23 from prices based on the volume of usage consumed, while at the
24 same time approximating the economic efficiency condition that
25 marginal price should be equal to marginal cost. This latter

1 characteristic clearly reduces the threat of inefficient bypass,
2 specifically for large volume users such as interexchange carriers or
3 rival local competitors, by pricing their incremental usage at a level
4 approximately equal to, or at least approaching, their incremental
5 cost.

6 Finally, and perhaps most importantly, a nonlinear multi-part
7 competitive pricing structure can ultimately be viewed as providing
8 a substitute for jurisdictional separations by integrating into a unified
9 rate structure prices for network access, exchange, EAS, intraLATA,
10 and interexchange usage. This rate structure will readily pass an
11 economically correct imputation test and satisfy the equilibrium
12 requirements of the Efficient Component Pricing Rule ("ECPR")
13 (which is detailed in the testimony of Dr. Gregory Duncan in the
14 related Docket number 950984-TP). The last characteristics are
15 important given MFS's petition for the creation of an unbundled
16 product line offer.

17

18 **Q. CAN THE REBALANCED RATE STRUCTURE YOU JUST**
19 **DESCRIBED BE IMPLEMENTED IN THE CURRENT FLORIDA**
20 **MARKETPLACE?**

21 **A.** Not in one giant step, especially given the current Florida law.
22 However, the Commission can adopt approximations of the ideal rate
23 structure which may prove almost as efficient. In the testimony that
24 follows, I have proposed a plan and price structure which are
25 consistent with statutory restrictions, yet accurately describe where

1 the price levels must head if an efficient industry structure is to
2 develop and the benefits of competition are to be fully realized. I
3 have described a long-run sustainable price structure which suggests
4 where rate levels ought to be set, including the rate levels for
5 interexchange of "local traffic" between and among companies. As
6 I have just explained, the marginal price of what is currently referred
7 to as "switched access" decreases under the plan I have proposed
8 and becomes one and the same with the price of what is currently
9 called "local exchange service." In one sense, the rate structure
10 closely resembles the restructured switched local transport charges,
11 with interconnectors paying a flat-rated monthly recurring charge for
12 the entrance facility to the first point of switching and a usage
13 sensitive charge thereafter. Of course, it also looks very much like
14 the traditional local measured service rate structure for end users
15 employed by GTE Florida for shared tenant service (STS) providers.
16 This similarity to a local measured service plan suggests that the
17 price for the exchange of local traffic should also be in the range of
18 the current price of a measured local call. Of course, the structure
19 can also be implemented by a series of optional pricing plans.

20
21 I believe it is important to continue the transition to this type of
22 pricing structure as soon as possible, rather than adopt MFS'
23 proposals for a zero-rated marginal price of a "local minute" of traffic
24 from interconnected carriers such as would prevail under a bill and
25 keep approach. Establishing a zero price for such usage is almost

1 certainly in the financial interest of the newly interconnected
2 companies, at least for some time, but does virtually nothing to
3 facilitate the transition to an economically efficient overall product line
4 and rate structure which I described earlier.

5

6 **Q. WHICH SERVICES NEEDED FOR LOCAL INTERCONNECTION**
7 **ARE NEW AND WHICH DO LECS ALREADY OFFER TO OTHER**
8 **CUSTOMERS/PROVIDERS?**

9 **A.** The basic service used for local interconnection should be an
10 arrangement such as that already contained in LECs switched
11 access tariffs. After all, one of the purposes of such tariffs was in
12 fact to accommodate the origination and termination of traffic
13 between other carriers and the LEC. These arrangements would
14 primarily be expected to be the existing Feature Groups, especially
15 Feature Group D. Feature Group A is also a real possibility.

16

17 However, as I have pointed out to the Commission on other
18 occasions, Feature Group A looks very much like a regular business
19 or residential connection to the network. In addition, it closely
20 resembles the access arrangements currently available to shared
21 tenant service (STS) customers and to PBX customers. Certainly
22 these arrangements can be well suited to the termination of traffic as
23 well and are so used today. After all, the terminating call from a rival
24 LEC or from an IXC coming over an STS trunk, a PBX trunk, or even
25 an R1 line, looks very much like an originating call to the LEC, which

1 must see that call is terminated or routed to the appropriate party.

2

3 **Q. IF EXISTING SERVICES ARE USED FOR THE**
4 **INTERCONNECTION OF RIVAL LOCAL EXCHANGE NETWORKS,**
5 **IS THERE JUSTIFICATION FOR PRICING THE SAME SERVICES**
6 **DIFFERENTLY FOR DIFFERENT USERS?**

7

8 A. Today, essentially the same LEC services are priced differently to
9 different entities, based primarily on these entities' traditional
10 descriptions, which are becoming less and less relevant in a
11 marketplace where technology often blurs the distinctions among
12 these categories. This identity-based pricing is, in large part, a result
13 of historical pricing patterns which evolved in a market structure in
14 which entry was essentially barricaded, or at least tightly controlled.
15 The purpose was largely to keep the price of residential basic local
16 exchange service lower than it otherwise would have been. To do
17 so, other prices were increased, contributing in part to the entry
18 patterns which have been observed in the industry. So there was a
19 social justification for pricing similar services differently for different
20 customers, at least in a closed market.

21

22 However, policy makers at both the state and federal levels have
23 now decided to rely to a far greater degree on competitive market
24 forces rather than regulation to administer markets. Witness the
25 alternative regulatory framework adopted in Florida and the number

1 of applicants already certificated to compete with incumbent LECs
2 here. Entry is no longer controlled and is explicitly encouraged,
3 rather than barred.

4
5 As part of this entry pattern, new entrants are and will be demanding
6 resale of LEC services as well as a complete restructure of LECs'
7 product lines at discounted rates. Within this "wholesale product
8 line," there are to be no resale restrictions. I would note first that
9 this wholesale/retail distinction can be handled within the context of
10 my proposed rate structure whereby large volume purchasers
11 (wholesale) get a lower price at the margin than do small volume
12 purchasers (retail). In such a product line pricing arrangement,
13 resale is allowed. However, the prices are the same to all parties.
14 If one is going to attempt to continue to set discriminatory prices for
15 the same services, based on the identity of the customer, rather than
16 the volume of services purchased and the attributes of those
17 services, then resale must be necessarily be strictly controlled. That,
18 of course, is inconsistent with the demands of the new entrants as
19 well as even attempting to police the resale restrictions in a more
20 competitive marketplace. Thus, I am again led back to the
21 conclusion that attempting to price the same service differently to
22 different customers when costs do not vary (third degree price
23 discrimination) must be rejected on a going-forward basis, and a
24 different method found to recover the common costs of the firm,
25 since all prices cannot be set at incremental costs. Some of those

1 common costs should be efficiently recovered from local
2 interconnection charges, but certainly not in the proportion that was
3 done as a matter of public policy in the initial establishment of access
4 charges. A transitional mechanism can be employed to accomplish
5 this result, including the restructure of a universal service fund, which
6 this Commission is considering in another docket. But certainly any
7 attempt to continue identity-based pricing in the face of unlimited
8 resale can only be successful up to the limits of the transactions
9 costs involved.

10

11 **Q. EARLIER YOU MENTIONED THAT MFS-FL FAVORS A "BILL AND**
12 **KEEP" METHOD OF COMPENSATION. COULD YOU PLEASE**
13 **DEFINE WHAT A BILL AND KEEP PLAN IS?**

14 **A.** "Bill and keep" simply means that the carrier serving a customer bills
15 that customer for all services rendered and keeps all the revenues
16 received from that customer. No other carrier which may be involved
17 in serving that customer through terminating or transporting calls
18 made by that particular end user customer receives any
19 compensation for the use of its facilities.

20

21 **Q. IS "BILL AND KEEP APPROPRIATE UNDER ANY**
22 **CIRCUMSTANCES?**

23 **A.** Yes. Certainly if only one carrier is involved in the originating,
24 transport and termination of a call from an end user to another, bill
25 and keep is appropriate. Bill and keep may also be appropriate

1 under very narrow circumstances where the quantity of terminating
2 minutes is the same, the terminating price charged by both
3 customers is the same and no transiting carriers are involved.
4 Because these circumstances will rarely be present in Florida, the
5 Commission should not establish the bill and keep approach
6 recommended by MFS. Rather, the Commission should adopt an
7 originating responsibility plan ("ORP"). Under an ORP, the carrier
8 serving the customer who originates the call is responsible for seeing
9 that the call is completed and that other firms involved in either
10 transporting or terminating the call are compensated for use of their
11 networks and the services they provide. The originating firm is also
12 responsible for collecting the revenues from the originating customer.

13

14

15 **Q. PLEASE EXPLAIN WHY AN ORP CONSTITUTES A MORE**
16 **APPROPRIATE PRICING STRUCTURE THAN BILL AND KEEP AS**
17 **A INTERCONNECTION PRICING ARRANGEMENT.**

18 **A.** When more than one carrier is involved in calling flowing in both
19 directions, then compensation flows will also be in both directions
20 among certified carriers. For simplicity, let us assume that there is
21 no intermediate carrier involved in the transport of a call. If the
22 quantity of terminating minutes on one carrier is equal to the quantity
23 of terminating minutes sent to the other carrier AND the price carrier
24 A charges for traffic termination is equal to the charge that carrier B
25 charges for traffic termination, then in fact, an ORP and a bill and

1 keep would result in the same net payment between carriers--\$0.00.
2 However, MFS' proposed bill and keep arrangement will always
3 result in zero regardless of the traffic flow characteristics and the
4 relative prices of the carrier pairs. Although a bill and keep
5 arrangement may be appropriate under certain circumstances, it
6 should not be mandated for all other scenarios.

7
8 The existence of a transiting carrier in between originating and
9 terminating carriers (which will be very likely as interfirm rivalry
10 expands in Florida markets) also supports rejection of the bill and
11 keep approach advocated by MFS. For example, a GTEFL
12 customer on one side of town could be making a local or EAS call
13 to a customer of MCI Metro on the other side of the calling area and
14 vice versa. Let's assume that, to complete that call, the call transits
15 an MFS facility. Under the ORP plan, MFS would bill GTE for its
16 transport price and MCI would bill for its terminating price. Under a
17 bill and keep approach, no one gets billed, under the assumption of
18 equal traffic and equal prices in both directions. Although MFS has
19 carried both calls in this example, it is not paid at all under the bill
20 and keep approach because it terminated no calls. Even though I
21 would agree that the incremental cost of transport is quite low, I do
22 not agree that the price should be zero. (However, MFS is at liberty
23 to set a price at zero if it wishes for the use of its facilities.)

24
25 Therefore, bill and keep is financially appropriate under those

1 conditions in which the quantity of terminating minutes is the same,
2 the terminating price charged by both customers is the same and
3 that no transiting carriers are involved. The general preference,
4 however, should be given to an ORP plan, with bill and keep viewed
5 as a unique, special case of ORP.

6

7 **Q. DO YOU AGREE WITH MR. DEVINE THAT BILL AND KEEP**
8 **SHOULD BE ADOPTED IN ORDER TO SAVE ON THE COSTS OF**
9 **MEASUREMENT AND BILLING?**

10 **A.** No. In making this statement (at pages 27-28 of his Direct
11 Testimony), Mr. Devine ignores the fact that measurement and billing
12 costs are very low. Based on investigations into the ongoing
13 incremental costs of measurement and billing associated with local
14 measured service, the incremental costs are between \$0.0003 and
15 \$0.0005 per local message (not per minute). These costs have
16 declined over time, since the technology driving them is the same
17 which has resulted in the decline of switching costs. Thus, although
18 Mr. Devine offers the rationale of high measurement costs a principal
19 motivation for a bill and keep system, he has made no attempt to
20 quantify these costs or otherwise support this assumption, which is
21 critical to his support of bill and keep. Under the circumstances, his
22 assertion that measurements and billing cost could have a
23 "devastating" impact on the cost of local exchange service (Devine
24 Direct Testimony at 27) is simply implausible.

25

1 Moreover, all parties appear to assume that, at least for some time,
2 switched access charges will continue to be assessed on a traffic-
3 sensitive basis, thus requiring the measurement and billing of those
4 calls and charges--certainly MFS makes that assumption clear in its
5 testimony. For some reason, it absolutely believes that switched
6 access charges for toll traffic should be collected on a usage-
7 sensitive basis at the price levels established by the LEC, even
8 though when it may be required to pay a price for "local switched
9 access termination," it believes the appropriate marginal price is
10 zero. Thus, a measurement and billing system will need to be put
11 into place by new entrants in any event. (It would be also seem to
12 be the case that some sort of measurement would be required just
13 to verify or estimate on a periodic basis that traffic was indeed in
14 balance). Having made the capital investment in such a
15 measurement and billing system, the incremental costs of operations
16 must still be sufficiently low to accommodate a measured approach
17 on an ORP basis. It appears to me that this is indeed the case.

18

19 **Q. DO THE DECISIONS FROM OTHER STATES RELIED UPON BY**
20 **MR. DEVINE ON BILL AND KEEP ARRANGEMENTS SUPPORT**
21 **ADOPTION OF SUCH AN ARRANGEMENT HERE IN FLORIDA?**

22

23 **A.** No. In each of the cases noted by Mr. Devine, the state commission
24 supported the so-called bill and keep arrangement on only an interim
25 basis, recognizing that such a plan was not appropriate on a

1 permanent basis. Moreover, with respect to the Michigan, the
2 Commission there did not even order a bill and keep plan, at least
3 under my definition of a bill and keep approach.

4
5 The Michigan intercompany compensation plan sets a local traffic
6 exchange price of \$0.015 per minute. If the traffic is in balance within
7 a 5% range, no exchange of funds takes place, *ceteris paribus*.
8 (While not part of the Michigan plan, I would also point out that if
9 prices are different between companies for the termination of traffic
10 and the traffic is in balance, only the net difference would be
11 charged.) I would not characterize such an approach as a "bill and
12 keep" plan, as MFS witness Devine has done, because a positive
13 incremental price has been established for traffic in both directions,
14 records are made and net compensation flows to the correct
15 company when traffic is not in balance. I would instead characterize
16 it as an ORP with mutual compensation. Nevertheless, if MFS
17 wishes to label such an approach "bill and keep," then I would
18 support it accordingly. Given that the traffic is to be metered
19 anyway, then I would also eliminate the 5% zone, or at least reduce
20 it, since five percent of the traffic can be a very substantial number
21 of minutes.

22
23 **Q. IF BILL AND KEEP IS NOT THE APPROPRIATE METHOD TO**
24 **USE FOR INTERCOMPANY COMPENSATION, HOW SHOULD**
25 **THE COMMISSION PROCEED IN DEVELOPING A METHOD**

1 **WHICH MOST CLOSELY MEETS THE IDEAL PRICING**
2 **STRUCTURE DESCRIBED EARLIER?**

3 **A.** Given my comments above, the Commission's task is to reconcile
4 the bill and keep approach with that of a mutual compensation/ORP
5 approach. That may not be so difficult to do, considering MFS'
6 support for the Michigan plan. I have already stated my belief that bill
7 and keep can be a special case of an ORP and that I believe that an
8 ORP represents the best solution as an appropriate and efficient
9 pricing policy in Florida.

10

11 I recommend that the Commission in this case therefore adopt the
12 following guidelines as consistent with the correct public and
13 economic policy direction in which to proceed:

- 14 1) Establish an ORP framework;
- 15 2) Require independent development of prices for
16 compensation purposes by each company;
- 17 3) Each company (or an administrator) determines net
18 compensation;
- 19 4) Net compensation payments are made among companies
20 based on known prices for the difference in traffic flow and
21 price.

22

23 If step (4) results in zero among a given pair of companies, then no
24 payment is made between those two carriers for that month and the
25 special case of "bill and keep" will have resulted. In my opinion,

1 however, it is rather unlikely that exchanged traffic among all pairs
2 of certified local exchange carriers will be in balance, so that net
3 compensation will take place.

4

5 **Q. EARLIER YOU STATED THAT THE PRICE LEVEL SHOULD BE**
6 **IN THE RANGE OF A LOCAL MEASURED CALL. WHAT PRICE**
7 **LEVEL WOULD YOU SUGGEST THAT THE COMMISSION**
8 **APPROVE FOR THE TERMINATION OF EXCHANGED LOCAL**
9 **TRAFFIC IN FLORIDA?**

10 **A.** The current local calling prices in Florida for residential and business
11 local calling are stated on a per call basis at \$0.10 per completed
12 local call. At the most, the price of local terminated traffic should not
13 exceed this level when expressed on a per minute basis. The mean
14 local holding time is approximately four minutes for a residential call
15 and two minutes for a business call. On a per minute basis, then,
16 the ex post average price for a residential call is \$0.025; for a
17 business customer, the corresponding implicit ex post price would
18 average \$0.05 per minute. However, these prices are too high to
19 facilitate efficient interexchange of local traffic among carriers. There
20 is also a shared tenant service tariff available to be considered. The
21 price for STS service includes both a peak and off peak component.
22 Peak prices currently are \$0.015 per set up and \$0.015 per minute
23 of use; off-peak prices are \$0.01 per call set up and \$0.01 per
24 minute of use.

25 These local measured prices can be compared to the current

1 switched access prices in GTEFL's tariff. I argue that the Carrier
2 Common Line charge ("CCLC") should not be applied to the
3 exchange of what otherwise would be defined as local traffic by the
4 terminating company. In this case, the applicable price for end office
5 switching is \$0.0089 per minute of use. GTEFL's transport prices
6 are distance sensitive, so I will not include all possible outcomes
7 here. Rather, it is sufficient to point out that the price for terminating
8 traffic with one mile of transport would be approximately \$0.0099
9 under current access tariffs. If, instead, MFS were to deliver traffic
10 to GTEFL expecting GTEFL to transport the call to a destination sixty
11 miles away, the per minute price including end office switching and
12 transport would be \$0.0107 per minute of use. Clearly, GTEFL's
13 current switched access prices when the CCL is removed are in the
14 range of the Company's local service prices and allow for the
15 efficient interexchange of traffic under the cost characteristics I
16 described earlier. Thus, in the GTEFL case, I would recommend that
17 the FPSC simply adopt the existing switched access prices,
18 excluding the CCLC and the residual interconnection charge, as the
19 applicable prices to be charged by GTEFL for the use of its facilities
20 in terminating "local" traffic for MFS.

21

22 **Q. YOUR COMMENTS INDICATE THAT YOU BELIEVE THAT**
23 **COMPENSATION PAYMENTS SHOULD BE MUTUAL. IS THAT**
24 **A CORRECT ASSESSMENT?**

25 **A.** Yes. While I believe that each certified carrier should independently

1 develop its own prices for the use of its facilities based on the cost
2 and demand conditions it faces, I certainly believe that an efficient
3 outcome in the marketplace calls for compensation to be paid in
4 both directions. That is, an incumbent LEC should efficiently
5 compensate a new certified entrant for use of that company's
6 facilities just as the new entrant should pay the LEC for services it
7 obtains from the incumbent provider(s).

8

9 **Q. TO WHAT CALLING AREA WILL SUCH RECIPROCAL LOCAL**
10 **COMPENSATION PRICES APPLY?**

11 **A.** *In the long run, I believe that there should be no distinction between*
12 *"access charges" for the completion of "local" calls and what today*
13 *are referred to as regional toll and interLATA calls. However, before*
14 *that can occur, additional rate rebalancing will need to take place.*
15 *Accordingly, for purposes of compensation payments among rival*
16 *local exchange carriers transacting "local calls," including EAS, the*
17 *local calling area as defined by the terminating carrier should apply.*

18

19 **Q. COULD YOU PROVIDE AN EXAMPLE?**

20 **A.** Surely. Assume a new entrant begins to offer service in Tampa
21 utilizing a switch located in Orlando. Further, the new entrant
22 declares the entire state of Florida to be its "local" calling area. One
23 of its customers in Tampa wishes to call his next-door neighbor
24 served by GTEFL. The call goes from Tampa to Orlando, where it
25 is switched by the new entrant, and then back to Tampa. Under

1 GTEFL's definitions as the terminating carrier, this is a "local" call and
2 would be priced at the local traffic interexchange rate. Of course,
3 GTEFL does not necessarily have any idea where such a call
4 originated and it is therefore up to the originating company to
5 correctly report such traffic or to place such traffic on the appropriate
6 trunk group. The service which I am discussing is that provided by
7 the terminating carrier. Therefore, it is the product definition and
8 associated price of the terminating carrier which should apply.
9 Should the call have originated in Orlando to be terminated in
10 Tampa, the interLATA switched access charges of the terminating
11 carrier would be applicable today. This would be the case even
12 though the service provided by the terminating carrier to the
13 originating carrier is the same in both the local and toll cases.

14

15 **Q. DOES A BILL AND KEEP APPROACH SOLVE THIS PROBLEM?**

16 **A.** No. If anything, a pure bill and keep makes the problem more acute
17 by assigning a zero marginal price to terminated local usage. That
18 is, a pure bill and keep plan would assign a zero marginal price to
19 "local" usage which a carrier terminates and the company's current
20 switched access prices to other usage which the company
21 terminates for other carriers. This obviously sets up a very significant
22 arbitrage opportunity between a marginal price of zero and whatever
23 the level of switched access charge is for the company in question.
24 The integrated pricing plan I have proposed would eliminate this gap.
25 In the interim, if the price for the termination of local exchanged traffic

1 is set at a level different from the current switched access price, the
2 gap would only be between a price in the range of current measured
3 local service prices and the current switched access price rather than
4 a zero marginal price and the current switched access price.
5

6 ~~Q. SINCE UNDER EITHER A BILL AND KEEP OR UNDER YOUR~~
7 ~~PLAN, "LOCAL" TERMINATING TRAFFIC MUST BE IDENTIFIED~~
8 ~~AND SEPARATED FROM OTHER TERMINATING TRAFFIC FOR~~
9 ~~BILLING PURPOSES, HOW DO YOU PROPOSE TO DO THIS?~~

10 A. I suggest that separate trunk groups be established for the
11 *termination of local/EAS traffic.* While it may be possible to utilize
12 combined trunk groups with the sending carrier reporting percent
13 local usage ("PLU") factors for billing purposes, it is likely
14 administratively easier for billing and rating purposes to have
15 separate trunk groups. It would be the originator's responsibility to
16 ensure that the proper jurisdictional traffic is routed over the
17 appropriate trunk group. Such a responsibility would be subject to
18 audit by the terminating company. This would apply in both
19 directions. Not only would a new entrant be responsible for placing
20 the jurisdictionally correct traffic on the appropriate trunk group and
21 be subject to auditing by GTEFL, but GTEFL would have the same
22 responsibilities and obligations to the new entrants.
23

24 Q. HOW WOULD SUCH TRUNK GROUPS BE PROVISIONED?

25 A. ~~The interconnecting carriers have several options in obtaining and~~

1 placing trunks linking their networks together. The first option is for
2 a new entrant to construct its own facilities to the desired point of
3 presence, such as a GTEFL end office, and take advantage of
4 GTEFL's virtual colocation offering. A variant of this option would be
5 for the new entrant to utilize a competitive access provider or a cable
6 television company or similar entity to provide the internetwork
7 facilities. In both of these variations of the first option, the new
8 entrant would be responsible for the costs of building and
9 maintaining the internetwork trunk facilities.

10
11 A second option would be for the new entrant to obtain from GTE
12 DS1 or DS3 facilities to the desired first point of switching for traffic
13 termination. Since in this case, I am discussing two rival carriers
14 dealing with each other, it must be recognized that the new entrant
15 also has the right to establish prices for the use of his central office
16 space on either a physical or virtual colocation basis as the new
17 entrant may choose. In this second option, it would be the
18 responsibility of GTEFL to build and maintain these internetwork
19 facilities.

20
21 A third option would allow GTEFL and new entrants to mutually
22 agree upon joint provision of facilities and the location of
23 interconnection. In this third option, the contractual agreement
24 would specify the construction cost and maintenance cost
25 responsibility and how these costs are to be split or shared between

~~and among the parties involved. In all of the above situations,~~
2 appropriate prices should be established by all parties involved for
3 the provision of such trunk facilities, including fiber optic termination
4 equipment where appropriate. The same netting approach as
5 developed above should then be utilized, so that only the net
6 balance is paid among pairs of companies, or that no payment is
7 made if the net difference is zero.

8
9 **Q. SHOULD THE INTERNETWORK TRUNKS BE ONE-WAY OR**
10 **TWO-WAY TRUNKS?**

11 **A.** This decision can and should be left open to be worked out between
12 and among the interconnecting parties. GTEFL is willing to offer
13 ~~both arrangements to rival companies, including MFS.~~

14
15 **Q. SHOULD ALL THE ABOVE PRICES BE TARIFFED OR**
16 **NEGOTIATED SUBJECT TO CONTRACT?**

17 **A.** With the variety of options for *interconnection of rival local networks*
18 possible, negotiated interconnection agreements are probably more
19 efficient than attempting to develop tariffs to meet all possible
20 situations. However, I do believe it is important that such
21 agreements contain non-discriminatory prices across interconnected
22 companies. Further, I believe that for customer information
23 purposes, a requirement to file such contractually negotiated
24 arrangements with the Commission is appropriate for **all** parties.
25 One possible approach is for "standard" local interconnection

1 arrangements to be tariffed and to then utilize those tariffs as the
2 basis for crafting customized individual contracts as required. I do
3 not see contracts and tariffs as mutually exclusive options. They can
4 be used to complement each other in the marketplace. However, if
5 the maximum acceptable to price to one of the firms involved is
6 essentially zero, the likelihood of reaching a mutually acceptable
7 agreement is rather low, as this case makes clear.

8

9 **Q. IF THE COMMISSION WERE TO ADOPT YOUR ORP PLAN,**
10 **RATHER THAN BILL AND KEEP, DOES THIS PLACE MFS IN A**
11 **SO-CALLED PRICE SQUEEZE AS MR. DEVINE SUGGESTS?**

12 **A.** No. First of all, if, as Mr. Devine claims, traffic between it and GTEFL
13 is likely to be in balance, then under the approach I have described,
14 the cash flows between the two carriers will also be in balance, so
15 no squeeze on MFS will occur. Second, as I have pointed out, the
16 long-run price structure developed above can be approximated by
17 a series of optional tariffs made available to the consumers, even
18 though this approach will result in increased transactions cost for
19 consumers. The current variety of pricing options available to GTEFL
20 consumers already exhibits this characteristic. Thus consumers may
21 elect to take service under a measured option or a flat-rated option.
22 Mr. Devine is incorrect if he believes that GTEFL only offers flat-rated
23 local exchange rates to its customers. The price of GTEFL's
24 measured options is greater than that of its switched access
25 terminating prices. If MFS cares to offer customers measured

1 options, it is at liberty to establish the prices for its services at
2 whatever levels it chooses. Likewise, if MFS wants to offer
3 customers flat-rated local exchange service, it is free to do so. The
4 price of such service only needs to be at a level sufficiently high to
5 cover MFS' costs of providing service. For very large volume
6 customers, there will indeed be a point at which compensation
7 payments may exceed the price that MFS has established to end
8 users. However, for the majority of business customers, this will not
9 be an issue. This is yet another example of why the entire concept
10 of rate restructuring is so critical to efficient functioning of competitive
11 local markets.

12
13 As a matter of public policy, compensation prices for new entrants
14 must be as economically efficient, consistent with cost
15 characteristics, as possible. However, there is nothing which
16 suggests that incumbent firms are required to establish their prices,
17 both wholesale and retail, so as to make new entrants economically
18 viable. Price squeezes are to be avoided as a matter of sound
19 public pro-competitive policy, but that must not be taken to its other
20 extreme either--that incumbent LEC pricing must make all new
21 entrants financially viable. A number of new entrants should be
22 expected to fail; indeed, incumbents may fail in the presence of
23 rivalry from new entrants. But simply because one or more new
24 entrants may fail does not mean that rivals to other firms must
25 establish their prices to accommodate their competitors.

1 Florida's policy should be to promote competition that is broad-
2 based and balanced. But compensation among firms is only a piece
3 of that. Overall, it is the profitability or loss of serving various
4 customers and customer sets which will determine the pattern of
5 entry into the industry, just as it has been in the past and continues
6 to be the pattern today. Certainly compensation among licensed
7 carriers can be an aspect of that pattern of entry, but it is not the
8 sole factor. The price associated with compensation among certified
9 carriers should be consistent with other prices, so that no additional
10 undue bias is introduced into the system.

11
12 Given the evolving market structure, I see rivalry among firms taking
13 many different paths--advertising, diversity, service quality,
14 differentiation, as well as pricing. The prices charged by various
15 firms will necessarily be different, based upon their selected strategy.
16 Their marketing strategy may well be influenced by their relative cost
17 position in the market and the demands of their customer sets.
18 Since different firms are likely to face different demand
19 characteristics, especially in the evolving stages of the competitive
20 market, there is no reason to believe that the resulting prices across
21 the product line will be the same among companies. And it should
22 be kept in mind that the price for compensation is, after all, just
23 another price. Therefore, I believe that the correct principle is that
24 prices should be based on the supply and demand characteristics
25 of the respective firms.

1 While I believe that in principle, prices should be based upon cost
2 and demand conditions of the firm, given the likely incremental costs
3 of all firms, the resulting prices are likely to be rather close to each
4 other in any event. Further, if, as MFS seems to believe, traffic will
5 be in "balance," then as a practical matter, it may not much matter
6 at all what the price is for mutual interconnection. So if the supply
7 and demand conditions are approximately the same and the
8 quantities of minutes are the same, then as a practical matter, it may
9 prove to be an efficient outcome that the price of traffic termination
10 will be the same for all companies involved.

11

12 ~~Q. IN HIS TESTIMONY, MR. DEVINE CALLS FOR THE~~
13 ~~COMMISSION TO ESTABLISH AT LEAST ONE POINT WHERE~~
14 ~~ALL PARTIES WILL MEET TO EXCHANGE TRAFFIC WITHIN A~~
15 ~~LATA. DO YOU AGREE WITH THIS PROPOSAL?~~

16 A. I agree that all certified common carriers must interconnect with each
17 other. However, there is no reason that these points of
18 interconnection must all take place at a single location--the
19 Designated Network Interconnection Point ("D-NIP") as Mr. Devine
20 refers to it. Depending upon the distribution of customers and the
21 facilities serving them, as well as the flow of traffic within a
22 metropolitan area or LATA, the establishment of a single D-NIP may
23 or may not be an efficient network arrangement. Therefore, in
24 keeping with the principle of voluntary arrangements among carriers
25 ~~whenever possible, I disagree with Mr. Devine's proposed~~

1 Commission mandated establishment of a D-NIP. The correct public
2 policy is simply to require interconnection of all certified carriers and
3 to allow for such carriers to negotiate the interconnection points
4 between and among themselves. Indeed, this approach is more in
5 keeping with Mr. Devine's own comment (at page 20 of his Direct
6 Testimony) that "MFS-FL opposes any interconnection plan that
7 mandates too specifically where interconnection should take place."
8 There is no reason to mandate that all certified carriers must
9 establish a D-NIP. If a D-NIP is the efficient arrangement for
10 interconnection, then it will be adopted without a Commission
11 requirement to do so.

12

13 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

14 **A.** I have addressed in some detail as to how the long-term
15 intercompany compensation mechanism--price--should be structured
16 between and among rival carriers in the marketplace. To do so in
17 context, I have also discussed what the long-term, efficient price
18 structure should look like, since the compensation mechanism
19 between rival companies is but a part, albeit a critical part, of that
20 overall price structure. In addition to establishing a framework for
21 evaluating what an efficient price for local interconnection is,
22 GTEFL's long-run pricing policy readily and efficiently
23 accommodates unbundling and wholesale/retail distinctions among
24 clients and carriers, eliminates the need for use and user distinctions
25 and prohibitions on resale of LEC services, and promotes economic

1 efficiency in the marketplace. This policy calls for the
2 implementation of an integrated set of prices which are nonlinear and
3 contain multiple parts to the rate structure, based upon the supply
4 and demand characteristics facing the LEC.

5
6 While wholesale adoption of GTEFL's pricing policy may be
7 infeasible today, the Commission can take a significant first step in
8 establishing an efficient framework for competition by implementing
9 GTEFL's ORP approach for intercompany compensation, rather than
10 the bill and keep method suggested by Mr. Devine. More
11 specifically, the Commission should proceed to develop a long-term
12 intercompany compensation plan by taking the following actions:

- 13 1) Adopt an ORP framework;
- 14 2) Require independent development of prices for compensation
15 purposes by each company;
- 16 3) Require each company (or an administrator) to determine net
17 compensation;
- 18 4) Require net compensation payments to be made among
19 companies based on known prices for the difference in traffic
20 flow and price.

21
22 If step (4) results in zero among a given pair of companies, then no
23 payment is made between those two for that month and the special
24 case of "bill and keep" will have resulted. In my opinion, however, it
25 is rather unlikely that traffic between *all* carrier pairs will be in

1 balance, so that net compensation will take place.

2

3 It is also important to realize that the price level specified in step (2)
4 is important, even if the traffic is in balance and no compensation
5 actually flows between a given pair of companies. Therefore, I have
6 suggested that the appropriate price for the termination of local traffic
7 for a rival local carrier is in the range of those established for local
8 measured service. In the case of GTEFL, the use of the Company's
9 existing switched access prices less the carrier common line and the
10 residual interconnection charge satisfy this objective without placing
11 MFS in a price squeeze. This will move significantly in the direction
12 of establishing an efficient pricing arrangement in a competitive
13 marketplace.

14

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

16 **A.** Yes.

17

18

19

20

21

22

23

24

25

1 Q (By Mr. Gillman) Mr. Beauvais, would you at
2 this time summarize your prefiled direct testimony?

3 A Certainly. Good afternoon, Commissioners.
4 I'll attempt to be somewhat brief, which is apparently
5 unusual for me. And given Dr. Cornell's comments, it
6 may even be somewhat surprising.

7 The particular topic I'm addressing is: What
8 is the appropriate mechanism for compensating a
9 telecommunications carrier for the use of its network by
10 rival carriers?

11 There are two principal mechanisms which have
12 been placed before you in this docket: Bill and keep,
13 or an originating responsibility plan, also known as
14 mutual compensation. I believe that the appropriate
15 public policy is to adopt the mutual compensation
16 approach. In particular, I believe the Commission
17 should proceed to develop a long term intercompany
18 compensation plan by taking the following actions: One,
19 adopt the ORP framework; two, require an independent
20 development of prices by each company involved -- and I
21 will acknowledge that those prices will likely be
22 reciprocal; determine net compensation to be paid
23 between and among companies; and four, require net
24 compensation payments to be made among companies based
25 on known prices for the differences in traffic flows and

1 prices, if any.

2 I would like to point out to the Commission
3 that the above ORP steps can readily result in the
4 financial equivalent of a bill and keep. That is, bill
5 and keep can be viewed as a special case of the more
6 general ORP framework in which the traffic flows are in
7 balance, the prices are the same, and there's no
8 third-party transport provider involved.

9 However, even if the traffic between companies
10 is in balance, it is important that the established
11 price levels be appropriate. After all, this Commission
12 has approved, as a matter of public policy, a current
13 set of prices for the termination of traffic. These
14 prices include charges for end office switching, local
15 transport, carrier common line, and residual
16 interconnection charges.

17 My testimony recognizes that the application
18 of all these rate elements is not appropriate and would
19 result in a price which is too high for the exchange in
20 local traffic. Thus I recommend the elimination of the
21 charges for the carrier common line, residual
22 interconnection and the information surcharge for
23 application of local exchange traffic.

24 The resulting price for the exchanged local
25 traffic termination function is in excess of the long

1 run incremental costs. It is also in excess of the
2 total service long run incremental cost. That is, the
3 price established by GTE Florida covers the service's
4 TSLRIC and generates a contribution to the
5 group-specific common costs of providing switched
6 services, as would be called for my efficient pricing
7 principles in the presence of economies of scope and
8 scale. There is little to suggest that only IXCs and
9 end users should be -- should face the incidence of such
10 common costs so that ALECs can receive the benefits of
11 pricing at TSLRIC.

12 Unlike many jurisdictions in which I have
13 appeared, along with some of the attorneys here -- it's
14 getting to be a little club apparently -- even with the
15 markups inherent in the prices, the end office switching
16 price is in a reasonable range to facilitate the
17 development of local exchange competition in GTE
18 Florida's operations. The ORP approach does not result
19 in a waste of resources on metering, given my estimates
20 of the incremental costs of metering, since for the
21 ability to combine both toll and local minutes on a
22 single trunk group and apply a percent local usage
23 factor, the traffic will be measured, in any event, as
24 access charges will continue to apply to toll minutes.
25 In other words, traffic measurement will be required

1 under the local bill and keep approach, given the mixed
2 nature of the traffic on the trunk group.

3 Bill and keep is not inherently evil, nor is
4 an ORP pure and blessed. I believe that bill and keep
5 lacks certain incentives for economic infrastructure
6 development since if you can use existing network
7 facilities at a zero nominal price, at the margin
8 there's not much incentive to deploy alternative
9 facilities, even if those facilities would be more
10 efficient in terminating traffic. However, I just
11 stated the financial consequences of bill and keep can
12 be the result of an ORP approach.

13 Undoubtedly increased flexibility will be
14 required in the future. Rather than adopting the
15 special case of bill and keep, I urge the Commission to
16 adopt the more flexible and general approach of mutual
17 compensation.

18 If there is a concern as to the financial
19 impacts on a carrier, the Commission can establish
20 limits on the payments for a specified period of time,
21 just as was done between GTE Florida and ICI, or under
22 the Michigan type plan, until such time as more
23 information can be obtained relative to the actual
24 traffic flows among companies. Thank you.

25 MR. GILLMAN: Tender Mr. Beauvais for

1 cross-examination.

2 CHAIRMAN CLARK: Mr. Fons.

3 MR. FONTS: I have no questions.

4 CHAIRMAN CLARK: Ms. Wilson.

5 MS. WILSON: Thank you.

6 CROSS-EXAMINATION

7 BY MS. WILSON:

8 Q Good afternoon, Mr. Beauvais. I'm Laura
9 Wilson representing the Florida Cable Telecommunications
10 Association.

11 A Afternoon, ma'am.

12 Q You took some of my questions out by striking
13 some of your testimony. So I suppose that's a good
14 thing.

15 Based upon your experience as an economist,
16 you would expect firms to engage in profit maximizing
17 behavior in a competitive marketplace; would you not?

18 A That's pretty much a fundamental assumption of
19 all our discipline.

20 Q And if the Commission orders a usage-sensitive
21 rate for terminating local traffic, wouldn't you expect
22 that profit maximizing behavior take the form of
23 marketing to customers with larger amounts of inbound
24 traffic?

25 A Would I expect cus -- would I expect -- I'm

1 sorry, I didn't hear the question.

2 Q Would you expect firms to engage in profit
3 maximizing behavior in the form of marketing to
4 customers that have large amounts of inbound traffic?

5 A Well, they would engage in -- if minute-of-use
6 compensation is paid on a terminating basis, certainly
7 there are incentives in that direction. There will also
8 be incentives to market to companies that have lots of
9 outbound toll traffic.

10 Q But your answer is yes, there would be
11 incentives to market --

12 A Surely.

13 Q -- to inbound traffic?

14 A Surely.

15 Q Did you attend Ms. Menard's deposition?

16 A Yes, I would believe I was there.

17 Q Do you recall whether she testified that the
18 incremental cost of terminating a minute of local
19 traffic is probably less than two-tenths of a cent per
20 minute?

21 A And I think I agreed with her.

22 Q Now, the margin between your incremental cost
23 and the rate that you proposed in this proceeding, that
24 represents contribution to common costs; is that
25 correct?

1 A Yes, ma'am.

2 Q Now, is overhead a common cost?

3 A Overhead can be common cost. There would be
4 two classes of common costs that we'd be discussing.
5 One would be the group-specific kind of common cost,
6 that is, you need a switch and you need buildings in
7 order to offer switched services. That's one class of
8 common costs.

9 Then you have apparently the efficient
10 president's desk, the efficient president's trash can,
11 as well as other classifi -- other class of common
12 costs. That is, you have common costs that are specific
13 to switched services. Then you have another set that
14 would include common costs with respect to switched,
15 special and everything else the company offers.

16 Q But does the margin between your incremental
17 cost and the rate that you're proposing in this
18 proceeding represent, to some extent, corporate
19 overhead?

20 A It could. You would have to examine the
21 spectrum -- all services that are being offered with
22 respect to the common cost to switched, to see if those
23 were being covered before you can say that it covers the
24 corporate overhead type of costs. And I have not done
25 that.

1 Q Is it probable that it does cover corporate
2 overhead costs, in your opinion?

3 A The rate that we're being offered? I suspect
4 there probably is some in there, but I have not done the
5 calculation.

6 Q Okay. Is the subscriber loop an example of
7 common cost?

8 A The subscriber loop would not have been part
9 of these calculations.

10 Q Would the customer drop be part of the
11 calculations?

12 A No, ma'am.

13 Q Okay.

14 A Not of the cost study we're talking about
15 here, the number that's less than two-tenths of a cent.

16 Q Okay, but my question, then, perhaps I was
17 confusing. The margin between your incremental cost and
18 the rate that you are proposing in this proceeding, does
19 that margin reflect the common costs associated with the
20 subscriber loop?

21 A It should not.

22 Q Okay. I just want to talk to you for a minute
23 about some things that are typically considered
24 corporate overheads. Does GTE still have a bunch of
25 airplanes, Mr. Beauvais?

1 A We have a lot less than we used to.

2 Q To the extent you have them though, are those
3 considered common overheads?

4 A I'm not sure Telephone Operations does, but to
5 the extent that we had any airplanes, yes, they would be
6 overhead costs to the company.

7 Q So your local competitors will pay for a
8 portion of whatever airplanes you have through the
9 interconnection rate; is that correct?

10 A As well as our end users and IXCs, yes.

11 Q Are airplanes necessary to furnish local
12 interconnection?

13 A To the extent that airplanes facilitate
14 getting company executives, or people like me around so
15 we can be at these dockets, I guess one could make an
16 indirect argument that they do.

17 Q But it would be an indirect argument; would it
18 not?

19 A To the extent that I'm an indirect witness,
20 yes. I'm sorry, I don't mean to be flip about it. But
21 one could make an argument, yes, it would be an indirect
22 cost.

23 Q Would you still be able to furnish local
24 interconnection if you had no airplanes, Mr. Beauvais?

25 A Of course. They don't vary with us offering

1 local interconnection. That's why they're not in the
2 TSLRIC of the service.

3 Q So your answer to that question was yes?

4 A Yes.

5 Q At the corporate level do you have a planning
6 department?

7 A At corporate level?

8 Q Yeah, in Connecticut.

9 A I'm not sure what's left in Connecticut, to be
10 honest with you. I haven't been back there in so long.

11 Q Do you have a marketing group?

12 A In Connecticut? Or in Telephone Operations.

13 Q In Telephone Operations.

14 A There is a product management group in
15 Telephone Operations.

16 Q Okay. Does a portion of the marketing cost --
17 that marketing cost go into common overheads?

18 A I believe a portion of that group would be in
19 common overhead.

20 Q So then under your proposal, your local
21 competitors would get to pay a part of that marketing
22 cost; is that correct?

23 A As would end users, as would IXCs.

24 Q And part of that marketing cost would -- part
25 of what that marketing cost would go to is to determine

1 how to keep your customers from going over to local
2 competitors; isn't that correct?

3 A I prefer to think of it as how to keep our
4 customers happy.

5 Q What happens if you don't keep them happy?

6 A Then they can -- when local competition comes
7 in, they can either go to your client's, MCI Metro, they
8 can buy wireless services. And we also have a marketing
9 group that specializes in marketing to carriers, meeting
10 their needs.

11 Q The Commission can't really be sure that the
12 rate that GTE proposes here contains an appropriate
13 level of contribution toward common cost, can it?

14 A Ma'am, I guess if -- we were present both in
15 the cross-subsidies docket, where we talked about the
16 treatment -- or the appropriate treatment of all these
17 large amounts of common costs. If one really wants to
18 do a comprehensive examination of this, one needs to do
19 a comprehensive examination of all the products and
20 services offered by the companies. That's the way you
21 look at to whether it's appropriate recovery of the
22 costs across all the services. That's why it's
23 important that you need a comprehensive view of the
24 market.

25 Q So your answer is yes, they can't really be

1 sure in this docket; is that correct?

2 A Can they be sure? They can be sure to the
3 extent that evidence provides them.

4 Q Well, pardon my cynicism, Mr. Beauvais, but
5 would it surprise you to learn that last October GTE
6 proposed a local interconnection rate that it alleged at
7 that time contained an appropriate level of contribution
8 to joint and common costs of the company of about -- to
9 the tune of 2.6 cents per minutes?

10 A Proposed to who?

11 Q Proposed to the Commission in Docket No.
12 950696 concerning the development of an interim
13 Universal Service mechanism.

14 MR. GILLMAN: I object, unless Ms. Wilson
15 points to whatever document where that statement was
16 allegedly made.

17 MS. WILSON: Okay, could I have just a
18 minute? (Pause).

19 Okay, I'm referring to the record in
20 proceeding, Docket No. 950696, to the testimony of GTE's
21 witness, Mansel Williams. Transcript cite is Page No.
22 404, Lines 1 through 3. This, I believe, is the
23 rebuttal testimony of Mr. Williams in which he says,
24 GTE vigorously supports the Universal Service support
25 mechanism that includes, quote, "an appropriate level of

1 contribution to the joint and overhead common costs of
2 the Company."

3 Then I would refer you to transcript Page 380,
4 Lines 2 through 4, in which one of GTE's alternatives is
5 a local interconnection charge, and there on those lines
6 it states that the proposed rate would be .025638
7 dollars, or about 2.6, if you want to round it up, cents
8 per terminating minute. Would it surprise you to learn
9 that that was GTE's position in that docket.

10 CHAIRMAN CLARK: Just a minute, Dr. Beauvais.
11 Do you withdraw your objection?

12 MR. GILLMAN: I would also object that she's
13 asking questions about a different docket and about
14 statements made by -- that were not made by
15 Mr. Beauvais, and therefore it's irrelevant to this
16 docket.

17 CHAIRMAN CLARK: Mr. Gillman, I think they're
18 legitimate questions to test the position taken by GTEFL
19 in this docket. Go ahead, Miss Wilson.

20 Q (By Ms. Wilson) Thank you. Mr. Beauvais, do
21 you need me to ask you the question again?

22 A Well, I can't remember -- if the exact numbers
23 aren't important, then I can answer. The numbers that
24 we have proposed in this docket, for an end-office
25 termination is something less than nine-tenths of a

1 cent. Would it surprise me in a Universal Service
2 docket, when we were looking at mechanisms to provide
3 Universal Service support flows in addition to local
4 interconnection, that the number is in the range of two
5 cents per minute? No, it would not have surprised me.
6 But as Mr. Gillman pointed out, I was not part of that
7 docket.

8 Q Well, my concern here is that in the Universal
9 Service docket we have an allegation that two-tenths --
10 2.6 cents per minute represents an appropriate level of
11 contribution for ALECs to pay toward the joint and
12 common overhead costs of the company. And then,
13 Mr. Beauvais, in this proceeding you're saying that the
14 appropriate contribution to the joint and common
15 overhead costs of the Company is somewhere around a
16 penny a minute. How do you account for that apparent
17 discrepancy?

18 A As I said, here we are talking about, or I'm
19 talking about, the interconnection of ALECs for the
20 termination of their calls. I believe Mr. Williams,
21 from what I understood you read, would have been talking
22 about perhaps that, plus additional contribution to
23 attempt to generate subsidy, if you will, contribution
24 payments to holding the price of R1 services or other
25 services below what they otherwise would have been, to

1 target Lifeline customers or other customers needing
2 support. I don't think the numbers are strictly
3 comparable. Again, I wasn't part of that docket,
4 however.

5 Q Why do we need to pay you anything above long
6 run incremental cost?

7 A With the 2.6 cents, or the number?

8 Q Why should ALECs pay more than the long run
9 incremental cost of terminating a local call?

10 A As I have stated before, there are common
11 costs involved in the provision of switched services.
12 As even Dr. Cornell pointed out, those costs admittedly
13 do not go away if switched access or local
14 interconnection ceases. Neither do they go away if toll
15 ceases, neither do they go away if the local ceases.
16 They are common. If we eliminate any one of them, they
17 remain. The presence of those costs gives rise to,
18 somewhat, declining unit costs over the range of
19 outputs. If you set the price strictly equal to
20 incremental cost, the Company does not generate
21 sufficient revenues to break even. Therefore, there's
22 no reason to my mind to suggest that only end users or
23 IXCs should make those contributions to the common
24 costs. All parties using the network should make some
25 contribution to those costs. Likewise, the same thing

1 applies for us to you.

2 Q So why should we care about whether GTE breaks
3 even, Mr. Beauvais? Isn't that what competition is all
4 about?

5 A And part of the other part of competition is I
6 should be free to set my prices so I at least do break
7 even, because if I don't break even, I go out of
8 business eventually and then the competition is
9 therefore reduced, just like your company, or the
10 companies you represent, have to worry about at least
11 breaking even.

12 Q Okay, but ALECs are not asking GTE to support
13 their corporate overhead through a local interconnection
14 charge, are they?

15 A I state they ask the charge be reciprocal, so
16 that if we're charging them a penny, they get to charge
17 us a penny.

18 Q But FCTA -- isn't it your understanding that
19 FCTA supports bill and keep for the exchange of local
20 traffic?

21 A I believe FC -- I'm sorry, FCTA does support
22 bill and keep, although I understand one of your
23 representatives -- one of your members, I believe, did
24 sign a contract with us under a mutual exchange
25 agreement.

1 Q Which member of that?

2 A I believe it was ICI. Aren't they a member of
3 your --

4 Q Would you be willing to accept, subject to
5 check, that they are not a member of the FCTA?

6 A My apologies.

7 Q So with bill and keep, indeed we are not
8 asking you to support our corporate overhead through the
9 local interconnection charge, are we?

10 A In one sense you are, in another sense you're
11 not, since you're not agreeing to make those extra
12 payments, and of course you're not willing to receive
13 them either, you're not making payments that otherwise
14 perhaps should have been made.

15 Q But notwithstanding, we're going to have to
16 cover our overhead costs the same as you; isn't that
17 correct?

18 A All companies have to recover their overhead
19 costs somewhere.

20 Q Okay, Mr. Beauvais that, I believe if I read
21 your testimony right, you're proposing a 105 percent cap
22 on traffic imbalance; is that correct?

23 A I believe, yeah, there's a number of options
24 that would be available to the Commission. 105 percent
25 cap is what we agreed to with ICI. As I pointed out in

1 my testimony, the Michigan plan, I always kind of
2 thought, was a good one. They set a reasonable known
3 price, and it has a five percent -- I believe Michigan
4 Commission referred to it as "quiet zone." If traffic
5 is plus or minus five percent, then no compensation
6 changes place. And yesterday we had a conversation
7 about whether that's a cap or not, seems like a
8 reasonable alternative to me.

9 Q But you are here today and able to support the
10 105 percent cap that's contained in the Intermedia
11 agreement; are you not?

12 A Yes, ma'am. If there's real uncertainty as to
13 the traffic variance and volumes that will be taking
14 place, then that's an insurance mechanism for both
15 parties.

16 Q Okay, now, if I understand the Intermedia
17 agreement correctly, isn't it possible that Intermedia
18 could terminate more traffic for GTE every month than
19 GTE terminates for Intermedia? Isn't that possible?

20 A Sure, it's possible.

21 Q So it's possible that every month GTE could be
22 paying Intermedia; isn't that correct?

23 A It is indeed possible.

24 Q And that obviously covers costs or GTE
25 wouldn't propose it; isn't that correct?

1 A That what? I'm sorry, I didn't hear you.

2 That covers --

3 Q That proposal obviously covers costs or GTE
4 would not propose it; isn't that correct?

5 A Well, it's an insurance mechanism for both
6 companies. As we've pointed out, there is variation
7 around the 105 percent one way or the other. GTE must
8 have -- the parties that signed the agreement for GTE
9 must have believed that it was in the Company's
10 interest, or they would not have signed it.

11 Q Is that a yes, Mr. Beauvais?

12 A I believe it is.

13 Q I have one more question, but I have to find
14 it. I would direct you to Page 21 of your testimony.

15 A Yes, ma'am.

16 Q Lines 12 through 15.

17 A Yes, ma'am.

18 Q Where you state, "Based on investigations into
19 the ongoing incremental cost of measurement and billing
20 associated with local measured service, the incremental
21 costs are around .003 dollars and .005 dollars per local
22 message, not per minute; is that correct?

23 A That's the statement, yes, ma'am.

24 Q Okay. So 20 calls would cost about a penny;
25 is that correct?

1 A For the measurement?

2 Q Pardon me?

3 A For the measurement function, yes.

4 Q And I just have a few questions about how you
5 calculated the incremental cost.

6 COMMISSIONER GARCIA: Could you go back to --
7 I'm sorry, what was the setup again?

8 MS. WILSON: I directed him to Page 21 of his
9 testimony, Lines 12 through 15, where he talks about the
10 incremental cost of measurement and billing associated
11 with local measured service.

12 COMMISSIONER GARCIA: Then you said it was
13 what, a minute? And then he agreed, but I didn't hear
14 what you said.

15 MS. WILSON: He states that the incremental
16 costs are between .003 dollars and .005 dollars per
17 local message.

18 COMMISSIONER KIESLING: You left out a zero.

19 WITNESS BEAUVAIS: Leaving out a zero, yes.

20 MS. WILSON: .005.

21 COMMISSIONER KIESLING: There's three zeros.

22 MS. WILSON: I apologize. .003 and .005.

23 COMMISSIONER KIESLING: .0003.

24 MS. WILSON: I don't have on my glasses. That
25 may be the problem.

1 COMMISSIONER GARCIA: Sorry, thank you.

2 MS. WILSON: Was that why I was confusing
3 you?

4 COMMISSIONER GARCIA: No, no, I just didn't
5 know where you were going.

6 MS. WILSON: I'm trying to make it more
7 expensive than it is, I guess.

8 Q (By Ms. Wilson) So that comes out to be 20
9 calls cost about a penny; is that correct?

10 A It's real cheap, yes.

11 Q Was this calculated -- this incremental cost
12 number, was this calculated for one switch or for all of
13 GTE's switches?

14 A It was calculated -- these numbers were
15 calculated a number of different states for a number of
16 different configurations of offices. It is not for a
17 single switch. It would be for a combination of some of
18 the earlier digital switches, including some old analog
19 switches. So it would be a combination of tandems, but
20 predominantly end office Class 5 switches, GTD5s to
21 5ESSs and I believe some No. 2 EAXs.

22 Q Do you know how many switches?

23 A I could go back and look.

24 Q Do you have that information with you?

25 A I've got some of it in the briefcase, if you

1 would like me to look.

2 Q Okay, why don't you tell me how many
3 switches. Go look.

4 (Pause)

5 A The one study that I have with me, which is
6 the oldest of the bunch, the numbers would have been
7 different for different states. There were seven analog
8 switches -- there were seven old electromechanical
9 clunkers and 21 digital central office composed of 11
10 base units and ten remote units.

11 Q Did you say that was for one state?

12 A That was for one state. The other studies
13 were done in different states, which would have had
14 different numbers of central offices, and I don't have
15 those numbers with me.

16 Q So this isn't Florida-specific information,
17 obviously; is that correct?

18 A No, ma'am, it is not Florida-specific
19 information and Florida wasn't one of the states.

20 MS. WILSON: Okay. I have no further
21 questions.

22 MR. CROSBY: No questions.

23 CHAIRMAN CLARK: Mr. Melson.

24 MR. MELSON: Just a couple.

25

CROSS-EXAMINATION

1

2 BY MR. MELSON:

3 Q Dr. Beauvais, Rick Melson representing MCI
4 Metro.

5 A Nice to see you again, sir.

6 Q I'm not one of the club that travels from
7 state to state, am I?

8 A You ought to join it. Ms. Weiske is.

9 Q I just have a brief follow-up couple of
10 questions about the interconnection agreement between
11 GTE Florida and Intermedia, and with particular
12 reference to the 105 percent cap. You're familiar with
13 that?

14 A I'm familiar with the cap, but if you're going
15 to get detailed, not to punt these to Ms. Menard,
16 because I'm sure she doesn't appreciate that, but if
17 there's real detailed questions about the negotiations,
18 she's the party.

19 Q No. I intend to ask you from an economist's
20 point of view a couple questions about the cap.

21 A Fine.

22 Q Is it your understanding that the way that cap
23 works is that the carrier who terminates the larger
24 number of minutes is compensated only to the extent of
25 the first five percent that the minutes are out of

1 balance?

2 A That's it.

3 Q Is there a provision in the agreement for a
4 situation, for example, where GTE would terminate 10,000
5 minutes of -- excuse me, 10,000 minutes to an ALEC, and
6 an ALEC terminates 15,000 minutes back to GTE? That
7 would be a 50 percent imbalance; would it not?

8 A Depending on what you're measuring from, yes.

9 Q Well, what --

10 A Yes. The difference would be 50 percent.

11 Q All right. And under that agreement, GTE
12 would pay the ALEC for 10,000 minutes of use and the
13 ALEC would pay GTE for 10,500, as a result of the cap;
14 is that correct?

15 A Correct. That's my understanding.

16 Q In your opinion, in that situation, is the
17 additional 4500 minutes being terminated by GTE being
18 terminated for free?

19 A Well, just like Nina -- I'm sorry, Dr. Cornell
20 and I have these debates running periodically. I
21 wouldn't say it's for free. In this case I think it's
22 an opportunity for the information and the companies to
23 gather traffic and -- or to gather the information on
24 traffic flows, and that we are -- while the prices
25 should have been paid according to mutual compensation,

1 we can kind of rack it up to experimental information,
2 until such time as the agreement runs out. It gives
3 both sides valuable information.

4 Q From an economic point of view, isn't it fair
5 to say that either 4500 minutes is being terminated at
6 no charge, or --

7 A Let's say zero.

8 Q Or 5,000 minutes is being terminated at a much
9 lower --

10 A Yeah, let's say at a zero marginal price for
11 those minutes.

12 Q I'm sorry?

13 A At a zero marginal price.

14 Q And is it your opinion that in the situation
15 I've just described, GTE is recovering its cost of
16 terminating those minutes?

17 A As I suggested, the Company must have felt
18 that it was fair when they signed the contract, or they
19 would not have signed that contract.

20 Q I guess I'm not asking you what the Company
21 thought was fair. I'm asking you in your opinion as an
22 economist, is GTE recovering the cost of terminating
23 those minutes?

24 A GTE must believe that it is doing so, or that
25 the costs were sufficiently small at that point that

1 they could live with it for 18 months.

2 Q Let me ask you this. Again. You've told me
3 your assumption as to the Company's decision. I am
4 asking, do you have an opinion as an economist as to
5 whether that covers the cost?

6 A To the extent that there is a positive cost,
7 incremental cost for terminating traffic, and the
8 incremental price was something less than that number,
9 as would be the case here, then no, technically
10 speaking, those minutes are not covering their costs.

11 MR. MELSON: Thank you. No further
12 questions.

13 MR. LOGAN: No questions for Dr. Beauvais.

14 MR. RINDLER: I do have a few questions.

15 CROSS-EXAMINATION

16 BY MR. RINDLER:

17 Q Good afternoon, Dr. Beauvais.

18 A Nice to see you again, sir.

19 Q Dr. Beauvais, you mentioned the traveling
20 club. Have you testified in a number of other states
21 concerning the issue you're testifying to here?

22 A Along with part of the club here, yes.

23 Q Could you tell me some of the states you've
24 done that in?

25 A Well, let's see, Illinois, Michigan,

1 Pennsylvania, Florida, Alabama, Washington, Oregon,
2 Hawaii, Iowa. I'm probably leaving some out.

3 Q And you testified with respect to the issue of
4 compensation for local traffic termination?

5 A Among other things, yes, sir.

6 Q Did you in those states propose the ORP plan
7 that you are proposing here?

8 A The ORP plan? Yes, sir.

9 Q Yes. Do I understand that to be the first
10 step to rationalizing pricing?

11 A I believe it's an important step in doing so.

12 Q And by that you mean getting to the point
13 where a minute is a minute is a minute?

14 A Yes, I do believe that's part of the process
15 of rationalizing price, so that we don't have to go to
16 the hassle of figuring out whether this is a toll call
17 or switched access call or a local call, because from
18 our point of view, or any carrier's point of view, it
19 looks like a call coming in and we deliver it to a
20 phone.

21 Q I believe Dr. Cornell in her testimony just a
22 short while ago discussed the fact that a minute is a
23 minute is a minute, as well, and both of you agree
24 that's an ideal to reach towards; is that right?

25 A I believe that's a desirable objective to move

1 towards.

2 Q Could you explain to me why you would propose
3 that in order to reach that objective the Commission
4 here should start out by setting the price the way you
5 would consider it to be incorrect as the end result?

6 A I didn't say that I thought it would be
7 incorrect as the end result. What I've suggested
8 that -- as a result of public policy debate going back
9 ten years to the breakup of the Bell system and their
10 placement of division of revenues with access charges,
11 it was a public policy decision, not only by this
12 Commission, but particularly by the FCC at the time, to
13 move to a regime of switched access prices set well in
14 excess of cost, including the adoption of something
15 called carrier common line charges. Everybody's
16 favorite. The industry itself, and particularly the LEC
17 industry, opposed that plan very greatly at the time,
18 arguing in favor of something that looked like -- I
19 think we called it Pure 2, which was a more adoption of
20 subscriber line charges with far fewer -- far less
21 reliance on per minute of use charges. That would set
22 the end user prices much closer to incremental costs.

23 However, that was not the policy followed.
24 One of the concerns then is: Given the arbitrage
25 possibilities between having prices including CCLC and

1 RIC, and all other kinds of cost levels on a
2 per-minute-of-use basis, where the minute of use
3 terminating looks exactly like it, is how do we move
4 from this level that has all these elements in it to a
5 much more efficient, more cost-oriented rate structure?

6 One of the ways is what I suggested in my
7 testimony, was you set the marginal price of the unit
8 and its declining block rate structure very much closer
9 to incremental cost and collect those kind of
10 inefficient or non-traffic sensitive prices that we've
11 put as a matter of public policy in elements called
12 CCLC. As a transitional mechanism, what GTE suggests
13 is, let's remove those carrier common line charges from
14 the local switching charges and simply price end office
15 switching at those rates. And end office switching
16 would cover not only the TSLRIC costs, but also make a
17 contribution to those common costs we talked about
18 earlier. An alternative recommendation would be -- or
19 on the same lines, one could set the marginal prices
20 equal to TSLRIC, and out of those earlier blocks of a
21 declining block rate structure, get that extra
22 contribution that is required from somebody out of those
23 elements so that the incremental usage approximates
24 incremental cost.

25 Q Now if you were to use that alternative, isn't

1 it correct that that would be significantly less of a
2 burden on the new entrants than by imposing those
3 contributions at this time on the new entrants?

4 A I don't think it's so much less of a burden on
5 new entrants, sir, as it more is it allows their growth
6 to take place at lower incremental costs. That is, the
7 burden of recovering those common costs come out of the
8 early blocks of the rate structure, and so incremental
9 growth that they achieve each month is at the lower
10 incremental cost. But that's true of new entrants, IXCs
11 and everybody else.

12 Q You're not proposing that the IXC's switched
13 access price, which you feel is so unreasonable, should
14 be reduced at this point, are you?

15 A Not at this point. GTE has repeatedly stated
16 it is willing to rebalance rates, but with the new
17 legislation and the adoption of price caps, it has to do
18 so slowly over time.

19 Q Have you made this ORP proposal in other
20 states? I believe you said you did; is that correct?

21 A Yes.

22 Q Has any state accepted it?

23 A Illinois is actually fairly close to it, but
24 as an ongoing rule, no, no state has accepted it.

25 Q Would you turn to -- sorry, rather than do

1 that that way. Do you recall stating in your deposition
2 that you thought that the 1.8 cents that Sprint is
3 proposing here was significantly higher than it should
4 be?

5 A Well, it's certainly significantly higher than
6 what we've proposed. And Sprint has reminded me
7 numerous times that I said something very similar to
8 what you've said.

9 Q On what basis did you make that statement?

10 A Well, you know, as you know, I've been around
11 the country also making statements that I think the
12 appropriate price for the termination of local calls is
13 somewhere around a penny a minute. It may be a little
14 more. May have been a little less, depending on the
15 jurisdiction you're in.

16 I believe in Michigan I stated 1.5 cents was
17 starting to approach the outer limits. So based on the
18 numbers I've been recommending, the 1.8 cents would have
19 been way too high. I think I also stated, though, I
20 couldn't answer for Sprint. I haven't seen their
21 numbers, their cost studies, and I am not aware of what
22 their other prices are.

23 MR. RINDLER: I have no further questions.

24 CHAIRMAN CLARK: Ms. Weiske.

25 MS. WEISKE: Thank you.

1 CROSS-EXAMINATION

2 BY MS. WEISKE:

3 Q Good afternoon, Dr. Beauvais.

4 A Afternoon, ma'am.

5 Q Today I'm here representing Time Warner
6 Communications and I have a few questions about your
7 testimony. You just said in response to MFS counsel
8 that you had proposed ORP in a number of states. Does
9 that include both Washington and Oregon?

10 A Yes.

11 Q Do you recall what the Commission's ruling in
12 Washington was as to interconnection rates?13 A I believe in both Washington and Oregon the
14 Commission adopted bill and keep on an interim basis.15 Q Why do you say in Washington it was on an
16 interim basis?17 A Because that's what I recall, is interim
18 basis. I could be wrong. I think it's interim.19 Q Are you referring to the fact that it was
20 linked to the implementation of database number
21 portability?22 A I believe it was. But once again, I don't
23 remember the details of Washington.24 Q Do you remember the details in Oregon in terms
25 of why you believe it was interim?

1 A I just remember that it was interim for some
2 period of time. I can't tell you why.

3 Q Does GTE incur costs to terminate EAS traffic
4 from other incumbent independent LECs?

5 A Yes, ma'am.

6 Q And would you agree that those costs are
7 incremental costs?

8 A Yes.

9 Q And do the independent incumbent LECs also
10 incur costs to terminate EAS traffic originated from
11 GTE?

12 A Presumably.

13 Q And are EAS arrangements today with those
14 independents handled on a bill and keep arrangement?

15 A In Florida -- in some GTE states, yes. In
16 Florida, I believe we have a handful of routes with
17 other companies that clearly don't compete with us
18 today, and the arrangements are bill and keep between
19 the two companies.

20 Q You state at Page 4 of your testimony, Line
21 19, that no entity, LEC or ALEC, should be responsible
22 for assuring the financial viability of its
23 competitors. What did you mean by that?

24 A Line 19?

25 Q Yes, Line 19 and 20 on Page 4.

1 A I believe a competitive environment
2 essentially firms -- you know, even with the Lifeline
3 debates and all the Universal Service debates, we have
4 to recognize that we truly are competitors of each
5 other. We need to cooperate in completing calls and
6 terminating calls for each other. There's no doubt
7 about that. But even with the Lifeline debate, we are
8 still fundamentally rivals. We're going after each
9 other's business. In that kind of environment I think
10 it's imperative that we all recognize we have to stand
11 on our own two feet. We can't count on MCI Metro or
12 Time Warner or AT&T or anybody else to make all these
13 payments to us to keep us afloat. And likewise, I think
14 it's kind of important for the Commission to recognize
15 that just as we have incentives to maximize our profits,
16 they have incentives to minimize the cost they pay to us
17 under Universal Service or any other mechanism. All
18 companies need to stand on their own two feet in these
19 kind of environments.

20 Q Do you view financial viability as making
21 somebody whole, a Company whole, keeping them whole in a
22 rate of return environment?

23 A We are no longer in a rate of return
24 environment.

25 Q But would you consider financial viability the

1 back -- was that how you were using the term or were you
2 thinking --

3 A In a rate of return in the world, I guess
4 without being a lawyer, there does seem to be an
5 obligation. The company must be allowed an opportunity
6 to recover all of its expenses plus of the classic
7 return of, return on, and all that good stuff in a rate
8 base world.

9 Q Do you view a RIC as part of a make-whole
10 component?

11 A The RIC was clearly a part of the make-whole
12 component in the sense that we adopted the RIC as a
13 result of moving from the equal price per minute of use
14 requirement under the consent decree and the modified
15 final judgment. When those stipulations ran out, we
16 adopted local transport with the combination of FCC
17 rules allocating the cost for that jurisdiction and how
18 they would be recovered. When the equal price per
19 minute ran out, they didn't change the cost allocation
20 rules, they changed the price. That's what resulted in
21 the RIC, and everybody agrees that over time that RIC
22 should be phased out.

23 Q Do you think a requirement that an ALEC pay
24 for the RIC for an incumbent LEC is part of ensuring the
25 financial viability of a competitor?

1 A For local termination, I don't think GTE has
2 asked for a RIC. I think I've pretty much said, we
3 don't believe it ought to be charged for local
4 termination.

5 Q And that would be your position for GTE or for
6 any other incumbent LEC?

7 A I can't speak for other incumbent LECs, but
8 that's what GTE says.

9 Q I think you state in your testimony that you
10 believe interconnection arrangements should be provided
11 publicly and they should be filed as contracts rather
12 than tariffs?

13 A I am largely indifferent between contracts and
14 tariffs. I think the prices need to be known to all
15 parties, and all parties should have those prices filed
16 with this Commission. Whether it's a tariff or a
17 contract seems to be largely a definitional debate.

18 Q So you would have no objection if this
19 Commission ordered that those arrangements be provided
20 by tariff?

21 A Personally I don't.

22 Q Can you speak for what GTE as a company --

23 A The official position was we would rather
24 negotiate among the parties, and to the extent that
25 those result in contracts, we can hand those to this

1 Commission and the Commission can write "tariff" on them
2 if it wants and it can write "contract" on them if it
3 wants. So, again, I'm largely indifferent. I think
4 it's a matter of linguistics here.

5 Q Do you have an explanation for why access
6 charges -- switched access charges have traditionally
7 been priced with a high level of contribution?

8 A Sure.

9 Q Could you give me that?

10 A I think I kind of gave it to you earlier when
11 I was trying to explain, probably crudely, how we got
12 where we are. They were put there for the express
13 public policy purpose of keeping prices for local
14 service lower than they otherwise would have been when
15 we moved from division of revenues to access charges.

16 Q Why do you think that local interconnection
17 rates should be priced with that same high level of
18 contribution built in?

19 A It's nowhere near that same level of
20 contribution. GTE's switched access charges in Florida,
21 one way, are about seven plus cents, seven and a half
22 cents a minutes or so, I believe, whereas we're asking
23 for the equivalent of something less than a penny.

24 Q But certainly I think in an earlier
25 conversation with counsel for Florida Cable Association,

1 you did have a discussion about what was built into that
2 proposed rate, and it certainly included more than
3 TSLRIC; is that fair?

4 A It is more than TSLRIC. It is contributions
5 to those common costs that are attributable to switching
6 but not necessarily directly attributable to switched
7 access.

8 Q Wouldn't a local interconnection rate that
9 included some level of contribution have the effect of
10 increasing local rates for either the incumbent LEC or
11 the ALEC?

12 A Not necessarily.

13 Q Why not?

14 A Well, kind of imagine that -- you're Time
15 Warner now, right?

16 Q Time Warner.

17 A Time Warner is now in the business in Tampa
18 where GTE is, and you pay -- you charge a
19 competitor's -- or I'm sorry, your customers \$10 a
20 month, \$15 a month for local service, and GTE charges
21 theirs 15 as well. Doesn't really matter what the
22 number is. And you and I now have to agree to terminate
23 traffic for each other. No matter what the price is, so
24 long as that traffic is in balance, whether it's a tenth
25 of a cent, a dime, a dollar, when we get out that dollar

1 bill and start handing it back and forth, our customers
2 are still paying us whatever our prices are. If that
3 traffic is in balance, we're simply netting things out.
4 There's no pressure on the end user rates at all. It's
5 when that traffic goes out of balance where there can
6 start to be financial pressure on end user rates.
7 That's why I said in my summary, and also my testimony,
8 I think the price needs to be somewhat reasonable, and
9 also why I said switched access, as we know it today,
10 including carrier common line and RIC, is clearly
11 inappropriate price.

12 Q I want to go back to an earlier question for a
13 minute where we were talking about interconnection
14 between an independent LEC and GTE. Do you have any
15 sense of whether traffic between an independent and GTE
16 today for Florida is in balance or out of balance?

17 A Well, by definition on EAS, traffic is in
18 aggregate in balance. There is a variation, obviously a
19 variance around the imbalance. Some routes will be well
20 out of balance. Some will be -- traffic will be very
21 equal in both directions. So I -- I think I said in
22 deposition, I've never stated in any of these hearings
23 that I believe traffic will be out of balance or in
24 balance. I think it's an empirical question, and the
25 only way we can know is watch over time and see what

1 happens.

2 Q Were you present earlier today when
3 Dr. Cornell testified?

4 A Yes, ma'am.

5 Q Did you hear her explanation of the various
6 types of measurement costs that from her perspective are
7 different between a minute-of-use approach and a bill
8 and keep approach?

9 A Yes.

10 Q Do you disagree with her description of those
11 costs?

12 A I don't disagree with the description of the
13 type of costs that will have to be incurred. My
14 definition is, I think the costs that I've cited are
15 fairly relevant to both the local measured service and
16 the incremental costs associated with CABS. But it's
17 the incremental costs. Clearly one can add all kinds of
18 stuff on to the cost estimates. Ms. Menard's got an
19 exhibit in her testimony, and you're probably better off
20 asking her that, about estimates of the incremental
21 costs of billing and collection associated with CABS.

22 Q And finally, Dr. Beauvais, my recall is that
23 you were in the Washington proceeding on interconnection
24 rates?

25 A Yes, ma'am.

1 Q For GTE. Do you recall a number put forth by
2 U.S. West as to those measurement costs?

3 A I don't recall the U.S. West number
4 specifically, but I do recall they were utilizing or
5 talking about that -- I believe it was Hewlett Packard
6 billing systems for SS7. That's not the system GTE
7 uses, however, but I don't recall what the number was.

8 Q So you couldn't tell me whether your recall is
9 whether the order of magnitude of that cost is less or
10 greater than what you've proposed in your testimony?

11 A My guess would be it's greater, but I really
12 don't remember the number.

13 Q Thank you, Dr. Beauvais. That's all I have.

14 A Thank you, ma'am.

15 CHAIRMAN CLARK: Thank you.

16 MS. WILSON: Commissioner Clark?

17 CHAIRMAN CLARK: Ms. Wilson?

18 MS. WILSON: May I ask one brief question?

19 CHAIRMAN CLARK: Yes.

20 FURTHER CROSS EXAMINATION

21 BY MS. WILSON:

22 Q Mr. Beauvais, would Ms. Menard be the person
23 who would know the number and types of switches that GTE
24 has in Florida?

25 A She would sure know better than I would.

CROSS-EXAMINATION

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BY MS. CANZANO:

Q Good afternoon, Dr. Beauvais.

A Ma'am.

Q Do you have in front of you a document consisting of a deposition transcript of February 29th, 1996 and GTE's responses to Staff's Second Set of Interrogatories, numbers 20 through 24?

A Yes, ma'am.

Q Have you had an opportunity to review this document?

A I've read through it real quickly.

Q Regarding the deposition transcript, are there any corrections you need to make to that?

A Not that I'm aware of. It's real painful for me to read it.

Q Is it true and correct to the best of your knowledge?

A Yes, ma'am.

Q And did you prepare, or have prepared under your directions, GTE's responses to Interrogatories 20 through 24?

A Well, I certainly did for -- trying to look at the numbers. Some of those I think would be more appropriately sponsored by Ms. Menard.

1 Q Could you tell me which ones?

2 A That's what I'm trying to look at. They go
3 backwards. See, it looks like No. 23 was mine, 24 was
4 mine, 22 was mine, and I believe the other two were
5 Ms. Menard's.

6 Q Okay, and of the ones that are yours, 22, 23
7 and 24, they're true and correct to the best of your
8 knowledge?

9 A Yes, ma'am.

10 MS. CANZANO: At this time we would like to
11 have marked for identification, the February 29th,
12 deposition transcript and GTE's Responses to 22, 23 and
13 24.

14 CHAIRMAN CLARK: Ms. Canzano, I'm going to
15 show all of it as Exhibit 26. The deposition and your
16 second set of 20 through 24. We'll just wait until
17 after Ms. Menard has taken the stand to admit it in the
18 record, okay?

19 MS. CANZANO: Thank you. Staff has no further
20 questions.

21 (Exhibit No. 26 marked for identification.)

22 CHAIRMAN CLARK: You don't have any other
23 exhibits?

24 MS. CANZANO: No. The rest of them will be
25 sponsored under Bev Menard.

1 CHAIRMAN CLARK: All right. Thank you. You
2 have no further questions?

3 MS. CANZANO: No further questions. They've
4 already been answered.

5 CHAIRMAN CLARK: Commissioners?
6 Redirect, Mr. Gillman.

7 MR. GILLMAN: No redirect, Your Honor.

8 CHAIRMAN CLARK: Thank you very much,
9 Dr. Beauvais.

10 WITNESS BEAUVAIS: Thank you, ma'am. I should
11 say, Mr. Gillman, shall we move without objection
12 Exhibit 25?

13 MR. GILLMAN: I would move for the admission
14 of GTE Exhibit No. 25.

15 CHAIRMAN CLARK: It will be admitted in the
16 record without objection.

17 (Exhibit No. 25 received into evidence.)

18 Ms. Menard.

19 BEVERLY Y. MENARD

20 was called as a witness on behalf of GTE Florida, Inc.,
21 and having been duly sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. EDGINGTON:

24 Q Could you state your name and address, please?

25 A Beverly Y. Menard. My business address is One

1 Tampa City Center, Tampa, Florida 33601.

2 Q By whom are you employed?

3 A GTE Florida.

4 Q And in what capacity are you employed?

5 A I am the Regional Director of Regulatory and
6 Industry Affairs.

7 Q Did you cause to be prefiled on February 6th,
8 1996 ten pages of direct testimony and one exhibit?

9 A Yes, I did.

10 Q I'm going to digress here from the standard
11 questions and ask a very brief question. Has GTE
12 entered into a -- to your knowledge, a stipulation with
13 MFS respecting certain issues in that testimony that you
14 prefiled?

15 A Yes, we have.

16 Q Did you have a role in the negotiation of that
17 stipulation?

18 A Yes, I did.

19 Q In light of that stipulation, do you have any
20 changes to your testimony?

21 A Yes. I'm going to withdraw portions of
22 testimony. Starting at Page 3, withdraw Lines 3 through
23 25. On Page 4, I'm withdrawing Lines 1 through 14. On
24 Page 5 I'm withdrawing Lines 5 through 18. On Page 6
25 I'm withdrawing Lines 17 through 25. I am withdrawing

1 all of Page 7. I am withdrawing all of Page 8 and I am
2 withdrawing Lines 1 through 22 on Page 9.

3 Q Do you have any other changes or corrections
4 to your testimony?

5 A No, I do not.

6 Q And if asked the remaining questions, would
7 your answers from the stand be the same today?

8 A Yes, they would.

9 MR. EDGINGTON: Madam Chairman, at this time I
10 would move the direct testimony of Ms. Menard as filed.

11 CHAIRMAN CLARK: The direct testimony of
12 Ms. Menard, with the changes noted, will be inserted in
13 the record as though read.

14 Q (By Mr. Edgington) Ms. Menard, you had one
15 exhibit to your testimony; is that correct?

16 A That is correct.

17 Q Do you have any changes or revisions to that
18 exhibit?

19 A Yes. As we discussed in my deposition, on
20 Exhibit BYM-1, Page 2 of 2, it does not include the
21 information surcharge, and we do have a revised exhibit
22 to pass out that includes that.

23 MR. EDGINGTON: Madam Chairman, I would ask we
24 identify the revised exhibit to Ms. Menard's testimony
25 as Exhibit 27.

1 CHAIRMAN CLARK: BYM-1, as revised, will be
2 marked as Exhibit 27.

3 (Exhibit No. 27 marked for identification.)
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GTE FLORIDA INCORPORATED
TESTIMONY OF BEVERLY Y. MENARD
DOCKET NO. 950985-TP

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH GTE FLORIDA INCORPORATED (GTEFL).

A. My name is Beverly Y. Menard. My business address is One Tampa City Center, Tampa, Florida 33601-0110. My current position is Regional Director - Regulatory and Industry Affairs.

Q. WILL YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE?

A. I joined GTEFL in February 1969. I was employed in the Business Relations Department from 1969 to 1978, holding various positions of increasing responsibility, primarily in the area of cost separations studies. I graduated from the University of South Florida in June of 1973, receiving a Bachelor of Arts Degree in Business Administration with an Accounting major. Subsequently, I received a Master of Accountancy Degree in December of 1977 from the University of South Florida. In March of 1978, I became Settlements Planning Administrator with GTE Service Corporation. In January of 1981, I was named Manager-Division of Revenues with GTE Service Corporation, where I was responsible for the administration of the GTE division of revenues procedures and the negotiation of settlement matters with AT&T. In November of

1 1981, I became Business Relations Director with GTEFL. In that
2 capacity, I was responsible for the preparation of separations
3 studies and connecting company matters. Effective February
4 1987, I became Revenue Planning Director. In this capacity, I
5 was responsible for revenue, capital recovery and regulatory
6 issues. On October 1, 1988, I became Area Director-Regulatory
7 and Industry Affairs. In that capacity, I was responsible for
8 regulatory filings, positions and industry affairs in eight southern
9 states plus Florida. In August 1991, I became Regional
10 Director-Regulatory and Industry Affairs for Florida. I am
11 responsible for regulatory filings, positions and industry affairs
12 issues in Florida.

13

14 **Q. HAVE YOU EVER TESTIFIED BEFORE THE FLORIDA PUBLIC**
15 **SERVICE COMMISSION?**

16 **A. Yes. I have testified before this Commission on numerous**
17 **occasions.**

18

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
20 **DOCKET?**

21 **A. The purpose of my testimony is to present GTEFL's position on**
22 **the issues raised by Metropolitan Fiber Systems of Florida, Inc.**
23 **(MFS -FL) in the testimony of Timothy Devine. In addition, Dr.**
24 **Edward Beauvais will also present testimony for GTEFL relative to**
25 **bill and keep compensation and supporting rationale for GTEFL's**

1 proposed prices for local interconnection.

2

3 ~~Q. IN MR. DEVINE'S TESTIMONY, HE DISCUSSES ALLOWING MFS~~
4 ~~FL'S SWITCH TO "SUBTEND" THE TANDEM. DOES GTEFL~~
5 ~~AGREE WITH THIS PHILOSOPHY?~~

6 A. GTEFL has no problems with this approach. GTEFL has one
7 access tandem in its LATA. All GTEFL end offices subtend the
8 access tandem and currently no other LECs have end offices
9 subtending the GTEFL access tandem. MFS is currently colocated
10 at Tampa Main, which is the location for the access tandem.

11

12 Q. DOES GTEFL HAVE ANY PROBLEMS WITH MFS-FL'S
13 PROPOSALS FOR MEET-POINT BILLING?

14 A. Yes. GTEFL fully supports using the industry guidelines and will
15 not vary from them. As such, with the single-bill option, the end
16 office company bills the IXCs. If MFS-FL subtends GTEFL's
17 access tandem, it will be responsible for the billing. GTEFL is still
18 unclear on some of the details of MFS-FL's meet-point billing
19 proposal as it is described in Mr. Devines's testimony. GTEFL
20 hopes to gain a clearer understanding of MFS-FL's position in
21 ongoing negotiations..

22

23 Q. DOES GTEFL AGREE WITH MFS-FL'S PROPOSAL THAT MFS-FL
24 SHOULD UNILATERALLY SPECIFY THE INTERCONNECTION
25 METHOD?

1 ~~A. GTEFL cannot agree with this approach, which is plainly~~
2 inconsistent with the Legislature's emphasis on negotiated, rather
3 than unilaterally imposed, arrangements. Standard
4 interconnection arrangements between LECs should be based on
5 mutual agreement between the parties. It bears note that GTEFL
6 does not lease dark fiber facilities. If MFS uses colocation
7 facilities, cross-connect charges in conformance with the
8 colocation tariffs will apply.

9
10 **Q. DOES GTEFL AGREE WITH MFS-FL'S PROPOSALS RELATIVE TO**
11 **SIGNALLING ARRANGEMENTS?**

12 A. Yes, to the best of GTEFL's knowledge. The interconnections for
13 Common Channel Signalling will be furnished in accordance with
14 ~~the FCC GTOC Access Tariff.~~

15

16 **Q. WHAT IS GTEFL'S POSITION ON CONNECTIONS AND**
17 **COMPENSATION BETWEEN TWO ALECS?**

18 A. When GTEFL established colocation tariffs (in accordance with
19 FCC and FPSC guidelines), their purpose was to allow another
20 party to connect with GTEFL facilities. Colocation is not a
21 "service" and GTEFL's tariffs do not support cross-connects
22 between two entities colocated in a GTEFL wire center. GTEFL
23 has no problems in allowing transiting traffic. If GTEFL's access
24 tandem is used for traffic transiting the tandem, GTEFL will charge
25 tandem switching in accordance with its access tariffs. In

1 addition, GTEFL supports the use of an additional rate element
2 (\$.002) to compensate for traffic transiting GTEFL's access
3 tandem which does not go to a GTEFL end office.

4

5 ~~Q. DOES GTEFL OBJECT TO THE USE OF TWO-WAY TRUNKING~~
6 ~~ARRANGEMENTS?~~

7

8 A. No. MFS-FL originally proposed the use of one-way trunking
9 arrangements. GTEFL's response was that GTEFL prefers two-
10 way trunks as this arrangement is more efficient. However, if an
11 ALEC wants one-way trunks, GTEFL is willing to accommodate
12 this request.

13

14 Q. WHAT IS GTEFL'S POSITION ON BUSY LINE VERIFICATION AND
15 INTERRUPT?

16 A. GTEFL proposes that the rates charged will be the same rates
17 charged to IXCs. This service does require separate trunk groups
18 to the GTEFL's operator switch.

19

20 Q. DOES GTEFL SUPPORT MFS-FL'S PROPOSAL FOR RECIPROCAL
21 AND "BILL AND KEEP" COMPENSATION?

22 A. No. GTEFL fully supports reciprocal arrangements; i.e., both
23 carriers pay for terminating each other's traffic. GTEFL believes
24 that intrastate switched access charges must apply for any
25 intrastate toll traffic; otherwise, discriminatory treatment vis-a-vis

1 the IXCs would occur. In addition, GTEFL is proposing to use the
2 same access rates (excluding the interconnection charge and
3 carrier common line) for local traffic. Exhibit BYM-1 contains
4 GTEFL's proposed rates.

5

6 **Q. DOES GTEFL HAVE ANY "BILL AND KEEP" ARRANGEMENTS**
7 **WITH OTHER LECS?**

8 **A.** Yes, GTEFL has such arrangements for limited EAS routes with
9 United. However, after the new arrangements have been
10 implemented for the ALECs, GTEFL will convert these EAS routes
11 to the same financial arrangements used for ALECs.

12

13 **Q. ARE THERE OTHER REASONS WHY GTEFL DOES NOT SUPPORT**
14 **"BILL AND KEEP" ARRANGEMENTS?**

15 **A.** Yes, these are discussed in more detail in Dr. Beauvais' testimony.

16

17 ~~**Q. DOES GTEFL BELIEVE AGREEMENT CAN BE REACHED WITH**~~
18 ~~**MFS-FL ON SHARED PLATFORM ARRANGEMENTS?**~~

19 ~~**A.** GTEFL will continue to make every effort to reach agreement on~~
20 ~~all issues. However, based on Mr. Devine's testimony, it appears~~
21 ~~more discussion is required on these subjects.~~

22

23 ~~**Q. DOES GTEFL FORESEE ANY PROBLEMS WITH THE PROVISION**~~
24 ~~**OF E911 SERVICES?**~~

25 ~~**A.** No. MFS-FL will be responsible for providing trunk connections to~~

1 GTEFL's 911 switch. GTEFL has one 911 switch which handles
2 its entire area, except Manatee County, and all GTEFL's counties
3 have E911 service. The Master Street Address Guide (MSAG) is
4 the responsibility of the counties and only they can authorize
5 release of the data. GTEFL is willing to make available to MFS-FL
6 the same arrangement that is currently utilized with United, which
7 will allow for the verification of MFS-FL's data against the MSAG.
8

9 **Q. DOES GTEFL BELIEVE THAT ARRANGEMENTS SHOULD BE**
10 **MANDATED FOR INFORMATION SERVICES BILLING AND**
11 **COLLECTION?**

12 **A. No. To the best of GTEFL's knowledge, there are no**
13 **intercompany arrangements in the state for these types of**
14 **services. Major changes would be required in GTEFL's billing**
15 **systems to accommodate MFS-FL's request. GTEFL does not**
16 **provide any audiotext service. It will be MFS-FL's decision**
17 **whether it wishes to offer 976-XXX services to their customers**
18 **using their own tariffs. The compensation for this type traffic**
19 **should be the same as for any other local or intraLATA toll traffic.**
20

21 **Q. DOES GTEFL HAVE ANY PROBLEMS WITH MFS-FL'S PROPOSAL**
22 **FOR INCLUSION OF MFS-FL CUSTOMERS IN GTEFL'S**
23 **DIRECTORIES OR DIRECTORY ASSISTANCE DATABASE?**

24 **A. No. This has been GTEFL's position since negotiations started in**
25 **July 1995.**

1 Q. WHAT ARE GTEFL'S PROPOSALS RELATIVE TO MFS-FL
2 ACCESSING GTEFL'S DIRECTORY ASSISTANCE DATABASES?

3 A. GTEFL proposes to charge the same directory assistance rates and
4 apply the same terms and conditions as contained in GTEFL's
5 access tariffs. The rates are \$.25 for intrastate calls and \$.28 for
6 interstate calls. GTEFL is willing to pursue directory assistance
7 call completion services for MFS-FL. It is contemplated that the
8 calls would be returned to MFS-FL for completion, which would
9 eliminate the requirement for calling detail in electronic format.

10

11 Q. WHAT IS GTEFL'S POSITION ON YELLOW PAGE
12 ADVERTISEMENTS?

13 A. GTEFL will cooperate with MFS-FL to ensure that MFS-FL
14 customers are included in the Yellow Pages on terms comparable
15 to GTEFL customers. GTEFL cannot agree that MFS-FL should be
16 able to force GTE Directories Company to accept MFS-FL as a
17 billing and collection agent for GTE Directories Company.

18

19 Q. HOW DOES GTEFL BELIEVE INTERCEPT SERVICE SHOULD BE
20 HANDLED IF A CUSTOMER CHANGES FROM GTEFL TO MFS-FL
21 AND DOES NOT RETAIN THEIR ORIGINAL TELEPHONE NUMBER?

22 A. GTEFL has a tariff offering (Intercept on the move) which can be
23 utilized by the customer or MFS-FL. There are costs associated
24 with this service, and GTEFL cannot agree to provide it at no
25 charge.

1 ~~Q. WHAT SHOULD BE THE COMPENSATION ARRANGEMENT FOR~~
2 REDIRECTED CALLS UNDER TEMPORARY NUMBER
3 PORTABILITY?

4 A. GTEFL currently has no way to identify the access charges
5 associated with remote call forwarded calls, as they appear as
6 two calls in GTEFL's systems and there is currently no billing or
7 other mechanism in place to develop this data. GTEFL plans to
8 compensate MFS for all redirected calls using the same type
9 arrangement which GTEFL uses to pay MFS-FL for local calls, as
10 these type calls will look like local calls. GTEFL is willing to
11 pursue development of a mutually agreed upon surrogate to
12 accommodate the differential between access charges and local
13 compensation for ported calls. GTEFL cannot support making
14 costly and massive modifications to its billing system at this type
15 to try to identify these type calls.

16
17 Q. HAS GTEFL REACHED AGREEMENT WITH MFS-FL ON THE ISSUE
18 OF NUMBER RESOURCES?

19 A. I am perplexed by Mr. Devine's testimony that GTEFL and MFS-FL
20 do not agree on this issue. Since negotiations began in July
21 1995, GTEFL's position has been consistent with the positions
22 stated by MFS-FL.

23

24 Q. IN FACT, MR. DEVINE SEEMS TO INDICATE THAT GTEFL HAS
25 SHOWN LITTLE INTEREST IN NEGOTIATING WITH MFS-FL. (DEVINE

1 **DIRECT TESTIMONY AT 11-12.) IS THIS TRUE?**

2

3 **A. No. GTEFL takes issue with Mr. Devine's implications that GTEFL**
4 **failed to adequately respond to MFS' overtures at negotiation. GTEFL**
5 **and MFS had several discussions in the hope of reaching agreement on**
6 **some or all of the issues in this case. GTEFL believed that the parties**
7 **had, in fact, agreed on certain points, and that others were close to**
8 **resolution. The fact that GTEFL declined to prepare lengthy responses**
9 **to certain of MFS' written communications certainly does not show a**
10 **lack of good faith on GTEFL's part. To the contrary, GTEFL stands ready**
11 **to continue negotiations and fully shares MFS' desire to reach agreement**
12 **on as many issues as possible before hearings begin.**

13

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

15 **A. Yes, it does.**

16

17

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25

1 Q (By Mr. Edgington) Ms. Menard, do you have a
2 summary of your testimony?

3 A It will be about as brief as the testimony
4 that's left. GTE Florida's collocation tariffs do not
5 support cross-connects between two entities collocated
6 in a GTE wire center. The purpose of collocation was to
7 allow another party to connect with GTE Florida
8 facilities. GTE Florida does not support bill and keep
9 arrangements for local and intraLATA toll traffic.

10 Q Does that conclude your summary?

11 A Yes, it does.

12 MR. EDGINGTON: The witness is tendered.

13 CHAIRMAN CLARK: Mr. Wahlen, do you have any
14 questions of this witness?

15 MR. WAHLEN: No, thank you.

16 CHAIRMAN CLARK: Ms. Wilson.

17 MS. WILSON: Thank you.

18 CROSS-EXAMINATION

19 BY MS. WILSON:

20 Q Good afternoon, Ms. Menard. I'm Laura Wilson
21 representing the Florida Cable Telecommunications
22 Association. I have just a few questions for you,
23 hopefully. Were you here a minute ago when I was
24 speaking to Mr. Beauvais about the number and types of
25 switches that GTE has in Florida?

1 A Yes.

2 Q And do you know the number and types of
3 switches that GTE has in Florida?

4 A I don't think I have that in any documents we
5 have today. I could tell you the types of switches. I
6 can't tell you exact numbers.

7 Q Okay.

8 A We have basically -- well, we have an access
9 tandem that is a 4ESS and then we have three types of
10 end office switches. We have GTD5 switches, which
11 represent about 75 percent of our access lines. We have
12 5ESS switches, and we have three DMS-100 switches.

13 Q And you have an estimate of -- let me just ask
14 you, are all those switches that you just mentioned
15 digital switches?

16 A Yes, they are.

17 Q Ms. Menard, were you present at the very
18 beginning of this hearing when your counsel testified
19 that I should be kicked out of this docket, that FCTA
20 should be kicked out of this docket?

21 A I don't remember my lawyer testifying to
22 that.

23 Q But you do recall the discussions about that;
24 do you not?

25 A I recall the discussion about whether the

1 parties would be held to the position -- the actions of
2 the issues in this docket.

3 Q And I seem to recall your lawyer saying that
4 FCTA doesn't have an interest in this proceeding and
5 couldn't prove any interest in this proceeding. So I
6 just want to ask you a few limited questions.

7 Are you the Regional Director of Regulatory
8 and Industry Affairs for GTE?

9 A GTE Florida, yes.

10 Q And in that capacity, you're responsible for
11 regulatory filings and positions; is that correct?

12 A That is correct.

13 Q And part of your job responsibility is also
14 negotiating interconnection arrangements with ALECs in
15 Florida; is that correct?

16 A That is correct.

17 Q Now, Ms. Menard, in that capacity, you and I
18 have had several ongoing discussions concerning the
19 potential for a stipulation and agreement between the
20 Cable Association and GTE in this proceeding; haven't
21 we?

22 A Yes, we have.

23 Q And those discussions have been ongoing for
24 several months; have they not?

25 A Yes, they have.

1 Q Do you recall me flying down to meet with you
2 on January 26th?

3 A I don't have my calendar with me, so I could
4 not verify the date, but I do remember such a meeting.

5 MR. EDGINGTON: Madam Chairman, I'm not
6 sure -- I'm going to register an objection because I'm
7 not sure we're staying within the scope of the testimony
8 here.

9 (Pause)

10 MR. EDGINGTON: We may have to review this,
11 but I'm going to register an objection to the current
12 line of questioning because it doesn't seem to have
13 anything to do with Ms. Menard's filed testimony. It
14 seems to be outside of the scope of the testimony.

15 CHAIRMAN CLARK: Ms. Wilson.

16 MS. WILSON: First, I only have a few more
17 questions, but Ms. Menard testified that part of her job
18 is negotiating interconnection arrangements with ALECs
19 in Florida. And I'm trying to establish that FCTA has
20 been actively involved in this docket and actively
21 involved in negotiations, and to some extent actively
22 involved at the request of GTE, and that's all I'm
23 trying to clarify for the record.

24 CHAIRMAN CLARK: Where is that in her prefiled
25 testimony?

1 MS. WILSON: What's in her prefiled testimony
2 at Page 2, Line 12, is that she is testifying in her
3 capacity as the Director of Regulatory and Industry
4 Affairs for Florida, and she just testified that part of
5 her job responsibility was negotiating interconnection
6 arrangements in Florida. And so I'm trying to --

7 CHAIRMAN CLARK: That's in response to a
8 question you asked; is that correct?

9 MS. WILSON: Yes.

10 CHAIRMAN CLARK: So it's not part of her
11 direct testimony.

12 MS. WILSON: But it's clarifying what her job
13 description is, which is in her testimony.

14 CHAIRMAN CLARK: I'll allow you to do that,
15 but now the objection is to exploring further the
16 meetings you have had, and you need to explain to me how
17 that relates to her direct testimony.

18 MS. WILSON: I am trying to elicit from her
19 that --

20 CHAIRMAN CLARK: I am not trying to ask what
21 you're trying to elicit. I want to know, what does it
22 relate to in her direct testimony?

23 MS. WILSON: It relates -- I would have to say
24 it relates more to the allegations of GTE's counsel at
25 the beginning of this hearing on the record that FCTA

1 neither had an interest in this proceeding nor could
2 prove any.

3 CHAIRMAN CLARK: Well, I think that decision
4 has been made. You've been allowed to intervene and I
5 think that's beyond the scope of her direct testimony.

6 MS. WILSON: Okay.

7 Q (By Ms. Wilson) Now Ms. Menard, you're not a
8 lawyer; is that correct?

9 A That is correct.

10 Q But you would agree with me that in your
11 capacity as the Regional Director of Regulatory and
12 Industry Affairs for GTE Florida that you have a working
13 knowledge of Chapter 364; is that correct?

14 A That is correct.

15 Q And I just want to clarify that I'm not going
16 to be asking you today for any legal opinions or
17 conclusions, but at times I may ask you for your
18 walking-around working knowledge of Chapter 364, which
19 may or may not be right; is that okay?

20 A That is fine.

21 Q Do you recall testifying in your deposition
22 that you were responsible on behalf of GTE for reviewing
23 bill drafts and amendments during the '95 session?

24 A Yes.

25 Q Do you recall whether any of the initial bill

1 drafts of Chapter 364 required an annual review by the
2 Commission for purposes of determining whether toll
3 calls are being inappropriately passed through a local
4 interconnection arrangement?

5 A And I believe I answered in my deposition, I
6 don't remember.

7 Q Would you be willing to accept, subject to
8 check, that the initial draft of Chapter 364, which was
9 released on March 14th, 1995, did contain that
10 requirement in it?

11 A Subject to check, I am willing to accept that.

12 Q And having worked with you, I can imagine that
13 your files are extensive on the legislative front.

14 Now, to the best of your knowledge, realizing
15 you're not a lawyer, this annual review language does
16 not appear in the final provisions of Chapter 364; does
17 it?

18 A No, it does not.

19 Q And would you agree with me that if the
20 legislature intended for there to be annual audits or
21 reviews of traffic that it could have kept this language
22 in the law?

23 A That certainly would have been an alternative
24 they could have done, yes.

25 MR. EDGINGTON: Excuse me, Madam Chairman.

1 MS. WILSON: That's all.

2 MR. EDGINGTON: Are you done?

3 MS. WILSON: Yes, I am.

4 CHAIRMAN CLARK: Mr. Crosby.

5 MS. WILSON: No, I'm sorry. That was my final
6 line of questions on that particular --

7 CHAIRMAN CLARK: I'm sorry. I misunderstood
8 you. Ms. Wilson.

9 Q (By Ms. Wilson) Okay, I would like to direct
10 you to your testimony at Page 6, Lines 1 through 4. And
11 I just want to ask you for purposes of clarification,
12 why does GTE propose the use of switched access rate
13 elements for the exchange of local traffic?

14 A The main reason was, as far as the way it
15 works on my network, whether it's an intraLATA toll
16 call, an interLATA, intrastate toll call or a local
17 call, they basically are all going to work the same way
18 in my network, so it's doing the same type functions.
19 However, to charge full intrastate access rates, which
20 for terminating traffic is about seven cents, I did not
21 think was reasonable. And so this is why we went to the
22 approach of excluding the carrier common line, the
23 residual interconnection charge and the information
24 surcharge to get a rate of about one penny.

25 Q Is GTE concerned about treating the

1 termination of local traffic differently than it treats
2 the termination of toll traffic?

3 A For comparable functions I think they should
4 be treated similarly. However, we can't support putting
5 the same level contribution in local interconnection
6 rates that are in the existing access rates.

7 Q In your response you're referring to the RIC
8 and the CCL; is that correct?

9 A And the information surcharge element.

10 Q But you're also not proposing to charge
11 originating access on a local call, are you?

12 A No, because that's my responsibility. It's my
13 customer originating the call.

14 Q I just need a minute to compare my questions
15 to the portions of your testimony that you struck.

16 Okay, I would refer you to Page 6, Lines 8
17 through 11. Is United the only other incumbent LEC that
18 you exchange EAS traffic with today?

19 A Yes.

20 Q And isn't it true that GTE bears little risk
21 in converting those routes, EAS routes, to a measured
22 rate because you know that the traffic exchanged with
23 United is in balance?

24 A I do not know that. I mean some of those EAS
25 routes were put in at a time when we were -- had

1 operators handling the calls and no traffic studies were
2 ever done. So I do have no idea whether the traffic is
3 in balance or not.

4 Q Okay. Do you recall me asking you in your
5 deposition whether historically the exchange of traffic
6 with United has been in balance?

7 A Not directly, but I can look it back up.

8 Q I would refer you -- do you have a copy of
9 your deposition in front of you?

10 A Yes, I do.

11 Q I would refer you to Page 31, Line 23.

12 A Yeah.

13 Q And you responded, "By definition usually, you
14 know, since it originates in mine and terminates in
15 theirs, I mean usually it -- in the studies we had prior
16 to the EAS conversions --" then you said, "they were
17 pretty close, to the extent we even had studies."

18 A That is correct. And all I'm saying is, at
19 the time we had the studies they were pretty close. I
20 do not know if they're close today.

21 Q And the use of bill and keep on these EAS
22 routes has not created a disincentive to GTE in
23 deploying network infrastructure, has it?

24 A No, because in those cases all the costs of
25 that were paid for in our rate cases.

1 Q Now I would like to refer you to your revised
2 Exhibit BYM-1. I believe that's Exhibit No. 27. GTE
3 doesn't have a line termination charge; does it?

4 A No. We did prior to our last rate case.

5 Q And you're able to terminate EAS traffic for
6 United without a line termination charge; aren't you?

7 A Yes.

8 Q And you're going to be able to terminate it
9 under the Intermedia agreement; isn't that correct?

10 A That would be one alternative, yes.

11 Q Now, did I understand your response a minute
12 ago that GTE did at one point have a line termination
13 charge?

14 A Yes, it did.

15 Q What happened to it?

16 A In our last rate case, in 1991, the access
17 charges were restructured and that rate element was
18 eliminated.

19 Q Was it eliminated entirely or was it
20 transferred to another rate element?

21 A It was transferred to another rate element.

22 Q What rate element? Do you recall?

23 A No, I don't recall.

24 Q Do you recall by how much that transfer
25 increased the element that it was transferred to?

1 A No, I do not. In total, the Commission -- we
2 ended up doing very little changed access charges in the
3 rate case.

4 Q Do you recall whether the amount was
5 substantially less than the amount of United Centel's
6 current line termination charge of --

7 A I do not remember. I mean at one point we all
8 had the same line termination rate because it was a
9 Southern Bell rate.

10 Q Okay. Thank you. Is it your position that
11 the Commission should adopt the terms -- or the rates
12 and the rate structures contained in the Intermedia GTE
13 agreement?

14 A For GTE Florida traffic, yes.

15 Q And are those rates and rate structures
16 similar to the ones contained in the FCTA BellSouth
17 agreement? Do you recall?

18 A My understanding, they're very similar. Of
19 course what's in that agreement is Southern Bell's
20 access rates. What's in the ICI agreement with me is
21 GTE Florida rates.

22 Q In proposing the adoption of the Intermedia
23 rates and rate structures, how do you resolve the
24 apparent inconsistency in those terms versus what the
25 Commission ordered -- recently ordered in the BellSouth

1 interconnection proceeding?

2 A My only way I would reconcile it is they
3 erred.

4 Q I'm sorry, I didn't hear your response.

5 A My only way I can reconcile it is they erred.

6 Q That's fair enough. Now, other than the rates
7 and rate structures, the terms in the GTE Intermedia
8 agreement are not exactly the same as the FCTA
9 agreement; isn't that correct?

10 A That FCTA executed with Southern Bell?

11 Q Correct.

12 A No, they are not.

13 Q I just want to make sure I understand some of
14 the terms in the Intermedia agreement. In the
15 Intermedia agreement, does GTE guarantee Universal
16 Service for two years without ALEC contributions under
17 the interim mechanism?

18 A No.

19 Q Would it surprise you to learn that BellSouth
20 did agree to this in their agreement with FCTA?

21 A No.

22 Q The second area is reciprocal connectivity.
23 In the Intermedia agreement, did GTE agree to provide a
24 reciprocal of each trunk group established by
25 Intermedia?

1 A No, they did not.

2 Q Would it surprise you to learn that BellSouth
3 did stipulate to this?

4 A No, it would not.

5 Q And then the final area is the nonrecurring
6 charge for remote call forwarding. What is that charge
7 in the Intermedia agreement?

8 A That agreement is \$5 per order for a single
9 customer in a single exchange.

10 Q What does that mean, \$5 per order?

11 A Says that if I have a customer that has one
12 line in Tampa, it is \$5. If that customer has 50 lines
13 in Tampa, it is \$5.

14 Q What if you have one customer that is a
15 Barnett Bank but there are three Barnett Banks in the --
16 in one exchange. Could all the Barnett Banks be placed
17 on one order?

18 A If they are in the same exchange, with the
19 same customer, yes.

20 Q So let me just make sure I understand. You
21 want the similar rates and rate structure that's in the
22 BellSouth/FCTA agreement, but you don't want to have to
23 give away the same things that Bell did to get that in
24 negotiations; isn't that correct?

25 A I look upon them being different factors, and

1 yes, if that's the way you want to perceive it, that is
2 correct.

3 MS. WILSON: Okay, I don't have any further
4 questions.

5 CHAIRMAN CLARK: We're going to take a short
6 break. We'll come back at 5:15.

7 (Recess from 5:05 p.m. until a 5:26 p.m.)

8 CHAIRMAN CLARK: Call the hearing back to
9 order.

10 Mr. Crosby.

11 MR. CROSBY: No questions.

12 CHAIRMAN CLARK: Mr. Melson.

13 MR. MELSON: Commissioner Clark, before we
14 begin, I was wondering if the Staff could identify their
15 exhibits. We've got a fair amount of reference to the
16 documentary materials, and I think that would speed
17 things along.

18 CHAIRMAN CLARK: Let's go ahead and identify
19 the exhibits for Ms. Menard.

20 MS. CANZANO: What we have identified as ECB-3
21 is a confidential exhibit consisting of GTE's Responses
22 to Staff's Second Request for PODs, Nos. 5 through 6.
23 Also, GTE has filed a supplement to that exhibit that
24 came in today, and Mr. Gillman has copies of that that
25 he needs to hand out to the commissioners.

1 No, that's something different, Commissioner
2 Clark, but keep it.

3 CHAIRMAN CLARK: Is it acceptable if we put it
4 in here?

5 MS. CANZANO: Yes.

6 CHAIRMAN CLARK: Mr. Gillman, I think if
7 you'll give Commissioner Johnson one, I will let her
8 know what it is. And take the other paper out from
9 under it. Thank you.

10 Okay, go ahead, Staff.

11 MS. CANZANO: Also while -- can you, when
12 you're done with this confidential material in the
13 manila envelopes, return them to the manila envelopes so
14 it's easier for Staff to pick up on the way back?

15 CHAIRMAN CLARK: Wait a minute. If this is a
16 supplement to this exhibit, I'm just going to put it in
17 here.

18 MS. CANZANO: That's fine.

19 CHAIRMAN CLARK: All right, go ahead.

20 MS. CANZANO: We also would like marked for
21 identification as an Exhibit ECB-4 --

22 CHAIRMAN CLARK: ECB-3, which is a
23 confidential exhibit, will be marked as Exhibit 28.

24 MS. CANZANO: Thank you.

25 CHAIRMAN CLARK: All right. Go ahead.

1 MS. CANZANO: ECB-4 consists of GTE's
2 Responses to MFS's First Set of Interrogatories, Nos. 3,
3 4, 50, 63 and 64.

4 CHAIRMAN CLARK: That will be marked as
5 Exhibit 29.

6 MS. CANZANO: Then ECB-5, consisting of GTE's
7 Responses to MCI Metro's First Set of Interrogatories,
8 Nos. 1 through 17, and I have distributed a revised
9 Page 6. It's a single piece of paper.

10 CHAIRMAN CLARK: This one?

11 MS. CANZANO: Yes.

12 CHAIRMAN CLARK: Okay.

13 MS. CANZANO: And Nos. 12 and 13 are the items
14 that have been revised.

15 CHAIRMAN CLARK: Okay. That will be marked as
16 composite Exhibit 30.

17 MS. CANZANO: Next we have the deposition
18 transcript of Ms. Menard taken on February 29th, and
19 GTE's Responses to Staff's Second Set of
20 Interrogatories, Nos. 2 through 19, and we have that
21 marked as BYM-2.

22 CHAIRMAN CLARK: BYM-2 will be marked as
23 Exhibit 31.

24 MS. CANZANO: Next we have BYM-3 consisting of
25 GTE's Responses to Staff's Second Request for PODs, Nos.

1 2 and 3.

2 CHAIRMAN CLARK: And that will be marked as
3 Exhibit 32.

4 MS. CANZANO: The next item is BYM-4, which is
5 a confidential document, which we have not distributed,
6 but we can if anybody needs to ask any questions on that
7 or would like to see that material.

8 CHAIRMAN CLARK: All right, exhibit --
9 confidential Exhibit BYM-4, which is Responses to
10 Staff's Second Request for Production of Documents No.
11 7, will be marked as Exhibit 33.

12 MS. CANZANO: And last, we have BYM-5
13 consisting of GTE's Responses to MFS's First Set of
14 Interrogatories 1 and 2, 5 through 49, 51 through 62,
15 and 65 through 79.

16 CHAIRMAN CLARK: BYM-5 will be marked as
17 Exhibit 34.

18 Okay, Mr. Melson, they've been identified.
19 (Exhibit Nos. 28, 29, 30, 31, 32, 33 and 34
20 marked for identification.)

21 MR. MELSON: Thank you very much.

22 CROSS-EXAMINATION

23 BY MR. MELSON:

24 Q Ms. Menard, I'm Rick Melson representing MCI
25 Metro. At Page 5 of your testimony, Line 22, you

1 suggest that compensation between the LECs and the ALECs
2 should be reciprocal. Could you define for me what you
3 mean by reciprocal?

4 A That each -- that we would do as Dr. Beauvais
5 testified in originating a responsibility plan where
6 each carrier is responsible for paying for their
7 termination of their traffic to the other carrier.

8 Q Do you mean that the rates would -- the rate
9 for each -- for example, that the rate levels would
10 necessarily be the same?

11 A In the agreement we've signed with ICI, they
12 are the same. They don't necessarily have to be the
13 same. Our main position is, whatever the ALEC is going
14 to charge everybody, let's say for end office switching,
15 the rate should be the same for everybody, and that
16 would be the same rate I would pay.

17 Q But as you understand it, this proceeding is
18 only to establish your rate to the ALEC, not to
19 establish an ALEC's rate to you?

20 A That is correct.

21 Q And in your stipulation with Intermedia, there
22 is what's been referred to as the 105 percent cap; is
23 that correct?

24 A That is correct.

25 Q Is that part of your proposal for what the

1 Commission should adopt in this docket?

2 A In what I filed in my testimony, we did not
3 put the cap in. I have no problem with the cap being
4 adopted for an interim period.

5 Q And the Intermedia agreement, as you just
6 mentioned, was for an interim period; is that correct?

7 A That's correct. It expires January 1, 1998.

8 Q And are you suggesting that any Commission
9 decision in this docket should likewise be for an
10 interim period, or are you advocating they establish a
11 charge that is in effect until somebody comes in and
12 gets it changed?

13 A I would say we're advocating a charge that
14 stays in effect until someone thinks it needs to be
15 changed.

16 Q Ms. Menard, can you estimate for me the number
17 of business access lines that GTE Florida has?

18 A As of the end of 1995, about 500,000 business
19 access lines.

20 Q And about how many residential access lines?

21 A A million and a half.

22 Q So a total of 2 million access lines?

23 A That is correct.

24 Q And based on the revised interrogatory answer
25 that was included in Exhibit 30, the average residence

1 generates about 454 minutes per month of local usage; is
2 that correct?

3 A That is correct.

4 Q Don't turn the page yet. The average business
5 is about 413 minutes per month?

6 A That is correct.

7 Q And the average rate for basic residential
8 service is \$10.85 a month; is that correct?

9 A That's correct.

10 Q Now, looking at your Exhibit BYM-1, which is
11 previously marked as Exhibit 27, are the rates shown on
12 that exhibit the rate elements and specific rate levels
13 that you would propose the Commission establish in this
14 docket as the charge for local interconnection?

15 A The only thing I -- caveat I would say to
16 that, is like, for instance, on this entrance facility,
17 for ease of showing a comparable minute of rate, it
18 shows the entrant's facility on a per minute of use
19 basis. That actual rate in the tariff is a flat rate
20 tariff item.

21 In addition, most of the ALECs I am currently
22 negotiating with will not be paying that rate element
23 because they will be collocated at Tampa Main.

24 Q Is it fair to say that including that rate
25 element expressed on a per minute of use basis, that

1 we're talking about 1.1 cents per minute of use is your
2 proposed interconnection rate?

3 A That's correct. When you exclude it, it's
4 about 99/10ths of a cent.

5 Q So we could call that one cent for ease of
6 talking?

7 A Yes.

8 Q And the facilities termination per MOU, which
9 is a piece of that, does that include two terminations,
10 one at each end of the local transport?

11 A That is correct.

12 Q And I believe you also propose a rate for
13 performing the intermediary function or the transit
14 function of two-tenths of a cent on top of your access
15 tandem switching; is that correct?

16 A Only if it's, for instance, ALEC to ALEC
17 traffic, where I would not be getting any other access
18 elements.

19 Q All right. And is the access tandem switching
20 element we're talking about this .00075 cents that
21 appears on your Exhibit BYM-1?

22 A Yes, it is.

23 Q So the total rate you're proposing there
24 is .275 cents per minute of use; is that correct?

25 A Yes.

1 Q Now, at 454 minutes of use for the average
2 residential customer, would you agree with me that the
3 1.1 cents per minute translates to almost exactly \$5 a
4 month as sort of an average local interconnection
5 charge?

6 A Yes, sir.

7 Q And that is roughly 46 percent of your basic
8 residential rate of \$10.85 per month; would you agree
9 with that?

10 A Of my current rates, that is correct.

11 Q Now, what I would like to do -- and it's going
12 to require looking at the confidential exhibit -- is to
13 spend a minute comparing the costs of the various
14 elements of this local termination to the proposed rate
15 that's shown on your Exhibit BYM-1. If you could go
16 to -- I guess it's Exhibit 32. I'm sorry, that won't
17 do it. Exhibit 28. And could you turn to the page that
18 is bate stamped 13, 1000013?

19 A Yes, sir.

20 Q And that is a page number rather than a cost?
21 It's got about the right number of zeros in it.

22 A That is a bate stamped page number.

23 Q If I was trying to come up with a cost that
24 matched up with the 1.1 cents per minute we've just
25 discussed, if I looked at the bottom of this page,

1 tandem switched transport --

2 COMMISSIONER GARCIA: I'm sorry, where are
3 you, again?

4 MR. MELSON: I'm sorry, Page 13.

5 WITNESS MENARD: The top of the page says GTE
6 Florida Local Transport Restructure.

7 Q (By Mr. Melson) Would I take one unit of the
8 premium facility that's shown there at the bottom of the
9 page?

10 A For one mile of transport, yes.

11 Q And one mile of transport is what's included
12 in the 1.1 cents?

13 A That's correct.

14 Q And I would take two elements -- two times
15 this premium termination rate; is that correct?

16 A That is correct. I am going to correct on one
17 thing. If you're talking about the rate I'm charging
18 interconnection, it's the one penny, not the 1.2. I'll
19 never charge 1.2 cents.

20 Q I'm sorry?

21 A It's one penny, we had talked about one penny.

22 Q Okay. Compared to the one penny, I would take
23 one of these premium facility charges?

24 A Correct.

25 Q I'd take two of the premium termination

1 charges?

2 A That is correct.

3 Q I'd take one of the tandem switching charges?

4 A That is correct.

5 Q And then would I go back to Page 2 and take
6 one of the terminating access cost elements shown on
7 Line 8 out in the last column labeled Average MOU LRIC?

8 A Yes, to get a 24-hour rate, yes.

9 Q And without sitting here and struggling
10 through all the mathematics, would you agree that when I
11 add those all together, I come up with a cost that is
12 less than two-tenths of a cent per minute of use?

13 A That is correct. You are -- what you are
14 adding is the LRIC cost for tandem switching and
15 transport and an estimate of the TSLRIC for the end
16 office switching.

17 Q And do you have an estimate of the TSLRIC, as
18 opposed to the LRIC, for the local transport piece?

19 A Not at this time.

20 Q All right. So this is the -- these
21 essentially are the best numbers that are available to
22 us today?

23 A That is correct.

24 Q And I would like to look at one more number on
25 Page 13 of the confidential exhibit. The --

1 CHAIRMAN CLARK: Mr. Melson, what page again?
2 I'm sorry?

3 MR. MELSON: I'm sorry, Page 13.

4 Q (By Mr. Melson) If we were looking at the
5 cost of providing what we've called the transit
6 function, the intermediary function, would that be --
7 would that cost be the last item on this page labeled
8 tandem switching?

9 A Yes, it would.

10 Q And your current rate, or proposed rate, for
11 that function, even before the two-tenths of a cent per
12 minute add-on, is above the cost figure; is that
13 correct?

14 A For a LRIC. If the cost -- and unfortunately,
15 as we said, I don't have the TSLRIC for the tandem
16 piece, transport pieces. If it is comparable to the
17 figures that are in the end office switching, I would
18 not recover my TSLRIC.

19 Q You would not recover it at the current --

20 A At the current rate level, the .00075.

21 Q All right. I think I'm finished with the
22 confidential document.

23 If you could turn very quickly to Exhibit No.
24 30 and let me ask you, on Page 3 of that document --

25 A Bate stamped or my page?

1 Q I'm sorry, baste stamp 3, interrogatory answer
2 No. 2, there you estimate the total service long run
3 incremental cost of providing a local loop in Florida;
4 is that correct?

5 A That is correct.

6 Q What does the abbreviation VS-LRIC mean?

7 A Volume-sensitive LRIC cost.

8 Q And down at the bottom of the page, average
9 VIS, what does that mean?

10 A Average volume-insensitive cost. Those would
11 be costs that don't vary with the output but are
12 incremental to the service.

13 Q And if I add those two numbers together, I
14 come up, essentially, with TSLRIC; is that correct?

15 A Our approximation of TSLRIC, yes.

16 Q And in fact, on the next page, on the top of
17 Page 3, you've done that addition for us; haven't you?

18 A That is correct.

19 Q I would ask you to look now on Page 5 at
20 Interrogatory No. 4. And just to make sure I would do
21 the math right, if I wanted to determine or to estimate
22 the total service long run incremental cost for basic
23 residential service that's described in interrogatory
24 No. 4, I would add the -- in this case the \$17.37, plus
25 the \$2.63 to come up with the total?

1 A That is correct.

2 MR. MELSON: All right, I've got no further
3 questions. Thank you, Commissioners.

4 MR. LOGAN: No questions.

5 MR. HORTON: No questions.

6 MR. RINDLER: No questions.

7 MS. WEISKE: No questions.

8 CHAIRMAN CLARK: Staff?

9 CROSS-EXAMINATION

10 BY MS. CANZANO:

11 Q Ms. Menard, are you familiar with Mr. Devine's
12 testimony?

13 A Basically, yes.

14 Q In his testimony he proposes several points
15 for the provision of intermediary interconnection.
16 First he proposes that ALECs be allowed to subtend or
17 connect to the LEC's access tandem. Do you agree with
18 that point?

19 A GTE has agreed with that with MFS.

20 Q He also believes that establishing industry
21 standards for meet-point billing should be adopted for
22 handling of intermediary traffic for ALECs. You're in
23 agreement with that point too; is that correct?

24 A That is correct.

25 Q He also proposes that ALECs who are collocated

1 in LEC offices should be allowed to cross connect
2 without transiting the LEC switch, meaning they should
3 directly connect with each other at the LEC's office.
4 You do not object to that proposal; is that correct?

5 A No, that is not correct. I do object to that
6 proposal.

7 Q And why is that?

8 A My understanding -- the premise behind
9 allowing the ALECs to be an end office off my access
10 tandem, it allows all carriers to be connected
11 whether -- they can be connected directly if they so
12 choose or they're indirectly connected. When you talk
13 about allowing the cross-connect, and under MFS's
14 proposal that you charge half charges, basically you're
15 asking me to connect these two carriers for \$1.75 a
16 month, and I don't think that's appropriate.

17 As we discussed at the deposition, at a
18 minimum, if I were mandated to offer cross-connect
19 service between parties located in my central office, I
20 do not think we should charge half elements. We should
21 charge the tariffed elements that are in the tariff.

22 Q Is it your understanding that for those ALECs
23 who are not collocated, that it is MFS's position that
24 the appropriate rate for transiting GTE's switch be your
25 tandem switching rate, or two-tenths of a cent,

1 whichever is less?

2 A That is correct. And under -- if you do not
3 do our additive rate, what we are proposing in this is
4 we would be charging .00075 for carriers that transit
5 our tandem. And by me billing at both ends, all I end
6 up getting to keep is the tandem switching element. One
7 carrier will pay me, I pay the money to the other
8 carrier, except for the tandem switching element.

9 Q Is it GTE's position that it should assess
10 both the tandem switching rate and two-tenths of a cent
11 for traffic that transits the GTE tandem but does not
12 terminate in a GTE end office?

13 A That's what I would like to do.

14 Q Can you explain why you believe that charging
15 both these rates is appropriate?

16 A As we discussed with Mr. Melson --
17 unfortunately I do not have a TSLRIC study at this
18 point. But since my tandem switching rate barely covers
19 my LRIC costs, I doubt it covers the TSLRIC, and this
20 way it would make it closer when that's the only
21 function I'm performing in that type arrangement, where
22 they're just transiting my tandem.

23 Q Mr. Devine also proposes that the RIC rate
24 element be charged and that it be collected by the ALEC
25 performing the terminating access, similar to the way

1 that it is currently handled between LECs for
2 terminating access associated with intraLATA LEC toll.
3 Do you agree with that position?

4 A Well, I currently don't have any LECs that I
5 am performing that function with, but we agree to follow
6 standard meet-point billing arrangements. So yes, we do
7 agree with that.

8 Q Do you distinguish between rates for the
9 intermediary handling of local traffic versus toll
10 traffic?

11 A You'll have to say that question again.

12 Q Do you distinguish between rates for the
13 intermediary handling of local traffic versus toll
14 traffic?

15 A In toll traffic I'm not aware of an instance
16 where I would have that same type function.

17 Q Mr. Guedel raised the point that it may be
18 appropriate to eliminate the billing of the RIC all
19 together, since there's no underlying cost associated
20 with it, and that LEC access charge rate levels that
21 would still be substantially above cost without it. Are
22 you familiar with his point?

23 A I'm familiar with his testimony of wanting to
24 reduce access charges at every opportunity, yes.

25 Q Do you agree that the RIC should be

1 eliminated?

2 A If I could raise some other revenue to offset
3 it, I would be ecstatic to do it.

4 Q Is it correct that you have no outstanding or
5 unresolved technical issues with MFS for the handling of
6 intermediary traffic?

7 A To the best of my knowledge, that is correct.

8 Q Next we have some questions regarding the
9 confidential exhibit that is -- that has been identified
10 as Exhibit No. 28. Do you have a copy of that have?

11 A Yes, I do.

12 Q Please refer to Page 1.

13 A Bate stamp Page 1?

14 Q Yes. What is the basis for the setup cost,
15 which is column B, and what does it represent?

16 A This study that's on Page 1 is a document that
17 was produced in Docket 900633, I think it was, the
18 cross-subsidy docket, and a version of it was also
19 produced in the McCaw Cellular docket. What this is a
20 study from is our cost might cost studies, and what this
21 methodology does is spread some of the shared costs that
22 Dr. Beauvais was talking about, the costs that are
23 required for switching but are not incremental for this
24 particular service, but it tries to spread some of those
25 shared costs. So that's why the weighted cost elements

1 you've got for switching that's over in column G is so
2 much higher than the number that we were talking about
3 previously with Mr. Melson. And if you look down at the
4 bottom number that is down at the bottom of the page,
5 it's actually higher than what we're proposing to charge
6 for local interconnection.

7 Q Next please turn to Page 2. What does the
8 column titled Call Setup LRIC represent?

9 A These are costs that vary by number of calls,
10 and the various elements that are here then tie to
11 future -- additional pages that are in the exhibit.
12 Basically these costs include volume-insensitive -- our
13 estimate of average volume-insensitive costs. And when
14 you go from the call setup column to the average minute
15 of use column, you divide by the minutes per call to get
16 the average minutes of use, LRIC.

17 Q Under column 1, please provide a brief
18 description of what the costs for each of the following
19 line items represents. For example, the -- under
20 originating access, outgoing call setup, AMA cost per
21 call?

22 A Okay. Trying to think how much of a
23 definition I can give. I mean the originating call
24 setup are the costs of the switch for setting up an
25 outgoing call. AMA cost per unit is your measurement

1 cost. Billing and collection is your billing and
2 collection cost. I mean -- and then your outgoing
3 minute of use is your minute of use charges for an
4 originating call, costs that vary on a minute of use
5 basis for that function. The terminating is basically
6 the same, it's just the different direction you're going
7 in the switch.

8 Q At the bottom of the page where there are two
9 asterisks, it states that the total includes average
10 volume-insensitive costs.

11 A Yes.

12 Q What does GTE consider volume-insensitive
13 costs?

14 A Volume-insensitive costs are costs that are
15 fixed with respect to changes in the output, but are
16 incremental with offering the service.

17 Q The next set of questions refer to Pages 5 and
18 8 of that document. Under basic elements, on -- you
19 know, for example, on Page 5 it says basic elements on
20 the left-hand column. Please explain why the figures
21 listed for these elements on the following pages for
22 24-hour peak and off-peak, respectively, differ from the
23 figures listed on Pages 2 through 4 for the 24-hour peak
24 and off-peak respectively?

25 A All right, let me see. Now which page

1 reference are you having me compare?

2 Q We're comparing Pages 5 and 8 with Pages 2
3 through 4 for the 24-hour peak -- 24-hour peak and
4 off-peak.

5 A Basic -- well, number one, basically, if you
6 go to -- let's take a for instance -- Page 8. The rate
7 that is shown in the rate period 1 is the peak rate.
8 Okay, the rate that is in Line 13 in rate period 2 is
9 the off-peak rate. The rate that is in the last column,
10 rate for 24-hour, is the 24-hour rate. Those various
11 numbers from those various columns are multiplied by
12 your book-to-economic-life factor and your average
13 volume-insensitive switching factor to get to the
14 numbers that are on Pages 2 through 4 for the various
15 columns.

16 Q Ms. Menard, could you please explain why those
17 numbers are different?

18 A Well, peak period are going to be for your
19 daytime calls, off-peak is non-daytime and 24-hour is
20 average cost over a 24-hour period.

21 Q Perhaps there's some confusion. What we're
22 doing is trying to compare the same information on Pages
23 2 through 4 with the same information on Pages 5 through
24 7, not 8, and we're trying to figure out why they're
25 different.

1 A Page 5 is the 24-hour switched access. Those
2 figures end up going to Page 2.

3 Q And they are not the same; is that correct?

4 A Well, they are the same when you -- once you
5 do all the multiplications that I just said you have to
6 go through, you've got to do the pieces times the
7 book-to-life ratio, book-to-economic-life ratio and the
8 volume-insensitive to get to the number that's on Page
9 2. Let me do one.

10 Q Is it shown anywhere how you calculated, how
11 you got from Page 5 to Page 2?

12 A Let me see if it is.

13 Q We are having trouble understanding your
14 calculations, or your methodology.

15 A For instance, if you look at -- let's do Page
16 5. If you look at the number under Basic Element
17 Outgoing Call Setup, that number ties to Page 8. Okay?
18 That number is the same number shown up under Switched
19 Access, Originating Access, Setup.

20 Q On which page?

21 A The same page.

22 Q Is that Page 8?

23 A Page 5. Talking about the number under Basic
24 Element Originating Call Setup is the same number, just
25 rounded up on Switched Access, Originating Access,

1 Setup.

2 Q We understand that, but how does --

3 A Now, once you take that number, times, up at
4 the top, the 1.05 and the 1. -- and I'm not going to
5 get into all the numbers -- the number up in the right
6 column, you will come up with the number shown on Page
7 2, Line 3, Call Setup, LRIC.

8 Q Thank you.

9 A And the same type calculation is done for all
10 the columns and numbers.

11 Q Please turn to Page 8. What cost of money did
12 GTE use in determining the cost for each of the cost
13 components listed on Pages 8 through 12?

14 A I do not think I have that number with me. I
15 do know, though, in doing the calculations, our last
16 authorized cost of equity was used.

17 Q The next set of questions refer to Pages 8
18 through 12, Line 7, under Annual Operating Expenses,
19 represents return; is that correct?

20 A It represents return on capital for the
21 investment that has been identified for this particular
22 function.

23 Q And what about Line 6, Depreciation?

24 A That would be the depreciation on the
25 investment for this particular incremental function,

1 switching function.

2 Q Is there any contribution to shared or joint
3 and common costs in GTE's LRIC for the elements on Pages
4 8 through 12?

5 A No. There also isn't any contribution toward
6 part of the other costs of switching that are common --
7 shared costs.

8 Q Do you believe that any contribution to shared
9 or joint and common costs should be included above the
10 Company's LRIC for these elements for the purposes of
11 setting an interconnection rate?

12 A Yes, that's why I proposed the rates I did.

13 Q How should those costs be allocated to the
14 specific elements. If you believe there should be
15 contribution, how would you allocate it?

16 A We allocated them by using the existing access
17 rates for the elements that the carriers are using.

18 Q How do you allocate the shared and joint and
19 common costs?

20 A We didn't allocate them.

21 CHAIRMAN CLARK: I think she's asking how did
22 you decide how much joint and common costs to add to
23 your --

24 WITNESS MENARD: The way we basically decided
25 was when you look at what I charge an interexchange

1 carrier for terminating the same type call, I charge
2 them seven cents. We set the rate at a penny, which we
3 felt was enough contribution to these shared type costs,
4 but we didn't explicitly say, let's take out so much in
5 this rate element and so much in this rate element and
6 so much in this rate element.

7 CHAIRMAN CLARK: I guess -- let me tell you
8 what I am thinking and tell me where it's wrong. It
9 seems to me you have long run incremental cost,
10 that's X.

11 WITNESS MENARD: Correct.

12 CHAIRMAN CLARK: And it's below what you've
13 asked for in terms of an interconnection charge.

14 WITNESS MENARD: That is correct.

15 CHAIRMAN CLARK: How did you decide how much
16 you should add, which I would understand as being the
17 contribution to joint and common costs?

18 WITNESS MENARD: What I'm saying is we did not
19 explicitly say, let's put X percent contribution in the
20 rates. What we looked at was the functions that we're
21 doing for the local interconnection is the same as the
22 functions we do for the interexchange carriers, looked
23 at the rates we charged the interexchange carriers.

24 CHAIRMAN CLARK: Which are seven cents.

25 WITNESS MENARD: Which are seven cents, and

1 said that is way too high, we know carrier common line,
2 residual interconnection, information surcharge are all
3 contribution type elements.

4 CHAIRMAN CLARK: So you took those out?

5 WITNESS MENARD: Took those out. The rate was
6 a penny, and our answer was, that looks like a good
7 rate. Also, as Dr. Beauvais had in his testimony, we
8 compared that to the rates for shared tenant, et cetera.

9 CHAIRMAN CLARK: So you didn't add anything to
10 the long run incremental costs; you started out with
11 what you charged switched access and took out -- okay.

12 WITNESS MENARD: That's correct. Now, if I
13 had done that calculation and the number was four
14 cents -- just making up a number -- I would not be here
15 proposing four cents. We would have done a different
16 methodology to come up with our proposed rate, because I
17 would not support a rate of four cents.

18 Q (By Ms. Canzano) Is it correct that the
19 supporting cost information for GTE's tandem-switched
20 transport, which includes switched common transport
21 termination and tandem switching, can be found on Pages
22 15 through 20 of the confidential information provided
23 to Staff in Response to POD No. 5?

24 A Yes. The LRIC cost studies are in those
25 pages.

1 Q To your knowledge, was this the same
2 underlying cost support that was filed with this
3 Commission in Docket No. 921074, which is the local
4 transport restructure docket?

5 A It is the same data.

6 Q What is the cost of money that was used in
7 developing the rate for each of those elements found on
8 Pages 15 through 20?

9 A I forgot to ask. I would assume it is the
10 same as the other costs we have provided, which is our
11 authorized -- last authorized cost of equity.

12 Q Is it correct that a return on investment is
13 included in each of these elements listed on Pages 15
14 through 20?

15 A As I said earlier, return on investment to the
16 extent the cost is identified for that particular
17 element, it does not include any return on capital for
18 other common costs that are part of that function.

19 Q Under GTE's ORP plan, do you believe it would
20 be cost-effective for the companies to compensate each
21 other as soon as traffic is even one minute out of
22 balance?

23 A Under GTE's proposal, we would always
24 compensate, I mean, because what we're talking about is
25 we're talking about a trunk group that has local and

1 toll traffic on it. I'm going to measure and bill so
2 that I can measure and bill the intraLATA toll traffic
3 in accordance with how we bill the IX carriers. So I'm
4 already doing that billing. Our proposal was we bill
5 for all the traffic.

6 MS. CANZANO: Staff has no further questions.

7 CHAIRMAN CLARK: Commissioners? Redirect?

8 REDIRECT EXAMINATION

9 BY MR. EDGINGTON:

10 Q In the confidential Exhibit 30, the cost
11 studies supplied by GTE, was there a cost element for
12 billing under GTE's billing system in those cost
13 studies?

14 A Yes, there was.

15 Q And without disclosing any specific
16 confidential information, can you tell me whether this
17 cost element is consistent with the estimate
18 Mr. Beauvais has of billing and measurement cost in his
19 direct testimony?

20 A Without revealing all the numbers, I think
21 these estimates are lower than those contained in
22 Dr. Beauvais's testimony.

23 MR. EDGINGTON: Okay. We have no further
24 redirect.

25 CHAIRMAN CLARK: Thank you. Exhibits.

1 MR. EDGINGTON: I believe GTE moves Exhibit
2 No. 27.

3 CHAIRMAN CLARK: Exhibit 27 will be entered in
4 the record without objection. Staff?

5 MS. CANZANO: Staff moves Exhibits 28 through
6 34.

7 CHAIRMAN CLARK: Without objections those
8 exhibits will be entered in the record and we can now
9 entered Exhibit 26; is that correct?

10 MS. CANZANO: Yes.

11 CHAIRMAN CLARK: Exhibit 26 will be entered in
12 the record without objection.

13 (Exhibit No. 26, 27, 28, 29, 30, 31, 32, 33
14 and 34 received into evidence.)

15 (Witness Menard excused.)

16 * * *

17 (Transcript continues in sequence in
18 Volume 10.)

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