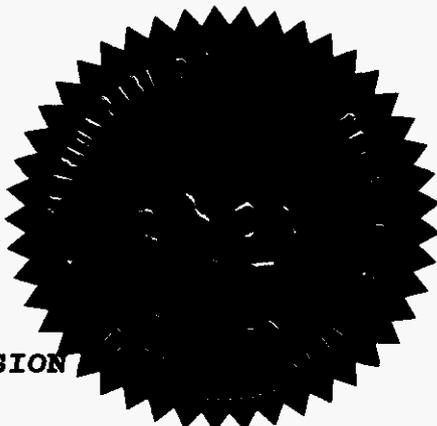


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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of :
 Resolution of Petition(s) : DOCKET NO. 950984-TP
 to establish nondiscrimi- :
 natory rates, terms and :
 conditions for resale :
 involving local exchange :
 companies and alternative :
 local exchange companies :
 pursuant to Section :
 364.161, Florida Statutes. :
 :



FIRST DAY - AFTERNOON SESSION

VOLUME 3

Pages 203 through 386

PROCEEDINGS: HEARING

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

DATE: Wednesday, March 20, 1996

TIME: Commenced at 9:30 a.m.

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

REPORTED BY: JOY KELLY, CSR, RPR
 Chief, Bureau of Reporting

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER-DATE

FLORIDA PUBLIC SERVICE COMMISSION 03442 MAR 22 88

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7 (Devine) TTD-9	207	222
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P R O C E E D I N G S

(Hearing reconvened at 1:45 p.m.)

(Transcript follows in sequence from
Volume 2.)

CHAIRMAN CLARK: We'll reconvene the
hearing. Staff.

MR. EDMONDS: Thank you.

TIMOTHY T. DEVINE

resumed the stand as a witness on behalf of
Metropolitan Fiber Systems of Florida, Inc. and,
having been previously sworn, testified as follows:

CROSS EXAMINATION

BY MR. EDMONDS:

Q I'd like to start by taking care of the
exhibits.

Mr. Devine, do you have what's been
identified by Staff as TTD-9 which is described as
February 27th deposition transcript, MFS' Responses to
Staff's Second Set of Interrogatories, Nos. 14 through
39; MFS's Responses to Staff's Second Request for
Production of Documents, Nos. 4 and 7, and MFS's
Responses to United/Centel's First Set of
Interrogatories, No. 12?

A Yes.

Q Are you familiar with these documents?

1 A Yes, I am.

2 Q With respect to the responses, were they
3 prepared by you or under your direction?

4 A Yes.

5 Q And are they true and correct to the best of
6 your knowledge?

7 A Yes.

8 Q Do you also have what has been identified by
9 Staff as TTD-10 described as Late-Filed Deposition
10 Exhibit Nos. 1 and 2?

11 A Yes.

12 Q From the February 27th deposition. Okay.
13 And are you familiar with those?

14 A Yes.

15 Q Are they true and correct to the best of
16 your knowledge?

17 A Yes.

18 MR. EDMONDS: Madam Chairman, at this time
19 I'd like to have these marked as exhibits.

20 CHAIRMAN CLARK: TTD-9 will be marked as
21 Exhibit 7. And TTD-10 will be marked as Exhibit 8.

22 MR. EDMONDS: Thank you.

23 (Exhibit Nos. 7 and 8 marked for
24 identification.)

25 Q (By Mr. Edmonds) Mr. Devine, Staff just has

1 a few questions for you this afternoon.

2 First, if I could refer you to your rebuttal
3 testimony, with respect to GTE.

4 A Yes, I have it.

5 Q Page 2. And specifically Lines 10 and 11.
6 And there I believe it states that, "MFS and GTE have
7 agreed to negotiate over the next 60 days certain
8 unresolved operational issues regarding Issue 4."

9 A Yes.

10 Q Has this 60-day period begun already?

11 A I believe in the agreement we said 60 days
12 from the execution of the agreement. So the 60 days
13 would have started on February 19th. That's when the
14 agreement was executed.

15 Q Okay. So it's still going on?

16 A Yes. And there are issues that both --
17 well, MFS feels that, I think, we'll be able to
18 resolve. It's just that they are things that take
19 more time once you get down to the nuts and bolts.

20 Q Up to now have you resolved any of those
21 other operational issues?

22 A No. Most of the same people are involved,
23 so, frankly, on our side and their side I think we
24 have been focusing more on these hearings probably.

25 Q Do you have an opinion on how -- could you

1 characterize how the negotiations are going?

2 A All of our discussions with GTE have gone
3 very well, so I think both parties have been very
4 cooperative and, you know, we feel that should be able
5 to continue.

6 Q Now, do you believe there are other
7 operational issues besides the ones that you are
8 currently negotiating that this Commission needs to
9 address at this time?

10 A I hope there won't be. A lot of these
11 things you don't know until you get there, but I would
12 think that we'll be able to resolve them between MFS
13 and GTE. And if anything does come up and if we can't
14 get agreement, you know, maybe even informally we
15 could approach the Staff. I mean, you hate to
16 formally make a big deal out of things that, you know,
17 if you just get a little input maybe informally from
18 the Staff you might be able to get some guidance and
19 resolve it.

20 Q Is it MFS's position that GTE provide MFS
21 with the appropriate billing and electronic file
22 transfer arrangements?

23 A Yes, it is. And I think in the agreement
24 GTE, while they couldn't commit to an actual time
25 frame, that we're discussing trying to resolve that.

1 I think we might have -- I know informally when
2 Ms. Menard and I talked about it the thoughts were
3 maybe within a year some of those things could be
4 resolved but there's intent to try to resolve that
5 issue.

6 Q Is that one of the issues that falls under
7 the 60-day negotiation period?

8 A I'd have to check the agreement. That was
9 for the billing of loops, I think? (Pause)

10 No, that would be an item that -- it says in
11 here that, "GTE will work toward billing at a wire
12 center level. However, in the initial phases of
13 unbundling GTE's billing will be at state level or at
14 an aggregate account level based on GTE's billing
15 cycles."

16 So we've agreed that, you know, they are
17 going to attempt to move towards a wire center-by-wire
18 center billing, which we've asked for.

19 Q GTE's witness, Ms. Menard, in her direct
20 testimony, states that, "GTE would consider developing
21 on-line electronic file transfer systems that verify
22 and receive confirmation on orders for unbundled
23 elements and issue and track trouble ticket and repair
24 requests associated with unbundled elements. Are you
25 familiar with that?

1 A Yes.

2 Q Okay. I believe she also states that, "GTE
3 is willing to develop such a system only in
4 conjunction with industry-wide efforts." Do you agree
5 or disagree with that condition?

6 A I would disagree with that condition.

7 Q Could you explain why?

8 A If we wait always for a national standard
9 for especially things like that, we may wait longer
10 than we should.

11 I can understand where GTE may not want to
12 implement something specific here in Florida because
13 they have, I think, about 30 total states where they
14 are operational. So if they're going to be getting
15 into unbundling in 30 states, it wouldn't make sense
16 to have something just for Florida. But once GTE gets
17 to the point where they know what they need, you know,
18 generally on a national basis, then it would make
19 sense. So, I mean, GTE shouldn't have 30 different
20 systems, but certainly they should attempt to do one,
21 at least, for GTE nationwide.

22 Q Are you aware --

23 A There's an intent in the agreement that
24 talks about them trying to do this.

25 Q Are you aware of any industry forums that

1 are currently working to develop such systems?

2 A Yes. There is a forum that is discussing
3 automated issues of ordering and unbundling.

4 Q In these next questions I want to ask with
5 regard to United/Centel.

6 First, are there any other operational
7 issues that this Commission needs to address at this
8 time besides the ones discussed in your direct
9 testimony, and I believe those are on Pages 20 through
10 22.

11 A Not that I'm currently aware of, and
12 especially since we didn't get as far in our
13 discussions with Sprint as we did with GTE.

14 Q Do you believe that United/Centel has been
15 working in good faith with MFS to address its
16 operational concerns?

17 A With regard to unbundling?

18 Q Yes.

19 A Well, unbundling really, you know, Sprint
20 really didn't want to get into talking about
21 unbundling of anything more than special access is how
22 they proposed to offer it. So I guess in terms of
23 that extent, yes, there hasn't been cooperation
24 because all there was talk about was using special
25 access. We feel there's other unique differences

1 that -- things that need to be addressed for unbundled
2 loops, so we never got to that point. I'm sure there
3 are other issues but we just never got past that
4 point.

5 Q Could you explain what loop transport is?

6 A That would be transport between -- as I
7 understand it it would be transport between a serving
8 wire center and maybe a different wire center. The
9 loop would be between the serving wire center and the
10 customer, and transport might be a remote CO back to
11 another CO.

12 Q What current tariffed rate element would
13 have to be unbundled in order to provide loop
14 transport?

15 A That would be interoffice mileage channels.
16 That's not something that we -- we feel we really need
17 just the loop from the end office to the CO, but that
18 would be the interoffice mileage.

19 Q Can a special access line carry dial tone
20 from a central office switch?

21 A Yes, a special access line could do that,
22 yes.

23 Q Does a special access line have to be
24 modified in any way to carry dial tone?

25 A You do have to look at like ground start

1 versus loop start, some of the things that normally
2 you look at. But the technical circuit itself, I know
3 private line does and private line and special access
4 are similarly configured, so I would say it should,
5 yes.

6 Q What type of technical standards should be
7 adopted for providing unbundled network elements?

8 A For technical standards, could you be more
9 specific? Do you mean like installation, maintenance,
10 repair, or order entry?

11 Q More like on the lines of industry
12 standards.

13 A Well, there's a forum right now that is
14 addressing those kind of items, and they would deal
15 with order entries, how you would submit an order;
16 what kind of maintenance is associated with a loop;
17 if there's an electronic way to submit the order;
18 what kind of criteria should be available in terms of
19 testing and monitoring trouble tickets; repair. They
20 are addressing those kind of issues. I mean, what
21 we're running into is we're trying to provide service
22 in numerous different states with numerous different
23 LECs. And every time we go to work with a LEC, they
24 have a different form or a different system, whether
25 it's faxing or electronically, the orders all look

1 different. So it's expensive for us and it's
2 cumbersome to deal with a lot of different interfaces.

3 If we had a standard like we do for special
4 access and switched access -- there's a standard ASR,
5 standard order, standard order flow procedures -- if
6 we had all of that for unbundled loops, that would be
7 a nice thing to have.

8 Q Okay. What about standards for engineering
9 of network facilities?

10 A What do you mean by "network facilities"?

11 Q Bellcore standards.

12 A Generally those are good things, and most
13 companies, whether it's an ALEC or incumbent LEC or
14 interexchange carrier, generally people abide by
15 Bellcore standards. It seems to hold some integrity.

16 Q Could you briefly explain the various
17 proposals MFS is promoting for using loop
18 concentration?

19 A What we want is to be able to place digital
20 loop carriers in a collocation environment through
21 either virtual or physical collocation. That's
22 primarily what we want. That's what GTE agreed to do.
23 and we'll just cross-connect to the unbundled loops in
24 the wire center and then transport from the wire
25 center back to MFS's switch during the transport.

1 If for some reason the Commission were not
2 to order Sprint-GTE or Sprint to let us use digital
3 loop carriers through collocation, then we would want
4 as an alternative to have Sprint to provide digital
5 loop concentration at the wire center.

6 Q Now, MFS has proposed various rate elements
7 which it would like to have available on an unbundled
8 basis, and I'm going to ask you about -- I want to ask
9 you about some of those elements. And for ports,
10 you're asking for unbundled ports for four-wire analog
11 line; is that correct?

12 A Yes.

13 Q And would you briefly describe that and what
14 it does, and could you give examples of the end user
15 services, what you would provide using these elements?

16 A That could be a customer with a PBX
17 requiring a four-wire interface.

18 The four-wire loop and port aren't nearly as
19 common as a two-wire, but there are some out there.
20 And there would be some customer premise devices that
21 maybe could be an extension off the PBX that would be
22 used for that purpose.

23 Q And another thing MFS is requesting is ports
24 for a two-wire analog DID trunk; is that correct?

25 A Yes.

1 Q Could you briefly describe that one?

2 A Well, DID is really a capability in a
3 switch. But we just want the loop unbundled. That
4 would give us the capability of -- you know, the same
5 kind of loops that, let's say, GTE uses for its DID
6 service we want those same loops available to be
7 unbundled to use if we want to provide a DID service.

8 Q And another thing you are requesting are
9 ports for four-wire DS-1 digital DID trunk; is that
10 right?

11 A Yes.

12 Q Could you briefly describe that one?

13 A Well, in that case it would be where you
14 have a customer who has, let's say, a PBX service with
15 GTE, and they may want to use multiple vendors for the
16 loop. So let's say MFS would provide two T-1s and GTE
17 would provide two T-1s, but all four of the DS-1
18 switching ports would be provided by GTE. In that
19 instance a customer could have, you know, multiple
20 vendors and get, you know, diversity on their loops
21 but maintain all of the ports with GTE. It gives
22 customers more flexibility and diversity.

23 Q With respect to the unbundled elements
24 you're requesting, you've not reached an agreement
25 with United/Centel today; is that right?

1 A Yes, that's correct.

2 Q Have you been directly involved in the
3 discussions with United/Centel?

4 A Yes. I'm our primary negotiator.

5 Q And has United/Centel's witness, Mr. Poag,
6 been directly or indirectly involved with the
7 discussions to your knowledge?

8 A Yes. Mr. Poag is one of the two people that
9 we have our discussions with.

10 Q Now, with respect to those ports that we
11 just discussed, is it your opinion that United/Centel
12 knows, or should know specifically what unbundled
13 elements you have requested?

14 A Yes, they should know, and we have provided
15 that to them.

16 Q Now, you're aware that both GTE and
17 United/Centel have filed responses to Staff's request
18 for cost data on the unbundled elements --

19 A Yes.

20 Q -- which MFS is requesting. Have you had an
21 opportunity to review those, the cost data?

22 A Yes. I did get -- as late as last night, I
23 did see some new GTE numbers. And Sprint, I got some
24 recent numbers from them.

25 Q Okay. Now, without going into detail or

1 violating any confidentiality with respect to that
2 data, can you give us any comments on the cost data
3 provided?

4 A In terms of GTE, the most recent numbers I
5 saw, which were in the late-filed deposition exhibit
6 of Trimble, those in terms of the order of magnitude
7 seemed more within the range of what I have seen in
8 other states. Particularly what I've seen in Texas.
9 In fact, recently an ALJ in Texas, I recommended
10 different densities for price loops and GTE is
11 involved in that proceeding. And the cost numbers I
12 saw seemed to be in the magnitude of even the prices
13 recommended in Texas. I've also seen numbers in
14 Massachusetts. And the new numbers that GTE has
15 proffered seem to be more in line with what I've seen
16 in some other states. They might be a little high,
17 but we're talking a dollar or two here or there.

18 So the latest GTE numbers, in terms of the
19 densities and everything, seem more in line with what
20 I have seen in other states.

21 In terms of Sprint's, Sprint's seem, in
22 terms of order of magnitude, generally, you know,
23 around twice as high as the GTE numbers. Of course,
24 they didn't break down by density. Theirs was a
25 statewide average rate; statewide average cost. It

1 seems the statewide average cost might be -- or is
2 higher than what I've seen in other states. And the
3 cost, too, it seemed that they are specifically on
4 special access and private line, so there may be some
5 extra costs -- I mean, we contend that there's
6 probably some extra costs in there that need not be
7 there.

8 But the Sprint data is not as complete and
9 doesn't seem as reasonable as the GTE data, but I
10 just -- the GTE stuff I just got last night and the
11 Sprint stuff we just received in the last day or two,
12 some of the newer Sprint stuff.

13 Q Okay. Help me understand this now. I
14 believe in your deposition you suggested that the LECs
15 be required to file cost studies on unbundled loops
16 and not special access or private lines. Are you
17 saying that Sprint filed the cost studies based on
18 special access and private lines?

19 A That's what it looks like to me.

20 Q And GTE did on the unbundled loops?

21 A Well, GTE, I saw a couple of different
22 studies and one of them looked more like special
23 access private line. And the other one, they called
24 it unbundled loop, but I don't know what it was based
25 on looking at the inputs and the numbers.

1 But the deposition one that was filed, like,
2 March 15th, I think it was just the other day, at
3 least in terms of the order of magnitude, when you
4 look at the densities, it starts to look more in the
5 range of where I've seen things in some other states.
6 You know, it still may be off by a little, but if you
7 look at the high density number, it seems consistent
8 with what I've seen in some other states.

9 Q So based on what you've seen, are the cost
10 components shown appropriate to be recovered with the
11 unbundled elements you've requested?

12 A I didn't have enough time to look at all of
13 the detail of the cost elements, so all I know is that
14 the high level cost numbers seem to get closer to the
15 order of magnitude that I've seen elsewhere. In terms
16 of the actual input of the elements, I'd have to take
17 more time and I'd have a lot of questions I'd want to
18 ask of whoever put the study together to understand it
19 better. So I really can't tell if those elements
20 should or should not be in there.

21 MR. EDMONDS: Thank you. Staff has no
22 further questions.

23 CHAIRMAN CLARK: Commissioners? Redirect?

24 MR. RINDLER: I have none.

25 CHAIRMAN CLARK: No redirect. Thank you

1 very much. Mr. Devine, you are excused.

2 (Witness Devine excused.)

3

- - - - -

4 CHAIRMAN CLARK: Dr. Cornell.

5 Oh, exhibits. Mr. Rindler.

6 MR. RINDLER: I move Exhibits 2 through 4,

7 5.

8 CHAIRMAN CLARK: 2 through 5?

9 MR. RINDLER: Yes.

10 CHAIRMAN CLARK: Without objection those
11 exhibits are admitted into the record. We'll wait on
12 Exhibit 6 until Ms. Khazraee has taken the stand.

13 MR. EDMONDS: Staff moves Exhibits 7 and 8.

14 CHAIRMAN CLARK: They will be entered into
15 the record without objection.

16 (Exhibit No. 2-5 and 7 and 8 received in
17 evidence.)

18 MR. EDMONDS: As well as 1. 1 has been,
19 yeah. Thank you.

20 CHAIRMAN CLARK: Mr. Melson.

21

22

23

24

25

NINA W. CORNELL

1
2 was called as a witness on behalf of MCI Metro Access
3 Transmission Services, Inc. and, having been duly
4 sworn, testified as follows:

DIRECT EXAMINATION

5
6 BY MR. MELSON:

7 Q Dr. Cornell, would you state your name and
8 address for the record, please?

9 A My name is Nina W. Cornell. My address is
10 1290 Wood River Road, Meeteetse, M-E-E-T-E-E-T-S-E,
11 Wyoming 82433.

12 Q And what is your occupation or profession?

13 A I'm an economist.

14 Q And you're appearing in this proceeding on
15 behalf of MCI Metro; is that correct?

16 A That's correct.

17 Q And have you prefiled direct testimony in
18 this docket dated February 7th, 1996, and consisting
19 of nine pages?

20 A What was the date you gave?

21 Q February 7th.

22 A Mine says February 6th, but okay.

23 CHAIRMAN CLARK: I have 6.

24 WITNESS CORNELL: 6 on the cover letter and
25 7 on the cover page.

1 MR. MELSON: 7 on the testimony. 7 was the
2 due date. We filed it early, Commissioner.

3 CHAIRMAN CLARK: Congratulations. All
4 right.

5 Q (By Mr. Melson) Dr. Cornell, do you have
6 any changes or corrections to that piece of direct
7 testimony?

8 A No, I do not.

9 Q And if I were to ask you the same questions
10 today, would your answers be the same?

11 A Yes, they would.

12 MR. MELSON: I'd ask that Dr. Cornell's
13 direct testimony be inserted into the record as though
14 read.

15 CHAIRMAN CLARK: The direct testimony of
16 Dr. Cornell will be inserted into the record as though
17 read.

18 Q (By Mr. Melson) Dr. Cornell, you had one
19 exhibit attached to that testimony, identified as
20 NWC-1, which consists of your biography; is that
21 correct?

22 A That's correct.

23 Q And except that it may omit some recent
24 appearances, is it a true and accurate biography?

25 A I believe so.

1 MR. MELSON: Madam Chairman, I'd ask that
2 NWC-1 be given the next number.

3 CHAIRMAN CLARK: It will be marked as
4 Exhibit 9.

5 (Exhibit No. 9 marked for identification.)

6 Q (By Mr. Melson) And, Dr. Cornell, did you
7 also file rebuttal testimony in this docket dated
8 February 21, accompanied by a cover letter dated
9 February 20 and consisting of five pages?

10 A Yes, I did.

11 Q Do you have any changes or corrections to
12 that testimony?

13 A Yes, I do. On Page 5, Line 4, in the
14 question, "interconnection" should be "unbundled
15 loops."

16 On Line 9, again, "interconnection" should
17 be "unbundled loops." And at the end of that line the
18 word "is" should be "may be."

19 Line 10, after the words "no alternative,"
20 cross out the remainder of that line and substitute
21 "to reach potential subscribers."

22 In Line 11.

23 CHAIRMAN CLARK: You're going a little fast
24 for us.

25 WITNESS CORNELL: I'm very sorry.

1 CHAIRMAN CLARK: To be honest, I'm still on
2 Page 5, Line 9.

3 WITNESS CORNELL: Line 9, change the word
4 "interconnection" to "unbundled loops." The word "is"
5 to "may be."

6 Line 10, after the words "no alternative,"
7 substitute for the entire remainder of that line "to
8 reach potential subscribers."

9 In Line 11, "local termination" should be
10 "unbundled loops."

11 In Line 13, remove the word
12 "interconnection" and the period -- or before the
13 period, after "charge," substitute or insert "for
14 these loops."

15 MR. FONTS: Madam Chairman, I'm a little bit
16 confused. I thought that Dr. Cornell said on Line 10
17 strike everything to the end of that sentence.

18 MR. MELSON: To the end of the line.

19 WITNESS CORNELL: End of the line.

20 Q (By Mr. Melson) Dr. Cornell, could you read
21 the sentence as changed that begins at the very end of
22 Line 8?

23 A Of course. "The price for unbundled loops
24 cannot be pushed down by market forces because there
25 may be no alternative to reach potential subscribers

1 other than use of the incumbent's unbundle loops."

2 COMMISSIONER JOHNSON: Could you read the
3 next sentence, too?

4 WITNESS CORNELL: "What this means is that
5 even if, in fact, the incumbent became more efficient,
6 no market force exists to force the incumbent to
7 reflect that greater efficiency in a lower charge for
8 these loops."

9 And I apologize, after recrafting the answer
10 from my testimony in docket -- all of those numbers
11 that end with a "5," I carefully moved into this
12 testimony the wrong paragraph. It's the same thought
13 from the previous docket, but it applies here to loops
14 rather than interconnection.

15 Q (By Mr. Melson) Dr. Cornell, with the
16 change to that one question and answer, if I were to
17 ask you the same questions that are in your prefiled
18 rebuttal testimony would your answers be the same?

19 A Yes, they would.

20 MR. MELSON: I ask that Dr. Cornell's
21 prefiled rebuttal be inserted into the record as
22 though read.

23 CHAIRMAN CLARK: Dr. Cornell's prefiled
24 rebuttal testimony will be inserted into the record as
25 though read.

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2

3 A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse,
4 Wyoming 82433.

5

6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
7 BACKGROUND AND EXPERIENCE.

8

9 A. I am an economist in private practice, specializing in microeconomic analysis of
10 regulatory and antitrust issues. Until late 1988, I was with the firm of Cornell,
11 Pelcovits & Brenner Economists Inc., of which I was president.

12 Before entering private practice, I was Chief of the Office of Plans and
13 Policy, Federal Communications Commission (FCC). As Chief of the Office of
14 Plans and Policy, I served as chief economist to the Commission and participated in
15 virtually all FCC agenda meetings.

16 Prior to being associated with the FCC, I was the Senior Staff Economist for
17 regulatory, transportation, environmental, and health and safety issues for the Council
18 of Economic Advisers (CEA). In this position I reported directly to Charles L.
19 Schultze, Chairman of the Council.

20 Prior to being with the CEA, I was employed as an economist with the
21 Council on Wage and Price Stability, where I served on the Task Force on Reform
22 of Federal Energy Administration Regulations. Before joining the Federal
23 Government, I spent four years at the Brookings Institution as a Research Associate.
24 I am a graduate of Swarthmore College, and received my Ph.D. in Economics from
25 the University of Illinois in 1972.

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Q. HAVE YOU PUBLISHED ANY PAPERS ON TELECOMMUNICATIONS?

A. Yes. I have published a number of papers on the regulation of telecommunications as well as on other regulatory and natural resource issues. A list of my publications is contained in my resume -- Exhibit 9 (NWC-1).

Q. HAVE YOU TESTIFIED BEFORE?

A. Yes. I have served as an expert witness in several court and a number of regulatory proceedings, particularly proceedings involving telecommunications issues. I have also testified before various committees of the US Congress. A list of my testimonies is also contained in my resume.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses 1) the appropriate technical arrangements for the provision to ALECs of unbundled local loops; and 2) the appropriate price for the provision to ALECs of unbundled local loops and any associated concentration, multiplexing, and transport. I recommend that the Commission require Sprint-United and Sprint-Centel (Sprint) and GTE Florida Incorporated (GTEFL) to provide unbundled loops, loop concentration, and loop transport to ALECs. I recommend that the price for these functions be set at their direct economic costs, namely total service long run incremental cost.

1 Q. WHY SHOULD SPRINT AND GTEFL PROVIDE UNBUNDLED LOOPS TO
2 ALECS?

3
4 A. The Commission should require Sprint and GTEFL to provide unbundled loops
5 because this is essential if consumers in Florida are to receive the maximum possible
6 benefits from local exchange entry. It is unclear whether alternative loop providers
7 can exist in all locations. It is possible, at least for some time to come, that loop
8 plant in some locations may exhibit the characteristics of a natural monopoly, while
9 alternative originating switching service providers could exist in those same locations.
10 The only way that the market can allow effective competition for being the local
11 exchange switched service provider in those locations where loop plant may be a
12 natural monopoly is if loops are unbundled and supplied as a essential monopoly
13 input function or service, rather than being treated like a retail service. For this
14 reason, I consider loops to be an essential monopoly input function.

15
16 Q. WHAT OTHER FUNCTIONS SHOULD SPRINT AND GTEFL BE REQUIRED
17 TO PROVIDE ALONG WITH UNBUNDLED LOOPS?

18
19 A. Sprint and GTEFL should also be required to provide loop concentration and loop
20 transport.

21
22 Q. WHAT ARE LOOP CONCENTRATION AND LOOP TRANSPORT, AND WHY
23 SHOULD SPRINT AND GTEFL BE REQUIRED TO PROVIDE THEM?

24
25 A. Loop concentration is the function of concentrating the traffic from a number of loops

1 onto a single channel. Loop transport is the function of connecting concentrated
2 loops from the central office of the incumbent local exchange provider to the network
3 of an entrant. Loop concentration and loop transport are required if the offering of
4 unbundled loops is to be anything other than an empty gesture.

5 Loops today run from a customer's premise to the central office of the
6 incumbent local exchange carrier, where the loop gets connected to a switch through
7 a line card or its equivalent. An unbundled loop would still run all the way from a
8 customer's premise to the central office of the incumbent, but it would not be
9 connected to the incumbent's switch. Instead, the unbundled loop would be available
10 at the central office of the incumbent to be connected to the network of an entrant.

11 If an entrant is to use an unbundled loop, the loop now must continue on from
12 the incumbent local exchange carrier's central office to the location of the switch of
13 the entrant. To do this in an economically efficient manner requires loop
14 concentration and loop transport. Otherwise, it would be the equivalent either of
15 offering hot water pipes, connecting them to faucets with H on them, but refusing to
16 take those pipes all the way back to the hot water heater, or insisting that each faucet
17 must be connected separately to the hot water heater. Under the first scenario, the
18 user turning on a faucet with an H on it will get no water at all, hot or cold.
19 Similarly, an unbundled loop not carried all the way to the entrant's switch will get
20 no dial tone, whether from the entrant or the incumbent. Under the second scenario,
21 the user would get hot water, but at such a high cost for plumbing that few sinks
22 would have the H faucets connected. Similarly, unbundled loops that must be
23 connected individually, rather than being concentrated, to an entrant's network would
24 mean that very few, if any, unbundled loops would actually be used.

25 Loop concentration is the function of concentrating a number of different

1 loops onto a transport facility before the loops terminate in a switch. In essence,
2 loop concentration allows an entrant to take a given number of unbundled loops from
3 a given central office of the incumbent local exchange carrier and use many fewer
4 channels for loop transport between the incumbent's central office and the network
5 of the entrant to extend the feeder portion of those loops so that the loops can
6 terminate at the switch of the entrant. The concentration operates in a manner similar
7 to how traffic is concentrated onto interoffice trunks, allowing many fewer channels
8 to serve the traffic than the number of loops that were used to originate and terminate
9 that same traffic. Without loop concentration, an entrant would have to use a
10 separate facility for each unbundled loop to get that loop from the central office of
11 the incumbent to its own switch. This is very inefficient, and not how a modern
12 local exchange carrier provides new loop plant today.

13 Loop transport is the function of actually transporting the concentrated loops
14 between the incumbent local exchange carrier's central office and the location where
15 the entrant has the switch on which it wants to terminate those loops. In virtually all
16 locations, only the incumbent local exchange carrier has the facilities in place to
17 provide this function. Moreover, unless the rules are changed, even where an
18 alternative provider has transport capabilities, the incumbent local exchange carrier
19 currently does not allow the alternative transport provider to connect to facilities of
20 a third carrier as part of colocation, or does not allow any party to put a loop
21 concentrator in a colocation space. As long as any of these restrictions remain in
22 place, even where alternative transport providers have facilities that would be
23 sufficient for providing loop transport, that function remains a monopoly of the
24 incumbent local exchange provider because of the restrictions.

25

1 Q. HOW DOES A MODERN LOCAL EXCHANGE CARRIER PROVIDE NEW
2 LOOP PLANT?

3

4 A. Loop plant has two major parts: feeder and distribution. Feeder plant is closer to the
5 central office, while distribution plant takes a loop from the end of a feeder run to
6 the premise of the customer. Today, feeder plant for all but relatively short loops
7 no longer uses a *separate set of wires for each loop*, but rather combines a number
8 of loops onto a smaller number of facilities. The most modern equipment for
9 combining loops actually concentrates the traffic, making feeder plant more like
10 interoffice trunks than used to be the case. The result of this concentration is to
11 greatly reduce the cost of this portion of the loop, and changes the economic trade-off
12 between having longer loops and fewer switches versus having shorter loops and
13 more switches.

14 A local exchange provider must decide how many switches it wants to place
15 given the expected number and geographic location of its subscribers. The fewer
16 switches it deploys for a given number and geographic distribution of subscribers, the
17 longer the loops serving those customers will have to be. The more switches it
18 deploys, the shorter those loops will have to be. Thus, switches can substitute for
19 part of each loop, although not for the entire loop. How many switches to use versus
20 the length of loops depends upon the cost of having more switches versus the cost of
21 having longer loops. If loop concentration is used, the trade-off shifts towards longer
22 loops and fewer switches than without loop concentration. Thus, under present
23 *technology, loop concentration allows the use of fewer of society's scarce resources*
24 than would be the case without concentration.

25

1 Q. HOW SHOULD PRICES FOR UNBUNDLED LOOPS, LOOP CONCENTRATION,
2 AND LOOP TRANSPORT BE SET?

3

4 A. The prices for these unbundled elements should be set at direct economic cost, which
5 is total service long run incremental cost. Total service long run incremental cost
6 includes the recovery of the firm's cost of capital, but does not include any
7 contribution above cost. Any other level of price above cost would have no ability
8 to permit Sprint and GTEFL to pass an imputation test, enabling Sprint and GTEFL
9 to create a price squeeze. A price squeeze exists whenever a firm that supplies
10 essential inputs to a competitor recovers less in its end user rates for those essential
11 inputs than it charges its competitors. Given the flat rates charged for local exchange
12 service, and particularly residential local exchange service, a price for loops that was
13 greater than TSLRIC would create a price squeeze for entrants. Any other level of
14 price above cost would also introduce a non-competible contribution element into the
15 costs borne by the new entrant. *This has the effect of raising the price floor down*
16 *to which prices can be forced by competition. This would deprive Florida consumers*
17 *of one of the key benefits of competition.*

18

19 Q. ARE YOU SUGGESTING THAT ALL LEC SERVICES MUST BE PRICED AT
20 TSLRIC, WITH NO CONTRIBUTION?

21

22 A. No, I am not. The TSLRIC pricing principle should apply to bottleneck monopoly
23 functions that the incumbent provides to competitors and also uses in the provision
24 of its own services. Unbundled local loops and loop concentration are two examples
25 of these essential inputs. Loop transport is also such a function so long as the price

1 the incumbent charges its competitors for colocation includes a contribution above
2 TSLRIC. Colocation is an essential input into loop transport provided by AAVs or
3 others, and any contribution included in the price for colocation is not subject to
4 competition.

5

6 Q. WHAT IS THE IMPUTATION TEST THAT SPRINT AND GTEFL MUST PASS
7 IN ORDER TO AVOID A PRICE SQUEEZE?

8

9 A. The proper imputation standard is to require the incumbent local exchange carrier to
10 recover from its retail service the price it charges entrants for bottleneck monopoly
11 inputs plus all the remaining costs of providing the retail service. In this way, if the
12 incumbent local exchange carrier provides bottleneck monopoly inputs in less than
13 the most efficient manner, the entrants are not put under a price squeeze caused by
14 the forced inefficiency.

15

16 Q. WHAT IS THE PROBLEM IF THERE IS A PRICE SQUEEZE?

17

18 A. If a price squeeze is allowed to exist, then an equally efficient firm will be prevented
19 from entering the market. Whatever is the relationship of the price set for the
20 monopoly inputs by the supplier to that supplier's cost of providing them, the price
21 set by the monopolist is a cost for a purchasing firm. If that purchaser is equally
22 efficient as the monopoly firm in supplying the end user service, that means that the
23 rest of the purchasing firm's costs are equal to the monopolist's costs for everything
24 but the monopoly input. If there is a price squeeze, however, that equally efficient
25 firm cannot cover its costs at the price established by the monopoly firm for the end

1 user service, and so it cannot enter the market.

2

3 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

4

5 A. Yes.

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1 Q. WHAT IS YOUR NAME AND ADDRESS?

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3 A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse,
4 Wyoming 82433.

5

6 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

7

8 A. My testimony responds to the testimonies of Dr. Duncan and Mr. Trimble on behalf
9 of GTE Florida Incorporated (GTEFL), and Mr. Poag on behalf of
10 Sprint-United/Centel.

11

12 Q. MR. TRIMBLE PROPOSES THAT THE PRICE FOR AN UNBUNDLED LOOP
13 BE THE SAME AS THE PRICE FOR SPECIAL ACCESS. IS THIS THE PROPER
14 PRICE FOR AN UNBUNDLED LOOP?

15

16 A. No. Setting the price for an unbundled loop at the special access rate clearly creates
17 a price squeeze for use of that loop to serve residential customers. Moreover, it
18 reduces the efficiency with which competition can work in the business market. The
19 price for unbundled loops, for loop transport, and for loop concentration -- something
20 GTEFL has not offered to supply -- should all be set at their direct economic costs
21 and no higher for the reasons I gave in my direct testimony.

22

23 Q. DR. DUNCAN REFERS TO THE SO-CALLED EFFICIENT COMPONENT
24 PRICING RULE TO SUPPORT RATES THAT HAVE A MARKUP FOR
25 ESSENTIAL MONOPOLY INPUT FUNCTIONS SOLD TO COMPETITORS. IS

1 THAT RULE APPROPRIATE?

2

3 A. No. The rule is badly misnamed: it prevents the achievement of efficiency because
4 it would prevent any competition until such time as a firm arose that had total costs
5 that were less than just the direct incremental costs of the incumbent. This is far
6 from what should be the goal of public policy. That it is far from efficient can be
7 seen by the fact that use of that rule would leave the incumbent indifferent as to
8 whether it kept the customer or not, as noted by Dr. Duncan (Duncan direct, page
9 7, lines 12-13) In normal markets, a firm cannot be as well off if it fails to retain
10 a customer who was paying rates that have a markup over direct economic cost.

11 Moreover, the failure of the rule to promote efficiency is conceded by
12 GTEFL, as it has not tried to set the price for an unbundled loop on the basis of
13 application of the rule. According to Mr. Trimble, doing so would promote
14 uneconomic bypass. If the rule were efficient, the bypass it would promote would
15 not be uneconomic.

16 If competition is to bring the maximum benefits to consumers in the form of
17 lower prices and faster deployment of new technologies and services, the public
18 policy goal should be to establish rules that permit an equally efficient competitor to
19 the incumbent local exchange provider to enter and survive. This requires that the
20 prices for an unbundled loop, loop transport, and loop concentration be set equal to
21 their direct economic cost, no higher.

22

23 Q. MR. TRIMBLE ASKS THE COMMISSION TO ESTABLISH A
24 "COMPETITIVELY NEUTRAL" FUND TO COMPENSATE GTEFL FOR ITS
25 DEFICIT IN REVENUES DUE TO LOSING CUSTOMERS. DO YOU AGREE

1 WITH THIS PROPOSAL?

2

3 A. No. Mr. Trimble believes that GTEFL is somehow legally entitled to keep the same
4 level of revenues no matter how well or badly it does in the competitive marketplace.
5 If this were to be accepted by the Commission, consumers would be denied the very
6 benefits that opening the markets to competition were supposed to bring. GTEFL
7 needs to become more efficient, and to be a better competitor, not look to the
8 equivalent of tax levies on its competitors to keep it whole.

9

10 Q. MR. TRIMBLE ALSO ASKS THE COMMISSION TO ALLOW GTEFL TO
11 IMPOSE A NONRECURRING CHARGE PER LOOP ON ENTRANTS TO
12 RECOVER GTEFL'S ONE-TIME IMPLEMENTATION COSTS ASSOCIATED
13 WITH LOCAL COMPETITION. SHOULD THE COMMISSION GRANT THIS
14 REQUEST?

15

16 A. No. Mr. Trimble offers no explanation of these costs, nor explains how he arrived
17 at \$2.2 million for them. He also does not explain how he proposes to impose this
18 charge. This appears to be a second request for the Commission to impose some sort
19 of tax-like mechanism on entrants to keep GTEFL whole. It is bad for consumers,
20 and should be rejected.

21

22 Q. MR. POAG SAYS THAT UNBUNDLED LOOPS SHOULD NOT BE SUPPLIED
23 TO ENTRANTS AT INCREMENTAL COST BECAUSE IT COULD HAVE
24 NEGATIVE FINANCIAL IMPACT ON THE INCUMBENT LOCAL EXCHANGE
25 PROVIDERS. IS THIS A GOOD REASON TO PERMIT PRICES HIGHER THAN

1 DIRECT ECONOMIC COST?

2

3 A. No. Unbundled loops are one of a small number of essential monopoly input
4 functions. These functions cannot be acquired other than from the incumbent local
5 exchange providers. Unless they are supplied at cost, there is an artificial barrier to
6 entry that arises because the incumbent is able to force an entrant to have higher costs
7 for an essential input than the incumbent faces for that same input. This impedes the
8 development of competition, and so is bad for consumers.

9

10 Q. MR. POAG CLAIMS THAT IT WOULD BE DISCRIMINATORY TO SUPPLY
11 UNBUNDLED LOOPS AT DIRECT ECONOMIC COST. DO YOU AGREE?

12

13 A. No. Mr. Poag is concerned about discrimination between local exchange entrants,
14 interexchange carriers, alternative access vendors, and cellular providers. He leaves
15 out, however, discrimination between Sprint-United/Centel and entrants.
16 Sprint-United/Centel gets loops for direct economic cost. Charging more than direct
17 economic cost for unbundled loops discriminates between Sprint-United/Centel, on
18 the one hand, and all of the other types of carriers he has described.

19

20 Q. MR. POAG CLAIMS THAT INCREMENTAL COSTING METHODS ARE NOT
21 USED FOR SETTING PRICES, BUT ONLY FOR TESTING FOR CROSS
22 SUBSIDIES. DO YOU AGREE?

23

24 A. No. Indeed, in every docket in which I have been involved around the country since
25 1981, local exchange carriers have been asking to set their rates, particularly their

1 rates for services subject to competition, on the basis of incremental costs.

2

3 Q. MR. POAG CLAIMS THAT IT IS TOTALLY "ILLOGICAL" TO CLAIM THAT
 4 CHARGING FOR ^{UNBUNDLED LOOPS} ~~INTERCONNECTION~~ AT A RATE THAT IS HIGHER THAN
 5 COST SHIELDS THE COSTS RECOVERED FROM THE MARKUP FROM
 6 MARKET PRESSURES. IS HE CORRECT?

7

8 A. No. Mr. Poag genuinely does not understand what market pressure means. The
 9 price for ^{unbundled loops} ~~interconnection~~ cannot be pushed down by market forces because there ~~is~~ ^{may be}
 10 no alternative ^{to reach potential subscribers} ~~for terminating traffic to subscribers who remain with the incumbent~~
 11 other than use of the incumbent's ^{unbundled loops} ~~local termination~~. What this means is that, even
 12 if in fact the incumbent became more efficient, no market force exists to force the
 13 incumbent to reflect that greater efficiency in a lower ~~interconnection~~ charge ^{For these loops.}
 14 Therefore that efficiency also would not be reflected in the end user prices charged
 15 by the entrant, which in turn protects the end user prices that the incumbent will
 16 charge in the future. The fact that the incumbent might become more efficient in a
 17 cost-cutting sense is of virtually no benefit to consumers unless they get the benefits
 18 in lower prices.

19

20 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

21

22 A. Yes.

23

24

25

1 Q (By Mr. Melson) Dr. Cornell, would you
2 please summarize your direct and rebuttal testimony?

3 A Yes. My direct testimony addresses two
4 issues: The appropriate technical arrangements for
5 the provision to entrants of unbundled local loops,
6 and I call for the incumbents to provide unbundled
7 loops, loop concentration and loop transport. And,
8 secondly, my direct testimony discusses the
9 appropriate price for these elements.

10 I recommend that the Commission order the
11 price for these functions be set at their direct
12 economic costs, which is average total service, long
13 run incremental cost. That's what my direct testimony
14 covers.

15 My rebuttal testimony rebuts points made in
16 other people's testimony. I recommend very
17 strongly against the use of special access price for
18 unbundled loops. It creates a price squeeze. I very,
19 very strongly recommend you reject in its entirety the
20 so-called and badly misnamed efficient component
21 pricing rule. It is neither efficient, nor is it
22 appropriate for a competitive market because it is
23 entry blocking.

24 That I also recommend that GTE not be
25 entitled to replacement of revenues that are lost due

1 to entry and, therefore, there should be no fund, and
2 particularly no fund with the label of universal
3 service attached to it for this purpose.

4 That GTE should not be allowed to impose a
5 nonrecurring charge to compensate it for the cost of
6 implementing competition.

7 And, finally, I respond to several
8 assertions about economics that are made by Mr. Poag
9 that I believe are wrong.

10 Q Does that conclude your summary?

11 A Yes.

12 MR. MELSON: Dr. Cornell is available for
13 cross.

14 COMMISSIONER JOHNSON: Could I ask her a
15 question?

16 CHAIRMAN CLARK: Commissioner Johnson would
17 like to ask a question first.

18 COMMISSIONER JOHNSON: It's an early
19 question. Looking at your testimony, your direct
20 testimony in loop transport.

21 WITNESS CORNELL: Yes.

22 COMMISSIONER JOHNSON: In summary -- and if
23 I'm summarizing it wrong, you can help me out -- loop
24 transport is transporting the concentrated loop from
25 the incumbent LEC's central office to the entrant's

1 switch. And you state in there -- and I thought maybe
2 you would summarize it and talk about it a little bit
3 more, but you state in there that only the incumbent
4 LECs have the facilities in place to do this. And
5 that unless the rules are changed, entrants can't
6 transport concentrated loops.

7 I need you to explain that to me because it
8 may have some impact on the questions that are asked
9 of you. But I didn't get that, and why you reached
10 that conclusion and why entrants couldn't provide
11 their own facilities.

12 WITNESS CORNELL: Okay. There are two
13 issues, really. There are two separate piece parts,
14 if I can put it that way. There's the concentration
15 and then there's carrying these concentrated loops
16 from the local exchange switch or from the local
17 exchange building, if I can put it that way, of the
18 incumbent, to the network of the entrant.

19 It has been the case, and I've heard that
20 GTE is going to allow it to be different here in
21 Florida at least, that the collocation rules do not
22 allow concentration equipment to be placed in
23 collocation space.

24 COMMISSIONER JOHNSON: Our collocation
25 rules, federal collocation rules, what collocation

1 rules?

2 WITNESS CORNELL: Federal, certainly, and in
3 some states the state rules because they mirror the
4 federal. And I will confess I'm not absolutely
5 certain about yours, but this has been an issue around
6 the country as to whether concentration can be put in
7 collocation spaces.

8 COMMISSIONER JOHNSON: And it's been
9 specifically addressed in some states and some states
10 have found that it does not cover the transport of
11 these concentrated loops?

12 WITNESS CORNELL: I'm going to do the best I
13 can, Commissioner, because I'm not an engineer.

14 COMMISSIONER JOHNSON: Neither am I, that's
15 why it got real confusing.

16 WITNESS CORNELL: The way it first got
17 brought up is that the collocation rules that were
18 first established at the federal level and largely
19 mirrored at the state level allow for multiplexing
20 equipment, but as it was put, they do not allow for
21 any -- and if you will pardon my putting it this
22 way -- switchy things. Things that look like switches
23 or come close. Concentration equipment is one of
24 those gray areas. Some LECs have argued that's like a
25 switch and, therefore, you cannot put it in. And

1 others, apparently GTE here in Florida, has said to
2 MFS they can put in concentration equipment in a
3 collocation space.

4 It is really very important that all of the
5 states speak to this issue because it can be ruled as
6 not permitted under the collocation rules. And you
7 then have a situation in which an entrant using
8 unbundled loops is very definitely economically and
9 technically handicapped in carrying those channels or
10 those signals back to its own switch, and is forced to
11 use equipment that may not be as efficient either
12 technically or economically as what the incumbent
13 local exchange carrier can use. That's the issue of
14 concentration.

15 If it is not allowed in a collocation space,
16 then it is absolutely clear that the only way
17 concentrated loops can go from the incumbent's central
18 office to the network of the entrant is on facilities
19 provided by the incumbent, because it will have
20 blocked the entrant from putting the necessary
21 equipment in a collocation context.

22 It is almost certainly the case today that
23 if you look around at all of the central offices of an
24 incumbent, only an incumbent right now has the
25 transport network to go from those central offices to

1 elsewhere in the network from each and every one of
2 them.

3 Now, over time, presumably with the right
4 collocation rules, one of those is that collocation
5 would have to be priced at direct economic cost
6 because it then becomes the essential monopoly input
7 function. You could have competitive provision of all
8 transport, loop transport, switched access transport,
9 special access transport and the like.

10 But you can only have that if you have
11 collocation; a) priced at cost and nothing above, and
12 b) that collocation space can contain equipment other
13 than just multiplexers. And c) the third thing that
14 is necessary for this to really work, is that an MFS
15 collocation space can provide transport of unbundled
16 loops for an MCI Metro. I'm only using them as
17 examples. That is that collocation space does not
18 have to be dedicated to a single company's -- what
19 should I say, traffic? That if MFS or somebody else
20 has a collocation space or collocation set up in
21 Central Office A, it's allowed to sell that transport
22 to anybody it wants to sell it to, not just use it for
23 its own traffic.

24 COMMISSIONER JOHNSON: So that every entrant
25 wouldn't have to have its own collocation set

1 necessarily.

2 WITNESS CORNELL: That's right. Those three
3 condition would give you competitive transport
4 quickly.

5 COMMISSIONER JOHNSON: Okay. I think I have
6 one other question that -- on Page 7 of your direct,
7 Lines 15 through 17, when you're explaining how should
8 prices for unbundled loops, loop concentration and
9 loop transport be set, you say, "This has the effect
10 of raising the price floor down to which prices can be
11 forced by competition." Something about raising the
12 price floor down kind of confused me.

13 WITNESS CORNELL: I'm sorry. Obviously bad
14 English.

15 There is a price floor in a market to which
16 competition may -- down to which competition may drive
17 prices. In other words, prices are at a level; the
18 floor is below that level. Competition can drive
19 prices down, but there is a limit to how far down
20 prices can be driven. The limit to how far prices can
21 fall is determined by the real economic costs of
22 providing whatever it is.

23 Whatever -- the point I was trying to make
24 here is that whatever you build into the rates for
25 essential monopoly input functions, whatever price you

1 set them at, in turn is going to determine what that
2 floor in a competitive market can be. The higher you
3 make essential monopoly input prices, the higher you
4 have made the floor. And that's where I was, the
5 floor down to which.

6 COMMISSIONER JOHNSON: Got you.

7 WITNESS CORNELL: I was trying to be very
8 Churchillian and not end the sentence with a
9 preposition. Sorry.

10 COMMISSIONER JOHNSON: Got you.

11 WITNESS CORNELL: But the fact is, that's
12 the fundamental point I am making about pricing. Is
13 that for anything that's an essential monopoly input
14 function, there can be no market to drive that price
15 down. You are going to set it and how you set it sets
16 the absolute floor on how low prices can go here in
17 Florida.

18 COMMISSIONER JOHNSON: One final question.
19 Page 6, the last sentence, you go through this
20 dialogue on switches and the lengths of loops and an
21 entire analysis on loop concentration. You said,
22 "Thus, under the present technology loop concentration
23 allows for us to use fewer of society's scarce
24 resources." "Society's scarce resources," could you
25 be more specific? I was a land use attorney, and this

1 sounds like trees and stuff, but I know you didn't
2 mean it that way. But I wanted you to explain exactly
3 what you meant.

4 WITNESS CORNELL: Actually I do mean it sort
5 of in that sense. I don't mean it scarce in the sense
6 that diamonds are scarce. I mean it in the sense that
7 you can use less total plant and equipment if you use
8 concentration, because you can put more channels on a
9 given physical path with concentration than without
10 concentration; thereby meaning you have to have less
11 trunking equipment, fewer trunks.

12 COMMISSIONER JOHNSON: Okay. And I didn't
13 think you meant it that way at all.

14 WITNESS CORNELL: Yes. Actually, again, I
15 will apologize that that is probably one of the
16 economics jargon terms.

17 COMMISSIONER JOHNSON: No, you said it
18 pretty specifically. I just thought that perhaps you
19 were talking about cost and monetarily, not -- which I
20 guess you are indirectly, but you mean more in terms
21 of physical plant, not needing to duplicate resources?

22 WITNESS CORNELL: Not needing to duplicate,
23 using the least amount possible to perform a given
24 amount of function.

25 In the way I'm afraid I was trained, money

1 is just how you sort of express actual purchases of
2 concrete and glass, in this case, and electronics and
3 people and -- you don't purchase people, but you hire
4 their labor, and so on. And if you can concentrate,
5 you can use less than if you cannot concentrate.

6 COMMISSIONER JOHNSON: Okay. So in that you
7 are stating that it would be less costly to society as
8 a whole. Would it be less costly to one industry
9 versus the other?

10 WITNESS CORNELL: No.

11 COMMISSIONER JOHNSON: Could you couch it in
12 those terms?

13 WITNESS CORNELL: No, it would be less
14 costly to society as a whole, not necessarily one
15 industry versus another. This is not a case of what
16 Metro saves Sprint has to pay. This is literally
17 being able to use less plant equipment in total.

18 COMMISSIONER JOHNSON: Okay.

19 WITNESS CORNELL: For these loops.

20 COMMISSIONER JOHNSON: Thank you.

21 CHAIRMAN CLARK: Mr. Logan.

22 MR. LOGAN: I have a few questions.

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CROSS EXAMINATION

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BY MR. LOGAN:

Q Dr. Cornell, good afternoon.

A Good afternoon.

Q Dr. Cornell, following up on questions that you just answered, is it also true that the provision of unbundled local loops is, in your view, essentially a monopoly input function?

A I really believe that local loops, at least in some locations, probably are an essential monopoly input function. And that unless they all are treated that way initially you'll never be able to get competition to some areas and some customers, and nobody knows where that line is between where they can be duplicated and where they cannot.

Q And then as a monopoly input function, isn't it true that any price over the total service long run incremental cost would prevent an incumbent LEC from passing an imputation test?

A I believe that is true, particularly as you get into those places where loop costs are higher. The answer really is yes.

Q Would that result in a price squeeze?

A Yes.

Q And can you explain price squeeze one more

1 time?

2 A Sure.

3 Q Thank you.

4 A A price squeeze occurs when due to the price
5 set for an essential monopoly input function the
6 provider of the essential monopoly input function
7 makes it impossible for an equally efficient entrant
8 to provide service. Now, I want to be clear about it
9 and I'm going to do it with an example.

10 Suppose it takes two inputs to produce the
11 particular output and one of them is an essential
12 monopoly input function. And assume the incumbent is
13 charging \$15 for the end user service that needs these
14 two inputs. If the incumbent has costs for the
15 nonessential input function of \$5 -- remember it's
16 charging \$15 for the bundle, for the end user service,
17 and charges \$11 or anything over \$10 for the essential
18 monopoly input function, the equally efficient entrant
19 cannot enter and compete because equally efficient
20 means it has a \$5 cost for the second input for this
21 service and it must pay for the essential monopoly
22 input function whatever the price charged by the
23 incumbent. So unless that price is \$10 or less, the
24 equally efficient entrant is not an entrant at all.
25 Cannot compete. Cannot enter. Loses a penny on every

1 sale. Whatever you want to call it, no matter how
2 close it comes, even losing a penny on every sale you
3 cannot make it up in volume. You're out of the
4 market.

5 So, yes, that's what a price squeeze is.

6 Q I want to assume for the next couple of
7 questions the following hypothetical situation, and
8 that is that the incumbent LEC's price for basic
9 residential service is below the TSLRIC cost of an
10 unbundled residential loop.

11 A Okay.

12 Q In that situation, even if the unbundled
13 local loop is priced at TSLRIC, isn't it impossible to
14 avoid a price squeeze unless the LEC's rate for basic
15 local service is also increased?

16 A The answer is only partially yes. That's
17 one way to end the price squeeze. The other is to
18 establish a universal service fund that makes up the
19 difference.

20 Q Now, what if you also assume that the LEC's
21 basic local service rate is frozen at its current
22 level so it can't be increased, would you still
23 recommend that the price for an unbundled loop be set
24 at TSLRIC?

25 A I guess the answer is yes, although the

1 ideal thing to do, if it were legal and I'm not sure
2 that there is any choice under the Florida Statute,
3 would be to require the unbundled loop when used for
4 residential service to pass an imputation test, but to
5 correct the problem, once again, as I said before,
6 with a competitively neutral universal service fund,
7 which would get you back to, in essence, paying the
8 average TSLRIC for the loop.

9 Q Now, if you can also assume that the LECs
10 TSLRIC cost of providing unbundled loop to an ALEC is
11 actually higher than the TSLRIC cost of the LEC using
12 its own loop and the provision of local exchange
13 service?

14 A Is this a real cost difference or is this a
15 bogus cost difference, a claimed cost difference not
16 proven?

17 Q A real cost difference?

18 A A real cost difference, okay.

19 Q Yes. In that scenario which of the TSLRIC
20 rates should be used in pricing the unbundled loop to
21 the ALEC?

22 A It should be the cost to providing it to the
23 ALEC.

24 Q And why is that?

25 A Because you do need to cover the cost, but

1 only the efficiently incurred cost of providing
2 service. If it's a bogus difference in cost, you
3 should be getting rid of that directly. I mean, it's
4 like claims that these all have to be specially
5 engineered when they really do not. Those kinds of
6 claims that have been used to justify higher costs
7 should be written out of recovery.

8 Q In your experience does the TSLRIC cost of
9 local loops vary by distance?

10 A Oh, yes. And by density, by the way.
11 Perhaps even more by density than by distance.

12 Q Okay. Back to the hypothetical we were
13 discussing which is the LEC's price is less than the
14 TSLRIC cost. If the price of an unbundled local loop
15 was deaveraged by distance rather than averaged, would
16 consumers be better off or worse off?

17 A They would be better off. That may seem
18 paradoxical, but, in fact, it would be much better off
19 if unbundled loop prices were deaveraged.

20 The reason is essentially two-fold: It will
21 enable you much better to see precisely where there is
22 a need for universal service funding and where there
23 isn't. And I have not looked at this data for
24 Florida. I have very closely for Maryland, and it is
25 definitely not needed everywhere. All residential

1 users are not subsidized despite the heresy that that
2 may sound. It enables you, therefore, one, to see
3 where it is needed more accurately, and, two, it
4 enables you to establish the conditions so that rural
5 users can have -- which is where you're going to find
6 there's a problem -- so that rural users can see
7 entry, not just downtown urban users. And if you
8 continue to have something where cost differs so
9 dramatically, not just by distance but also by
10 density, that is averaged across the state in terms of
11 treating it in input pricing that way. You can still
12 have statewide average rates, by the way, on the end
13 user side through a universal service fund mechanism.
14 But if you do not allow deaveraging at the input side
15 of it, and dealing with the universal service issue,
16 you will concentrate entry in the center of cities and
17 in the center of small towns and leave the rural part
18 of the state out of this game or the benefits of
19 competition, to be more accurate, which would not be
20 to the best interest of consumers in Florida.

21 Q Is there any concern that deaveraging would
22 create an incentive for ALECs to cherry-pick customers
23 with short loop lengths?

24 A My argument is no. And I feel about
25 cherry-picking, I guess, the way I do about

1 cream-skimming, except cherry-picking belongs in
2 orchards; cream-skimming in dairies.

3 Q I apologize.

4 A That's okay. I know it's the term that gets
5 used.

6 What you've got is a situation where you
7 have costs that vary that dramatically and you've
8 insisted everybody pay average, is that you have got a
9 situation in which you both create forces that try to
10 block entry where entry is most naturally going to
11 occur, and you prevent entry from spreading to the
12 more outer-lying areas.

13 Now, entry is more likely to occur where
14 there are short dense loops, not entirely because
15 those prices are so much above cost, although they
16 probably certainly are, but also because marketing
17 costs are always lower where the population is denser.
18 It is just much easier. If you think about putting an
19 ad on television you can reach many more people in
20 Miami than you can in Meeteetse, Wyoming. There's
21 just no two ways about it.

22 And similarly with activities, the reasons
23 that many of these companies start with big
24 business --

25 COMMISSIONER GARCIA: But that -- that

1 doesn't necessarily hold factual across the board,
2 does it?

3 WITNESS CORNELL: Pardon?

4 COMMISSIONER GARCIA: That's simply because
5 you have a larger -- it's easier to reach those
6 people. There's a difficulty also in reaching the
7 people in an outlying area?

8 WITNESS CORNELL: That's right.

9 COMMISSIONER GARCIA: The cost increment
10 though.

11 WITNESS CORNELL: Even in terms of cost -- I
12 mean, if you think about no matter what it is that you
13 are paying for advertising, using my advertising
14 example, there's a certain minimum that a television
15 station has to charge, or it can't be there at all,
16 for ad time. The more people you reach with an ad,
17 the higher number of people may take it. There's just
18 some absolute minimum number of people who won't
19 respond.

20 COMMISSIONER GARCIA: An ad in the Meeteetse
21 newspaper is pennies as opposed to an ad in the
22 Democrat -- that's a bad example.

23 WITNESS CORNELL: It's a particularly bad
24 example, because we don't actually have a newspaper.
25 We have a xeroxed bank bulletin every morning and the

1 only ads it takes are, you know, basically classified;
2 the yard sale for the Saturday. That's not quite true
3 but it's close. I was thinking more of mass media
4 type buying.

5 But the other point I would make is think
6 about sending a salesman to a business premise that
7 has a lot of lines. You're going to send a salesman;
8 he's going to spend a hour making a pitch and it may
9 affect hundred access lines or even more. And you
10 send a salesman to anyplace in a place like Meeteetse,
11 I can assure you there's no place that has 100 access
12 lines. In fact, we only occupy the equivalent of two
13 pages of the telephone book. That's it.

14 So that generally speaking you find
15 marketing activities for entering firms, for the most
16 part, start in dense population areas for a reason.
17 There's just more of a chance to get a critical
18 starting mass of customers. So that that's part of
19 why no matter what, you're going to see competition
20 start in the cities and then spread outward. But you
21 really should be looking at the history of long
22 distance where it did spread.

23 I actually can use, even though I don't have
24 a equal access switch yet, all three of the major
25 carriers plus two others out of Meeteetse, Wyoming for

1 toll. It takes a little doing but it can be done.

2 COMMISSIONER DEASON: Let me ask a question
3 while we're interrupted.

4 You indicated that the price for local loops
5 should be deaveraged.

6 WITNESS CORNELL: Yes.

7 COMMISSIONER DEASON: And that there are two
8 benefits by doing that. One, that you could identify
9 where the need for universal service lies.

10 WITNESS CORNELL: Right.

11 COMMISSIONER DEASON: And it allows rural
12 customers to benefit from competition that they
13 perhaps would otherwise not see.

14 WITNESS CORNELL: That's correct. The
15 second, sir, depends upon your fixing the first.
16 Because once you have a universal service fund that
17 deals with those people whose loops really are more
18 costly than you wish local exchange service to be
19 priced, or basic universal service service, let me put
20 it that way, to be priced, you create a competitively
21 neutral universal service fund, I hope. You make it
22 available to anybody who wins the custom of those
23 customers. And the result is they are no longer
24 having to compete against a subsidized loop price. So
25 that if the incumbent -- if in those areas it costs

1 \$35, let's say, to provide a loop, but the incumbent
2 is charging 20, the entrant isn't going to enter
3 unless it has a technology so spectacularly more
4 efficient that it can come in, let's say, with a
5 \$15 cost, because you also have, you know, the cost of
6 switching and the cost of directory assistance and the
7 various other things that go with basic universal
8 service.

9 So to prevent having those customers wait
10 until that dramatic change in cost occurs, if you have
11 deaveraged loop rates and a competitively neutral
12 universal service fund, you have the ability for
13 somebody who is even only a dollar or two cheaper, to
14 come in and compete for rural users. And I can again
15 say from my own personal experience people do compete
16 for us. It may seem strange, but they do.

17 Q (By Mr. Logan) Dr. Cornell, turning to your
18 rebuttal testimony, specifically that of Dr. Duncan, I
19 believe you testified regarding his statements on the
20 efficient component pricing rule; is that correct?

21 A Yes, the so-called efficient component
22 pricing rule.

23 Q And is it your testimony that one of the
24 effects of applying that rule to the pricing of
25 unbundled local loops is to make the LEC indifferent

1 to whether it keeps a customer or loses a customer to
2 the an ALEC?

3 A That's been the claim of its proponents,
4 yes.

5 Q Is there any reason why the Commission would
6 want the LEC not to be indifferent to whether it keeps
7 those customers?

8 A Oh, absolutely. The only way the LEC starts
9 to feel the pressure to become more efficient to keep
10 up more closely with customer desires, wants and needs
11 is if it is not indifferent as to whether it keeps or
12 loses the customer.

13 Q Dr. Cornell, also in your rebuttal testimony
14 you stated that if a LEC charges more for an unbundled
15 local loop than the TSLRIC cost, then the LEC is
16 discriminating between itself and all other carriers;
17 is that correct?

18 A That's correct.

19 Q Actually, I think you may have said -- in
20 your testimony you described it as the direct economic
21 cost. Is that the same as TSLRIC?

22 A Or average TSLRIC, yes.

23 Q Those are all synonymous terms?

24 A Yes.

25 Q Okay. Dr. Cornell, would you agree with

1 Dr. Duncan, then, in setting the price to an ALEC for
2 an unbundled loop that the LEC should include the lost
3 opportunity cost?

4 A No.

5 Q Why not?

6 A Because that's another way to ensure that
7 the LEC recovers almost the same revenue as it
8 otherwise would no matter how well or badly it does in
9 serving customers.

10 It is -- in my opinion this is a significant
11 misuse of the term "opportunity cost," which arose in
12 explaining how you would deal with truly scarce, in
13 the diamond sense of scarce, resources. And you have
14 something that you cannot duplicate easily. It's
15 often -- you know, a very good athlete, an incredibly
16 popular artist, that is very hard to duplicate,
17 obviously.

18 You want to be sure that that person's
19 skills or that the diamonds that are very scarce as
20 you dig them out of the ground get used in the way
21 that gives the most value to society and that's
22 usually judged by willingness to pay, so you let the
23 price get bid up.

24 This is not a case in which we're short of
25 glass or we're short of electronics. This use of

1 opportunity cost is purely saying back in a rate of
2 return world you set a bunch of prices, or you agreed
3 to a bunch of prices that were proposed by the local
4 exchange company, however it actually came out. And
5 now what is being said is that in some ways that
6 revenue recovery is sacrosanct. That I, as the
7 incumbent, get to retain it no matter how well or
8 badly I do, because if I lose the customer and I am
9 forced to make an essential monopoly input function
10 available to my competitor, I get to be made whole. I
11 get to be made indifferent as to whether I supply that
12 input or serve the customer.

13 So every bit of inefficiency that may have
14 existed in the company, every bit of inefficiency that
15 was reflected in those rates because rate of return
16 regulation, not because of bad will on the part of
17 regulators, but because of the system and the tools
18 given, is not as efficient as a market. Every bit of
19 that efficiency gets frozen in by using this so-called
20 opportunity cost approach.

21 You should be dealing with direct economic
22 costs. Any real opportunity cost in the way I use the
23 term before for real things that are scarce, like
24 diamonds and special talent in human beings, is
25 already built into the direct economic cost measures

1 that we're suggesting you look at. What is not built
2 in is the lost profit that the incumbents want to
3 retain in order to be indifferent as to whether they
4 supply these essential monopoly input functions. And
5 contrary to assertions otherwise, really competitive
6 markets do not use this rule.

7 MR. LOGAN: Thank you, Dr. Cornell. No
8 further questions, Chairman Clark.

9 CHAIRMAN CLARK: Mr. Horton.

10 MR. HORTON: No questions.

11 MR. COHEN: No questions.

12 MR. RINDLER: I have a few questions.

13 CHAIRMAN CLARK: Go ahead.

14 **CROSS EXAMINATION**

15 BY MR. RINDLER:

16 Q Good afternoon, Dr. Cornell.

17 A Good afternoon.

18 Q I'm Rich Rindler representing Metropolitan
19 Fiber Systems.

20 I have a few questions based on some of the
21 answers that you just provided and, also, were you
22 here this morning when Mr. Devine testified?

23 A I was here, but I wasn't as attentive as I
24 probably should have been.

25 Q He indicated he wasn't an economist, so

1 there was a question, at least one, he didn't feel
2 comfortable answering.

3 Looking at your testimony, your direct
4 testimony, on Page 7, you say that -- as you've just
5 said that, "Prices for unbundled element should be set
6 at economic cost" --

7 A Yes.

8 Q -- "which is total service long run
9 incremental cost. Total service long run incremental
10 cost includes the recovery of the firm's cost of
11 capital but does not include any contribution above
12 cost." Do you see that?

13 A Yes.

14 Q There was a question with respect to whether
15 or not TSLRIC includes reasonable profit. And could
16 you explain whether it does or doesn't?

17 MR. FONS: I'm going to object to the form
18 of the question. It's not covered in Dr. Cornell's
19 testimony. She's not asked what's included in TSLRIC.
20 I think this is just an attempt to rehabilitate his
21 own witness.

22 CHAIRMAN CLARK: Mr. Rindler.

23 MR. RINDLER: If you look at Page 7 of the
24 direct testimony, it's quite clear that she does
25 discuss what's in TSLRIC. And I'm, therefore, asking

1 her to explain further what the she is saying. It
2 says it does not include any contribution above cost,
3 but does include the firm's cost of capital. I'm
4 trying to understand whether that cost of capital
5 includes reasonable profit.

6 CHAIRMAN CLARK: Go ahead, Dr. Cornell, you
7 may answer the question.

8 A In the way profit is used in
9 telecommunications regulation, the answer is clearly
10 yes.

11 Profit in regulation is a return on equity.
12 What is the return on equity? Is it a fair return on
13 equity? And that's the only version of profit that is
14 supposed to fall out in a rate case kind of approach
15 to setting rates.

16 I use the phrase, therefore, because that's
17 the phrase that is going to be the most known, if I
18 can put it that way, among people who frequent hearing
19 rooms.

20 Total service long run incremental cost,
21 properly calculated, calculates the cost of all of the
22 resources used, caused by -- let me be very careful
23 about this -- caused by the production of the service.
24 That means payment to labor, payment to capital,
25 providers of capital; payment to providers of raw

1 materials. Those are the three kinds of generic
2 categories of cost that exist.

3 In that regard, yes, it includes a normal
4 profit because it pays -- it includes payment at a
5 competitive market rate for all of those elements and
6 nothing more. And that is no different than how you
7 would do it if you were still rate of return
8 regulating where you would look to give them an
9 opportunity to recover an allowed rate of return,
10 which is supposed to be the fair rate of return and no
11 more, and that's exactly the same usage. I tried to
12 explain it in the way you'd talk about it in a
13 competitive market.

14 Q Thank you, Dr. Cornell.

15 COMMISSIONER DEASON: Let me ask a question.
16 Would that return on equity need to be changed to
17 recognize the transition from a monopoly service to a
18 competitive service?

19 WITNESS CORNELL: That really depends on
20 whether the allowed rate of return that has been used
21 in the rate cases of the past, is above or below what
22 a competitive firm in long run equilibrium would be
23 earning in today's market. I don't have a answer to
24 that fact question.

25 Q (By Mr. Rindler) Dr. Cornell, in your

1 testimony you talk about a price squeeze. Do you
2 recall that in your direct and, I believe, in your
3 rebuttal as well?

4 A Yes.

5 Q When you're talking about a price squeeze,
6 should you look at basic local service revenues to
7 determine whether there is a price squeeze by a LEC's
8 loop prices or all revenues derived from the loop?

9 A Oh, you should look at the basic local
10 exchange service. If you do anything else, what
11 you're saying to the entrants is, "Whoops, sorry, we
12 only want you to compete for the high volume users."
13 And then, of course, the LECs come screaming in and
14 saying, "Look, they are only cream-skimmers." And you
15 create just this vicious cycle, if you'll pardon my
16 expression, in terms of the regulatory process. That
17 you want a situation in which an equally efficient
18 entrant can compete for all customers. That's how
19 you'll get the maximum benefits to consumers. So you
20 do the price squeeze on the very service that is
21 provided by the LEC using the same -- by the incumbent
22 LEC -- using the same essential monopoly input
23 function that you're selling to the entrants.

24 Q Thank you. I believe in your rebuttal
25 testimony you also speak to GTE's request to make a

1 charge for implementation of competition.

2 A Yes.

3 Q Do you believe there is such a cost?

4 A Let me say that there is probably some. I
5 am skeptical of the numbers. And I'm also skeptical,
6 strongly skeptical of the notion that this is a cost
7 that should be charged to entrants because the
8 entrants will incur the same kind of costs just as a
9 matter of being in business.

10 The kinds of costs that could exist are
11 costs to create billing systems. If they are still
12 insisting on implementing new technologies with no
13 unbundling capabilities and then having to go back and
14 retrofit unbundling, I'm not sure that's appropriate
15 to impose on anyone else because we have been talking
16 in this country since virtually 1983, '84, '85 of an
17 unbundled telecommunications world, not a bundled one.

18 Q To the extent there are, in fact, real
19 costs, though, involved that you wouldn't discount
20 for -- such as the technology change, who should bear
21 that cost?

22 A I believe that each firm, which is going to
23 have to incur those costs of setting up billing
24 systems -- after all unbundled loop -- the ability to
25 buy an unbundled loop is going to be in two

1 directions. If an entrant comes in and is the one who
2 puts in plant in some location and later one of those
3 customers wants to go to the incumbent, the incumbent
4 is going to be allowed to come and say, "I want an
5 unbundled loop from you." And so all firms need to
6 put into place the billing, ordering and unbundling
7 systems to be able to provide these services to each
8 other.

9 Q Thank you. One last --

10 CHAIRMAN CLARK: Dr. Cornell, I don't think
11 you answered the question. Who should pay those
12 costs?

13 WITNESS CORNELL: Oh, I'm sorry. Each firm
14 should pay their own.

15 CHAIRMAN CLARK: Okay.

16 WITNESS CORNELL: I apologize. I thought I
17 had said that.

18 CHAIRMAN CLARK: Maybe you said at the
19 beginning, but I didn't catch it.

20 Q (By Mr. Rindler) Dr. Cornell, are you
21 saying that if you don't deaverage loops by distance
22 and density that would create a barrier to entry for
23 new entrants?

24 A I think it will. Based on cost numbers I've
25 seen in Oregon, I think density is probably a more

1 important point than distance, but I could be shown
2 otherwise by good cost studies.

3 It creates a barrier to entry because the
4 real cost to the incumbent in the downtown areas is
5 lower than the price they are charging, so there's
6 quite a bit of quote, "contribution," unquote, in the
7 price for a loop in a dense area. And it's a barrier
8 to entry because the entrant has to compete against a
9 subsidized loop in the outlying areas, so it deters it
10 from entering with its own facilities even where it
11 might prefer to do so. So in both cases it's not good
12 for the process of competition.

13 Q Have you reviewed the cost studies in this
14 case?

15 A I'd have to say no, I have not.

16 MR. RINDLER: I have no further questions.
17 Thank you very much, Dr. Cornell.

18 CHAIRMAN CLARK: Thank you. Ms. Wilson.

19 MS. WILSON: Thank you. I just have one or
20 two questions.

21 **CROSS EXAMINATION**

22 BY MS. WILSON:

23 Q Good afternoon, Dr. Cornell. Laura Wilson,
24 representing the Florida Cable Telecommunications
25 Association.

1 A Good afternoon.

2 Q I was just listening to your testimony
3 regarding the deaveraging of local loops, and I was
4 wondering if you were aware of any requirements or
5 conditions of Florida law pertaining to LEC
6 deaveraging of nonbasic services?

7 A I'm not certain what the law is. I need to
8 be very clear that while I'm talking about deaveraging
9 the price for a unbundled loop, I'm not talking about
10 necessarily deaveraging basic local exchange rates.

11 Q Okay. So would it be fair to say that you
12 do not know any -- you do not know the terms of
13 Florida law pertaining to the conditions and terms
14 under which a LEC can deaverage a nonbasic service?

15 A Not the way you've phrased it, no. I've
16 looked at the Florida law, but I couldn't recite it
17 chapter and verse and probably don't remember all of
18 its provisions either.

19 Q Okay. So, in fact, MCI's position
20 concerning the deaveraging of LEC loops in this
21 proceeding is not based upon a particular provision of
22 Florida law to your knowledge.

23 MR. MELSON: I'm going to object to the
24 extent that sounds like it clearly calls for a legal
25 conclusion. The witness has testified as to what she

1 thinks the appropriate policy ought to be and to her
2 degree of familiarity with the law.

3 MS. WILSON: I can rephrase the question if
4 that would help.

5 Q (By Ms. Wilson) Can you point to any
6 particular provision of Florida law that would support
7 MCI's position concerning the deaveraging of LEC local
8 loops?

9 A I, first of all, do not have it in front of
10 me. I do not think we want to take a recess, but if
11 need be we can do that. I can't sit here and recite
12 to you chapter and verse. I do not normally get asked
13 by MCI to come and testify to something that is
14 illegal.

15 Q But you're not being asked to provide a
16 legal conclusion for MCI, either, are you?

17 A No, I count on Mr. Melson to do that in his
18 brief.

19 MS. WILSON: I have no further questions.

20 CHAIRMAN CLARK: Thank you. Mr. Edgington.

21 **CROSS EXAMINATION**

22 BY MR. EDGINGTON:

23 Q I just have two quick questions and the
24 first one is sort of a follow up to the implementation
25 cost.

1 Did I understand your testimony was that
2 each company should bear its implementation cost
3 because each company will be getting loops from the
4 other company and getting ports from the other
5 company?

6 A Each company is going to have the ability to
7 get from each other, yes. Obviously at Day One it's
8 not highly likely that GTE or Sprint is going to get
9 from an entrant but it's not impossible, either.

10 Q But GTE and Sprint will have to bear the
11 implementation costs of changing their billing
12 systems, of changing their order taking systems to
13 address what, I think you would agree, would be a vast
14 disparity between the number of loops that will be
15 ordered from GTE and Sprint versus the other way
16 around?

17 A It will be a vast disparity at the
18 beginning. I have no idea what to tell you five, ten
19 years down the road.

20 Q With respect to --

21 COMMISSIONER DEASON: Let me ask a question
22 on that.

23 To the extent that disparity exists, and
24 even if the LEC and the ALEC had comparable costs,
25 wouldn't there be an incentive for the ALEC not to

1 implement its own systems? Because if they are just
2 paying the average TSLRIC for the LEC to do that, and
3 none of the implementation cost, they are avoiding
4 their own implementation cost and they're avoiding the
5 LEC's implementation cost.

6 WITNESS CORNELL: I very strongly want to
7 say no, and I'd like to explain why.

8 The implementation costs are big numbers to
9 each of us in terms of our own incomes, I presume, but
10 they are not big numbers in terms of the total cost of
11 local exchange, telephony and so on.

12 The simple fact is that an entrant is going
13 to want as much as it can to use its own plant and
14 equipment because then it has maximum control.
15 There's no two ways around it. I did listen when
16 Mr. Devine was explaining how they would test the loop
17 and then they'd call up the local exchange carrier and
18 tell them where there was a problem with the loop, and
19 then they would be dependent on the local exchange
20 carrier to go fix it. That's never a very comfortable
21 position to be in.

22 If you want to do things with a slightly
23 different engineering of plant than the way the LEC
24 has its plant engineered, you're kind of struck. I
25 mean, you can ask for a two-wire or a four-wire loop

1 if it's available. At some point, however, you are
2 limited to the fact that it's twisted copper wire
3 pair. It may be using a certain kind of pair gain
4 device if it's a longer loop, but you don't have total
5 control over what is there. So you're not going to be
6 -- in a long run consideration, you're not going to
7 stick with that plant for pennies of difference in
8 cost. Big differences in cost, if I am correct, which
9 I think I am but don't know for sure -- markets will
10 only be able to tell you this answer -- that there are
11 some locations where the existing loop plant may well
12 be a natural monopoly, a small geographic kind of
13 natural monopoly. The entrant is struck with those
14 problems because it just becomes way too inefficient
15 to duplicate all of the existing network of the local
16 exchange carrier. But on the margin where it is
17 feasible, the entrants are going to want to get
18 customers, if they can, on their own network for all
19 of the reasons that I gave before.

20 Your technology -- there used to be an
21 expression in telephony about the last mile, and the
22 quality of the last mile determined what the
23 interexchange carriers could provide you. Now the
24 last mile is perhaps a smaller amount, but it's still
25 absolutely true, what anyone can receive in their home

1 is dictated by the quality of the wire that comes in
2 and out.

3 Q (By Mr. Edgington) I just have one more
4 quick question.

5 With respect to your use of the term TSLRIC,
6 that includes such costs as traffic sensitive service
7 specific cost, does it not?

8 A If it's a traffic sensitive service, yes. I
9 mean, the loop is not necessarily a traffic sensitive
10 in the sense that that phrase is used.

11 Q Okay. But just speaking generally about
12 what would be included in a definition of TSLRIC cost
13 without applying it necessarily to any individual
14 item.

15 A Can I offer a change in your word? Volume
16 sensitive, yes.

17 Q Okay.

18 A Costs that vary with the volume of whatever
19 it is are included in TSLRIC.

20 Q Would it also include, and I'll use your
21 phrase, volume insensitive service specific costs?

22 A Absolutely.

23 MR. EDGINGTON: I have no further questions.

24 CHAIRMAN CLARK: Mr. Fons.

25 MR. FONTS: I have no questions.

1 CHAIRMAN CLARK: Staff.

2 CROSS EXAMINATION

3 BY MR. EDMONDS:

4 Q Dr. Cornell, do you have in front of you
5 what has been identified by Staff as NWC-2, and I
6 believe we're passing out the errata sheet. That
7 exhibit is described as your February 28th deposition
8 transcript?

9 A Yes, I have it in front of me.

10 Q Would the corrections made on the errata
11 sheet, is it true and correct to the best of your
12 knowledge?

13 A Yes.

14 MR. EDMONDS: At this time Staff would like
15 to have what's been identified as NWC-2 and the errata
16 sheet marked as an exhibit.

17 CHAIRMAN CLARK: It will be marked as
18 Exhibit 10.

19 (Exhibit No. 10 marked for identification.)

20 MR. EDMONDS: Thank you. Staff just has a
21 couple of questions.

22 Q (By Mr. Edmonds) First of all, what does
23 the term "co-carrier" mean to you?

24 A To me co-carrier really means that you are
25 treated as an equal. You're not treated as an end

1 user customer. You're treated much more in the way
2 the incumbent LECs treat each other than in the way
3 the incumbent LECs treat IXCs.

4 Q And what rights and responsibilities would
5 go along with being a co-carrier in your opinion?

6 A I'm not sure I'm going to get them all in my
7 answer. The first thing I would view it as is that --
8 and this is one of those answers in which I have to
9 say if I got to make the rules -- I would insist that
10 co-carriers do things like mutually exchange traffic;
11 provide any other essential monopoly input functions
12 at cost with no mark up; that each looks to its
13 success with end user customers to collect the markups
14 needed to cover common and shared costs of their
15 respective firms; that each has a right to know about
16 the other's network, what is necessary to know for
17 interconnection to take place technically in the most
18 efficient manner between them, and that that kind of
19 most efficient form of interconnection both
20 technically and ultimately economically is permitted
21 and occurs. Those are the ones I can think of right
22 off the top of my head.

23 Q Given your answers, then, do you believe
24 that ALECs should be treated as co-carriers with the
25 LECs?

1 A Yes.

2 CHAIRMAN CLARK: Let me ask you a question.
3 When you say that they should be providing those
4 services they are mutually dependent on each other for
5 at TSLRIC, I guess is what you mean.

6 WITNESS CORNELL: Essential monopoly input
7 functions, yes.

8 CHAIRMAN CLARK: That presumes that there
9 will always be a monopoly in a geographic area. I had
10 thought your previous testimony was once you have
11 enough providers in an area, then let the market
12 decide.

13 WITNESS CORNELL: No. Actually to be very
14 blunt there are a couple of things that will never be
15 anything but monopoly, but it's a very peculiar use of
16 the word "monopoly," frankly.

17 Interconnection, the exchange of traffic is
18 one. If you have five carriers in a location all
19 competing to provide local exchange service, none of
20 them can offer ubiquitous local exchange service
21 within a given geographic area unless they mutually
22 exchange, in some fashion, traffic. That is customers
23 of one want to call the customers of another.

24 The carrier who has the customer will always
25 have a bottleneck monopoly over terminations of

1 traffic to that customer. Period.

2 And it is going to be there forever.
3 There's no way to get around it. Let me start with
4 you'll have a telephone number. That telephone
5 number, even once you get true number portability,
6 will be associated with a particular carrier in a
7 database. If I from Meeteetse, Wyoming, were to pick
8 up my phone and dial that telephone number, the only
9 place the carrier who is carrying that interexchange
10 call can go to terminate it at the telephone number
11 dialed is the carrier to whom that telephone number is
12 associated in that database. There is no other way to
13 terminate the call. And that's true even if the
14 customer has 2,000 lines and subscribes to 2,000
15 different local exchange carriers, because the
16 telephone number dialed will determine everything else
17 about that call, including its termination.

18 So the one area that it's absolutely clear,
19 even if you have thousands of carriers, that is going
20 to be an essential monopoly input function for every
21 one of them is termination to the others. The ability
22 to terminate calls to the other. That's one.

23 CHAIRMAN CLARK: You mean the ability to
24 terminate calls using a single number.

25 WITNESS CORNELL: That's right, but there's

1 no other way to do it.

2 CHAIRMAN CLARK: Well, you could have two
3 carriers and have two different numbers.

4 WITNESS CORNELL: But if I pick up in
5 Meeteetse, Wyoming, and dial the first number, nobody
6 has the ability to build a database large enough to
7 say -- let's say, I was calling you.

8 CHAIRMAN CLARK: I agree with that. But my
9 point being that using that number that they could
10 tell you, "You can't reach me at that number. You
11 need to use another number."

12 Your assumption is that we should have a
13 seamless communication service.

14 WITNESS CORNELL: I quite strongly believe
15 that, a) you should have a seamless one. And the
16 reason for that is let's follow yours down for just a
17 moment if I can, okay? Somebody has to put an
18 intercept message that says, "Please hang up and try a
19 different telephone number. This subscriber is not
20 taking calls at this number at this time." Or a
21 carrier has to say, "I refuse to terminate calls to
22 numbers held by Local Exchange Carrier A, B, C, D or E
23 because their rates are too high."

24 Well, if I'm making a call, let's say, to
25 Mr. Melson, I'm not going to be a terribly happy

1 customer of that interexchange carrier at that point.
2 I'm going to say, "This is for the birds. I can go to
3 Carrier Y who doesn't impose this on me." Moreover,
4 you use up a lot more of trunking and switching if
5 people have to keep replacing calls for these kinds of
6 intercept requirements. So that from society's point
7 of view you want this ubiquitous termination
8 capability. You don't want -- you're not going to be
9 happy as a regulator if Florida customers discover
10 they are either not getting calls, or they can't
11 complete calls within Florida and are getting those
12 kinds of intercept messages. I can assure you that
13 you will not like the outcome as a regulator because
14 they are going to besiege you with, "Why do we have to
15 put up with this?" And you're going to impose very
16 high cost because now you will have to have much more
17 switching and much more trunking capability. So from
18 a public policy point of view, yes, you want seamless.
19 It's much more efficient. But the moment you have
20 seamless, you've got bottlenecks that are going to
21 persist forever unless you remonopolize the system and
22 create one firm provides all.

23 CHAIRMAN CLARK: All right. Then you have a
24 monopoly service for interconnection.

25 WITNESS CORNELL: That's correct.

1 Now the second one I said -- there are two
2 others. There's local interconnection and the same
3 thing is true about switched access if you want to
4 have a world in which customers get to decide and the
5 market decides whether customers are going to use
6 different carriers for long distance than for local or
7 it's all going to be integrated again. And if it's
8 not going to be integrated, once again switched access
9 is an essential monopoly input function. Because,
10 otherwise, without it AT&T cannot serve anybody but
11 its own local exchange customers for origination. And
12 even so, it's going to need termination. Period.
13 It's going to always be at the terminating end, a
14 bottleneck.

15 CHAIRMAN CLARK: So the switching would be a
16 monopoly service, assuming you want to have the
17 ability to chose one company for local and one for
18 long distance.

19 WITNESS CORNELL: Even assuming you want to
20 let the market tell you whether customers value that.
21 That's what we have now. Customers do chose one for
22 local and one for long distance, and we should leave
23 them that choice. They may say, "We don't want it."

24 CHAIRMAN CLARK: All right. To give them a
25 choice, then that is a monopoly input, switching is

1 the monopoly input.

2 WITNESS CORNELL: Yes. Collocation is a
3 monopoly input function if you want to have a
4 competitive transport market. Again, it goes back to
5 this issue of integration. If you say, "No, all of
6 this is going to be integrated, you don't need
7 collocation, but if you do want to keep the ability
8 for the piece parts to be competitive, you have to
9 allow collocation as an essential monopoly input
10 function."

11 And the fourth major one is if in some
12 locations, geographic areas, loop plant is a natural
13 monopoly, then it becomes an essential monopoly input
14 function as well. And those are the four that I talk
15 about.

16 CHAIRMAN CLARK: Is that because of cost to
17 serve them?

18 WITNESS CORNELL: That's right. That it is
19 literally uneconomic to duplicate the plant.

20 CHAIRMAN CLARK: Well, I thought the
21 universal service fund would address that.

22 WITNESS CORNELL: The universal service fund
23 will address it to the extent that it is economic.
24 Here's the problem I have.

25 And I hate to use Meeteetse. I know it's

1 not in Florida, but I do know the setting very well.

2 There are places all across the United
3 States that are similar to where I live. It's down a
4 narrow valley. I live 20 miles out of town.

5 The first person who puts modern loop plant
6 down that valley -- we don't have it now -- the first
7 company that puts it there is going to have ample
8 capacity to serve everybody and then some. I mean,
9 they will be able to give us 500 channels of cable, if
10 they put fiber down the valley, along with telephone
11 service and everything else you ever could have dreamt
12 of because there are only about 30 houses down the
13 valley. Now they happen to have people who use a lot
14 of telecommunications, but there are only about 30
15 houses down the valley.

16 In that setting it is highly unlikely that
17 after the first company puts in modern plant anybody
18 else is going to come into that valley. If that
19 company, however, is required to provide unbundled
20 loops, there us still going to be competition for who
21 provides service to me and the other 29,
22 approximately, houses down that valley. But if they
23 have to put in their own loop plant, we're out of that
24 game. We're not going to be served by anybody until
25 there is effective radio-based local loop plant other

1 than that first carrier that I'm talking about.
2 That's what I mean by there may well be pockets,
3 geographic pockets of natural monopoly in loop plant.
4 That's why you're being asked to provide unbundled
5 loops.

6 Nobody can tell you and draw you in advance
7 circles on a map to tell you where they are. The best
8 way to set it up is to say, "Treat it as if it all is
9 and the market will sort for you where it is and where
10 it isn't." That's why I gave the answer I gave
11 earlier to Commissioner Deason, that a company coming
12 in is going to much prefer to have its own plant in
13 order to have control rather than existing exclusively
14 on the plant of the incumbent where it's not a natural
15 monopoly. And because nobody can draw you exactly
16 where it is and where it isn't, if you set it up the
17 way I'm describing it, the market will tell you over
18 time where it is and where it isn't. And as new
19 technologies come along that none of us know about,
20 those boundaries will change and it may come to the
21 point where none of it is. But you will not have done
22 the wrong thing by treating it as though it is to
23 start with.

24 CHAIRMAN CLARK: Thank you.

25 Q (By Mr. Edmonds) Dr. Cornell, you're aware

1 that both GTE and United/Centel have filed responses
2 to Staff's request for cost data on unbundled
3 elements?

4 A I'm aware of that.

5 Q And I believe you responded to Mr. Rindler
6 that you did not have an opportunity to review the
7 cost data?

8 A I have not reviewed the cost data.

9 Q Have you had an opportunity to review the
10 index to the cost data filed by United/Centel?

11 A No, I have not.

12 MR. EDMONDS: Thank you. Staff has no
13 further questions.

14 CHAIRMAN CLARK: Commissioners?

15 I have one question that I want to ask you,
16 and it relates to Mr. Trimble's testimony and his
17 response to Mr. Devine on what should be offered on an
18 unbundled basis. And apparently Mr. Devine suggested
19 that these things should be offered on an unbundled
20 basis, and I want to see if you agree. It's on Page 5
21 of his testimony, but I'll read it to you.

22 He says that "In addition -- this is
23 supposedly a recitation of what is in Mr. Devine's
24 testimony on Page 14. "In addition to voice grade
25 unbundled loops and ports, GTEFL should offer two-wire

1 ISDN digital grade and four-wire DS-1 digital grade
2 loops as well as the following forms of unbundled
3 ports; two-wire ISDN digital line, two-wire analog DID
4 trunk, four-wire DS-1 digital DID trunk, and four-wire
5 ISDN DS-1 digital trunk."

6 Do you agree that those things should be
7 unbundled?

8 A The answer is yes, I think, and I'd like to
9 explain that.

10 I definitely agree that all of the different
11 kinds of unbundled loops should be made available.
12 That all of the things I just said about the
13 possibility that things are a natural monopoly in some
14 geographic locations apply with equal force to ISDN,
15 DS-1 type services, not just two-wire voice. That
16 is -- once again, if people in a area like mine want
17 ISDN services, it still may be that only the local
18 exchange company carrier plant is available for those
19 loops. Same reason.

20 I am a believer in unbundling ports, but I
21 did not put them in the list of essential monopoly
22 input functions. I think it's a good idea to have a
23 unbundled network and that means unbundling ports as
24 well as loops. But I think that they are more likely
25 to be able to be provided competitively, and so I have

1 not put them in an essential monopoly input function
2 category. And the reason that is important is the
3 only things I recommend you price at average TSLRIC
4 are essential monopoly input functions.

5 CHAIRMAN CLARK: Okay. Let me see if I'm
6 clear. You indicate they should be unbundled, but
7 they might not be within the category that should be
8 priced at TSLRIC?

9 WITNESS CORNELL: At TSLRIC. That's
10 correct.

11 CHAIRMAN CLARK: Okay. Thanks.
12 Mr. Melson.

13 MR. MELSON: I think I have got two
14 redirect.

15 CHAIRMAN CLARK: Okay.

16 **REDIRECT EXAMINATION**

17 BY MR. MELSON:

18 Q Let me first take the one I can remember.

19 Mr. Rindler asked you a question as to
20 whether or not deaveraging by distance or density
21 would create a barrier to entry. And either in the
22 question or the answer somebody acknowledged or said
23 there would be more -- in an averaged environment
24 there would be more contribution from a downtown loop.

25 A That's correct.

1 Q All right. Does it create a problem if you
2 then deaverage loop rates that you cause potentially
3 the incumbent local company to lose additional
4 contribution from downtown loops that it today may be
5 using to support service in areas where loops are even
6 more expensive to provide?

7 A The answer is yes, if you don't fix
8 universal service. But if you fix universal service,
9 then what you're doing is forcing the company to start
10 to look -- to be more efficient if it's not keeping
11 its downtown customers. And looking to be more
12 efficient for its -- I'm going to say uptown customers
13 for lack of better term -- for all the rest of its
14 customers.

15 Let me cut to the bottom of what I'm trying
16 to say, if I can, which is that cross-subsidies
17 built-in rates, where you neither know whether they
18 are needed nor how big they are, nor where they are
19 going -- and, frankly, where they are coming from
20 other than in very gross terms -- are the most
21 inefficient way you can devise to ensure universal
22 service. And it is far better to determine what
23 should be the price for universal service, determine
24 what is the forward-looking cost of providing it,
25 creating a competitively neutral fund, both to collect

1 the amount that needs to be collected and a
2 competitively neutral disbursement scheme, and then
3 say that provides -- that price that you've set is the
4 ceiling, but we're not going to worry if there's some
5 deaveraging below the ceiling as competition moves in.
6 And that's what you see in all normal markets. Most
7 markets you don't start with this long tradition of
8 monopoly a then you have a few entrants. But in
9 normal markets you see the downward effect of
10 competitive pressure coming in, not necessarily
11 simultaneously everywhere, without it resulting in a
12 upward effect elsewhere. And if you have a price
13 ceiling on what rates can be, which is set, you're
14 statewide average this is what you can charge for
15 residential, you can have some movement downward from
16 that as competition comes in with nobody being worse
17 off. And if you say, no, you can't do that, then
18 you're beginning to set up a kind of "If I can't have
19 it, nobody can have it," regulatory scheme which is
20 not a very good one to be in.

21 Q One final question that relates to a
22 question that I believe Mr. Logan asked you and then
23 Commissioner Deason followed up on. In a situation
24 where you had deaveraged unbundled loop prices and you
25 were looking at a rural situation. And assume for a

1 minute that the basic monthly rate that an ALEC has to
2 compete against is \$20 a month, and assume that the
3 TSLRIC of an unbundled loop in this rural area is \$35
4 -- I believe you indicated in reponse to a question by
5 Commissioner Deason that that wasn't a problem once
6 you got the proper universal service fund in place.

7 A That's correct.

8 Q Should you wait to deaverage until you have
9 that universal service mechanism in place?

10 A My view is no, and the reason is simple.
11 This process is going to go on very slowly. You have
12 the time to do the universal service fund correctly
13 while starting right from the start with the right
14 approach to unbundled loops. You're just not going to
15 see that much market penetration that quickly. It's
16 just not going to happen that way.

17 MR. MELSON: That was all I had, and I would
18 move Exhibit 9.

19 CHAIRMAN CLARK: Without objection,
20 Exhibit 9 is entered in the record.

21 (Exhibit No. 9 received in evidence.)

22 MR. EDMONDS: Staff moves Exhibit 10.

23 CHAIRMAN CLARK: Without objection,
24 Exhibit 10 is entered in the record.

25 (Exhibit No. 10 received in evidence.)

1 We'll take a break until quarter to 4:00,
2 and then we will start with the testimony of
3 Mr. Guedel.

4 (Witness Cornell excused.)

5 (Brief recess.)

6 - - - - -

7 CHAIRMAN CLARK: Go ahead, Ms. Dunson.

8 MS. DUNSON: AT&T calls Mike Guedel to the
9 stand.

10 - - - - -

11 **MIKE GUEDEL**

12 was called as a witness on behalf of AT&T
13 Communications of the Southern States, Inc. and,
14 having been duly sworn, testified as follows:

15 **DIRECT EXAMINATION**

16 BY MS. DUNSON:

17 Q Would you please state your name and
18 business address for the record?

19 A Yes. My name is Mike Guedel. My business
20 address 1200 Peachtree Street Northeast, Atlanta,
21 Georgia 30309.

22 Q By whom are you employed and in what
23 capacity?

24 A I'm employed by AT&T as a manager in the
25 Network Services Division.

1 Q Did you cause to be prepared 16 pages of
2 direct testimony which was prefiled on behalf of AT&T
3 in this proceeding on February 7th, 1996?

4 A Yes, I did.

5 Q Do you have any changes or corrections to
6 this testimony?

7 A No, I do not.

8 Q If I asked you the same questions today as
9 are contained in your prefiled direct testimony, would
10 your answers be the same?

11 A Yes, they would.

12 Q (By Ms. Dunson) Did you prepare a summary
13 of the testimony?

14 A I did.

15 Q Would you please give it for the record?

16 A Yes.

17 CHAIRMAN CLARK: Let's go ahead and insert
18 the testimony in the record as though read, the
19 testimony of Mr. Mike Guedel, dated February 7th,
20 1996.

21

22

23

24

25

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

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

7

8

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

11

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

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

14
15

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

17

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

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

4

5

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

7

8 **A. The purpose of my testimony is threefold:**

9

10 First, I will describe in a generic sense the
11 concept of "unbundling" and its role in
12 interconnection arrangements.

13

14 Second, I will demonstrate why it is necessary
15 for the incumbent local exchange companies
16 (LECs) to unbundle their local networks.

17

18 Third, I will recommend specific guidelines for
19 the technical arrangement and pricing of the
20 unbundled network elements.

21

22

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

25

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

11

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

21

22 Further, it must be noted that the list of BNFs
23 described above must not be considered static
24 or necessarily complete. Additional functional

1 elements may continue to be identified as
2 telecommunications technology evolves.

3

4

5 **Q. WHAT GENERAL CRITERIA CAN BE USED TO DEFINE OR**
6 **DETERMINE THE VIABILITY AND POTENTIAL**
7 **USEFULNESS OF BNFs?**

8

9 **A.** Several criteria can be used in defining BNFs.
10 First, the unbundled element must represent a
11 discrete stand-alone logical component.
12 Second, the unbundled element must be
13 separately measurable and billable. Third, the
14 unbundled elements must be associated with
15 clearly identified interface standards.

16

17

18 **Q. WHY IS NETWORK UNBUNDLING ESSENTIAL TO THE**
19 **POTENTIAL DEVELOPMENT OF LOCAL COMPETITION?**

20

21 **A.** The incumbent local exchange companies (like
22 GTE and Sprint/United) currently hold a
23 monopoly on the provision of local exchange
24 service within their respective operating
25 territories. While competition has developed

1 with respect to interexchange services and some
2 enhanced telecommunications services over the
3 past 15 years, final access to the customer
4 (the last mile) effectively remains the sole
5 province of the incumbent LECs. Under the
6 protection of local franchise, the LECs have
7 spent hundreds of millions of dollars over the
8 years constructing networks to reach every
9 potential local exchange customer.

10

11 It is unlikely that a potential competitor
12 would be willing or able to invest the capital
13 required to duplicate this existing LEC network
14 simply on the chance that it might attract some
15 local service customers. Further, even if the
16 financial resources were available, significant
17 time would be required to obtain necessary
18 "right of way" authorizations and to construct
19 the duplicative network. With the requirement
20 of building a new network, competition, if it
21 developed at all, would develop slowly, and it
22 would likely benefit only a very limited number
23 of customers.

24

25

1 Unbundling will allow potential competitors to
2 begin providing limited local service
3 arrangements without incurring all of the
4 expense of duplicating the LECs ubiquitous
5 local network. A new entrant, for example,
6 could begin providing service within a
7 geographic area by installing local switching
8 capability and purchasing unbundled loops (or
9 links) from the incumbent LEC. This
10 arrangement would have several advantages over
11 the option of building all new facilities: 1)
12 it would be far less capital intensive, 2) it
13 would allow competition to develop much faster,
14 and 3) it would likely bring the benefits of
15 competition to a much larger group of
16 customers.

17

18

19 **Q. WILL THE UNBUNDLING OF THE INCUMBENT LEC**
20 **FACILITIES/SERVICES ENSURE THAT COMPETITION**
21 **WILL DEVELOP IN THE LOCAL EXCHANGE?**

22

23 **A. No. At this time it is not clear as to whether**
24 **or not the local exchange market will ever**
25 **become effectively competitive. While,**

1 unbundling, if appropriately implemented, will
2 tend to mitigate one of the major barriers to
3 the development of local competition, it will
4 not in and of itself guarantee that competition
5 will develop.

6

7

8 **Q. WHAT IS THE SCOPE OF THIS DOCKET WITH RESPECT**
9 **TO UNBUNDLING?**

10

11 **A.** At this point, AT&T believes that the scope of
12 this docket will be limited to the same issues
13 identified in the MFS/BellSouth version of this
14 docket i.e., consideration of the unbundling of
15 local loops (or links), and the unbundling of
16 local switching functions including the
17 associated cross connect arrangements.

18

19

20 **Q. PLEASE DESCRIBE THE LOCAL LOOP FACILITY.**

21

22 **A.** The local loop functions to connect an end user
23 premises to the serving wire center of the
24 local exchange company. The traditional local
25 loop facility can be divided into three

1 functional sub-elements: 1) local distribution,
2 which connects the end user premises to the
3 feeder distribution BNF or a concentrator
4 /multiplexor , 2) the concentrator/multiplexor
5 which connects the distribution BNF to the
6 feeder facility, and 3) the feeder facility
7 which completes the connection back to the
8 serving wire center or central office.

9
10

11 **Q. SHOULD EACH OF THE ABOVE DESCRIBED LOOP SUB-**
12 **ELEMENTS BE INDIVIDUALLY PRICED AND PROVIDED BY**
13 **THE INCUMBENT LEC?**

14

15 **A.** Yes. Each of the sub-elements must be offered
16 and priced individually such that a potential
17 customer need only buy the functionality that
18 he/she desires. A customer should be permitted
19 to purchase any one, or two, or all three of
20 the sub-elements as required to provide loop
21 connectivity. (In practice, however, it is not
22 likely that the concentrator/multiplexor
23 function will be purchased without purchasing
24 one of the other sub-elements.)

25

1 Q. COULD YOU FURTHER DESCRIBE THE
2 CONCENTRATOR/MULTIPLEXOR FUNCTION?

3
4 A. Yes. In a typical loop architecture, the LEC
5 would run a large cable or large capacity loop
6 facility (feeder cable) from a central office
7 to some point in the field (i.e., a remote
8 terminal). From the remote terminal, the LEC
9 could run several smaller cables (distribution
10 cable) in various directions to serve customers
11 situated around that particular location. The
12 concentrator/multiplexor functions refer to the
13 interconnection arrangements that link the
14 distribution facilities with feeder facilities
15 at the remote terminal. Specifically, these
16 interconnection functions can include simple
17 cross connection arrangements, or more
18 complicated channelization and/or higher level
19 multiplexing functions (as in subscriber line
20 carrier or similar systems).

21

22

23 Q. PLEASE DESCRIBE THE LOCAL SWITCHING FUNCTIONS?

24

25

1 A. The primary function of the local switch is to
2 create on demand temporary paths connecting
3 local loops to other local loops or local loops
4 to interoffice transport facilities. Typical
5 switching functions include: 1) recognizing
6 service requests, 2) obtaining call specific
7 information, 3) data analysis, 4) route
8 selection, 5) call completion, 6) testing and
9 recording, etc. Further, the local switching
10 BNF must include access to unbundled Advanced
11 Intelligent Network (AIN) triggers. These
12 triggers will offer a new entrant certain call
13 control capability within the LEC switch
14 allowing it to customize its end user offerings
15 without having to duplicate the LEC switch.

16

17

18 **Q. WOULD YOU DESCRIBE THE CROSS CONNECTION**
19 **FUNCTION?**

20

21 A. Yes. The cross connect function completes the
22 connection between an unbundled loop and a LEC
23 switch, a new entrant switch, or a direct
24 transport facility. This function effectively
25 facilitates the unbundling process by allowing

1 a new entrant to purchase (and interconnect
2 with) the particular pieces (and only those
3 pieces) of the LEC network that it requires.
4

5

6

7 **Q. WHAT ARE THE APPROPRIATE TECHNICAL ARRANGEMENTS**
8 **FOR THE PROVISION OF SUCH UNBUNDLED ELEMENTS?**

9

10 **A.** The overarching guideline should be to provide
11 the unbundled elements in such a manner as to
12 not inhibit the new entrant from providing the
13 same quality of service as the incumbent LEC.
14 That means that the technical arrangements used
15 to connect the unbundled element(s) to a new
16 entrant's network should be equal to those
17 currently used to connect the element(s) within
18 the LEC's own network. New entrants should
19 have cooperatively engineered interconnection
20 arrangements, equal service quality or
21 performance parity, and the opportunity to
22 interconnect at the same points or virtually
23 the same points where practicable as the
24 incumbent LEC.

1 **Q. WHAT ARE THE APPROPRIATE FINANCIAL ARRANGEMENTS**
2 **FOR SUCH UNBUNDLED ELEMENTS?**

3
4 **A.** The target price for the unbundled elements
5 should be the Total Service Long Run
6 Incremental cost (TSLRIC) that the LEC incurs
7 in providing them. Pricing at the TSLRIC will
8 simultaneously ensure that the incumbent LEC
9 recovers all of the costs that it incurs in
10 providing the unbundled element(s) (including
11 cost of money), while it encourages the
12 potential development of competition by
13 offering the unbundled element(s) (at least
14 from a price perspective) in a competitively
15 neutral manner.

16
17
18 **Q. HOW WILL PRICING THE UNBUNDLED ELEMENTS AT**
19 **TSLRIC PROMOTE A COMPETITIVELY NEUTRAL**
20 **OFFERING?**

21
22 The actual cost that the LEC incurs in
23 providing the unbundled element, either to
24 itself or to a new entrant, is represented by
25 the TSLRIC. The actual cost that a new entrant

1 incurs is the price that it has to pay to the
2 LEC for the unbundled element.

3
4 Therefore, if the incumbent LEC offers the
5 unbundled element(s) at TSLRIC, then both the
6 incumbent LEC and the new entrant will incur
7 the same cost with respect to that unbundled
8 element(s). With prices set at TSLRIC, neither
9 the LEC nor the new entrant is disadvantaged.
10 Thus the price is competitively neutral.

11
12 On the other hand, if the LEC's price is set
13 above its TSLRIC, then the new entrant's costs
14 (i.e., the price charged by the LEC) becomes
15 higher than the LEC's cost. Because retail
16 (end user) prices (of both the LEC and the new
17 entrant) must cover all of the costs incurred
18 in providing the respective services, pricing
19 unbundled elements in excess of TSLRIC would
20 provide the LEC with a competitive advantage in
21 the retail market.

22

23

24 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

25

1 A. Yes. Attempts to promote the development of
2 local exchange competition serve the public
3 interest. Further, it must be recognized that
4 the general availability of facility based
5 competition, while desirable, is not likely to
6 develop in the near term.

7
8 Therefore, to encourage the development of
9 potential local competition, and to encourage
10 the breadth of competitive availability, the
11 Commission must order each incumbent LEC to
12 unbundle its services into the underlying BNFs.

13
14 The unbundled elements (BNFs) should be offered
15 to new entrants under the same basic
16 arrangements and with the same technical
17 capabilities as they are used by the incumbent
18 LEC in the provision of its services. To
19 further encourage the potential development of
20 competition, the unbundled elements should be
21 priced at the TSLRIC incurred by each incumbent
22 LEC in providing each element.

23

24

25

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2

3 A. Yes.

1 CHAIRMAN CLARK: Go ahead, Mr. Guedel.

2 WITNESS GUEDEL: Thank you.

3 The purpose of this phase of docket 950984
4 is to determine the appropriate arrangements for
5 unbundling United and GTE networks to begin to
6 facilitate local competition within these territories.

7 The issues in this phase of the docket are
8 essentially the same as those identified in an earlier
9 phase of the docket that addressed the unbundling of
10 BellSouth's network. Our positions are here likewise
11 the same.

12 Unbundling offers the potential to foster
13 competition by allowing potential competitors to
14 purchase only the network elements or capabilities
15 that they need to provide total end user service.

16 In other words, a potential competitor could
17 purchase some of the facilities that he needs for
18 himself, and then he could lease additional facilities
19 from the incumbent LEC in a manner that would allow
20 him to provide essentially the same services that the
21 incumbent LEC provides today.

22 Unbundling and the availability of unbundled
23 services thereby reduces the requirements for capital
24 investment removing, or at least mitigating, one of
25 the barriers to competitive entry.

1 There are three general criteria for
2 defining or determining the potential usefulness of
3 any unbundled element.

4 First, the unbundled element must represent
5 a discrete stand-alone logical component. Second, the
6 unbundled element must be separately measurable and
7 billable. And third, the unbundled element must be
8 associated with clearly identifiable interface
9 standards.

10 To facilitate competition, unbundling should
11 occur at all technically feasible points within the
12 incumbent LECs network.

13 Finally, it is important that the price of
14 the unbundled element be set at the total service long
15 run incremental cost that the LEC incurs in providing
16 the particular element.

17 Pricing at TSLRIC will simultaneously ensure
18 that the incumbent LEC recovers all of the cost that
19 it incurs in providing the unbundled element,
20 including the cost of money, while it encourages the
21 development of competition, offering the unbundled
22 element, at least from a price perspective, in a
23 competitively neutral manner.

24 Q Does that conclude your summary?

25 A Yes, it does.

1 MS. DUNSON: The witness is available for
2 cross examination.

3 CHAIRMAN CLARK: Ms. Wilson.

4 MS. WILSON: No questions.

5 CHAIRMAN CLARK: Mr. Melson.

6 MR. MELSON: No questions.

7 CHAIRMAN CLARK: Mr. Cohen.

8 MR. COHEN: No questions.

9 CHAIRMAN CLARK: Mr. Rindler.

10 MR. RINDLER: No questions.

11 CHAIRMAN CLARK: Mr. Horton.

12 MR. HORTON: No questions.

13 CHAIRMAN CLARK: Mr. Gillman.

14 MR. GILLMAN: Yes. Thank you.

15 **CROSS EXAMINATION**

16 BY MR. GILLMAN:

17 Q Good afternoon. My name is Tony Gillman
18 representing GTE. I just really have a few questions.

19 First off though, are you appearing today on
20 behalf of the AT&T the IXC or AT&T the ALEC?

21 A AT&T the IXC.

22 Q Now, on Page 13 of your testimony, where you
23 talk about that the price for the unbundled loop
24 should be priced at TSLRIC.

25 Now, it's true, isn't it, that the TSLRIC

1 does not include the joint and common costs of GTE?

2 A It does not include overhead costs if
3 that's --

4 Q I'm sorry, sir?

5 A It does not include overhead costs such as
6 the president's salary.

7 Q Is it your opinion that it includes joint and
8 common, or shared costs?

9 A It does not include joint and common costs
10 that are not associated in some way with the service.

11 Q Not associated with the incremental cost of
12 providing the service?

13 A Correct.

14 Q Do IXCs contribute to the incumbent LECs
15 joint and common costs through the payment of access
16 charges?

17 A Yes, I would say we contribute significantly
18 to the profitability of local exchange companies.

19 Q Is it your opinion that it's fair for the
20 IXC to make this contribution but not ALECs?

21 A No, I don't believe access charges are
22 properly priced today.

23 Q Is it your opinion that it's fair that IXCs
24 should pay these contributions, joint and common
25 costs, and not ALECs?

1 A No, I don't think anyone, either IXCs
2 through access charges or ALECs should have to pay
3 those costs.

4 Q And who do you think should pay for these
5 joint and common costs?

6 A Retail customers.

7 Q Would you agree with me that historically,
8 under rate of return regulation, that access charges
9 have been kept high so that the entire burden of
10 recovering or paying for the joint and common costs
11 would not be placed upon the ratepayers?

12 A I'm not sure that it's been phrased that
13 way. Access charges have been kept high in order to
14 essentially keep the local exchange companies whole in
15 a revenue requirement rate of return based
16 environment.

17 Q And that decision was made by the Commission
18 so that local rates would be kept relatively low; is
19 that correct?

20 A Yes. Local rates have been kept
21 historically low.

22 Q Now, under the new Florida legislation, at
23 least for the next three years, GTE does not have the
24 option of collecting these joint and common costs from
25 its ratepayers.

1 A If you're referring specifically to the
2 prices that GTE charges for basic residential service,
3 I agree with you those prices are capped. That does
4 not mean there are caps on other services that GTE
5 provides to other ratepayers, or the same ratepayers,
6 for that matter.

7 Q So we could raise all of our prices for
8 vertical services; is that correct?

9 A My understanding is that that's correct.

10 Q And wouldn't that place GTE at a competitive
11 disadvantage if all of the joint and common costs for
12 providing a unbundled loop is borne by the ratepayers
13 and not by the ALEC who purchased the unbundled loop?

14 A No, it would not.

15 Q If the ratepayer had to pay for the joint
16 and common costs incurred in providing a local
17 unbundled loop, and the ALEC providing the same
18 verticle service would not have that cost element,
19 then wouldn't that put GTE's verticle service at a
20 competitive disadvantage because it would be higher?

21 A No. And I believe you suggested in your
22 question joint and common costs that were caused by
23 the loop, and I don't think that is even correct.

24 Q Are you saying that there's no joint and
25 common cost that -- or joint and common plant that is

1 used by GTE to provide an unbundled loop?

2 A There's plant that is associated with
3 providing the loop that would be incurred or would be
4 calculated as part of the total service long run
5 incremental cost of providing the loop. If it is not
6 part of the total service long run incremental cost of
7 providing the loop, those costs are by definition not
8 caused by the loop.

9 Q But that plant is still shared, isn't it?

10 A There are overhead costs in excess of total
11 service long run incremental cost. There are also
12 overhead costs that would be incurred in the same
13 manner by the ALECs.

14 So all we're suggesting here is you price
15 the loop the same to everybody, and then both the
16 ALECs and the incumbent will have equal opportunity to
17 recover their joint and common costs as a function of
18 the retail services.

19 MR. GILLMAN: I have nothing further.

20 CHAIRMAN CLARK: Mr. Fons.

21 **CROSS EXAMINATION**

22 BY MR. FONS:

23 Q Good afternoon, Mr. Guedel. I'm John Fons
24 representing Spring-United/Centel.

25 A Good afternoon, Mr. Fons.

1 Q I have a few questions. By whom are you
2 employed, Mr. Guedel?

3 A I'm employed by AT&T.

4 Q Who provides long distance service in the
5 state of Florida? Is it AT&T or AT&T Communications
6 of the Southern States, Inc.?

7 A I believe the latter is our technical name
8 in this state.

9 Q Does AT&T Communications of the Southern
10 States, Inc. operate under a fictitious name of AT&T

11 A I don't know the answer to that question.

12 Q Doesn't AT&T Communications of the Southern
13 States, Inc. do business as AT&T?

14 A Probably so. I'm not sure of the legal
15 definition there.

16 Q And would you agree with me that the entity
17 that filed to be an ALEC on February 15, 1996, is AT&T
18 Communications of the Southern States, Inc. d/b/a
19 AT&T?

20 A Very possible.

21 Q You were asked a question by Mr. Gillman
22 whether or not you were appearing on behalf of AT&T,
23 the IXC, or AT&T the ALEC. And I believe you said you
24 were appearing for the IXC. Is that correct?

25 A Yes.

1 Q In your testimony you make reference to
2 entrants and potential competitors. Would you agree
3 that your testimony is equally applicable to AT&T the
4 ALEC, as it is to AT&T the IXC?

5 A To the extent that AT&T becomes an ALEC and
6 operates in that manner it would be.

7 Q Let's turn to Page 7 of your testimony
8 please. On Line 5 you have a sentence that begins "A
9 new entrant, for example, could begin providing
10 service within a geographic area," etcetera. Could we
11 substitute the word "AT&T" in that instead of "a new
12 entrant"?

13 A Yes.

14 Q So it could read "AT&T, for example, could
15 begin providing service within a geographic area by
16 installing local switching capability and purchasing
17 unbundled loops or links for the incumbent LEC."
18 Isn't that correct?

19 A Yes. Since we have been certificated we
20 have the ability now to do that.

21 Q And is it AT&T's plans to install its own
22 switches?

23 A I don't know of any specific plans.

24 Q But it is AT&T's plan to enter the local
25 exchange market, isn't it?

1 A I think as a general concept, that is true.
2 I'm just not sure where it went.

3 Q Hasn't AT&T made public pronouncements to
4 that effect?

5 A Yes, I believe we have.

6 Q And would you also agree with me that AT&T
7 has also indicated that it will capture at least 30%
8 of the local exchange market within the next 5 to 10
9 years.

10 A I believe I remember that quote.

11 Q And in order to do that, obviously AT&T is
12 going to have to build its own switches or acquire
13 switches and acquire local network; isn't that
14 correct?

15 A I think there will be some of that. I think
16 there's an option to do local service entry on a total
17 service resale basis. I think we're looking at that
18 as an option, also.

19 Q And, indeed, on Page 7 of your testimony you
20 say that the arrangement you just described has
21 certain advantages over the option of building all new
22 facilities. Isn't that correct?

23 A Yes, it does; certainly in the short term.

24 Q So there's a significant advantage to a new
25 entrant like AT&T to acquire facilities from the

1 incumbent LEC on a leased basis; isn't that correct?

2 A Well, the advantage goes to the end user who
3 will be benefiting from the growth of competition.

4 Now, there's no question that unbundled
5 loops will facilitate entry. There's no question
6 about that. But the benefits will go to the end-user
7 customers.

8 Q But won't there be benefits to the new
9 entrant, like AT&T, as you've set forth on Page 7,
10 beginning at Line 11; it would be far less capital
11 intensive. Wouldn't that be an advantage?

12 A It would be far less capital intensive.

13 Q And that would be an advantage to AT&T?

14 A In the short run it would, and it would
15 allow us to get into business quicker and to bring the
16 benefits of competition to end users quicker.

17 Q And once you have established a market, do
18 you know whether AT&T then plans to construct its own
19 facilities?

20 A Again, not specifically, John, but certainly
21 that's going to be looked at.

22 Q When you are acquiring facilities, or as you
23 say purchasing unbundled loops from the incumbent LEC,
24 what do you mean by purchasing? Are you going to buy
25 them outright from the LEC?

1 A No, sir. The intent is to lease those loops
2 from the LEC on a monthly basis.

3 Q So you wouldn't have to buy a bunch of local
4 loops in advance. You can buy or lease local loops as
5 you need them on a month-to-month basis; is that
6 correct?

7 A That's the intent of the unbundling, yes,
8 sir.

9 Q And there would be no long-term commitment
10 to the LEC that you would lease these facilities for
11 years, a period of years?

12 A It's possible, but not necessary.

13 Q It would be advantageous to you, would it
14 not, to merely lease them on a month-to-month basis?

15 A It would depend on how they were priced.

16 Q Wouldn't it be advantageous to you not to
17 have made the investment in local exchange facilities
18 in the event there is churn among your customers; that
19 is, customers leaving AT&T as their provider?

20 A I think -- yeah, the testimony states very
21 clearly that unbundling the loops and offering the
22 unbundled loops will facilitate competition, and will
23 allow new entrants to get into business quicker than
24 they would before. It will allow them to bring
25 competition to areas that they would not be able to

1 bring competition to in the immediate future.

2 In other words, even if I wanted to spend
3 money, I would probably only spend money in limited
4 areas to build facilities in plant. Unbundling allows
5 competition to be spread out entirely across the
6 state. The advantages are strictly to the consumer.

7 Q But there are advantages to the shareowners,
8 are there not, to AT&T?

9 A To the extent we are successful and
10 profitable in offering the service, the shareholders
11 would earn a reasonable return on their investment.

12 Q Indeed, if you're leasing facilities from
13 the incumbent local exchange company and you're not
14 making the investment, you have, in fact, eliminated
15 some risk, haven't you?

16 A Yes.

17 Q So that you've eliminated the risk that if
18 you're not successful or that your customer changes to
19 another carrier you have not been stuck with
20 facilities that are sunk in the ground; isn't that
21 correct?

22 A Yes.

23 Q Don't you also gain a tremendous marketing
24 advantage as an ALEC by being able to say that the
25 facilities that the customer is going to be using are,

1 in fact, facilities provided by the incumbent LEC?

2 A No.

3 Q You don't think that consumers will feel
4 more comfortable knowing that they are getting the
5 same loop once it's being -- once they switch over to
6 AT&T, or another ALEC, and know how the incumbent LEC
7 has provided service, quality service over time?

8 A No. I believe the customers, if they select
9 AT&T, they will select AT&T based upon the quality
10 they perceive that we will deliver and they will not
11 care how we provide that quality.

12 Q And will price fit into that particular
13 equation?

14 A Price per quality delivered will fit into
15 that particular equation.

16 Q And the quality that AT&T is going to
17 deliver will be directly related to the quality of the
18 facilities they are going to lease from the incumbent
19 LEC; isn't that correct?

20 A With respect to that facility, yes. The goal
21 is that the quality of the loop that we would lease,
22 or a new entrant would lease, from the LEC would be
23 equal in quality to the loop that the LEC would use to
24 provide service to its own end-user customers.

25 Q And to the extent that AT&T purchases the

1 local loop from the incumbent local exchange company,
2 the local exchange company then bears the risk, does
3 it not, that AT&T will cease leasing that facility?

4 A To an extent. Although as long as they are
5 relatively the sole providers of those local loops, if
6 AT&T ceases to provide service to that customer likely
7 some other provider will; again, likely the incumbent
8 LEC will and they will reuse that loop to provide the
9 same service to the same customer.

10 Q Well, doesn't the same risk -- isn't the
11 same risk imposed on the incumbent local exchange
12 company if AT&T or another ALEC, after having leased
13 those facilities from the incumbent LEC, overbuilds
14 the incumbent LEC's network?

15 A There is a risk of competition. Now, does
16 that cause a financial harm to the local exchange
17 company is the question, and probably not.

18 The loops are basically reusable. As long
19 as there is growth in the immediate market that the
20 local exchange company serves, they can reuse those
21 loops. They may slow down their construction program
22 a little bit but that may not be all bad.

23 Q Are you saying that the incumbent local
24 exchange company, if AT&T overbuilds the local
25 exchange company network and shifts its customers from

1 the leased facilities to AT&T's facilities, that the
2 incumbent local exchange company will not have any
3 stranded investment?

4 A If they can reuse the investment they will
5 not have any stranded investment.

6 Q But if AT&T has the customer, how will the
7 local exchange company reuse those facilities?

8 A Growth in the marketplace. To the extent
9 that new entrants build facilities, believe me, they
10 are not going to build them overnight. They are not
11 going to overlay the entire LEC market overnight. And
12 as long as the growth that the LECs experience is
13 sufficient, they will be able to reuse the plant.

14 Q But if AT&T has set as its goal and has
15 announced publicly that it will achieve at least 30%
16 penetration in the next five to ten years, does that
17 30% -- based upon past experience, has the local
18 exchange network grown 30% in five years?

19 MS. DUNSON: I'd like to object to this line
20 of questioning. I don't think Mr. Guedel testified to
21 any of these numbers that Mr. Fons is throwing out in
22 his question.

23 CHAIRMAN CLARK: Mr. Fons.

24 MR. FONSON: Well, the witness did not
25 disagree when I indicated that AT&T has publicly

1 announced they are going to capture 30% of the market
2 in the next five to ten years.

3 CHAIRMAN CLARK: Mr. Fons, what part of his
4 direct testimony are you cross examining Mr. Guedel
5 on?

6 MR. FONS: Page 7, beginning on Line 5 "The
7 new entrant, for example, could begin providing
8 service," and then he goes on to say why it's in their
9 interest to acquire the loops first and then build
10 later.

11 CHAIRMAN CLARK: And what was your question?

12 MR. FONS: My question was whether or not
13 he -- and this was with regard to stranded investment.
14 My question was whether or not the LECs would
15 experience 30% growth in the next five to ten years
16 equal to the amount of penetration that AT&T will
17 capture in the next five to ten years.

18 CHAIRMAN CLARK: I guess you can answer that
19 Mr. Guedel, if you can.

20 WITNESS GUEDEL: Well, I don't know if they
21 will or if they will not. Quite frankly, it doesn't
22 matter.

23 If they do experience that kind of growth
24 and are capable of reusing the plant in place, then
25 they recover the investment on that. If they do not,

1 then that's part of competition.

2 AT&T, if you suggest they build the kind of
3 network they build, will be taking exactly the same
4 risk. And one of us will not be able to fill our
5 network. And that's what competition is all about;
6 one of us will make money -- probably both of us will
7 make money, but if you don't recover the investment on
8 your plant, then that's competition.

9 Q Wouldn't it be more appropriate, Mr. Guedel,
10 for the incumbent LECs to build into its rates that
11 it's charging for the unbundled local loop this risk
12 factor?

13 A No.

14 Q You don't believe that the ALECs should bear
15 any of the risk that the plant will be stranded over
16 time?

17 A No, I do not. And quite frankly, United
18 Telephone Company had the option to remain rate of
19 return rate base regulated if they wanted to. It's my
20 understanding they elected price cap regulation,
21 presumably because they felt they would make more
22 money under price cap regulation than they would under
23 the alternative. Consequently, I assume they ought to
24 take the same risks.

25 Q How can United/Centel make more money over

1 time if it's required to price its unbundled local
2 loops to the ALECs at TSLRIC?

3 A By pricing the local loops at TSLRIC you
4 simply put the ALEC, and the incumbent LEC, on
5 basically the same competitive basis with respect to
6 the loop. We are not suggesting that United be forced
7 to price all of its services at TSLRIC forever, or
8 even now.

9 Q You're certainly advocating that
10 United/Centel price its unbundled local loops at
11 TSLRIC, aren't you?

12 A Yes.

13 Q On Page 8 of your testimony, beginning on
14 Line 8 of Page 8, there's a question that says "What
15 is the scope of this docket with respect to
16 unbundling?" And then you go on and give your answer.

17 AT&T has not approached United/Centel, has
18 it?

19 A No.

20 Q Requesting unbundling?

21 A No, not to my knowledge.

22 Q And the only party to this proceeding who is
23 a petitioner is MFS; isn't that correct?

24 A I believe that's correct.

25 Q And has MFS asked for unbundling on a

1 subelement basis?

2 A I believe I understood Mr. Devine's
3 testimony to suggest subelement unbundling.

4 Q Pardon me?

5 A I believe I understood Mr. Devine's
6 testimony to suggest subelement unbundling.

7 Q Are you familiar with the petition that MFS
8 filed in this proceeding?

9 A I know they filed one.

10 Q But you don't know what is contained in it,
11 do you?

12 A I don't recall, specifically, no.

13 Q Well, I think your recollection of
14 Mr. Devine's testimony and mine may be different.

15 CHAIRMAN CLARK: Mr. Fons -- okay.

16 MR. FONTS: I have no further questions.

17 CHAIRMAN CLARK: Thank you. Staff.

18 MR. EDMONDS: Thank you.

19 **CROSS EXAMINATION**

20 BY MR. EDMONDS:

21 Q Mr. Guedel, what does the term "co-carrier"
22 mean to you?

23 A I'm not sure. I have not used the term
24 co-carrier.

25 Q Okay. Just a moment, please.

1 What's your opinion on how the relationship
2 between LECs and ALECs should be defined?

3 A Well, I guess I can't speak to that other
4 than to the specifics that I've testified to. And
5 basically is that the incumbent LEC should provide the
6 monopoly services, basically the unbundled network
7 elements at the total service long run incremental
8 cost that they incurred providing the service, and to
9 provide the service at the same quality that they
10 provided to their own end-user customers.

11 Q Have you had an opportunity to review the
12 cost support data filed by GTE and United/Centel in
13 response to Staff discovery in this proceeding?

14 A No, I have not.

15 Q Were you here when I was cross examining
16 Dr. Cornell?

17 A Yes, I was.

18 Q Did you hear the Chairman's question to
19 Dr. Cornell regarding the provisions of MFS's
20 requested unbundled elements?

21 A I probably did. I don't recall it.

22 Q Okay. What I'm getting at is, Dr. Cornell's
23 response included that she believes that port should
24 be offered on a unbundled basis, but that she didn't
25 consider them to be essential monopoly inputs, and

1 hence, would not recommend them to be priced at
2 TSLRIC. Do you remember that?

3 A Yes.

4 Q Do you agree with Dr. Cornell's assertion
5 that ports can potentially be offered by other
6 providers?

7 A I think they can be, potentially can be
8 offered by other providers. I don't think that
9 competition, with respect to those ports, is relative
10 today. I don't think it's available today.

11 Q Hypothetically speaking, if ports can
12 potentially be offered by other providers, can you
13 give us an example of how that would occur?

14 A Essentially there would have to be a lot
15 more local switches in place so that other providers
16 could provide the local switching function. So I
17 could purchase a loop from United Telephone and hook
18 it up to some other ALEC switch, and effectively
19 provide service in that manner. But until switches
20 are available, as universally and ubiquitously as the
21 switches of the incumbents, then I don't see any
22 competition, or real competition for ports.

23 MR. EDMONDS: Thank you. Staff has no
24 further questions.

25 CHAIRMAN CLARK: Commissioners, questions?

1 Ms. Dunson.

2 MS. DUNSON: No redirect.

3 CHAIRMAN CLARK: Thank you very much. And
4 there are no exhibits for your testimony; is that
5 right? Thank you.

6 (Witness Guedel excused.)

7

- - - - -

8 DENNIS B. TRIMBLE

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

11 DIRECT EXAMINATION

12 BY MR. GILLMAN:

13 Q Are you ready, Mr. Trimble?

14 A Yes.

15 Q Could you state your name and address and by
16 whom you are employed?

17 A My name is Dennis Trimble. 600 Hidden
18 Ridge, Irving, Texas, and I work for GTE Telephone
19 Operations.

20 Q Mr. Trimble, have you prepared direct
21 testimony which was prefiled under your name in this
22 matter?

23 A Yes, I did.

24 Q And do you have a copy of that testimony in
25 front of you?

1 A Yes, I do.

2 Q As a result of the stipulation that GTE
3 Florida has entered with MFS, do you have any
4 testimony which you would wish to strike at this time?

5 A Yes, I do.

6 Q And could you describe by page and line
7 number the material to be stricken?

8 A It's on Page 5, the question beginning at
9 Line 11 going through Line 30.

10 Q Is that all that you wish to strike at this
11 time?

12 A Yes.

13 Q Do you have any other changes to your
14 testimony?

15 A There are some number changes that were
16 proprietary numbers.

17 Q Could you go to the page and the line number
18 where the first number appears?

19 A On Page 5 -- Page 7, Line No. 19.

20 Q I'm sorry, page 7?

21 A Yes.

22 Q Line number?

23 A 19.

24 Q Are there any other confidential numbers
25 that you need to change on that particular page?

1 A Page 7, Line 22. And then on Page 8, Line
2 No. 4.

3 Q Have you prepared replacement confidential
4 sheets for these two pages?

5 A Yes.

6 MR. GILLMAN: Madam Chairman, we have --
7 since those numbers are confidential, Ms. Menard is
8 handing out revised Pages 7 and 8, which includes
9 those confidential numbers.

10 CHAIRMAN CLARK: Let me ask Staff something.
11 Is that what you have filed here? No, it isn't. All
12 right. Thank you.

13 Q (By Mr. Gillman) Do you have any other
14 changes to your testimony that do not relate to
15 confidential numbers?

16 A Yes. Page 8, Line No. 22 there's a number
17 that says \$62.47. That should be \$61.69.

18 Likewise on Page 8 at Line 27, the same
19 number \$62.47 should be \$61.69.

20 And then on Page 13, I believe these were
21 proprietary numbers again.

22 Q And a replacement page for -- a replacement
23 Page 13 was also prepared with the new proprietary
24 number; is that correct?

25 A Yes. And those number changes are on Line 1

1 and Line 4 of Page 13.

2 Q Do you have any other changes to your
3 testimony?

4 A No, I do not.

5 Q As revised if I asked you the same questions
6 which appear in your direct prefiled testimony, would
7 your answers here today under oath be the same?

8 A Yes, it would.

9 MR. GILLMAN: Madam Chairman, at this time I
10 request that the prefiled testimony of Dennis Trimble
11 be inserted into the record.

12 CHAIRMAN CLARK: The prefiled direct
13 testimony of Mr. Trimble, the confidential pages will
14 be inserted into the record as though read, but the
15 confidential pages will be kept confidential. Go
16 ahead.

17 Q (By Mr. Gillman) Did you have any
18 attachments to your direct testimony, Mr. Trimble?

19 A Yes, I do.

20 Q And have you also revised the numbers on
21 those exhibits?

22 A Yes. They were revised and submitted as
23 part of a late-filed deposition exhibit.

24 Q And do these late-filed exhibits appear in
25 exhibit that will be offered by the Staff ID-DBT-5?

1 A Yes, they do.

2 Q And does that -- do the pages in question
3 appear on Page 110, 111, 112 and 113?

4 A Yes, they do.

5 Q And those are the redacted versions, are
6 they not?

7 A Yes.

8 Q Have the confidential exhibits also been
9 provided as a late-filed exhibit in ID-DBT-6 of the
10 Staff exhibits?

11 A Yes they have.

12 MR. GILLMAN: Madam Chairman, I don't know
13 how you best want to do that.

14 CHAIRMAN CLARK: I don't know either.

15 MR. GILLMAN: Mark the Staff exhibits --

16 CHAIRMAN CLARK: Let me ask a question.

17 DBT-1 through 4 are the redacted copies of the
18 exhibits having to do with loop costs and revenues; is
19 that right those attached to his testimony.

20 MR. GILLMAN: I'm not sure.

21 COMMISSIONER KIESLING: Those are revised.

22 MR. GILLMAN: The revise -- he has revised
23 his exhibits, which are attached to the testimony.
24 Those revisions are contained in the Staff exhibit,
25 both in the redacted version and in a confidential

1 version. What I would propose is to mark ID-DBT-5
2 access charges ID-DBT-6 with the next numbers and --

3 CHAIRMAN CLARK: Not mark the stuff attached
4 to his testimony at all.

5 MR. GILLMAN: It should replace those that
6 are attached to his testimony.

7 CHAIRMAN CLARK: We will not mark those --
8 any of the exhibits attached to his testimony as an
9 exhibit, but we will marked DBT-5, which is a Staff
10 compiled Exhibit, and DBT-6, and DBT-7 as exhibits.
11 Would that cover what you need?

12 MR. GILLMAN: Actually DBT-5 and DBT-6.

13 CHAIRMAN CLARK: Okay. DBT-5 will be marked
14 as Exhibit 11 and Confidential Exhibit DBT-6 will be
15 mark as Exhibit 12, and we'll go ahead and mark
16 confident Exhibit DBT-7 as Exhibit 13. Go ahead.

17 (Exhibit Nos. 11, 12 and 13 marked for
18 identification.)

19 MR. GILLMAN: I have no further questions --
20 I'm sorry.

21 Q (By Mr. Gillman) Mr. Trimble, would you now
22 summarize your testimony.

23 CHAIRMAN CLARK: Have we inserted the
24 testimony in the record?

25 MR. GILLMAN: Yes, we did.

1 CHAIRMAN CLARK: We didn't? Just to be
2 clear.

3 MR. GILLMAN: Mr. Chairman, I'd request that
4 the prefiled direct testimony of Dennis Trimble be
5 inserted in the record as though read.

6 CHAIRMAN CLARK: The direct prefiled
7 testimony of Mr. Trimble will be inserted into the
8 record as though read with the confidential parts made
9 part of that record confidential, so we have done it.
10 I remember saying that. All right.

11 MR. GILLMAN: Thank you, Madam Chairman.
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GTE FLORIDA INCORPORATED**DIRECT TESTIMONY OF DENNIS B. TRIMBLE****DOCKET NO. 950984-TP**1
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Q. Please state your name, business address, and title.

A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75015. I am employed by GTE Telephone Operations as Assistant Vice President - Marketing Services (Acting) and am representing GTE Florida, Inc. ("GTEFL" or "the Company") in this proceeding.

Q. Will you please state your educational background and work experience?

A. I received a B.A. in Business in 1970 and an M.B.A. in 1973, both from Washington State University. In 1972, I became an Assistant Professor at the University of Idaho, where I taught undergraduate courses in statistics, operations research and decision theory. From 1973 through 1976, I completed course work towards a Ph.D. degree in Business at the University of Washington, majoring in quantitative methods with minors in computer science, research methods, and economics. I began my career with GTE in 1976 as an Administrator - Pricing Research with General Telephone Company of the Northwest ("GTENW"). Through 1985, I held various jobs with GTENW and GTE Service Corporation, almost all related to demand analysis, market research, and/or strategic planning. In 1985, I was named Director - Market Planning for GTEFL and in 1987, I became GTEFL's Director - Network Services Management. During most of 1988 and early 1989, I was also Acting Vice President - Marketing for GTEFL. From 1989 through most of 1994, I was employed by GTE Telephone Operations as Director - Demand Analysis and Forecasting. In October of 1994, I became Director - Pricing and Tariffs for GTE Telephone Operations and assumed the additional responsibilities of the Assistant Vice President - Marketing Services position in August, 1995.

Q. Have you previously testified before this Commission?

1 **A.** Yes. I presented testimony on customer demand forecasts and price elasticity
2 estimates on behalf of GTEFL in Docket No. 920188-TL. In addition, I have also
3 presented expert witness testimony before the California Public Utilities Commission
4 and the Hawaii Public Utilities Commission.

5

6 **Q.** **What is the purpose of your testimony in the docket?**

7 **A.** In response to the testimony of Timothy T. Devine, dated January 23, 1996 and a
8 Petition filed by Metropolitan Fiber Systems of Florida, Inc. ("MFS") on that same
9 date, my testimony will address the issues associated with the unbundling of
10 GTEFL's local loop for new entrants into the local exchange market; in particular
11 I will focus on: (a) what elements should be made available by GTEFL on an
12 unbundled basis, (b) what are the appropriate financial arrangements for each
13 unbundled element, and (c) further issues that should be resolved in this
14 proceeding. Dr. Gregory Duncan will also provide testimony to support the
15 methodology employed by GTEFL in the development of its proposed pricing of
16 unbundled elements. Ms. Beverly Menard will address the remainder of the issues
17 associated with unbundling services in this docket.

18

19

UNBUNDLED ELEMENTS

20 **Q.** **What is GTEFL's position on the issue of unbundling the local loop?**

21 **A.** The Company acknowledges that providing certain network services on an
22 unbundled basis will be an important component of the competitive local exchange
23 environment. Unbundled network services are useful to competitors because these
24 services give the new local exchange competitors the ability to provision parts of
25 their network themselves and to lease other parts from the Company.

26

27 While unbundled network services will be important to competitors in a competitive
28 local exchange service environment, it is necessary to note that unbundling of
29 network services by itself is not sufficient to ensure that fair and efficient
30 competition will develop. In order for efficient competition to develop, we must

1 ensure that the rates charged for unbundled network services are based on proper
2 economic principles to encourage efficient competition and network utilization.

3

4 In addition, unbundling the local network necessarily raises several important
5 concerns, such as pricing flexibility, universal service funding, evaluation of
6 stranded investment, and the eventual need for rate rebalancing. Proper
7 consideration and action on these factors will help ensure a fair and efficient
8 transition to a competitive local exchange market.

9

10 **Q. What elements should GTEFL make available on an unbundled basis?**

11 **A.** GTEFL should make available unbundled loops and any required transport,
12 unbundled ports, and channel multiplexing. These unbundled elements are
13 sufficient to allow an Alternative Local Exchange Carrier ("ALEC") to deliver
14 competitive local exchange services in a manner that is consistent with sound
15 public policy. Sub-loop unbundling or connection of unbundled loops to
16 unbundled ports is unnecessary and will not be offered by GTEFL.

17

18 **Q. Please describe how each of these services can be usefully combined with the**
19 **ALECs' self-provisioned networks and services to deliver competitive local**
20 **exchange service.**

21 **A.** I believe the following provides a reasonable summary:

22 * Unbundled Loop. The unbundled loop provides a voice-grade
23 path between an end user and a Company wire center. An ALEC
24 may obtain this loop from GTEFL and connect it to a cross-
25 connect available at the end office through a co-location
26 arrangement. The cross-connect charges appear in Section 6 of
27 GTEFL's Facilities for Intrastate Access tariff. The ALEC can then
28 provide switching through its own switch, as well as related
29 services such as local usage, custom calling services, switched
30 access service, and toll services. Today, most of these are high-

1 margin services which provide the Company with significant
2 contribution to its common costs and overheads, thus enabling
3 GTEFL to support the level of investment infrastructure necessary
4 to achieve the Commission's public policy objectives.

5 * Unbundled Port. The unbundled port provides switching services
6 from a GTEFL switch to be used with an ALEC-provided loop.
7 This element would apply in areas where ALECs have loop
8 facilities but do not have a local switching center in service. In this
9 situation, the ALEC will cross-connect its loop with GTEFL's
10 switch through a collocation arrangement. The port service
11 provides access to both the local switching capability of the
12 Company's switch (i.e., local calling) and the capability to route
13 calls from the trunk side of the switch (e.g., switched access, toll
14 service, emergency, directory service, etc.).

15 • Channel Multiplexing. This may provide a DS-1 level loop
16 connection and allow an ALEC to receive 24 voice-grade circuits
17 multiplexed to a DS-1 level for handoff from GTEFL to the ALEC's
18 collocation arrangement.

19

20 **Q. Does GTEFL currently offer unbundled local loops or ports on a tariffed basis?**

21 **A.** Unbundled loop prices are already available today in GTEFL's Facilities for
22 Intrastate Access tariff. GTEFL proposes to use the rates in this tariff for
23 comparable voice-grade facilities. In addition, GTEFL's intrastate access services
24 tariff also provides for interoffice transport facilities necessary to connect a local
25 channel from the end user's serving wire center to the ALEC's point of interface.
26 ALECs may purchase these unbundled elements from existing tariffs as they deem
27 appropriate.

28

29 For the unbundled port, GTEFL intends to file a new tariff offering. This offering
30 will provide a 2-wire voice grade exchange port that will facilitate the connection

1 of an ALEC's end user loop to GTEFL's public switched network. The local calling
2 scope, feature capability, and functionality will be the same as provided for
3 GTEFL's basic exchange customers.

4

5 **Q. Does GTEFL currently offer a channel multiplexing service which can be**
6 **purchased by ALECs?**

7 **A. Yes, multiplexing arrangements are currently offered by GTEFL in Section 7 of its**
8 **intrastate access services tariff. The current monthly rate for DS-1 to voice**
9 **multiplexing is \$156.00.**

10

11 ~~**Q. On page 14 of MFS witness Devine's testimony, he states that, in addition to**~~
12 ~~**voice-grade unbundled loops and ports, GTEFL should offer 2-wire ISDN**~~
13 ~~**digital grade and 4-wire DS-1 digital grade loops, as well as the following**~~
14 ~~**forms of unbundled ports: 2-wire ISDN digital line, 2-wire analog DID trunk,**~~
15 ~~**4-wire DS-1 digital DID trunk, and 4-wire ISDN DS-1 digital trunk. Could you**~~
16 ~~**comment on this proposal?**~~

17 ~~**A. I believe MFS' request goes beyond the unbundling of essential local exchange**~~
18 ~~**services required at this time. Its requested level of unbundling is not necessary**~~
19 ~~**to achieve the immediate goal of promoting customer choice among local**~~
20 ~~**exchange service providers. Over 99 percent of GTEFL's base of local exchange**~~
21 ~~**customers is currently served by 2-wire analog voice grade local loops. As such,**~~
22 ~~**GTEFL has concentrated its efforts in developing unbundling proposals,**~~
23 ~~**procedures, etc. for these truly basic services.**~~

24

25 ~~GTEFL does not oppose discussing and negotiating with ALECs for what it~~
26 ~~considers enhanced unbundled loops and ports (e.g., ISDN, DS-1) and will~~
27 ~~diligently do so. But it is reasonable and necessary to expect the unbundling~~
28 ~~process to be completed in logical stages, with the terms of basic local unbundling~~
29 ~~to be settled before turning to issues related to wholesale unbundling of enhanced~~
30 ~~elements.~~

1 Q. What do you believe are MFS's major problems/issues with GTEFL's
2 unbundling proposal?

3 A. I believe the only major issue is one of price. As Mr. Devine states at page 21 of
4 his Direct Testimony: "Unfortunately, MFS-FL cannot accept GTE's
5 recommendation of special access rates in lieu of unbundled loops. Hence, MFS-
6 FL and GTE have not yet reached an agreement."
7

8 PRICING OF UNBUNDLED ELEMENTS

9 Q. What is the appropriate method for determining the rate levels for unbundled
10 services?

11 A. The correct procedure for developing prices for unbundled network services will
12 induce entrants and incumbents to compete on equal terms and conditions and
13 incent only efficient entry. The procedure employed by the Company along with
14 the economic (and practical) rationale supporting the procedure are the topic of
15 Company witness Dr. Gregory M. Duncan's Direct Testimony. To summarize the
16 methodology proposed by Dr. Duncan, the appropriate procedure for determining
17 the rate level of an unbundled service is a matter of computing the following:

- 18 1. The Total Service Long Run Incremental Cost ("TSLRIC") of the
19 service,
20 PLUS
- 21 2. The TSLRIC of wholesale marketing activities,
22 PLUS
- 23 3. The opportunity cost (or lost contribution to margin) of foregoing
24 self-provision of the service at retail.
25

26 This procedure results in the determination of a ceiling price. If the rate resulting
27 from this computation exceeds the stand-alone costs of an entrant to self-provide
28 the unbundled element (a relatively rare case for efficient firms with rational rates,
29 but common in regulated local exchange markets with disoriented rate structures),
30 then the resulting rate could generate inefficient or uneconomic bypass. When this

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

3

4

5

A. UNBUNDLED LOOPS

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

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

17

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

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

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

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

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

A. No. As Dr. Duncan explains in his testimony, the procedure that GTEFL believes is appropriate for the development of an unbundled loop rate includes a critical element of reality (a rate cap test) that states: "if the rate developed exceeds the stand-alone costs of an entrant to self provide the unbundled element, then the rate should be discounted to mitigate inefficient or uneconomic bypass." The contribution-preserving business rate of ~~\$62.47~~^{#61.69} is, in my estimation, significantly above the costs of an entrant to self-provision that service, and thus must be reduced to a price level that is sustainable in the market (i.e., does not incent inefficient entry of facility-based providers).

It should be noted that the contribution-preserving price of ~~\$62.47~~^{#61.69} for an unbundled business loop is the result of many decades of pricing services based on their perceived "value of service," along with the complementary outcome that excessive revenue contributions from business customers could be used to keep

1 residential rates low. In a competitive marketplace, GTEFL's historically developed
2 rate structures only provide incentives for the inefficient entry of competitors whose
3 major objective will be to capture the above-market revenue contributions (that are
4 used by the Company to support public policy objectives) to finance their entry into
5 the local market and ultimately to transition these contribution levels to their
6 shareholders.

7

8 **Q. Does GTEFL believe that unbundled residential loops and unbundled business**
9 **loops should be priced differently?**

10 **A.** No. The Company does not believe that it or the Commission has the resources
11 or inclination to effectively police the arbitrage that would occur if the Company
12 were required to offer significantly different rates (based on customer identification)
13 for basically the same unbundled element. Although the cost of unbundled
14 business and residence loops is slightly different (see Table 3), it is simply not
15 possible to retain business/residence distinctions in a competitive market.

16

17 Should the Commission, however, choose to retain some vestige of historical
18 pricing guidelines and order different rates for business and residential unbundled
19 loops, then stringent use and user restrictions will have to be implemented. The
20 Commission would also need to keep in mind that an unbundled loop for
21 residential lines would likely be below cost, in violation of Chapter 364, section
22 161(1).

23

24 **Q. Given your previous discussion of pricing development and the significant**
25 **number of concerns surrounding the pricing issue, what is GTEFL**
26 **recommending for its unbundled loop rates?**

27 **A.** At this time, GTEFL believes the appropriate rate level for basic unbundled loops
28 is the current 2-wire special access line rates from its Facilities for Intrastate Access
29 tariff. The current rate is \$23.00 for a two-wire local channel. Even at this rate,
30 GTEFL expects to experience significant revenue (contribution) compression due

1 to the offering of unbundled services. The resulting deficit in revenue for the
2 recovery of common costs (e.g., costs associated with motor vehicles, land and
3 buildings, special purpose vehicles, power, testing, engineering, and many more)
4 is stranded as a result of the decision to open the local market to competition. A
5 competitively neutral recovery mechanism should be established to fund this deficit.

6

7 The overwhelming rationale for this rate is that it already exists for what is (for all
8 practical purposes) an identical type service. The pricing of an unbundled loop
9 (i.e., a 2-wire dedicated facility) at rates other than the current special access tariff
10 rates would only result in the lowest rate becoming the rate for all identical
11 services. If the Company were to propose a tariffed rate for unbundled loops that
12 is higher than its current special access rate, an ALEC would just order from
13 GTEFL's special access tariff. If the Company were to propose an unbundled
14 basic loop rate that was lower than its current special access rate, then end user
15 customers of special access will migrate to the lower special access rates (whether
16 by their own initiative or by an ALEC's initiative), which would only serve to put
17 more of the Company's contributions at risk.

18

19 Last but not least, GTEFL's intrastate special access rates do satisfy the
20 requirements of Section 364.161(1) in that the special access price is above the
21 cost of an unbundled loop and will provide a minimum level of contribution.

22

23 Ideally, implementation of GTEFL's proposed unbundled loop rate would occur in
24 conjunction with comprehensive rate rebalancing to eliminate GTEFL's current
25 disoriented retail rate structures and levels. To the extent that this is not possible,
26 however, the Commission should address GTEFL's concerns through methods
27 such as universal service funding and user restrictions.

28

29 **Q. On page 26 of his Direct Testimony, Mr. Devine states that "private lines or**
30 **special access channels are typically priced at substantial premiums today."**

1 follows: the peak period rate is \$.015 per completed call and per minute, with off-
2 peak rates at \$.01 per completed call and per minute.

3

4 **Q. What monthly recurring port charge does GTEFL propose?**

5 **A.** GTEFL will file a monthly recurring port charge based on the monthly cost of the port
6 (e.g., line card and associated equipment) plus a reasonable contribution. The
7 absolute rate level for this element has not been finalized by the Company at this
8 time.

9

10 **Q. Does GTEFL expect to see much demand for its unbundled ports from ALECs?**

11 **A.** Not really. GTEFL believes ALECs are generally interested only in obtaining GTEFL's
12 unbundled loops; this way they can get (with minimal investment) easy access to the
13 above-market revenue contributions (from switched services) that the Company relies
14 on to support public policy objectives.

15

16

REVENUE IMPACTS

17 **Q. Assuming the Commission accepts GTEFL's proposal to use its intrastate**
18 **special access rates as the appropriate rate for an unbundled loop, has the**
19 **Company made any estimates of the financial impact these rate levels may have**
20 **on GTEFL?**

21 **A.** Yes, I can provide some ballpark estimates based on a given set of assumptions
22 (which may easily be varied). The financial impact to GTEFL, in terms of lost
23 contribution to common costs and overheads, would be the difference between any
24 contributions the Company receives from the unbundled loop and the contributions
25 the Company would have received from the end users (see Tables 1 and 2).

26

27 Let's assume that ALECs obtain 10% of GTEFL's end user customers through the
28 use of GTEFL's unbundled loop. (At a \$23 unbundled loop rate, the ALECs should
29 be highly successful in attracting GTEFL's business customers, which face B1 tariffed
30 rates of up to \$30 and PBX rates near \$52.) Under this scenario, the annual revenue

1 contributions lost to GTEFL would be approximately per year as shown
2 in Table 4 (Exhibit DBT-4).

3
4 Even under the assumption of only a 10% loss of market share, the resulting
5 annual loss in contributions will significantly affect the Company. Over time,
6 GTEFL has deployed capital in good faith to support customer needs as well as
7 public policy objectives and in return was allowed to earn a fair rate of return on its
8 invested capital. Unbundling the local network will increase the financial risks to the
9 Company and these risks must be diligently addressed during this proceeding. It is
10 unfair and unreasonable to expect GTEFL to suffer financial hardship for the sake of
11 subsidizing the development of a competitive marketplace. The general public of
12 Florida will only benefit from the entry of efficient competitors; GTEFL's current price
13 structures present significant arbitrage opportunities for inefficient entrants.

14

15 ISSUES

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

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

24

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

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

1 costs. Given the current law, GTEFL recommends the Commission approve a
2 nonrecurring charge to ALECs per loop to recover this cost.

3

4

SUMMARY

5 **Q Mr. Trimble, would you please summarize your testimony?.**

6 **A.** GTEFL believes it has complied with its statutory obligation to negotiate to the best
7 of its capabilities. The major stumbling block in the negotiations at this time seems
8 to be price. The price that the Company has proposed for unbundled loops is its
9 tariffed intrastate special access rate. These rates satisfy Section 364.161(1) of the
10 Florida Statutes in that they are above cost, although just barely.

11

12 GTEFL's proposed special access rates also pose significant financial issues for the
13 Company in terms of substantial lost revenue contributions. This Commission must
14 address the issue of financial integrity for the Company in its determination of
15 appropriate unbundled rate levels whether through universal funding mechanisms or
16 other means.

17

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

19 **A.** Yes.

20

21

22

23

24

1 CHAIRMAN CLARK: Go ahead with your summary,
2 Mr. Trimble.

3 A Good afternoon. The purpose of my testimony
4 was to address the appropriate pricing levels for
5 unbundled elements, which was Issue 3 in the petition.

6 In addition, I also address in my testimony
7 the recovery of one-time implementation costs, and
8 also identify issues that I believe the Commission
9 must consider in the development of its final order.

10 Through the negotiation process, GTEFL and
11 MFS have agreed on network elements to be unbundled.
12 The remaining issues at this time is truly the level
13 of price at which those unbundled elements will be
14 offered.

15 The methodology that I employed is presented
16 from a theoretic standpoint by company Witness Duncan,
17 and it goes by many names in the industry, whether
18 it's efficient component pricing rule or competitive
19 parity pricing or net avoidable costs, and even
20 imputation are terms that are synonymous with
21 efficient component pricing.

22 This is also a rule and a methodology that
23 is recognized by many noted economists as being the
24 appropriate methodology for determining wholesale
25 prices.

1 If I were to summarise ECPR, it is basically
2 based on the economic cost to the company of providing
3 a wholesale service. And, in essence, the price that
4 is determined is the TSLRIC of that service, plus the
5 TSLRIC of wholesaling that service, plus opportunity
6 costs from entering into the wholesaling arena.

7 The one notable exception to this rule that
8 people seem to forget all the time is that there is
9 also a cap on ECPR that says that the resulting price
10 should not exceed the stand-alone costs for a
11 competitor to self-provision that item. That is one
12 of the various caveats that a lot of people seem to
13 miss.

14 Wholesale rates based on this rule have the
15 property of incenting efficient competitors to enter
16 the market and does not arbitrarily force the
17 incumbent firm to subsidize entry of inefficient
18 firms.

19 Employing a rule requires that the company
20 identify the TSLRIC for the service, also the TSLRIC
21 for wholesaling the service, any opportunity costs
22 involved, and also stand-alone costs for
23 self-provisioning by a competitor.

24 For multiproduct firms with significant
25 levels of joint and common costs, computation of a

1 true TSLRIC for a service is extremely difficult, and
2 to date I actually know of no telecommunications
3 company that has successfully performed those studies.

4 For example, if the company were to get out
5 of the R-1 residential business, the true TSLRIC would
6 be defined as the total cost to the company with R-1
7 residential service minus the total cost of the
8 company without residential service, or the total
9 change in cost to the company.

10 Now, what we have done is in lieu of
11 computing a TSLRIC for services, such as two-wire, we
12 have basically developed a two-step process where we
13 compute two of the components that are known to be in
14 TSLRIC, namely, the volume sensitive costs, or LRIC,
15 for that service, and the volume insensitive cost
16 specific to that service. Those are fixed costs. I
17 believe Dr. Cornell agrees that both of those elements
18 are incorporated in TSLRIC.

19 Now, there are probably also other costs
20 that should be involved in TSLRIC. For example, if
21 you are out of the R-1 business, the size of your firm
22 would be significantly smaller. There are probably
23 joint and common costs above and beyond the volume
24 sensitive and volume insensitive that also belong in
25 TSLRIC. So the number we have presented is a

1 conservative estimate in lieu of truly computing
2 TSLRIC.

3 The opportunity costs to the company of
4 offering the wholesale service were derived from the
5 company's 1995 financial results, along with estimates
6 of the company's incremental costs, which in this case
7 were volume sensitive plus volume insensitive costs.

8 Stand-alone costs have not been developed by
9 the company at this time, but GTEFL's existing
10 tariffed rates for substitutable services can be used
11 as a surrogate since the entrants can order these
12 services versus self-provisioning. In the two-wire
13 case that would be a two-wire private line.

14 I must note that in no case are we proposing
15 to offer two-wire private lines per se. We are
16 offering two-wire unbundled common lines, but just
17 benchmarking the price against the private line price.

18 Now, when we go through this rule for
19 something like two-wire private lines, we take the
20 TSLRIC, which is presented in the studies for the
21 service, the TSLRIC for the wholesale, and when we
22 look at the opportunity costs that are foregone, since
23 most of the contribution margins the company receives
24 are in the verticle services, toll and access, which
25 will disappear when a unbundled loop is sold, the

1 resulting price comes out to be extremely high if you
2 just follow those rules.

3 In almost all cases the cap then kicks in
4 and says this rate cannot be above the stand-alone
5 cost. And as our surrogate for that was the two-wire
6 private line rate for the two-wire unbundled loop and
7 it's \$23.

8 We believe this rate is just, reasonable and
9 nondiscriminatory. It's based on cost and has a
10 reasonable level of contribution to joint and common
11 costs, all be it relatively minimal.

12 As we go through this, and we look at the
13 impacts on the company from offering a \$23 rate, we
14 find significant potentials for financial harm. And I
15 have provided in my testimony an estimate of lost
16 contribution number with just a 10% loss of market
17 share. I think we've heard numbers today in the 30%
18 range. There are numbers that go up to potentially
19 50%. Those numbers that I presented are for an
20 average customer set. They do not incorporate
21 targeting high volume customers. They do not
22 incorporate targeting downtown customers. They are
23 for an average customer across GTEFL's territory.

24 The two major causes of this relatively
25 large impact can be summarized as one, GTEFL's

1 currently disoriented rate levels where we have, in
2 essence, subsidy flows from high dense areas to low
3 dense areas, and so on and so forth. I believe
4 Dr. Cornell touched on this.

5 If the rates were to be rebalanced, it would
6 have a major impact on reducing these lost opportunity
7 costs because we would be shifting the contributions
8 off of high volume services and actually rebalancing
9 those so they have a reasonable contribution level in
10 each case.

11 The other aspect that causes some of this is
12 the historic investment GTEFL has made to support
13 carrier of last resort obligations and historic
14 requirements to provision in the Florida marketplace.

15 As competition comes in, those historic
16 investments are at risk. And the contributions that
17 supported those are also at risk.

18 GTEFL is adamant that the Commission must
19 address the recovery of the historic investment that
20 opening the market will strand, as well as address the
21 rebalancing issues which are critical to assuring that
22 consumers benefit from efficient competitive entry.

23 From the ALECs standpoint, the level of
24 prices set will be key to their decisions to enter the
25 market, that their prices of unbundled elements are

1 set below rational market levels, we will just be
2 setting ALECs for potential financial problems in the
3 future, when rates, as they must in a competitive
4 environment, for these that are below market levels,
5 are forced to rise.

6 Setting prices below reasonable market
7 levels also means the Commission would be ordering the
8 company to subsidize competitive entry, which GTEFL
9 also adamantly opposes.

10 I believe that is a reasonable depiction and
11 summary of my testimony.

12 MR. GILLMAN: I tender Mr. Trimble for
13 cross.

14 CHAIRMAN CLARK: Mr. Wahlen, I take it you
15 have no question for this witness.

16 MR. WAHLEN: That's correct.

17 CHAIRMAN CLARK: Mr. Wilson.

18 MS. WILSON: No.

19 CHAIRMAN CLARK: Mr. Melson.

20 MR. MELSON: Quite a few, unfortunately.

21 **CROSS EXAMINATION**

22 BY MR. MELSON:

23 Q Mr. Trimble, under the efficient component
24 pricing rule is it true that GTE would recover the
25 same contribution from a local loop whether it used

1 that loop to provide its own end use service or sold
2 it to an ALEC?

3 A I'm sorry, I'm actually having hearing
4 problems today, so --

5 Q Okay. Under the efficient component pricing
6 rule, is it correct that GTE would recover the same
7 contribution from a local loop regardless of whether
8 it uses the loop in the provision of its own service
9 or whether it sells it to an ALEC?

10 A No.

11 Q And under what circumstance would that
12 contribution be different?

13 A I think as I presented in my testimony, that
14 once you introduce the notion that there is a price
15 cap at which you can set prices at, that cap, in
16 essence, causes reductions in contributions, and
17 reductions in overall and in total. And those relate
18 to the numbers that I also have presented in my
19 testimony.

20 Q All right. So without the limitation that
21 the final price issue not exceed stand-alone cost, if
22 that limitation were not in the rule, would the rest
23 of the rule produce a situation where GTE received the
24 same revenues whether it used the loop itself or sold
25 it to an ALEC.

1 A If you did any efficient component pricing
2 incorrectly, and did not have the second part of that
3 rule in there, that is a correct statement.

4 Q So it's very important to know then what
5 that stand-alone price is so that it can, in fact,
6 operate as a cap?

7 A Yes.

8 Q And I believe you also stated in your
9 summary that GTE has not done a study of that
10 stand-alone cost; is that correct?

11 A We have not completed a study; that is
12 correct.

13 Q And you are using your current special
14 access tariffed rate of \$23 as a surrogate for that
15 stand-alone cost; is that correct?

16 A Yes.

17 Q That \$23 special access rate is above the
18 TSLRIC of providing that local loop; is that correct?

19 A It is above the surrogate TSLRIC we've
20 presented that has volume sensitive and volume
21 insensitive costs; that is correct. I cannot say if
22 it's above the true TSLRIC for that service.

23 Q And you cannot say whether it is above or
24 below the true stand-alone cost of that service
25 either; is that correct?

1 A Not at this moment, that is correct.

2 Q Now, Table 4 --

3 COMMISSIONER DEASON: What do you mean by
4 stand-alone cost?

5 WITNESS TRIMBLE: Stand-alone costs, are, in
6 essence, the total costs it would take an entrant to
7 build -- we'll call them bypass facilities.

8 COMMISSIONER DEASON: So when we're talking
9 about local loops, it would be the cost for the
10 entrant to actually put in the local loop facilities?

11 WITNESS TRIMBLE: That is correct. And I
12 believe that one of the objectives that the Commission
13 should have would be to really migrate to true
14 competition. It would be nice to have alternative
15 facilities.

16 Q (By Mr. Melson) Mr. Trimble, you presented
17 in Table 4 to your testimony a confidential estimate
18 of the annual loss that GTE believes it would
19 experience if it lost 10% of its customer lines to
20 ALECs purchasing unbundled loops at \$23 a loop; is
21 that correct?

22 A Yes, that is correct.

23 Q And that was done on a business-as-usual
24 basis?

25 A As I stated in my summary, that was done

1 based on 1995 financial results.

2 Q Okay. So you didn't calculate any
3 contribution gained that GTE might experience by
4 increasing the price of nonbasic services?

5 A No.

6 Q And you also did not calculate any
7 contribution gained that GTE might experience from
8 entering the interLATA long distance market; is that
9 correct?

10 A I would have no idea what those
11 contributions would be.

12 My belief is that as GTE enters the
13 intermarket arena as a reseller, those contributions,
14 additional contributions, will be minimal. It is a
15 marketing activity to become a full service provider.

16 Q It seems like you gave me two answers. You
17 said you didn't have a idea what they were and then
18 you said you were sure they would be minimal.

19 Do you have an estimate of the contribution
20 that GTE would receive from entering the interLATA
21 market in Florida?

22 A I personally only have hearsay.

23 Q I won't ask you for that.

24 Mr. Trimble, if I understood correctly your
25 surrogate for TSLRIC included volume sensitive long

1 run incremental costs and average volume and sensitive
2 costs; is that correct?

3 A That is correct.

4 Q And both of those figures included a return
5 on capital; is that correct?

6 A Return on the incremental capital involved,
7 yes.

8 Q And do you know what cost of capital GTE
9 used in performing those studies?

10 A No, I do not.

11 Q And is it correct that you did one set of
12 studies for unbundled loops that GTE would offer to
13 ALECs, and you did the second set of studies for loops
14 that GTE would use for the provision of its own
15 residential and business services?

16 A That is correct.

17 Q And those studies showed that it cost GTE
18 more to provide an unbundled loop to an ALEC than to
19 provide a loop to itself for its own service; is that
20 correct?

21 A That's correct.

22 Q And, in general, that difference averages
23 about \$4 a month difference in cost; is that a good
24 estimate? If you don't know, we can come back to it
25 later with some specific numbers in front of us.

1 A Yes, that is correct from what I can see in
2 front of me, yes.

3 Q And is it true that the bulk of that
4 difference in cost is driven by a difference in the
5 way that pair gain is provided on loops that you use
6 yourself and loops that you would provide to ALECs?

7 A That is correct. It is almost totally
8 due -- I'd have to look back in terms of the
9 difference between integrated pair gain devices, which
10 have proprietary protocols, and nonintegrated devices,
11 which would be required to operate as an unbundled
12 loop.

13 Q Okay. Just so we're all on the same
14 wavelength, can you give me a walking-around
15 description of what a pair gain device is and what the
16 difference is between an integrated pair gain device
17 and -- I guess it's an unintegrated pair gain device.

18 A I'm not an engineer. I believe this
19 discussion went on earlier this morning with
20 Mr. Devine.

21 GTE's policy, as I understand it, is when
22 the loop gets beyond 12,000 feet in length we
23 standardly employ pair gain devices. An integrated
24 pair gain device has the proprietary protocols so that
25 it matches exactly with, say, a GTD-5.

1 A nonintegrated pair gain device cannot
2 directly connect into the GTD-5. It requires the
3 integration. And I believe there were discussions of
4 different charts this morning showing, in essence,
5 what I think we're talking about here.

6 Q Okay. Is pair gain what's also been
7 referred to as multiplexing; putting a number of
8 channels over a single physical facility?

9 A Yes.

10 Q And the difference -- pair gain devices, I
11 believe you just said, are used above 12,000 feet; is
12 that correct?

13 A That is GTE's standard policy, yes.

14 Q Okay. And so there is no -- for loops less
15 than 12,000 feet in length, is it correct that there's
16 no difference, essentially, between the cost to GTE of
17 using that loop itself or providing it to an ALEC on
18 an unbundled basis?

19 A That is correct.

20 Q Now, you would agree with me -- let me back
21 up a minute.

22 Do you know whether GTE in fact uses
23 integrated pair gain exclusively or does it also use
24 unintegrated pair gain?

25 A I do not know.

1 Q Your cost studies assumed that GTE uses
2 exclusively integrated pair gain for loops that it
3 employs itself; is that correct?

4 A That's right. I have had discussions with
5 the cost group and they assured me that that is
6 exactly what would be required.

7 Q But you don't know whether, in fact, you use
8 them.

9 A I have no idea. That is correct.

10 Q Okay. Now as a general rule it's less
11 costly to provide loops in high density areas and more
12 costly to provide them in low density areas is that
13 correct?

14 A That is correct.

15 Q Would the same be true with distance in
16 general, it's more expensive to provide a longer loop
17 and less expensive to provide a shorter loop?

18 A That's correct.

19 Q I'd like to hand out an exhibit so we can
20 put some numbers to some of these general concepts
21 we've just been talking about. I believe you've
22 probably seen this already, Mr. Trimble.

23 MR. MELSON: Chairman Clark, I'd ask this
24 document which is labeled "Summary of GTEFL Loop Cost"
25 be marked as Exhibit 14.

1 CHAIRMAN CLARK: It will be marked as
2 Exhibit 14.

3 (Exhibit No. 14 marked for identification.)

4 Q Now, the top of this page correctly shows
5 GTEFL's proposed price for an unbundled loop of \$23;
6 is that correct?

7 A That is correct.

8 Q And the first column -- and your proposed
9 price is not distance or density sensitive; is that
10 correct? *

11 A That is correct. *

12 Q Okay. Now, the first column here shows the
13 cost of a loop used by GTE in the provision of its own
14 service; is that correct?

15 A Yes.

16 Q And, again, that's the surrogate for TSLRIC
17 that you described to us earlier?

18 A Yes.

19 Q And that shows as you move from high density
20 to medium density to low density the cost of the loop
21 goes up; is that right?

22 A That's correct.

23 Q It also shows that the cost of business
24 loops in any density area is less than the cost of
25 residential loops. Is that because on average

1 business loops are shorter than residential loops?

2 A Yes.

3 Q Now, looking in the second column the cost
4 of the unbundled loop provided to the ALEC again, that
5 shows the same relationship between density areas and
6 between business and residential that we just talked
7 about for loops you use yourself; is that right?

8 A Yes.

9 Q And, in general, the difference between the
10 costs in Column 1 and the costs in Column 2 are the
11 difference in pair gain technology used on the loops
12 over 12,000 feet. I'm going to say the major
13 difference because if you look in your backup, there
14 are some other minor differences?

15 A That is correct.

16 Q And then the final column, the contribution
17 is simply the difference between the price of \$23 and
18 the cost of the unbundled loop provided to the ALEC in
19 Column 2; would you accept that?

20 A Yes.

21 Q So that, in essence, on a business loop you
22 would be getting a contribution of \$5.17 on an item
23 that on average costs you 17.83?

24 A If these aren't proprietary.

25 Q Well, the numbers in Column 1 aren't and the

1 numbers in Column 2 aren't, and I subtracted one from
2 the other.

3 A That is correct.

4 Q All right.

5 And that's honestly how I got it. It may
6 match with another number on some other exhibit.

7 A You did very well. These identically match.

8 Q Thank you.

9 Now, I'd like to turn for a minute to one of
10 the confidential exhibits, and let me see which one it
11 was. It's going to be Confidential Exhibit 13, DBT-7.

12 MR. MELSON: Chairman Clark, I'm going to
13 need a little bit of help at this point.

14 In the package there were four loose pages.
15 They actually may be in that brown envelope. Bate
16 stamp numbers 1-quadruple-064. If I could have those
17 four pages marked as the next numbered exhibit.

18 CHAIRMAN CLARK: Mr. Melson, I view them as
19 part of Exhibit DBT-7.

20 MR. MELSON: Fine. They weren't physically
21 attached. I wanted to make sure --

22 CHAIRMAN CLARK: They were in my folder on
23 DBT-7.

24 MR. MELSON: Okay.

25 Q (By Mr. Melson) I might have sent up the

1 wrong page. Give me just a second here. (Pause)

2 Could you turn instead to page Bate stamped
3 4 of Exhibit 13, which is labeled up at the top "GTE
4 Florida Unbundled Residential Loop."

5 CHAIRMAN CLARK: Mr. Melson, would you give
6 me that again?

7 MR. MELSON: Sure. It's in Confidential
8 Exhibit 13, Bate stamped 100004; at the bottom of page
9 it was WP POD-7.

10 CHAIRMAN CLARK: I think that's more than
11 quadruple four.

12 MR. MELSON: Quintuplet.

13 Q (By Mr. Melson) Are you with me,
14 Mr. Trimble?

15 A I believe I am.

16 Q Okay. At the top of the page, or in the
17 upper left hand corner it says "GTE Florida Unbundled
18 Residential Loop"?

19 A Yes.

20 Q Okay. And the numbers in the total line on
21 that page, which are in a black box, are actually the
22 same numbers that were given to us on a
23 nonconfidential basis in answer to Interrogatory No. 3
24 and appear on this summary of GTEFL loop costs; is
25 that right?

1 A That is correct.

2 Q All right. Now, if I turn to the next
3 Page 1-a-lot-of-zeros-5, that is the breakdown that
4 supports the loop cost numbers on Page 4; is that
5 correct?

6 A That is correct. That is the distribution.

7 Q Would you explain the backup sheet Page 5 is
8 divided into three parts: High, medium and low.
9 Those relate to density?

10 A Yes he they do.

11 Q Could you tell us what each of the column
12 headings means on the four columns there?

13 A Kilofoot band is basically in thousand feet
14 from central office. Percent distribution is the
15 percent of total lines in that -- in the high density
16 area that are in that kilofoot band. BNF cost is the
17 basic network functionality cost. And weighted cost
18 multiplies that cost by the percent. So as we come
19 down and total you get a weighted average cost.

20 Q Okay. If I look down the kilofoot band
21 column, the last number there is greater than 12.
22 That next line that doesn't have a label on it is
23 really a subtotal?

24 A That is summation of the percentages.

25 Q And the 1.0 in the percent distribution

1 column means by that time you accounted for 100% of
2 your loops?

3 A Yes.

4 Q And the number out the in final column under
5 Weighted Cost on that same line is the cost of
6 unbundled residential loops weighted by distance?

7 A In that density.

8 Q In that density. If we turn back to Page 4,
9 that's actually the first number up on the top of
10 Page 4, in the high density band is a loop cost; is
11 that right?

12 A That is correct.

13 Q Okay. Staying on Page 4 for just a minute,
14 is there any other number on that page that is
15 distance sensitive as a result of the distance
16 sensitivity caught up in this loop number?

17 A The average volume insensitive, or the
18 volume insensitive for the plant side is related to
19 distance sensitivity also.

20 Q All right. So the line on Page 4 at the
21 bottom of the page, it says simply "VIS," has got some
22 distance sensitivity in it as well?

23 A It is based on the loop plant, yes.

24 Q All right. Is there a backup sheet to which
25 we could go to try to figure out how that volume

1 insensitive cost is related to distance?

2 A I do not believe a backup sheet was
3 provided. I believe all of those are the same
4 percentage of the number you find in the loop side.

5 Q So if I take the VIS number at the bottom of
6 the page and calculate that as a percentage of the
7 loop number which is at the top of the page, I find
8 that same percentage across high, medium and low,
9 you're saying that relationship should be the same?

10 A I believe that's how they did that, yes.

11 Q Let's turn back to Page 5 for just a minute.

12 On this backup page, all of the loop lengths
13 above 12,000 feet are collapsed into one number; is
14 that correct?

15 A Pardon?

16 Q All of the loop lengths above 12,000 feet
17 are collapsed into a single number?

18 A That is correct.

19 Q And is that because that's the distance at
20 which you would begin to employ pair gain?

21 A Yes.

22 Q And is it fair to say that pair gain is not
23 very distant sensitive so that once you've put it in,
24 that number wouldn't vary much whether you were
25 looking at a 12,000 foot loop or a 15,000 foot loop or

1 20,000 foot loop?

2 A That is my understanding.

3 Q Okay. Now, this is an important question:
4 Look at the line that's not labeled subtotal. The
5 cost you see there as a weighted average cost, can you
6 tell me at what distance you hit the cross- over point
7 where costs are above average rather than below
8 average?

9 A You may have to rephrase this question. I
10 think I lost it somewhere.

11 Q Okay. The loop cost number on the line that
12 I sort of labeled subtotal, you see that number -- and
13 I can't say it so it makes it difficult.

14 A Is this the line that has 1.0 on it?

15 Q Correct. Okay. That's a weighted average
16 of all of the various loop lengths shown above.

17 A That is correct.

18 Q Okay. What I'm trying to find out -- and
19 some length loops are going to have costs that are
20 above average and some are going to have costs that
21 are below average, correct?

22 A That is correct.

23 Q I'm trying to find out where the crossover
24 point from below average to above average is.

25 A If I were to venture a guess, I would say

1 the crossover would have to be in the greater than
2 12,000 feet.

3 Q All right. Everything below 12,000 feet is
4 less than the average.

5 A That is correct.

6 Q All right. And does that same relationship
7 hold true whether you look at the high density band,
8 high density loops, medium density loops or low
9 density loops; that the crossover point is somewhere
10 above 12,000 feet?

11 A That is correct.

12 Q Now, if you turn to the next page, Page 6.
13 Pages 6 and 7 are essentially the same exhibits except
14 for unbundled business loops rather than unbundled
15 residential loops; is that right?

16 A That is correct.

17 Q And if I compare Pages 5 and Page 7 I find
18 that BNF cost, the actual cost of the pair of wires,
19 is the same whether it's a residential loop or a
20 business loop; is that right?

21 A That is correct.

22 Q So as we talked about earlier, the
23 difference in the weighted average cost down there on
24 the line with the number 1 on it is a difference in
25 the average length of a business loop versus the

1 average length of a residential loop?

2 A That is correct.

3 Q Now, I'd like you to turn to Pages 64 and
4 65, which are the four sheets that started out being
5 separate.

6 A Yes.

7 Q And the difference between Page 64 and
8 Page 4 is that Page 4 is the unbundled loop, and
9 Page 64 is the loop that you use yourself?

10 A That is correct.

11 Q Okay. Is it also true that if you look at
12 Page 65 again, which is the backup, that the BNF cost,
13 the cost of that pair of wires, is the same in the
14 12,000-foot-and-under band, whether you're using it
15 yourself or you're providing it to the ALEC?

16 A Yes.

17 Q And the difference comes in above 2,000
18 where you're using a different type of pair gain?

19 A Yes.

20 Q All right. I want you to go back for one
21 last time to Pages 4 and 5.

22 If the Commission -- and I just to ask you
23 about the mathematics. If the Commission were to
24 decide in this docket that it wanted to deaverage the
25 price for unbundled residential loops by density and

1 distance, and it wanted to find out what the cost,
2 for, say, a loop 3,000 to 4,000 feet in length is,
3 would it simply go to Page 5 and pick up the BNF cost
4 for 3- to 4,000 foot loop, and substitute that number
5 in the top line of Page 4 for the loop cost?

6 A I believe you also have the main
7 distribution frame protector that -- whether or not
8 that's in those support in the bottom --

9 Q Look on Page 4. On Page 4 the main
10 distribution frame protector and drop protector is
11 shown as separate line items.

12 A I believe your previous statement would be
13 mathematically appropriate.

14 Q Okay. And based on what you said earlier
15 about the volume and sensitive costs, you'd need to do
16 some ratio there to get that cost in line with the
17 distance up on Line 1.

18 A That is how this was performed yes.

19 Q All right. I think I'm finished with the
20 confidential exhibits.

21 CHAIRMAN CLARK: Mr. Melson, how much more
22 do you have?

23 MR. MELSON: Two minutes.

24 CHAIRMAN CLARK: Go ahead.

25 Q (By Mr. Melson) I believe your prefilled

1 testimony states that with a proposed unbundled loop
2 price of \$23 a month you would expect the ALECs to be
3 highly successful in attracting GTE's business
4 customers who face B-1 tariffed rates of up to \$30 a
5 month and PBX rates of some other amount; is that
6 correct?

7 A Yes.

8 Q Would you agree with me that in providing
9 basic local exchange service, GTE has nonloop costs
10 that average about \$6 per access line per month.

11 A I'm sorry. I don't -- understand the
12 question.

13 Q Okay. Let's look back at Exhibit 4, which
14 was this summary of GTEFL loop costs. And you see the
15 loop cost for a -- let's look at residential loops.
16 The cost of a loop that GTE uses itself is on a
17 weighted average basis \$16.19 a month; is that
18 correct?

19 A That is correct.

20 Q Would you agree with me that the surrogate
21 LRIC cost of GTE providing that whole R-1 residential
22 service is about \$6 higher than that. Let me ask it
23 this way: Would you accept that, subject to a check
24 by Ms. Menard of one of the interrogatory answers she
25 provided to us when she gets on the stand?

1 A Yes, I would.

2 Q All right. Assume you've got an equally
3 efficient competitor that also has nonloop costs of
4 providing basic service of \$6 a month. Are you with
5 me?

6 A Yes.

7 Q And that competitor buys this unbundled loop
8 from you for \$23. So its total cost -- total
9 incremental cost of providing that service is \$29 a
10 month; is that correct?

11 A That's correct.

12 Q And you expect -- if that ALEC is highly
13 successful in competing against your B-1 tariffed rate
14 of up to \$30 a month, it's going to be earning a
15 dollar contribution toward its overheads and profits,
16 while GTE is going to be making about \$5 a month
17 toward its overhead and profit; is that correct?

18 A I don't know if I can say that is correct.
19 On an equivalent basis, when that competitor gets that
20 line, it will also get significant contributions off
21 of toll, access, switched access, vertical services
22 that are today very significant in terms of
23 contributions above cost to provide those services.

24 Q But GTE today gets a contribution above cost
25 for a business line even without the additional

1 contributions from those vertical services; is that
2 correct?

3 A It gets contribution yes, it does.

4 Q Okay. And, in fact, if you look just at the
5 line, and not at the vertical services, GTE under its
6 proposed pricing of \$23 a month, continues to get most
7 of that contribution from that line when it sells it
8 to a competitor.

9 A I think I'm getting confused now.

10 Q Okay. I'll withdraw the question.

11 MR. MELSON: That's all I have.

12 CHAIRMAN CLARK: Thank you, Mr. Melson.

13 Ms. Dunson, do you have any questions?

14 MS. DUNSON: No, I don't have any questions.

15 CHAIRMAN CLARK: Mr. Horton, Mr. Cohen, Mr.
16 Rindler, and Staff you have questions, is that right?

17 MS. CANZANO: Staff has about half an hour
18 to 45 minutes.

19 CHAIRMAN CLARK: Okay. That answers my
20 dilemma here.

21 We are going to break, and we will reconvene
22 tomorrow at 9:30. Thank you very much. Let me amend
23 that. We will start tomorrow at 9 o'clock.

24 (Thereupon, the hearing adjourned at
25 5:20 p.m. to reconvene at 9:00 a.m, on Thursday, March

1 21, 1996, at the same location.)

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3 (Transcript continues in sequence in

4 Volume 4.)

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