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**SUPPLEMENTAL DIRECT TESTIMONY OF  
WAYNE ELLISON  
ON BEHALF OF AT&T COMMUNICATIONS  
OF THE SOUTHERN STATES, INC.  
BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**Docket No. [REDACTED]**

**Filed: August 23, 1996**

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

A. My name is Wayne Ellison. My business address is 1200 Peachtree Street N.E., Atlanta, Georgia 30309. I am employed by AT&T as a District Manager in the Law and Government Affairs organization.

**Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?**

A. Yes. I filed direct testimony on behalf of AT&T on July 31, 1996.

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

A. I discuss the impact of the FCC competition rules, which are found in regulations to be published in the Code of Federal Regulations ("C.F.R.") and the FCC Order, on the following issues before this Commission:

1. What should be the compensation mechanism for the exchange of local traffic between AT&T and BellSouth? In my testimony this issue relates to call termination and transport.

I DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

1           2.       What should be the price of each of the items considered to be network  
2                   elements, capabilities or functions? In my testimony, this issue relates to  
3                   unbundled network elements, network interconnection, and methods of  
4                   obtaining access to unbundled network elements for interconnection purposes.

5           Second, I explain why the rates I propose in my direct testimony and in this  
6                   supplemental testimony should be adopted by this Commission as proxy-based rates,  
7                   pending completion by BellSouth of cost studies compliant with the standards set by  
8                   the FCC rules.

9  
10   **Q.       HAVE YOU REVIEWED THE FCC LOCAL COMPETITION RULES**  
11           **RELEASED AUGUST 8,1996?**

12   **A.       I have had an opportunity to review the FCC rules, but given their recent issuance,**  
13           **my review remains ongoing.**

14  
15   **Q.       IS THE TERMINOLOGY USED IN YOUR DIRECT TESTIMONY**  
16           **CONSISTENT WITH THE FCC ORDER?**

17   **A.       Yes, with two exceptions. My direct testimony addressed the transport and**  
18           **termination of traffic as part of the "interconnection" function. The FCC makes a**  
19           **distinction in its order between interconnection and the transport and termination of**  
20           **traffic, defining interconnection to include the "physical linking of two networks for**  
21           **the mutual exchange of traffic". Transport and termination of traffic is treated by the**  
22           **FCC as a separate and distinct LEC obligation.**

23           The FCC order also introduces the term TELRIC (total element long run incremental  
24           cost) to refer to network element TSLRIC studies.

25

1 Q. WHAT DO THE FCC RULES GENERALLY REQUIRE WITH RESPECT  
2 TO PRICES FOR NETWORK ELEMENTS; NETWORK  
3 INTERCONNECTION; CALL TRANSPORT AND TERMINATION AND  
4 COLLOCATION?

5 A. The FCC rules require that the incumbent LEC *prove* to the state commission that the  
6 rates for each element it offers *do not exceed the element's forward-looking*  
7 *economic cost per unit*. The Rules define such pertinent cost to be equal to the  
8 forward-looking economic cost of the element, divided by the sum of (1) the total  
9 number of units of the element that the incumbent LEC is likely to provide to  
10 requesting telecommunications carriers and (2) the total number of units that the  
11 incumbent LEC is likely to use in offering its own services.

12 The FCC regulations define forward-looking economic cost as the total element long-  
13 run incremental cost of the element, plus a reasonable allocation of forward-looking  
14 common costs. Prices determined in accordance with the above formula must also  
15 meet FCC-prescribed rate structure rules, and be deaveraged to reflect geographic  
16 cost differences. In this regard, the Rules state that there shall be at least three  
17 geographic rate zones.

18  
19 Q. DO THE RULES PROVIDE DIRECTION REGARDING HOW THE TOTAL  
20 ELEMENT LONG-RUN INCREMENTAL COST IS TO BE CALCULATED?

21 A. Yes. Total element long-run incremental cost is the forward-looking cost over the  
22 long run of the total quantity of facilities and functions that are directly attributable  
23 to, or reasonably identifiable as incremental to, the studied element, calculated taking  
24 as a given the incumbent LEC's provision of other elements. The Rules further  
25 specify that such cost shall reflect use of the most efficient telecommunications

1 technology currently available; reflect the lowest cost network configuration given the  
2 existing location of incumbent wire centers; include forward-looking cost of capital;  
3 and reflect economic depreciation rates.

4  
5 **Q. WHAT DIRECTION IS PROVIDED BY THE ORDER REGARDING THE**  
6 **ASSIGNMENT OF A REASONABLE ALLOCATION OF FORWARD-**  
7 **LOOKING COMMON COSTS?**

8 A. The Order states that the LEC's common costs are to be forward-looking economic  
9 costs that shall be allocated among elements and services in a reasonable manner,  
10 consistent with the pro-competitive goals of the 1996 Act (Order ¶ 695). The Order  
11 thus concludes that either the use of a fixed allocator (e.g., a percentage mark-up over  
12 directly attributable forward-looking costs) or the allocation of only a relatively small  
13 share of common costs to certain critical network elements is appropriate. The Order  
14 prohibits an allocation of common costs in inverse proportion to demand sensitivity.  
15 *The Rules also require that the sum of a reasonable allocation of forward-looking*  
16 *common costs and the TELRIC of an element not exceed stand-alone costs. The*  
17 *Rules further require that the sum of the allocation of forward-looking common costs*  
18 *for all elements and services equal the total forward-looking common costs, exclusive*  
19 *of retail costs, attributable to operating the incumbent LEC's total network, so as to*  
20 *provide all the elements and services offered.*

21  
22 **Q. ARE CERTAIN PRICING ACTIONS PRECLUDED BY THE FCC?**

23 A. Yes. The Rules state that embedded costs, retail costs, opportunity costs, and  
24 services subsidies shall not be considered in the calculation of the forward-looking  
25 economic cost of an element.

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**Q. GIVEN THESE VARIOUS REQUIREMENTS IN THE FCC RULES, WHAT COST STUDIES ARE REQUIRED BY THE COMMISSION TO ESTABLISH BELLSOUTH INTERCONNECTION, NETWORK ELEMENT, COLLOCATION, AND TRANSPORT AND TERMINATION RATES?**

A. The Commission will need total element long-run incremental cost studies by geographic cost area, performed by BellSouth, using the TELRIC procedures defined by the FCC. If the Commission intends to assign any appreciable portion of common costs to network elements, it will also need studies identifying BellSouth's efficient forward-looking common costs and directly attributable forward-looking costs for all elements and services. The Commission may also need information from BellSouth regarding element stand-alone costs.

**Q. WHAT OPTIONS ARE AVAILABLE TO THE COMMISSION IF BELLSOUTH CANNOT IMMEDIATELY PROVIDE THE REQUIRED DATA?**

A. The FCC Rules allow the Florida Commission to establish proxy-based rates for the requested elements and capabilities requested by new entrants. These proxy-based rates must fall within an established price range contained in the Rules. Such interim rates must also be revised once the Commission has received and reviewed relevant cost studies, or if the proxy guidelines are changed.

**Q. WHAT RATE PROXIES HAS THE FCC ESTABLISHED?**

A. The FCC has established maximum rates and, in one instance, minimum rates on a

1 geographically averaged basis. Under the Rules, the geographically deaveraged rates  
2 established by the Commission cannot, when weighted together in proportion to  
3 relative service quantities, exceed the maximum geographically averaged price  
4 contained in the Rules, nor may they be less than the established minimum price.  
5 Rate combinations that produce weighted rates falling between the minimum and  
6 maximum values are permissible, provided the Commission sets forth a reasonable  
7 basis for the rates it selects.

8 Specific proxies for various elements are as follows:

- 9 • Maximum average rates for unbundled local loops, on a statewide weighted basis,  
10 shall not be greater than \$13.68 per month.
- 11 • Maximum blended rates for unbundled local switching shall be no greater than  
12 0.4 cents per minute. The minimum blended rate shall be no less than 0.2 cents  
13 per minute. The blended rate is the sum of flat-rated and usage-sensitive local  
14 switching charges, divided by projected average minutes of use.
- 15 • Maximum rates for dedicated transmission links shall be the incumbent's tariffed  
16 interstate charges for comparable interstate facilities.
- 17 • Maximum shared transmission facility rates for facilities between tandem  
18 switches and end offices shall be the weighted per minute equivalent of DS1 and  
19 DS3 interoffice dedicated transmission links that reflects the relative number of  
20 DS1 and DS3 circuits used in the tandem to end office links (or a surrogate based  
21 on the proportion of copper and fiber facilities in the interoffice network),  
22 calculated using a loading factor of 9,000 minutes per month per voice-grade  
23 circuit.
- 24 • Maximum tandem switching rates shall not be greater than 0.15 cents per minute

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of use.

- Maximum collocation rates shall be no greater than the effective rates for equivalent services in the interstate tariff. Where interstate collocation services are not equivalent to collocation arrangements approved by the commission, the commission may set rates to approximate the result of a forward-looking economic cost study.
- Maximum rates for signaling, call-related databases, and other elements shall be comparable interstate rates, to the extent such rates exist and cost support has been provided pursuant to paragraph C.F.R. 61.49(h).
- Maximum rates for other elements and capabilities shall be no greater than a rate based on direct costs plus a reasonable allocation of overhead loadings.

**SETTING OF PROXY-BASED RATES**

**Q. HAS BELLSOUTH PROVIDED STUDIES TO AT&T DURING THE NEGOTIATION PROCESS THAT COMPLY WITH THE FCC'S RULES?**

**A. No. The incremental BellSouth cost studies that have been made available to AT&T do not meet the requirements of the Act, as these studies have not been performed in accordance with the study principles and procedures dictated by the Rules. Nor has BellSouth provided information regarding its efficient forward-looking common costs, directly attributable forward-looking costs, or stand-alone costs. The Commission will therefore be unable to establish permanent rates based on the BellSouth cost information provided to AT&T.**

1 Q. DO YOU RECOMMEND THAT THE COMMISSION SET PROXY RATES?

2 A. Yes, given the inadequate currently available cost data provided by BellSouth.

3

4 Q. HOW SHOULD THE COMMISSION SET PROXY RATES?

5 A. If the Commission decides to set proxy rates, the rates must be consistent with any  
6 proxy set forth in the Rules. This does not mean, however, that the proxy must equal  
7 the maximum amount that the FCC specifies. The proxy may be lower than the  
8 maximum, and above any relevant floor, so long as a reasonable basis exists to  
9 support the proxy.

10

11 Q. DO YOU BELIEVE THAT THE PRICES SET FORTH IN YOUR DIRECT  
12 TESTIMONY, AS SUPPLEMENTED BY THIS TESTIMONY, PROVIDE A  
13 REASONABLE BASIS FOR INTERIM RATES FOR NETWORK  
14 ELEMENT, INTERCONNECTION, COLLOCATION AND TRANSPORT  
15 AND TERMINATION PRICING?

16 A. Based on my calculations, the AT&T price proposal discussed in my previous  
17 testimony, as supplemented below, provides a reasonable basis for determining proxy  
18 prices because AT&T's proposal, as supplemented, complies with the FCC rule with  
19 one possible exception.

20

21 Q. HOW DO AT&T'S PROPOSED RATES COMPLY WITH THE FCC RULE?

22 A. The AT&T proposal meets the requirements of the Rule for rate structures by  
23 providing for rates structured consistently with the manner in which costs are  
24 incurred, by providing for the recovery of dedicated facility costs through flat-rate  
25 charges, by providing for recovery of shared facilities costs through usage-based



1 charges that efficiently apportion costs among users, by recovery of recurring costs  
2 through recurring charges, and by recovery of nonrecurring costs in a manner that  
3 efficiently allocates costs among requesting telecommunications carriers.

4 The AT&T proposal meets the Rule's requirement for geographical rate deaveraging  
5 by proposing a composite loop rate for BellSouth and proposing that the composite  
6 rate be deaveraged to reflect geographical cost differences as discussed below.

7 The AT&T proposal meets the Rule's requirement to eliminate access charges to  
8 purchasers of elements that offer telephone exchange or exchange access services.

9 The AT&T proposal meets the Order requirement to eliminate the subscriber line  
10 billing charge (SLC) to either purchasers of local loops or their customers.

11 Finally, and importantly, the AT&T proposal meets each of the proxy rate  
12 requirements contained in the Rules by proposing individual rates within the allowed  
13 price range, at specific rate levels that reflect BellSouth's estimated costs. The rates  
14 proposed by AT&T, adjusted for a forward-looking common cost loading as  
15 discussed below, therefore reflect the best current estimate of the final rate for each  
16 element expected to result from a review of BellSouth studies compatible with the  
17 FCC Rules.

18

19 **Q. WHAT IS THE ONE POSSIBLE EXCEPTION TO AT&T'S COMPLIANCE**  
20 **WITH THE FCC RULES?**

21 **A.** AT&T's prices may not provide for recovery of an appropriate allocation of  
22 BellSouth's forward-looking common costs. Whether such recovery is in fact  
23 excluded from AT&T's proposed rates or is overstated in these rates, is yet to be  
24 determined, as BellSouth has not provided sufficient information to allow full  
25 validation of the Company's stated costs. It is quite possible that the various rates

1 proposed by AT&T actually allow recovery of common costs or effectively allow  
2 recovery of common costs because BellSouth's costs are overstated.

3

4 **Q. HOW WOULD ADJUSTMENT FOR FORWARD-LOOKING COMMON**  
5 **COSTS IMPACT THE AT&T PRICE PROPOSAL FOR UNBUNDLED**  
6 **ELEMENTS?**

7 **A.** If AT&T's prices do not reflect common costs, AT&T estimates that forward-looking  
8 common cost loadings should add no more than one or two percent to a properly  
9 conducted TELRIC study. However, a proxy addition to the BellSouth individual  
10 rate element costs provided AT&T will be greater for most rate elements, and will  
11 vary among elements depending on the extent to which BellSouth studies have deleted  
12 directly attributable expense. AT&T continues to review BellSouth's cost data, and  
13 will recommend an appropriate forward-looking common cost adjustment prior to  
14 hearings.

15

16 **Q. IS YOUR CALCULATION OF AT&T'S PROPOSED MELDED LOCAL**  
17 **SWITCHING PRICE BASED ON ACTUAL SERVICE QUANTITIES?**

18 **A.** No. I made a determination that the melded local switching rate would be in  
19 compliance with the FCC rule using AT&T's best estimate of BellSouth service  
20 quantities and minutes. Similarly, I have assumed that the FCC proxy for common  
21 transport produces rates comparable to BellSouth's interstate rate. I made the  
22 assumptions because actual BellSouth cost data is not available. It will therefore be  
23 necessary for the Commission to obtain actual data from BellSouth to compute the  
24 final melded local switching rate and maximum common transport rate, and use that  
25 data to make minor rate adjustments if and where required. I believe my estimates are

1 appropriate and do not affect the reasonableness of AT&T's proposed prices.

2

3 **Q. DO YOU OFFER ANY ADDITIONAL INFORMATION IN FURTHER**  
4 **SUPPORT OF WHY THIS COMMISSION SHOULD USE AT&T'S PRICES**  
5 **AS PROXIES?**

6 A. The AT&T proposal discussed in my direct testimony requests geographic  
7 deaveraging for loops and requests that deaveraged loop rates be based on BellSouth  
8 cost studies. It is unlikely that BellSouth will be able to produce suitable loop cost  
9 studies in the required time frame. If it cannot, the Commission can establish  
10 geographically deaveraged proxy rates based on other data sources.

11

12 **Q. WHAT INFORMATION COULD BE USED TO DISAGGREGATE LOOP**  
13 **RATES?**

14 A. AT&T recommends use of the Florida Hatfield results, which identify monthly loop  
15 costs for BellSouth in the aggregate, and also by census block group (CBG). Based  
16 on the most current Hatfield run, the aggregate forward-looking economic cost of all  
17 BellSouth loops in Florida is \$11.68, including an average cost of \$27.91 for CBGs  
18 with fewer than 200 lines per square mile; \$14.98 for CBGs with 201-650 lines per  
19 square mile; \$12.24 for CBGs with 651-850 lines per square mile; \$11.23 for CBGs  
20 with 851-2550 lines per square mile; and \$9.61 for CBGs greater than 2550 lines per  
21 square mile.

22

23 **Q. HOW SHOULD THE HATFIELD DATA BE USED TO ESTABLISH**  
24 **DEAVERAGED LOOP PRICES?**

25 A. The Commission should deaverage the proxy loop rate it establishes using a three step

1 process. The Commission should first utilize the Hatfield result, with the assistance  
2 of BellSouth and AT&T, to determine equivalent Hatfield loop costs by size of wire  
3 center. The Commission should next determine the number of wire center price  
4 groups necessary to capture significant geographical cost differences. Finally, the  
5 Commission should establish rates for each wire center price group that reflect the  
6 group's relative geographic cost differences versus other price groups, while  
7 producing a composite loop charge equal to the approved composite rate.

8

9 **Q. SHOULD OTHER NETWORK ELEMENT RATES BE**  
10 **GEOGRAPHICALLY DEAVERAGED AT THIS TIME?**

11 **A.** No. AT&T is not aware of readily available studies that could be used at this time to  
12 identify differences in other network element costs by geographic area. Moreover, to  
13 the extent such differences exist, AT&T does not believe those cost differences would  
14 be as significant as loop cost variations. For both reasons, AT&T does not  
15 recommend different rates by geographic area for other elements pending the  
16 completion of suitable cost studies.

17

18 **Q. IN ADDITION TO THE REASONABLENESS OF THE PRICES AT&T HAS**  
19 **PROPOSED, ARE THERE OTHER REASONS NOT TO ESTABLISH**  
20 **PROXY-BASED RATES AT THE MAXIMUM PROXY LEVEL?**

21 **A.** Yes. Establishing interim rates at the maximum permitted level when available cost  
22 data indicate lower costs would discourage efficient entry, and thereby conflict with  
23 the pro-competitive goals of the Act. Using the maximum rate for transport services  
24 would require AT&T to pay for services AT&T might not use, as present interstate  
25 transport rates include bundled functions that AT&T might not need. Finally, no

1 maximum rates have been established by the rules for various items requested by  
2 AT&T, other than a requirement that rates for such items be based on direct cost plus  
3 a reasonable allocation of overheads. This standard is reflected in AT&T's proposed  
4 rates.

5

6 **Q. HOW IS THE AT&T TRANSPORT AND TERMINATION PROPOSAL**  
7 **AFFECTED BY THE RULES?**

8 A. The interim bill and keep arrangement proposed by AT&T appears to be permitted by  
9 the Order only in those cases where the Commission determines that traffic from one  
10 network to the other is roughly balanced. AT&T continues to support bill and keep  
11 as an interim arrangement, and believes such a determination on the Commission's  
12 part would be appropriate.

13

14 Should the Commission not implement bill and keep, the FCC Rules require that rates  
15 for transport and termination be established using the same guidelines provided for  
16 the dedicated transmission, shared transmission, tandem switching, and local  
17 switching network elements. The Order specifies that only the usage-sensitive  
18 element of local switching will apply to terminated calls.

19

20 Given the FCC's Order there is no reason to establish prices for transport and  
21 termination different than those that would apply to other network element uses,  
22 assuming the network element rates are based on the best available cost data.

23 Therefore, if the Commission does not order bill and keep, it should require that  
24 transport and termination be billed using rates equivalent to the network element rates  
25 proposed in Exhibit WE-I of my direct testimony. In requiring as much, the

1           Commission should specifically order that only the usage-sensitive element of local  
2           switching apply to traffic termination.

3

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

5   **A.    Yes.**