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REBUTTAL TESTIMONY OF DON PRICE
ON BEHALF OF
MCI TELECOMMUNICATIONS CORPORATION AND
MCImetro ACCESS TRANSMISSION SERVICES, INC.

DOCKET NO. 960846-TP
September 16, 1996

960833-TP

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Price, and my business address is 701 Brazos, Suite 600,
Austin, Texas, 78701.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by MCI Telecommunications Corporation in the Southern
Region as Senior Regional Manager -- Competition Policy.

Q. ARE YOU THE SAME DON PRICE WHO HAS PREVIOUSLY FILED
TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this testimony is to rebut certain statements and allegations
made in the testimonies of BellSouth Telecommunications ("BST") witnesses
Bob Scheye, Keith Milner and Walter Reid. I will specifically provide rebuttal
to demonstrate the following: 1) that Mr. Scheye's testimony regarding the

1 negotiations between MCI and BST misrepresent MCI's position as to those
2 negotiations; 2) that Mr. Scheye's and Mr. Milner's testimonies on ancillary
3 services represent bad public policy and do not comply with BST's obligations
4 pursuant to the Act; and 3) that the testimonies of Mr. Scheye and Mr. Reid
5 regarding resale are contrary to the spirit and letter of the Act and would
6 frustrate the intent of the Act to promote a vigorous competitive market.

7

8

NEGOTIATIONS BETWEEN MCI AND BST

9 Q. MR. SCHEYE'S TESTIMONY STATES AT PAGE 3 THAT THE "ONLY
10 BASIS OF NEGOTIATIONS WAS THE REQUIREMENTS OF THE ACT"
11 AND AT PAGE 5 THAT THE INTERIM AGREEMENT "WAS
12 NEGOTIATED UNDER THE TERMS OF THE ACT." ARE THESE
13 STATEMENTS CORRECT?

14 A. No. Negotiations between MCI and BST began on July 18, 1995, almost
15 seven full months before the Telecommunications Act of 1996 ("the Act") was
16 signed into law. When those negotiations began, the Florida legislature had
17 recently passed a new telecommunications statute that, at least from MCI's
18 perspective, served as the basis for negotiations. Negotiations were not
19 concluded and the interim agreement not signed until the eve of the Georgia
20 PSC's hearings on MCI's complaint against BST on interconnection and
21 unbundling issues, on May 13, 1996. Furthermore, MCI had earlier expressly
22 advised BST that the interim negotiations should be completed before we
23 began negotiations under the Act. I believe these facts make it clear that the
24 interim agreement was clearly *not* negotiated under the terms of the Act.

1 Mr. Schey's testimony in this regard is artfully worded. He would have the
2 Commission believe that it is not technically possible for BST to provide
3 branding, although close examination of his testimony indicates that he is
4 really seeking to expand the meaning of "technically feasible" in a way that
5 permits BST to avoid its obligations under the Act. Mr. Schey states at page
6 22 of his testimony that BellSouth "lacks the capability to" provide the
7 branding that is requested by MCI and AT&T. The question BST must
8 answer, however, is *not* whether it "lacks" a particular capability. The FCC's
9 recently adopted rules are very clear on this point.

10 Technically feasible. Interconnection, access to unbundled network
11 elements, collocation, and other methods of achieving interconnection
12 or access to unbundled network elements at a point in the network shall
13 be deemed technically feasible absent technical or operational concerns
14 that prevent the fulfillment of a request by a telecommunications carrier
15 for such interconnection, access, or methods. A determination of
16 technical feasibility does not include consideration of economic,
17 accounting, billing, space, or site concerns, except that space and site
18 concerns may be considered in circumstances where there is no
19 possibility of expanding the space available. The fact that an
20 incumbent LEC must modify its facilities or equipment to respond to
21 such request does not determine whether satisfying such request is
22 technically feasible. An incumbent LEC that claims that it cannot
23 satisfy such request because of adverse network reliability impacts must
24 prove to the state commission by clear and convincing evidence that

1 such interconnection, access, or methods would result in specific and
2 significant adverse network reliability impacts. (Part 51.5 of the FCC's
3 Rules, "Terms and definitions." Emphasis added.)

4 If it is possible for BST to modify its network to provide the requested
5 capability, then it is "technically feasible." (Note that BST has not sought to
6 prove that "specific and significant adverse network reliability impacts" on its
7 network would result from providing the requested routing, an option which it
8 has under the definition.) The Commission should hold BST to a rigid
9 standard for demonstration of technical feasibility, and not accept the broader
10 standard Mr. Scheye has urged.

11

12 Q. MR. SCHEYE STATES AT PAGES 27-28 THAT MCI'S BRANDING
13 CONCERNS REGARDING INTERACTION BETWEEN BST'S
14 EMPLOYEES AND MCI CUSTOMERS CAN BE RESOLVED. DO YOU
15 AGREE?

16 A. Yes, with one exception. The suggestions of Mr. Scheye in this regard appear
17 to resolve MCI's concerns that its customers be properly advised as to the role
18 performed by BST technicians working on MCI's behalf, and that BST's
19 employees not be permitted to market, either directly or indirectly, BST
20 services to MCI customers.

21 The area where I take issue with Mr. Scheye is his statement that
22 BST's technicians will use "generic access cards" and will write "MCI" on
23 those cards when leaving them behind at a customer location. As noted in
24 MCI's original petition in this proceeding, MCI believes it is reasonable for

1 BST's personnel to leave behind cards provided by and identifying MCI as the
2 provider of service in a resale and/or unbundled network element situation.
3 Mr. Scheye has not claimed that such a request is technically infeasible, and
4 the use of an MCI-specific card should not have an effect on BST's costs.
5 Therefore, MCI's request should be granted.

6

7 **Local Dialing Parity**

8 **Q. AT PAGE 74 OF HIS TESTIMONY, MR. SCHEYE STATES THAT ANY**
9 **ISSUES PERTAINING TO LOCAL DIALING PARITY "SHOULD BE**
10 **DISMISSED FOR PURPOSES OF THIS PROCEEDING." DOES MCI**
11 **SHARE THAT VIEW?**

12 **A. Not entirely. I agree that, to the extent that BST in the future seeks to recover**
13 **costs that in its opinion arise by virtue of its obligation to provide local dialing**
14 **parity, the Commission cannot address those issues in this proceeding except**
15 **to reserve the right to scrutinize such costs and determine the appropriate**
16 **means of recovering those costs at that time. There are, however, local**
17 **dialing parity issues raised elsewhere in Mr. Scheye's testimony that should**
18 **remain in this proceeding.**

19

20 **Q. WHAT ARE THE OTHER "LOCAL DIALING PARITY ISSUES" TO**
21 **WHICH YOU REFER?**

22 **A. At page 26 of his testimony, Mr. Scheye provides an example of use of an**
23 **MCI calling card in support of his claim that it is unnecessary for BST to**
24 **provide local dialing parity to MCI for operator services, directory assistance,**

1 or repair calls. Because MCI's access to operator services, directory
2 assistance, and repair are issues which will impact the extent to which it is
3 able to compete on an equal footing with BST, these issues should be
4 addressed in this arbitration proceeding.

5 As to Mr. Scheye's example, I agree with him that the dialing sequence
6 an end user must enter to use MCI's calling card is lengthy. I would point
7 out, however, that his example completely overlooks the fact that
8 interexchange carriers compete on an equal footing in the marketing of their
9 calling card services. In other words, the end user of one carrier does not
10 have a preferential dialing pattern over end users of other carriers. Thus, if
11 Mr. Scheye's calling card example demonstrates anything, it demonstrates the
12 importance for MCI's customers to have access to directory assistance,
13 operator services, and repair on the same basis as BST's customers in terms of
14 the digits dialed to reach those services. Permitting BST to require that MCI's
15 customers dial differently, or dial additional digits, to reach DA, operator
16 services, or repair, would negate the local dialing parity requirement in the
17 Act and provide BST with an undeserved competitive advantage.

18

19 **Q. ARE THERE TECHNICALLY FEASIBLE WAYS IN WHICH BST COULD**
20 **OFFER NONDISCRIMINATORY ACCESS TO, FOR EXAMPLE, REPAIR**
21 **SERVICES?**

22 **A. Yes. It is my understanding that Bell Atlantic, the RBOC with telephone**
23 **operations in the mid-Atlantic states, has agreed to no longer use 611 for**
24 **access to its repair service centers. In the future, all local service providers**

1 will utilize 1-800- (or 1-888-) numbers to reach their respective repair service
2 centers, thereby achieving local dialing parity with regard to access to repair
3 services. Note also that this solution resolves the issue of branding for calls to
4 repair service centers, because if the local service provider chooses not to
5 provide its own service center functions but rather to have Bell Atlantic
6 provide the functions, the use of discrete, carrier-specific 800- numbers
7 facilitates the branding of service calls by Bell Atlantic's customer service
8 representatives.

9

10 **Directory Assistance/Operator Services**

11 Q. HAVE YOU REVIEWED THE TESTIMONY OF BST WITNESS KEITH
12 MILNER REGARDING WHAT HE TERMS THE UNBUNDLED
13 SWITCHING ELEMENT?

14 A. Yes, I have.

15

16 Q. WHAT IS YOUR REACTION TO MR. MILNER'S CONCLUSION THAT
17 THE "SELECTIVE ROUTING" NECESSARY TO DELIVER DIRECTORY
18 ASSISTANCE AND OPERATOR SERVICES TRAFFIC TO MCI'S
19 OPERATOR SERVICES PLATFORM IS NOT TECHNICALLY FEASIBLE?

20 A. Mr. Milner's conclusion regarding the "technical feasibility" to provide such
21 routing of DA and operator services traffic appears to rely on the same
22 standard presented in Mr. Scheye's testimony; i.e., that such capability is "not
23 currently available." Indeed, Mr. Milner's testimony states that such a
24 capability might be possible, and that "further study" is required. (Direct

1 testimony of Keith Milner in Docket No. 960833-TP, dated August 12, 1996,
2 at page 47.) The Commission should not permit BST to use a "not currently
3 available" standard for the provision of unbundled network elements, because
4 that is not the standard set forth in the Act.

5 Other information suggests that, if BST were to conduct that "further
6 study," it would determine that such capability could be developed. It is my
7 understanding that Bell Atlantic has recently agreed to provide such selective
8 routing, based on AIN capability in its network. Again, the absence of current
9 "capability" should not be confused with "technical infeasibility."

10
11 **Numbering Resources**

12 Q. MR. SCHEYE STATES AT PAGE 73 THAT THE ISSUE OF MCI
13 OBTAINING NXX (CENTRAL OFFICE) CODES IS COVERED BY THE
14 INTERIM AGREEMENT YOU DISCUSSED AT THE OUTSET OF THIS
15 TESTIMONY. IS MR. SCHEYE'S STATEMENT CORRECT?

16 A. No, it is not. There is only one reference in the interim agreement to
17 numbering resources, and that reference speaks solely to MCI's use of NXX
18 codes. There is nothing in the interim agreement that addresses the way in
19 which numbering resources are to be made available to MCI by BST.

20
21 **Interim Number Portability Issues**

22 Q. AT PAGE 70 OF HIS TESTIMONY, MR. SCHEYE STATES THAT THE
23 ISSUE OF RECOVERY OF COSTS OF INTERIM NUMBER
24 PORTABILITY MEASURES SHOULD NOT BE SUBJECT TO

1 **ARBITRATION. DO YOU AGREE?**

2 **A. I strongly disagree. Since May 13, 1996 when the interim agreement was**
3 **signed, the FCC issued its LNP Order (cited in my direct testimony filed**
4 **August 22, 1996). As I noted in my direct testimony, the LNP Order provides**
5 **that cost recovery mechanisms for interim number portability measures should**
6 **not afford one service provider an appreciable incremental cost advantage over**
7 **another service provider. The only thing in this regard MCI is seeking in this**
8 **proceeding is to bring into compliance with that FCC order the monthly**
9 **recurring charge in the interim agreement. (The monthly charge previously**
10 **approved by this Commission is likewise out of compliance with that FCC**
11 **Order, and should also be addressed at some point.) As I noted in my direct**
12 **testimony, the simplest approach is to simply require all carriers to absorb**
13 **their own costs of implementing interim number portability measures, given**
14 **the relatively short time frame during which such measures will be used.**

15

16 **Directory Listings/Directory Distribution**

17 **Q. THE ISSUE OF DIRECTORY LISTINGS AND DIRECTORY**
18 **DISTRIBUTION IS RAISED AT PAGES 68-69 OF MR. SCHEYE'S**
19 **TESTIMONY. DO YOU AGREE WITH HIS CONTENTION THAT THESE**
20 **ISSUES HAVE EITHER BEEN RESOLVED OR SHOULD NOT BE**
21 **RESOLVED IN THIS ARBITRATION PROCEEDING?**

22 **A. I agree with Mr. Scheye to the extent that a number of issues have been**
23 **resolved in the agreement between MCImetro and BAPCO. To the extent that**
24 **there are outstanding issues, however, I disagree, and believe that those issues**

1 should be resolved through arbitration. For example, Mr. Scheye's example
2 of the issue of a customized cover for directories delivered to MCI's customers
3 is an issue on which MCI has the right to a decision by this Commission, in
4 the absence of agreement on the issue.

6 RESALE ISSUES

7 Restrictions on Resale

8 Q. IS IT MR. SCHEYE'S RECOMMENDATION THAT BST WOULD
9 "OFFER FOR RESALE AT WHOLESALE RATES ANY
10 TELECOMMUNICATIONS SERVICE THAT [BST] PROVIDES AT
11 RETAIL TO SUBSCRIBERS WHO ARE NOT TELECOMMUNICATIONS
12 CARRIERS," AS REQUIRED BY SECTION 251(c)(4) OF THE ACT?

13 A. No. Mr. Scheye urges the Commission to exclude potentially significant
14 offerings from its responsibility to permit resale. Included in his
15 recommendation are grandfathered services and contract service arrangements,
16 although in neither case does he argue that they are not "telecommunications
17 services" provided "at retail to [end user] subscribers. The claim is that it
18 would be "illogical" to require BST to permit the resale of these types of
19 offerings. What Mr. Scheye does not address, however, is the potential for it
20 to use grandfathering and/or contracts to avoid its responsibility to resell all
21 retail offerings of telecommunications services.

22 Perhaps an example will demonstrate MCI's concern. In some
23 jurisdictions, centrex services are offered *only* as either a grandfathered
24 service or pursuant to contract. If both grandfathered and contract services

1 were excluded from the services to be resold, there would be no competition
2 for centrex except where competitors have been able to construct their own
3 switches and/or networks. In evaluating Mr. Scheye's testimony on this point,
4 the Commission should recall that one of the purposes of permitting resale
5 competition is to enable competition to occur in advance of such network
6 deployment and/or in those locations where deployment of competitors'
7 network facilities is not cost effective. Thus, not only is Mr. Scheye's
8 recommendation contrary in my view to the letter of the Act, it also violates
9 the spirit of the Act that new policies be implemented to promote as rapidly as
10 possible development of a vigorous competitive market. The Commission
11 should require that both grandfathered services and contract services be
12 available for resale. As I discussed in my direct testimony filed August 21,
13 1996, certain restrictions on such resale could be permitted, such as limiting
14 the resale of grandfathered services to the customers who took the
15 grandfathered service from BST.

16
17 **Calculation of the Wholesale Discount**

18 **Q. WHAT IS THE PURPOSE OF CALCULATING A WHOLESALE**
19 **"DISCOUNT?"**

20 **A. The purpose of calculating a wholesale "discount" is to quantify the costs of**
21 **the incumbent LEC -- in this case, BST -- that are *not* incurred in the**
22 **provision of service at wholesale. This is so the costs that are not incurred in**
23 **the provision of wholesale services (i.e., BST's costs of retailing) can be**
24 **deducted from BST's retail rates to yield appropriate wholesale rates. This is**

1 what is required by Sect. 252(d)(3) of the Telecommunications Act of 1996
2 (“the Act”). The concept is relatively simple, and can be shown with the
3 following illustration:

4
5
$$\begin{array}{r} \text{BST's retail rate(s)} \\ \text{minus} \quad \underline{\text{BST's costs of retailing}} \\ \text{equals} \quad \text{BST's wholesale rate(s)} \end{array}$$

8
9 Q. IS THE APPROACH YOU HAVE DESCRIBED CONSISTENT WITH THE
10 APPROACH TAKEN BY BST'S WITNESS WALTER REID?

11 A. No. Mr. Reid's approach seeks to determine costs that will no longer be
12 incurred by BST. Although I am not an attorney, I do not believe such an
13 approach is consistent with the Act.

14
15 Q. WHY IS IT NOT SUFFICIENT FOR BST TO DETERMINE THE COSTS
16 THAT IT WILL NO LONGER INCUR?

17 A. There is no argument that BST will continue to be a retail provider of
18 telecommunications services or that it will incur retailing costs. But by
19 looking only at the costs that BST will no longer incur, the resulting discount
20 would *overstate* the wholesale rates, place BST in an unfair competitive
21 position in the retail market, and deny to end users the benefits that resale
22 competition could otherwise bring.

23 In contrast with what I believe is required by the Act, the effect of Mr.
24 Reid's approach can be shown graphically as follows:

1 BST's retail rate(s)
2 minus some of BST's retailing costs
3 equals BST's wholesale rate(s) [*which includes the rest of*
4 *BST's retailing costs*]

5

6 As this illustration demonstrates, by failing to take into account *all* of BST's
7 retailing costs in calculating the discount, the resulting wholesale rates will
8 burden BST's wholesale customers with recovery of the portion of BST's retail
9 costs that were ignored in the calculation of the discount.

10

11 Q. WHAT RETAILING COSTS WERE IGNORED IN THE ANALYSIS MR.
12 REID RECOMMENDS BE USED TO SET WHOLESALE RATES?

13 A. The analysis ignored the following costs:
14 retailing costs that BST believed were "non-volume sensitive"
15 retailing costs that BST believed it would continue to incur
16 costs of functions supporting BST's retailing activities; i.e., "indirect"
17 costs
18 costs associated with call completion and number services functions

19

20 Q. WHY IS IT WRONG TO IGNORE COSTS THAT ARE NOT "VOLUME
21 SENSITIVE" IN CALCULATING THE WHOLESALE DISCOUNT?

22 A. The costs that Mr. Reid ignores on the basis that they are not "volume
23 sensitive," such as the advertising costs he cites at page 14 of his testimony,
24 are unquestionably retailing costs. If Mr. Reid's analysis is accepted by this

1 Commission, the result would be that BST's retail competitors would be forced
2 to pay a portion of BST's advertising costs and any other costs Mr. Reid
3 considered to be "non-volume sensitive." It should be obvious that BST's
4 retail competitors will incur costs to promote their own retail offerings. To
5 require them to pay not only their own promotional and advertising costs, but
6 also a portion of BST's advertising and promotional costs would put them at a
7 competitive disadvantage. I do not believe that such a result is consistent with
8 the requirements of the Act.

9
10 Q. WHY IS IT WRONG TO IGNORE COSTS THAT BST WILL CONTINUE
11 TO INCUR IN CALCULATING THE WHOLESALE DISCOUNT?

12 A. As with the other costs he has ignored, Mr. Reid does not contend that the
13 costs he has ignored in his analysis are not retailing costs, only that BST will
14 continue to incur those costs. Again, this ignores what I believe is the clear
15 intent of the Act to deduct from retail rates the costs associated with retailing.
16 If Mr. Reid's approach is accepted by this Commission, it would put BST's
17 retail competitors in the position of having to pay for a portion of BST's
18 retailing costs.

19
20 Q. WHY IS IT WRONG TO IGNORE COSTS THAT ARE NOT DIRECTLY
21 RELATED TO BST'S RETAILING OPERATIONS?

22 A. As I noted in my direct testimony filed August 21, 1996 in this proceeding,
23 BST incurs overhead costs which support all other functions, including those
24 that are associated with its retail operations. The example I used was the costs

1 of the Human Resources department associated with the staffing and support of
2 the marketing department. It is intuitively apparent that such overhead
3 expenses would be less if there were no retailing functions to support. The
4 fact of ignoring such indirect costs would mean that BST's retail competitors
5 would be forced to pay a portion of BST's overhead costs that support its
6 retailing activities. This would provide a competitive advantage to BST,
7 because its competitors will have to recover their own overheads to compete in
8 the retail market, while being required to pay a portion of BST's retail-related
9 overheads.

10
11 Q. WHY IS IT INCORRECT TO IGNORE COSTS ASSOCIATED WITH CALL
12 COMPLETION AND NUMBER SERVICES?

13
14 A. Call completion and number services will either be provided by the other
15 provider or the subject of a separate contract. (These are both discussed in my
16 additional direct testimony filed in this proceeding on August 22, 1996.) To
17 include those costs in the calculation of the wholesale discount would require
18 BST's retail competitors to pay twice for those functions.

19
20 Q. GIVEN ALL THE ABOVE, IS IT YOUR TESTIMONY THAT THE
21 ANALYSIS MR. REID RECOMMENDS BE USED TO QUANTIFY THE
22 WHOLESALE DISCOUNTS DOES NOT MEET EITHER THE
23 REQUIREMENTS OF THE ACT OR OF THE RECENTLY ISSUED FCC
24 ORDER?

- 1 A. Yes. For all the reasons previously discussed, Mr. Reid's analysis fails to
2 meet the standards of either the Act or the FCC's rules for calculating the
3 wholesale discount.
4
- 5 Q. **DOES THE AVOIDED COST MODEL WHICH YOU SPONSORED IN
6 YOUR AUGUST 21, 1996 DIRECT TESTIMONY INCLUDE ALL OF
7 BST'S RETAILING COSTS?**
- 8 A. Yes. The model captures BST's retailing costs as required by Sect. 252(d)(3)
9 of the Act and Part 51.609 of the FCC's Rules, and therefore provides a
10 proper basis for calculating the wholesale discount. I have provided as an
11 attachment to this testimony Exhibit ___(DGP-5), which shows the model's
12 calculation of the BST-Florida discount based on the 1995 actuals in BST's
13 ARMIS report.
14
- 15 Q. **IN SUMMARY, HOW DOES MCI'S AVOIDED COST STUDY DIFFER
16 FROM THE OTHER STUDIES PRESENTED IN THIS PROCEEDING?**
- 17 A. As noted above, the analysis presented by BST through Mr. Reid's testimony
18 attempts to overcome the rebuttable presumption in Part 51.609(d) of the
19 FCC's Rules with respect to costs in certain accounts (i.e., accounts 6611-
20 6613 and 6621-6623) which the FCC concluded were presumed to be avoided.
21 On the other hand, the analysis presented by AT&T attempts to overcome the
22 rebuttable presumption in Part 51.609(d) of the FCC's Rules with respect to
23 costs in certain accounts (i.e., accounts 6110-6116 and 6210-6565) which the
24 FCC concluded were presumed to not be avoided.

1 In contrast with both these approaches, the model which I am
2 presenting and the result of which is reflected in Exhibit ___(DGP-5) does not
3 attempt to rebut any of the presumptions in Part 51.609(d) of the FCC's rules,
4 and included and excluded accounts strictly in accordance with the FCC's
5 presumptions in that section of its Rules.

6
7 **Application of the Wholesale Discount**

8 Q. YOU STATED EARLIER THAT BST'S WITNESS REID IGNORES OR
9 MISUNDERSTANDS THE IMPACT OF THE APPLICATION OF THE
10 WHOLESALE DISCOUNT. PLEASE EXPLAIN.

11 A. Mr. Reid's testimony makes much of the fact that there are a number of
12 retailing costs that BST will continue to incur. The implication of his
13 testimony is that taking these costs into account in calculating the wholesale
14 discount will somehow impact BST's ability to recover its costs. That
15 implication is wrong.

16
17 Q. WHY?

18 A. It is wrong because the discount will *only* be applied to those services that
19 BST provides on a wholesale basis. But BST will continue to recover its
20 retailing costs through every one of its services that it continues to provide on
21 a retail basis. Thus, BST will have ample opportunity to recover its retailing
22 costs. Because the wholesale discount will only be applied to those services
23 that BST provides on a wholesale basis, the proper calculation of the wholesale
24 discount -- i.e., by including *all* of BST's retailing costs -- is totally unrelated

1 to the question of whether BST will be able to recover its retailing costs, and
2 in no way impairs BST's ability to recover those costs.

3

4 **Separate Wholesale Discounts for Customer Classes**

5 Q. IS IT APPROPRIATE TO CALCULATE SEPARATE WHOLESAL
6 DISCOUNTS FOR DIFFERENT CUSTOMER CLASSES?

7 A. There is nothing theoretically wrong with calculating different discounts for
8 different customer classes. The problem raised by Mr. Reid's
9 recommendation is that there is no way to verify the correctness or validity of
10 the allocations that he makes in arriving at his residential and business
11 discounts.

12

13 Q. WHAT DO YOU MEAN THAT MR. REID HAS NOT PROVIDED ANY
14 DEMONSTRATION OF THE REASONABLENESS OR VALIDITY OF HIS
15 ALLOCATION OF COSTS BETWEEN RESIDENCE AND BUSINESS
16 SERVICES?

17 A. Mr. Reid states at page 6 of his direct testimony that:

18 The discount is based on the relationship between
19 avoided costs and revenues and is calculated by dividing
20 the 1995 costs that will be avoided by the amount of
21 1995 revenue subject to being discounted.

22 There is nothing in Mr. Reid's testimony, however, to explain the basis for his
23 assignment or allocation of costs. Absent such an explanation, there is no way
24 to conclude that the percentages he presents appropriately capture the relative

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retailing costs of the two different customer classes.

Q. MR. REID'S TESTIMONY INCLUDES AN EXAMPLE PURPORTING TO SHOW THAT APPLICATION OF A SINGLE OVERALL DISCOUNT COULD CAUSE BST TO "LOSE" MONEY. IS HIS EXAMPLE PERSUASIVE?

A. Not at all. The only thing demonstrated by the example is that the magnitude of the "loss" that falls out of the example flows directly from the assumptions made in the example.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, at this time.