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REPLY TO:
P.O. BOX 10095
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September 23, 1996

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

via Hand Delivery

Re: Investigation into Temporary Local Telephone Number
Portability Solution to Implement Competition in Local
Exchange Telephone Markets; Docket No. 950737-TP

Dear Ms. Bayo:

Enclosed for filing please find an original and fifteen copies
of the Direct Testimony of Paul R. McDaniel on behalf of Time
Warner AxS of Florida, L.P. d/b/a Time Warner Communications and
Digital Media Partners for the above-referenced docket.

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

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

Respectfully,

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

Peter M. Dunbar
Peter M. Dunbar

- ACK
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CERTIFICATE OF SERVICE
DOCKET NO. 950737-TP

I **HEREBY CERTIFY** that a true and correct copy of Time Warner AxS of Florida, L.P.'s d/b/a Time Warner Communications and Digital Media Partners Direct Testimony of Paul R. McDaniel has been served by U.S. Mail on this 23rd day of September, 1996, to the following parties of record:

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FILE COPY

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
2 DOCKET NO. 950737-TP
3 DIRECT TESTIMONY OF
4 PAUL R. MCDANIEL
5 ON BEHALF OF TIME WARNER AXS OF FLORIDA, L.P. D/B/A
6 TIME WARNER COMMUNICATIONS AND DIGITAL MEDIA PARTNERS

7
8 Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9 A: My name is Paul R. McDaniel. My business address
10 is 160 Inverness Drive West, Englewood, Colorado,
11 80112.

12
13 Q: BY WHOM ARE YOU EMPLOYED?

14 A: I am employed by Time Warner Communications ("Time
15 Warner") as Director of Regulatory Accounting.

16
17 Q: WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF
18 REGULATORY ACCOUNTING?

19 A: I am responsible for:
20 1. Providing direction and guidance to Time
21 Warner divisions concerning financial
22 reporting requirements, separations,
23 allocation of costs, and transactions with
24 affiliates; and

1 2. Providing support to the Regulatory Department
2 in reviewing, evaluating and analyzing cost
3 studies submitted by incumbent local exchange
4 companies (LECs) to state commissions in
5 support of rate and tariff filings that have
6 an impact on Time Warner's telecommunications
7 operations and its customers.

8

9 **Q: WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE**
10 **IN THE PUBLIC UTILITY INDUSTRY?**

11 **A:** I graduated with a Bachelor of Science Degree in
12 Accounting and Finance from the University of
13 Colorado in May of 1975. In 1980, I received a
14 Master's degree in Economics from the University of
15 Colorado. In addition, I have completed all course
16 work for a Ph.D. in economics.

17

18 In October, 1974, I began employment with the
19 Public Service Company of Colorado, an electric and
20 natural gas utility company. My responsibilities
21 included budget analysis and capital expenditures
22 forecasting. After leaving the Public Service
23 Company in 1980, I attended graduate school in
24 economics. In 1985, I joined the Colorado Office
25 of Consumer Counsel as a Rate/Financial Analyst.

1 My responsibilities included analyzing and
2 testifying on ratemaking matters arising in rate
3 proceedings involving telecommunications, gas and
4 electric utilities before the Colorado Public
5 Utilities Commission, the Federal Communications
6 Commission, and the Federal Energy Regulatory
7 Commission. Over the years, my analyses have
8 included revenue requirements, cost of service,
9 cost allocation, separations, access charges, and
10 income tax issues. I remained with the Colorado
11 Office of Consumer Counsel until January 1996, when
12 I joined Time Warner Communications.

13

14 **Q: ON WHOSE BEHALF ARE YOU FILING THIS TESTIMONY?**

15 A: I am filing on behalf of Time Warner AxS of
16 Florida, L.P. d/b/a Time Warner Communications, and
17 Digital Media Partners (collectively known as Time
18 Warner Communications).

19

20 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A: The purpose of my testimony is to recommend to the
22 Florida Public Service Commission ("Commission")
23 the appropriate cost recovery mechanism for interim
24 number portability which is consistent with the
25 Federal Communications Commission's (FCC's) First

1 Report and Order in CC Docket No. 95-116, dated
2 July 2, 1996.

3

4 Q: WHY IS THIS PROCEEDING NECESSARY? HASN'T THE
5 FLORIDA PUBLIC SERVICE COMMISSION ALREADY SET
6 PRICES FOR TEMPORARY NUMBER PORTABILITY?

7 A: I understand that the Florida Commission set prices
8 for temporary number portability in this docket
9 last fall, in Order No. PSC-95-1604-FOF-TP, and
10 based these prices on the cost studies and
11 testimony that were available at that time. Since
12 that time, the Federal Telecommunications Act of
13 1996 has been passed, the FCC has issued its First
14 Report and Order in CC Docket No. 95-116 which
15 provides guidance on how costs are to be determined
16 and recovered, and incumbent LECs have, for various
17 reasons, revised their cost studies for Remote Call
18 Forwarding (RCF) and Direct Inward Dialing (DID)
19 used to provide temporary number portability.

20

21 Q: WHAT DO YOU BELIEVE IS REQUIRED BY THE FCC'S ORDER?

22 A: The FCC Order states, "We enunciate principles that
23 ensure that the costs of currently available
24 measures are borne by all telecommunications
25 carriers on a competitively neutral basis, and we

1 conclude that states may utilize various cost
2 recovery mechanisms, so long as they are consistent
3 with these statutory requirements." (Order at p. 5)
4 Further, the FCC, in its Order, states that it must
5 interpret three specific elements of section
6 251(e)(2) which are required of any cost recovery
7 mechanisms. First, the meaning of number
8 portability "costs;" second, the meaning of the
9 phrase, "all telecommunications carriers;" and
10 third the meaning of the phrase "competitively
11 neutral." (Order at p. 66)

12
13 The FCC, in its Order, interprets costs as those
14 incremental costs incurred by an incumbent LEC to
15 transfer numbers initially and subsequently forward
16 calls to new service providers using the available
17 methods. (Order at p. 67)

18
19 I believe that "all telecommunications providers"
20 can be interpreted quite broadly. For example, the
21 FCC Order states that state commissions could order
22 that the costs of temporary number portability be
23 based on net revenues (total revenues less payments
24 to other telecommunications providers). This could
25 include interexchange companies (IXCs) and cellular

1 mobile radio service (CMRS) providers, as well as
2 incumbent LECs, alternative local exchange
3 companies (ALECs), and the like. (Order at p. 68)

4
5 Consistent with the FCC's Order, I believe that
6 "competitively neutral basis" means that the cost
7 recovery mechanism for temporary number portability
8 does not make it economically infeasible for some
9 carriers to utilize number portability when
10 competing for customers served by other carriers.
11 According to the FCC's Order, a competitively
12 neutral cost recovery mechanism must meet two
13 criteria: First, (it) should not give one provider
14 an appreciable cost advantage over another in
15 competing for a specific customer. Second, it
16 should not have a disparate effect on the ability
17 of competing service providers to earn normal
18 returns on their investment. (Order at p. 69, 70).

19
20 **Q: DO YOU BELIEVE THAT CMRS PROVIDERS AND IXCS SHOULD**
21 **ALSO PAY FOR TEMPORARY NUMBER PORTABILTIY?**

22 **A:** For permanent number portability, where the entire
23 industry is upgrading networks and switches, and
24 providing and administering a database, definitely
25 all providers should fund the process. For

1 temporary number portability, in a pure reading of
2 the FCC's Order, all carriers (including IXCs and
3 CMRS providers) would also be included. The FCC
4 did indicate that states could include CMRS
5 providers and IXCs in the temporary number
6 portability cost recovery mechanism. However,
7 recovering the costs from all telecommunications
8 providers would require setting up a
9 payment/distribution mechanism that would be
10 administratively difficult. Because this is a
11 temporary mechanism, and for administrative ease, I
12 do not propose that the costs be recovered from
13 CMRS providers and IXCs.

14

15 **Q: IN LIGHT OF THE FCC'S ORDER, HOW SHOULD THE FLORIDA**
16 **PUBLIC SERVICE COMMISSION REVISE THE PRICE FOR**
17 **TEMPORARY NUMBER PORTABILITY?**

18 **A:** First, the FPSC should look beyond temporary number
19 portability, and devise a cost recovery method that
20 is consistent with how costs will be recovered for
21 long term number portability. Time Warner took the
22 position in its comments to the FCC that company-
23 specific costs directly attributable to number
24 portability should be absorbed by the company
25 incurring those costs. In the case of temporary

1 number portability, the FCC Order focused on the
2 incumbent LECs' costs, since in most cases, it will
3 be the incumbent LEC porting the number to an ALEC.
4 Under this proposal, each local exchange company
5 (both the incumbent LEC and the ALEC when it ports
6 a number) would absorb all of the costs of
7 providing temporary number portability. This
8 approach also gives the incumbent LECs an incentive
9 to move toward permanent number portability, where
10 more of the costs will be shared, and therefore
11 recovery will also be shared.

12

13 Time Warner is cognizant that the Florida
14 Commission took the position that for permanent
15 number portability, company-specific costs should
16 be pooled and shared. If the Commission believes
17 this should be the case for temporary number
18 portability as well, then I recommend that the
19 incumbent LECs be required to produce cost support
20 for providing RCF and DID for temporary number
21 portability, and that those costs be shared on a
22 competitively neutral basis.

1 Q: WHAT COST RECOVERY MECHANISM ARE YOU PROPOSING?
2 A: One alternative is that each local exchange company
3 (the incumbent LEC and the ALEC) absorb its cost of
4 providing temporary number portability. This
5 approach treats number portability as simply a
6 network routing cost. Other mechanisms carry with
7 them administrative costs which may overwhelm the
8 benefits of network cost recovery. In addition,
9 this will motivate the incumbent LECs to implement
10 long term number portability.
11
12 If the Commission determines that the costs should
13 be shared between the incumbent LEC and the ALEC,
14 then I propose that the Commission develop a
15 "default" cost recovery mechanism, which is what
16 would be used generally, unless two individual
17 companies, in their interconnection negotiations,
18 agree on a different price or price structure.
19
20 This default cost recovery mechanism should be
21 developed based on the incumbent LEC's incremental
22 cost of providing remote call forwarding and direct
23 inward dialing for temporary number portability
24 purposes. This assumes that the capability already
25 exists and that the incumbent LECs are already

1 offering remote call forwarding and DID to retail
2 customers. These costs should be shared between
3 the incumbent LECs and ALECs by dividing the total
4 cost according to the percentage of working
5 telephone numbers held by the incumbent LEC and by
6 all ALECs. (Note: this is not the same as "access
7 lines." For example, a customer using Distinctive
8 Ringing has two telephone numbers.) This charge
9 would be reciprocal when an ALEC ports a number to
10 an incumbent LEC.

11
12 As an example of how this would work, today ALECs
13 have essentially zero percent of the market.
14 However, for the purpose of developing this
15 mechanism, it would be reasonable to assume that
16 during the period of time in which this mechanism
17 will be used, that facilities-based ALECs (those
18 who would be using temporary number portability)
19 will garner 5% of the working telephone numbers in
20 the market. If the incremental cost of providing
21 RCF for temporary number portability is \$1.00 per
22 ported number with up to 10 paths, the price to the
23 ALEC would be \$.05 per ported number with up to 10
24 paths. If there is a nonrecurring cost, that cost
25 should reflect the fact that the incumbent LEC will

1 be dealing with a carrier, not end users. Cost
2 recovery for nonrecurring costs should also be
3 apportioned according to the number of working
4 telephone numbers.

5

6 **Q: HOW ARE THESE PROPOSALS CONSISTENT WITH THE FCC**
7 **ORDER?**

8 **A:** In the case of the incumbent LEC absorbing its own
9 costs (and the ALEC absorbing all of its costs when
10 it has to port a number to the incumbent LEC),
11 each company is operating on an equivalent basis,
12 and they are sharing costs by each covering its own
13 costs of routing calls through the network. While
14 it is likely that the incumbent LEC will be porting
15 more numbers than the ALEC, the proportionate cost
16 to the incumbent LEC and the ALEC will not be
17 noticeably different.

18

19 If costs are divided according to working telephone
20 numbers, it insures that a new entrant does not
21 incur a cost that either the incumbent LEC or a
22 reseller does not have in competing for local phone
23 service. By recovering its costs according to the
24 number of working phone numbers, the incumbent LEC
25 enjoys no advantage over the ALEC.

1 Also, when the FCC ordered, consistent with Section
2 251(e)(2), that costs be shared, it recognized that
3 this approach was a departure from its usual stance
4 that the cost causer pays.

5
6 Finally, both of these temporary mechanisms begin
7 to set up the permanent mechanism by which
8 industry-wide permanent number portability costs
9 can be recovered, on a shared basis, and both
10 mechanisms provide an incentive for incumbent LECs
11 to move toward a permanent solution for number
12 portability.

13

14 **Q: ISN'T THIS A LOT OF TROUBLE FOR AN INTERIM PLAN?**
15 **DOESN'T THE FCC HAVE A SCHEDULE TO IMPLEMENT**
16 **PERMANENT NUMBER PORTABILITY BEGINNING FOURTH**
17 **QUARTER 1997?**

18 **A:** No. Both methods I have discussed are
19 administratively simple. And although the FCC has
20 ordered a schedule for permanent number portability
21 implementation for the top 100 Metropolitan
22 Statistical Areas (MSAs), the last of those areas
23 don't come on line until fourth quarter 1998, and
24 others after that on six months' notice.

1 Q: PLEASE SUMMARIZE YOUR RECOMMENDATION.
2 A: I recommend that the Commission revise the cost
3 recovery mechanism for temporary number portability
4 to be consistent with the FCC's First Report and
5 Order in CC Docket No. 95-116. One alternative is
6 that each local exchange company (both incumbent
7 LEC and ALEC) treat number portability as another
8 aspect of routing and completing network calls.
9 Alternatively, the recovery mechanism should be
10 based on each telecommunications providers' share
11 of working telephone numbers.

12
13 The cost of temporary number portability should be
14 based on the direct economic cost of the incumbent
15 local exchange provider in providing RCF and DID.
16 Incumbent local exchange companies may be required
17 to file additional cost support to determine the
18 costs associated with temporary number portability.

19
20 Q: DOES THIS CONCLUDE YOUR TESTIMONY?

21 A: Yes, it does.