GTE FLORIDA INCORPORATED

REBUTTAL TESTIMONY OF DENNIS B. TRIMBLE

DOCKET NO. 960847-TP

Q. PLEASE STATE YOUR NAME AND BY WHOM YOU ARE EMPLOYED.

A. My name is Dennis B. Trimble and I am the Assistant Vice President - Marketing Service (Acting) for GTE Telephone Operations ("GTE" or "the Company"). In that capacity I am responsible for, among other matters, analyzing the demand characteristics of GTE's regulated product offerings and developing costs, prices and associated tariff filings for all of GTE's regulated services, inclusive of tariff filing activity with the FCC. My experience and qualifications have been submitted as part of my Direct Testimony filed in this docket on September 10, 1996.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to explain why the Florida Public Service Commission (FPSC) should not give any consideration to using the default proxy rates proposed by the Federal Communications Commission (FCC) in its *First Report and Order* issued in CC Docket No. 96-98 on August 8, 1996. Specifically, I address four basic points: (a) to describe the nature

of the cost studies that GTE submitted in the FPSC's proceeding No. 950985-TP, and that are referenced in the *First Report and Order* (at ¶¶ 793, 808) and why such studies were misused by the FCC; (b) to describe the magnitude of GTE's estimates of total joint and common costs that have resulted from the procedures employed by the Company in the development of its various Total Service Long Run Incremental Cost ("TSLRIC") estimates as submitted in various state proceedings; (c) to compare the results of cost studies prepared using the FCC's prescribed methodology (i.e., Total Element Long Run Incremental Cost or "TELRIC") that GTE has completed with the FCC's mandatory proxy price ceilings which shows that the TELRIC costs are not covered by the proxy rates even before common costs are considered; and (d) to demonstrate generically the shortfall GTEFL will experience by comparing the revenues that would be obtained using the FCC's proxy prices from an average customer (average residence or business) service in GTEFL service area to both the revenues generated from elements priced at GTEFL's TELRICs and to current average per line revenues.

Q. HAVE YOU REVIEWED THE FCC'S *FIRST REPORT AND ORDER* NOTED ABOVE?

A. Yes. I have reviewed in detail the FCC's *First Report and Order* issued on August 8, 1996. Among other things, that order establishes a framework of national rules implementing the local competition

provisions of the Telecommunications Act of 1996 ("Act") and adopts default proxy ceiling prices that are to be used in an arbitration proceeding as the price for unbundled network elements and resold services unless a state regulatory agency has completed its review of studies that comport to the FCC's prescribed, new costing methodology (at ¶¶ 789-827).

Q. DID THE FCC PROPERLY CALCULATE THE PROXY RATES EVEN UNDER ITS OWN METHODOLOGY?

A. No. As the attached Exhibits DBT-6 and DBT-7 demonstrate, when GTE adheres to the FCC's prescribed costing methodology, the costs that result are much higher than the mandatory proxy ceiling prices. Specifically, GTE's loop costs average at least 50 percent larger than the FCC's ceiling price, and GTE's unbundled end office switching costs average at least two-and-a-half times the FCC's price ceiling of $0.004 per minute, even when all possible switching features and functions are not included. Moreover, as Exhibit DBT-7 shows, when GTE compares the revenues that would be obtained from the FCC's proxy prices to either the revenues from elements priced at the TELRICs computed by GTE or to current revenues per line, it is clear that a large gap exists. It is also obvious that the effective discount from the equivalent retail service price using the FCC proxy prices is much larger than the discount ceiling established by the FCC for resold services.

Q. PLEASE DESCRIBE THE FLORIDA COST STUDIES AND WHY THEY DO NOT SUPPORT THE DEFAULT AND PROXY RATES ESTABLISHED BY THE FCC.

A. The cost studies that GTE submitted in the FPSC's Docket No. 950985-TP were only intended to identify the TSLRIC cost of local loops (both bundled and unbundled) and end office switching. As described below, there are substantive differences between the methodology used in GTE's Florida study and the FCC's TELRIC methodology. The results of GTE's Florida study cannot in any way be construed to produce a result that approximates a TELRIC-based cost that would be appropriate for use in deriving a proxy cost ceiling.

The FCC has prescribed that the pricing of network elements shall be based on the TELRIC of the element plus a reasonable share of forward looking joint and common costs. See § 51.505. The FCC further defines a reasonable share of forward looking joint and common costs in the development of unbundled network element prices to depend on many factors including the Stand Alone Cost ("SAC") of the element, market demand characteristics, as well as the overall magnitude of the company's forward looking common costs. *First Report and Order* at ¶¶ 694, 695, 696, 698, 699.

GTE defines TSLRIC as well as "TELRIC" as the additional cost incurred by the Company to produce the entire output of a particular service or "element", holding constant the production of all other

services produced by the Company. While this definition is similar to the FCC's implied definition of TELRIC, the FCC has stated that many of the costs that are correctly defined as joint and common costs in the development of TSLRICs can be directly attributed to specific network elements in the development of TELRICs. *First Report and Order* at ¶¶ 678, 682, 694. Thus, the FCC's definition of TELRIC should result in cost estimates that are larger than the TSLRIC for the specific network function that is being studied.

Q. CAN YOU QUANTIFY THE MAGNITUDE OF GTE'S JOINT AND COMMON COSTS?

A. GTE's current TSLRIC/TELRIC methodology for services and unbundled elements includes the following expenses: (a) depreciation, (b) return on investment, (c) income taxes, (d) plant specific maintenance and repair, (e) central office land and buildings, (f) customer operations (*e.g.*, sales), and (g) miscellaneous fees and taxes *(e.g.,* ad valorem tax, gross receipts tax). GTE's TSLRIC/TELRIC methodology does not include the following expense items (they are considered common expenses to the Company): (a) plant specific expenses (*e.g.,* network support, general support, and general purpose computers), (b) plant non-specific expenses (*e.g.*, network planning, engineering), (c) general support assets (*e.g.,* furniture, office support equipment, company communications equipment, and general purpose computers), (d) land and buildings (other than central offices), (e) indirect labor, (f) corporate expenses,

and (g) other taxes and fees, such as local franchise taxes, federal superfund taxes, local and state business license and occupation taxes). It is not unusual for these expense categories to represent from 35% to 45% of the Company's total accounting costs.

The total amounts in these common cost categories are appropriately excluded from GTE's TSLRIC/TELRIC studies because GTE's USOA-based accounting system records do not contain sufficient information to directly attribute (if appropriate) any of these expenses to specific network elements, and/or there is not a cost-causative method to associate these to specific elements of the network. The USOA-driven accounts, which GTE has identified as representing common costs, might include many items that are, in reality, service (or element) specific. However, as I have previously stated, those costs cannot be separately identified because the USOA-based accounting system does not contain a level of detail sufficient to allow direct attribution of those costs to their appropriate service (or network element). Thus, the USOA-based accounting processes limit GTE from identifying any remaining costs that may belong in the FCC's definition of TELRIC. However, even if GTE possessed an elaborate (and expensive) managerial accounting system that facilitated the direct assignment (when appropriate) of these common costs to specific network elements, this capability would only result in a minor change in the level of GTE's "total" common costs. I believe that the

USOA accounts that GTE currently incorporate in its TSLRIC studies represent a vast majority of all directly assignable costs.

Paragraph 694 of the *First Report and Order* states: "Certain common costs are incurred in the provision of network elements. As discussed above, some of these costs are common to only a subset of the elements or services provided by the incumbent LEC's. Such costs shall be allocated to that subset, and should then be allocated among the individual elements of services in that subset, to the greatest possible extent" (*Emphasis added*). GTE's TSLRIC/TELRIC studies do not attempt to perform this allocation of common costs. Allocation of these common costs to specific products for recovery is accomplished through GTE's pricing activities, not through GTE's incremental costing activities. Thus, GTE's TSLRIC/TELRIC methodologies (as currently employed) will lead to incremental cost estimates that are likely to be substantially below what the FCC intended to be incorporated in the development of TELRICs. It is my belief that the FCC has relied upon benchmark prices (and/or costs), as filed in various states, that do not incorporate an allocation of common costs, and thus only represent the incremental cost of a network element and not the total, average cost of that element.

Q. DO GTE'S COST STUDIES INCORPORATE JOINT AND COMMON COSTS?

A. As I stated previously, the methodology GTE currently employs to develop its TSLRIC/TELRIC estimates does not incorporate significant levels of joint and common costs. These costs must be recovered through the pricing of services. For Florida, as submitted in my direct testimony (Exhibit DBT-2), GTE Florida's forward looking joint and common costs are approximately $500 million annually which equats to 65% of the total costs identified in GTEFL's filed TSLRIC/TELRIC estimates. (Thus, GTEFL's total economic costs could be recovered by pricing all network elements so that they achieved an average 65% markup over their TSLRIC/TELRIC estimates).

Q. HAVE YOU IDENTIFIED SPECIFIC ERRORS ASSOCIATED WITH THE FCC'S USE OF THE FLORIDA LOOP COST STUDIES?

A. In the development of its unbundled loop proxy price (ceiling price) for Florida, the FCC weighted the interim 2-wire unbundled loop rates for Bell South ($17.00) and United/Centel ($15.00) and the approved rate for GTE ($20.00) as set by the FPSC and computed a state-wide average price of $17.28 based upon the Florida figures. *First Report and Order* at ¶¶ 792, 793. The FCC assumed that the rates ordered by the FPSC were rational proxies for TELRIC plus a reasonable allocation of forward-looking common costs. But, GTEFL's approved rate of $20.00 provides only an insignificant contribution to common costs (approximately 2% above GTEFL's filed TSLRIC/TELRIC estimate and far below the average 65% that would be required in

Florida). The FPSC's order that prescribed GTEFL's $20.00 unbundled loop rate specifically stated "that GTEFL's rates for unbundled loops shall approximate TSLRIC" (Docket No. 950984-TP, Order No. PSC-96-0811-FOF-TP, page 31). There was no recognition of reasonable contribution to forward-looking common costs, as discussed by the FCC.

United/Centel's cost study for an unbundled loop was found by the FPSC to be inadequate to support the development of rates for an unbundled loop as the costs could not be identified as either LRIC or TSLRIC estimates. Based on judgment, the FPSC set an interim rate of $15.00 for United/Centel and also ordered United/Centel to complete appropriate cost studies (Docket No. 950984-TP, Order No. PSC-96-0811-FOF-TP, p. 32). The FCC assumed that the $15.00 rate set by the FPSC is a reasonable depiction of United/Centel's TELRIC plus "reasonable allocation of forward-looking common costs" as is required by § 51.505(a)(2). But as noted above, in setting loop rates the FPSC did not include any reasonable contribution to forward-looking common costs.

Likewise, the FPSC found Bell South's filed cost studies for unbundled elements to be deficient which led the FPSC to set an interim rate of $17.00 for Bell South's unbundled 2-wire loop. Bell South was also ordered to file cost studies to support the

development of a permanent unbundled loop rate (Docket No. 950984-TP, Order No. PSC-96-0444-FOF-TP, p. 19).

To meet its own criteria, the FCC's proxy prices should be constructed to reasonably reflect statewide average TELRIC plus a "reasonable allocation of forward-looking common costs." However, in the development of Florida's proxy price for unbundled 2-wire loops the FCC relied on FPSC ordered rates. Of the three rates used by the FCC, only GTE's rate had any accepted cost support. Moreover, even GTE's rate did not contain any reasonable contribution as toward joint and common costs as required under the FCC's own pricing guidelines. § 51.505 The FPSC's ordered rates were intended to have little or no contribution above TSLRIC. When this fact is combined with the fact that TELRIC should be higher than TSLRIC (*First Report and Order* at ¶ 678), the obvious conclusion is that the proxy ceiling of $17.28 that the FCC found the studies produce for Florida is too low and that it cannot be construed to be an estimate of TELRIC plus a "reasonable allocation of forward-looking common costs" as is required by § 51.505(a)(2). But the FCC did not use this rate. Instead, its proposed proxy ceiling rate for Florida of $13.68 is apparently calculated from another model using the unweighted approved Florida rates as a scaling factor. (*Id.* at ¶ 794) The FCC's proxy ceiling for unbundled loops in Florida can only be considered arbitrary and inappropriate.

Q. HAVE YOU IDENTIFIED SPECIFIC ERRORS ASSOCIATED WITH THE FCC'S USE OF FLORIDA'S UNBUNDLED SWITCHING COST STUDIES?

A. For unbundled switching, the FCC defined the local unbundled switching element to encompass line-side and trunk-side facilities plus all of the features, functions, and capabilities of the switch. (*Id.* at ¶ 412) The line-side facilities include the connection between a loop termination at, for example, a main frame distribution frame (MDF), and a switch line card. The trunk-side facilities include the connection between, for example, trunk termination at a trunk-side cross-connect panel and a trunk card. The "features, functions, and capabilities" of the local switch include the basic switching function of connecting lines to lines, lines to trunks, trunks to lines, trunks to trunks. It also includes the same basic capabilities that are available to the incumbent LEC's customers, such as a telephone number, directory listing, dial tone, signaling, and access to 911, operator services, and directory assistance. In addition, the local switching element includes all vertical features that the switch is capable of providing, including custom calling, CLASS features, and Centrex, as well as any technically feasible customized routing functions.

In the *First Report and Order* (at ¶ 803), the FCC discusses the estimates of the cost for end-office switching. The FCC also discusses the costs and rates for transporting and terminating traffic for interconnection purposes and concludes, that a range between

0.2 cents ($0.002) per minute of use and .4 cents ($0.004) per minute of use for unbundled local switching is a reasonable default proxy. (*Id.* at ¶¶ 805-809, 811) Thus, the FCC reasoned: "We, therefore, conclude that 0.2 cents ($0.002) per minute of use is a reasonable lower end of the price for end-office switching." (*Id.* at ¶ 812)

A review of the record relied upon by the FCC in determining the range of proxy rates for the unbundled local element defined in § 51.513 for local switching demonstrates that the FCC used incomplete data for the costs for end-office switching and local interconnection. The costs for the functions that support the rates for end-office switching and local interconnection simply do not match the description of the unbundled local switching element the FCC has laid out. (*First Report and Order* at ¶ 412) The cost studies on which the FCC relied measure only the incremental cost of end office switching for local interconnection. End office switching used for local interconnection only includes the basic switching function of connecting lines to trunks and trunks to lines. There is no cost or rate evidence in the record regarding the remaining features, functions, and capabilities of the switch that are included in the FCC's definition of the unbundled switching element. By relying on studies that take into account the cost of only a fraction of the switching element as defined in the rules, the FCC has established an unreasonably low proxy rate for the local switching element.

Q. CAN YOU EXPLAIN THE DIFFERENCES BETWEEN THE FCC'S TELRIC COSTS AND GTE'S STUDY FILED IN FLORIDA REGARDING UNBUNDLED END OFFICE SWITCHING?

A. For unbundled end office switching, the difference between the FCC's objective TELRIC costs and the GTE study filed in Florida are significant. These crucial differences are:

a. First and foremost, the GTE study did not attempt to determine the cost of unbundled end office switching that would be used by a requesting party to provide local exchange service. The study determined only the incremental costs associated with terminating an additional minute of use when two networks are interconnected for the purpose of exchanging traffic;

b. At the time GTE filed its study in Florida it did not have the procedures in place to identify the fixed costs associated with central office land and buildings. As a result, these expenses were not included in GTE's TSLRIC/TELRIC filed in Florida. This expense item, which is now included on a going-forward basis in GTE's TSLRIC/TELRIC studies, is a significant contributor to the average cost of end-office switching. Central office land and buildings expenses can account for up to 60% of the total TSLRIC/TELRIC of end-office switching; and

c. As discussed previously, GTE's procedure for estimating TSLRICs/TELRICs tends to exclude costs (which GTE has termed as joint and common) that properly belong in what the FCC defines as TELRIC/TELRIC. Again, this further supports the conclusion that GTE's TSLRIC estimates, as filed in Florida, are likely to dramatically understate what the FCC would term a TELRIC estimate, and would be far less than an estimate of TELRIC plus "a reasonable allocation of forward-looking common costs." § 51.505(a)(2).

Thus, the numbers on which the FCC relied upon are too low because they were based on GTE Florida filed estimates. *First Report and Order* at ¶ 808. By relying on such figures that did not include all of the costs included in the FCC's own TELRIC methodology, the FCC has picked a benchmark number for end-office switching costs that is significantly under-stated.

Q. *CAN YOU PROVIDE AN ILLUSTRATION?*

A. To illustrate this fact, an analysis prepared under my direction compares the FCC's proxy ceiling price for unbundled switching to the actual cost of providing that unbundled feature. This was done by selecting two typical local central office switches and determining the cost per year to operate those switches. The costs are for maintenance, support structures, capital costs, and an average distribution of overheads. These are all costs that the FCC has

specified as being appropriate for inclusion in unbundled elements. *See First Report and Order* at ¶¶ 682, 691. These current costs were reduced by 17% of total revenues based upon the FCC's estimate of costs that would be avoided if an ILEC were not in the retail business. (From the studies I have reviewed, I believe the costs avoided are less than this amount, but this amount was used to base the analysis on the FCC's own cost avoidance projection). The appropriate unit of analysis is the entire central office switch, because the FCC specified the party obtaining a unit of unbundled switching will also have access to all of the features and functions of the switch. The results of the switching cost analysis are shown on Exhibit DBT-5.

Q. DO THE FCC'S DEFAULT AND PROXY RATES COVER GTE'S TELRIC COSTS?

A. No. The switching cost analysis shows that, at a price per minute ranging from $.002 to $.004 (the FCC specified proxy ceiling price), the total revenue that would be generated by applying those prices to all local and access minutes of use falls well short of recovering the actual costs of providing the unbundled switching element (depicted by "% UNRECOVERED USING PROXY" line on Exhibit DBT-5). The shortfall results from a reliance by the FCC upon cost studies presented to, or decisions made by, state commissions that were designed to estimate the incremental cost of switching one minute of calling exchanged between two networks that are interconnected.

GTE's TELRIC cost studies are based upon the methodology prescribed by the *First Report and Order* (at ¶¶ 672-702). GTE first calculated the direct forward-looking cost of each network element. GTE then determined the common costs that could not be attributed to any particular element or sub-group of elements. According to the FCC's methodology, these latter costs are to be allocated to all network elements during the pricing process.

The *First Report and Order* specified (at ¶ 744) that the rate for unbundled local loops be a flat, per-month charge. Further, the FCC specified (at ¶ 794, Appendix D) the statewide average ceiling price that a state regulatory agency could adopt in an arbitration proceeding unless the state commission had completed its review of cost studies that comport to the FCC methodology. Exhibit DBT-6 shows the results of the GTE cost studies for loops in several states where GTE serves a large number of customers. The cost developed using a TELRIC methodology averages 50 percent larger than the FCC's proxy ceiling price. This difference clearly supports my conclusion that the FCC's loop proxy price is arbitrary and inappropriate because it is based upon a mixture of cost estimates for only the bare incremental cost of a loop, rather than being based upon a TELRIC methodology. Further, to assure a proper comparison, neither the proxy price nor the GTE TELRIC results described above include any allocation of common costs as the FCC's own cost methodology requires.

The *First Report and Order* specified (at ¶ 412) that the unbundled local switching network element is to include not only line-to-line and line-to-trunk "basic switching," but also all of the features, functions, and capabilities, such as a telephone number, directory listing, dial tone, signaling, and access to 911, operator services and directory assistance, all vertical features including custom calling and CLASS features, Centrex, and any technically feasible customized routing functions. The unbundled local switching rate structure is required to include "a combination of a flat-rated charge for line ports, which are dedicated to a single new entrant, and either a flat-rate or per-minute usage charge for the switching matrix and for trunk ports, which constitute shared facilities, best reflects the way costs for unbundled local switching are incurred." *Id.* at ¶ 810. Unless a state regulatory agency has completed its review of cost studies that comport with the FCC's costing methodology, state agencies are required (*Id.* at ¶ 815) to set the rate for unbundled local switching "so that the sum of the flat-rated charge for line ports and the product of the projected minutes of use per port and the usage-sensitive charges for switching and trunk ports, all divided by the projected minutes of use, does not exceed 0.4 cents ($0.004) per minute of use and is not lower than 0.2 cents ($0.002) per minute of use."

Exhibit DBT-7 compares the FCC's proxy price for unbundled local switching to the results of cost studies prepared by GTE using the FCC's TELRIC methodology. Shown are GTE's cost estimates for

three end office switching cost elements for a number of states where GTE serves a large number of customers. Those elements are: (i) a per minute cost to switch a call; (ii) a per line per month cost for the non-usage sensitive components of a switch (*e.g.*, line card); and (iii) a per line per month cost for a representative feature package. The cost element of a per line, per month cost for the feature package was chosen to comply with the FCC's mandate that a rate structure recover costs "in a manner that efficiently apportions costs among users." *First Report and Order* at ¶ 755. It is very important to note that the feature package selected for illustrative purposes does not include all of the features, functions and capabilities that a switch may be capable of providing. The package selected includes only many of the most commonly used features (*e.g.*, Call Waiting, Emergency Bureau Access, Speed Calling, Time of Day Routing). Also not included in any of the three cost estimates in Exhibit DBT-7 are the costs associated with a directory listing or the more esoteric switch features such as customized routing and Meet-Me Conference Bridging. The feature package used in calculating the cost for two states shown in DBT-7, Ohio and Wisconsin, did include additional, more advanced features, just to show the potential cost impact on a per minute basis.

To provide a logical comparison, GTE converted the two per line, per month cost elements into an equivalent per minute cost by dividing by the average switched minutes of use per month, including minutes

associated with both local and long distance calls. The result of this calculation is a composite TELRIC per minute cost that is three-and-a half times the FCC's upper price ceiling of $0.004, even when ignoring the two states with feature packages that include extraordinary features. These results confirm my conclusion that the FCC's local switching proxy price was based upon information that estimated the incremental cost of line-to-line or line-to-trunk basic switching, but did not, as the FCC's own methodology requires, include either the costs related to other switch features and functions, or common costs.

Q. IF THE DEFAULT AND PROXY RATES ARE IMPLEMENTED IN FLORIDA, WILL GTE EXPERIENCE A REVENUE SHORTFALL?

A. Exhibit DBT-8 compares the FCC's proxy price for a combination of unbundled local switching and an unbundled local loop (*i.e.*, the reassembled equivalent of local service) to both the results of a GTE Florida ("GTEFL") TELRIC study, and to current average revenues per line in Florida. To prepare this comparison, GTE derived the average monthly usage per line, including local and toll minutes of use, for an average of residence and business lines. This average number of minutes was multiplied by the FCC's proxy price ceiling of $0.004 per minute, and that switched usage revenue amount was added to the flat rate components that would also be needed to comprise reassembled local service (*i.e.*, a local loop and a Network Interface Device, or "NID"). GTE also derived the current revenues

per line for an average of Florida residence and business lines, including flat rate local charges, local and toll usage charges, and vertical feature charges. When the unbundled network elements of switching, a loop and a NID are combined to replicate local service, the revenues from those elements when priced at the FCC's proxy rates are approximately half of GTEFL's TELRIC for the combined service (Exhibit DBT-8, $18.55 compared to $37.31 per month). This comparison of price to cost understates the shortfall, because by definition TELRIC does not include an allocation of common costs. Further, the FCC's proxy prices would provide new entrants with approximately a 40 percent discount off GTEC's current average retail revenue per line in California (Exhibit DBT -8, $18.55 compared to $31.25 per month). Clearly neither the FCC proxy price nor the TELRIC methodology come anywhere close to providing revenues that cover GTE's cost of providing service.

Moreover, the 40 percent discount that results from the FCC proxy price cannot be squared with the FCC's interim wholesale rates. Section 51.611 of the FCC's rules requires that resale discounts should be "no more than 25 percent." Thus, the FCC's proposed requirements for its two pricing mechanisms (resale and unbundling) are totally inconsistent. The potential discount is significantly below the Company's costs and would result in GTE subsidizing competitive entry.

Based upon my and my staff's review of the FCC's *First Report and Order*, I am convinced that the FCC's proxy price ceilings for unbundled loops and local switching are significantly understated and in absolute conflict with §§ 51.319(c)(1)(C), 51.503 and 51.505.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

CENTRAL OFFICE ANALYSIS

ITEM	SAN ANGELO SE @ .004/MIN	SAN ANGELO SE @ .002/MIN	AZLE @.004/MIN	AZLE @ .002/MIN
LINES	17,458	17,458	6,619	6,619
SWITCH INVESTMENT	$7,045,234	$7,045,234	$3,210,000	$3,210,000
MINUTES/MONTH	10,893,753	10,893,753	11,811,072	11,811,072 ←
ANNUAL COSTS				
OPERATING EXPENSES				
MAINTENANCE	$569,748	$569,748	$259,593	$259,593
ADMIN AND OVERHEAD	$1,003,101	$1,003,101	$457,039	$457,039
DEPRECIATION	$177,188	$177,188	$80,732	$80,732
RETURN ON INVEST.	$778,498	$778,498	$354,705	$354,705
COMPOSITE TAX	$59,532	$59,532	$27,125	$27,125
LAND & BUILDINGS	$679,865	$679,865	$309,765	$309,765
PROPERTY TAX	$69,043	$69,043	$31,458	$31,458
TOTAL ANNUAL COST	$3,336,975	$3,336,975	$1,520,417	$1,520,417
LESS 17% AVOIDED	$567,286	$567,286	$258,471	$258,471
ADJUSTED ANNUAL COST	$2,769,689	$2,769,689	$1,261,946	$1,261,946
COST/MO (ANN. COST/12)	$230,807	$230,807	$105,162	$105,162
TELRIC/MIN	$0.004	$0.002	$0.004	$0.002
USAGE REV/MO	$43,575	$21,788	$47,244	$23,622
COMMON COST/MO	$187,232	$209,020	$57,918	$81,540
COMMON COST/LINE/MO	$10.72	$11.97	$8.75	$12.32
% UNRECOVERED USING PROXY	81.1%	90.6%	55.1%	77.5%

Docket No. 960847-TP
Rebuttal Testimony of Dennis B. Trimble
Exhibit No. DBT-5 - Page 1 of 1
FPSC Exhibit No. _____

LOOPS

STATE	FCC LOOP PROXY CEILING PRICE (a)	GTE's TELRIC UNBUNDLED LOOP (b)	RATIO: PROXY PRICE TO TELRIC (c = b / a)	BCM II COST • (e)	RATIO: PROXY PRICE TO BCM II (f = e / a)
California	$11.10	$23.09	2.08	$21.56	1.94
Florida	$13.68	$21.94	1.60	$25.44	1.86
Hawaii	$15.27	$18.66	1.22	$25.72	1.68
Illinois	$13.12	$22.82	1.74	$34.43	2.62
Michigan	$15.27	$19.54	1.28	$37.00	2.42
Ohio	$15.73	$20.28	1.29	$36.00	2.29
Pennsylvania	$12.30	$19.04	1.55	$29.07	2.36
Texas	$15.49	$22.46	1.45	$28.98	1.87
Washington	$13.37	$22.20	1.66	$28.23	2.11
Wisconsin	$15.94	$19.15	1.20	$39.05	2.45

• GTE analysis indicates that the BCM II default assumptions cause its resulting loop cost to be understated by as much as $5 to $10 per loop, depending on the state.
For example, the default assumptions for conduit and drop wire installation costs are much lower than a contract GTE had with Lucent Technologies for those activities.
Note also that BCM II includes an allocation of common costs.

Docket No. 960847-TP
Rebuttal Testimony of Dennis B. Trimble
Exhibit No. DBT-6 - Page 1 of 1
FPSC Exhibit No. _____

END OFFICE SWITCHING

STATE	TELRIC PER MINUTE (a)	TELRIC PER PORT (b)	TELRIC FEATURE PACKAGE (c)	COMPOSITE TELRIC PER MINUTE (d = a + ((b + c / MOU))	RATIO: TELRIC TO FCC $0.004 UPPER BOUND (e=d/$0.004)
California	0.0034840	$4.63	$2.61	$0.0107	2.68
Florida	0.0033592	$4.51	$6.90	$0.0179	4.47
Hawaii	0.0073493	$5.22	$6.69	$0.0244	6.09
Illinois	0.0041515	$3.78	$2.02	$0.0106	2.65
Michigan	0.0031419	$3.63	$4.06	$0.0119	2.99
Ohio *	0.0030980	$4.46	$15.29	$0.0262	6.54
Pennsylvania	0.0027488	$4.79	$2.39	$0.0120	2.99
Texas	0.0035126	$4.39	$4.90	$0.0147	3.68
Washington	0.0034332	$3.15	$2.08	$0.0096	2.40
Wisconsin *	0.0028151	$4.58	$10.04	$0.0208	5.21

* Nonstandard feature packages

Docket No. 960847-TP
Rebuttal Testimony of Dennis B. Trimble
Exhibit No. DBT-7 - Page 1 of 1
FPSC Exhibit No. _____

COMPARISON OF PROXY PRICES
WITH
GTE FLORIDA TELRIC AND REVENUES

	TELRIC	FCC Proxy Prices	Current GTE Avg Rev per Line per Month		
Local Loop	$21.94	$13.68	Local Service Price	$20.53	#
Network Interface Device	$1.32	$1.32	Switched Access	$3.65	@
Switching	$14.05	$3.15	100% TIC	$0.54	@
75% TIC	n/a	$0.40	Local Switching	$1.99	*
			Vertical Services	$2.21	*
			IntraLATA Toll	$2.34	&
Per Line	$37.31	$18.55	Total Revenues	$31.25	

Notes: Switched access transport excluded from costs & revenues above.
Carrier Common Line revenues excluded from all calculations
Subscriber Line Charge revenues included in average rate per switched access line.
TIC = Transport Interconnection Charge

Docket No. 960847-TP
Rebuttal Testimony of Dennis B. Trimble
Exhibit No. DBT-8 - Page 1 of 1
FPSC Exhibit No. _____