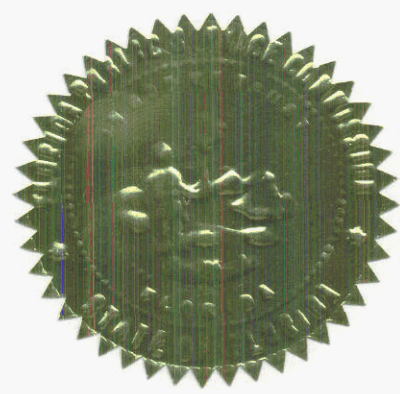


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of :
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:
Petitions by AT&T Communications :
of the Southern States, Inc., :
MCI Telecommunications :
Corporation and MCI Metro Access :
Transmission Services, Inc., :
for arbitration of certain terms :
and conditions of a proposed :
agreement with GTE Florida :
Incorporated concerning :
interconnection and resale under :
the Telecommunications Act of :
1966. :

DOCKET NO. 960847-TP
DOCKET NO. 960890-TP



SECOND DAY - CONTINUED MORNING SESSION

VOLUME 7

Pages 783 through 887

PROCEEDINGS: HEARING

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

DATE: Tuesday, October 15, 1996

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

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

APPEARANCES:
(As heretofore noted.)

DOCUMENT NUMBER-DATE

11004 OCT 15 96

FPSC-RECORDS/REPORTING

WITNESSES - VOLUME 7

2	NAME	PAGE NO.
3	DON PRICE	
4	Direct Examination By Mr. Melson	785
	Prefiled Direct Testimony Inserted	789
5	Prefiled Rebuttal Testimony Inserted	836
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EXHIBITS - VOLUME 7

9	NUMBER	ID.	ADMTD.
10			
11	21	(MCI) Exhibits to Petition	788
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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 6.)

4 **COMMISSIONER DEASON:** Mr. Melson, you may
5 call Mr. Price.

DON PRICE

6
7 was called as a witness on behalf of MCI
8 Telecommunications Corporation and MCI Metro and,
9 having been duly sworn, testified as follows:

DIRECT EXAMINATION

10
11 **BY MR. MELSON:**

12 **Q** Would you please state your name and
13 business address?

14 **A** My name is Don Price. My business address
15 is 701 Brazos, B-R-A-Z-O-S, Suite 600, Austin, Texas
16 78701.

17 **Q** Have you prefiled directed testimony in this
18 docket dated August 26th and consisting of 47 pages?

19 **A** I believe that's the case.

20 **Q** Do you have any changes or corrections to
21 that testimony?

22 **A** Yes, I do. At Page 16. After Line 18 I
23 would insert "Account No. 6722, external relations."
24 And after Line 22 insert "Account 6727, research and
25 development."

1 Q Was that all in the testimony itself?

2 A There was one other change. At Page 19,
3 Line 19, the percentage amount should be 17.68% as
4 opposed to 17.26. With those changes --

5 COMMISSIONER GARCIA: 17 what?

6 WITNESS PRICE: .68.

7 Q (By Mr. Melson) And did you also prefile
8 rebuttal testimony on September 30th, 1996, consisting
9 of 28 pages?

10 A Yes, I did.

11 Q Do you have my changes or corrections to
12 your rebuttal testimony?

13 A None to my knowledge.

14 Q With the changes to the direct testimony, if
15 I were to ask you today the same questions that are in
16 the direct and rebuttal, would your answers be the
17 same?

18 A Yes, they would.

19 MR. MELSON: Mr. Chairman, I ask that
20 Mr. Price's direct and rebuttal testimony be inserted
21 into the record as though read.

22 COMMISSIONER DEASON: Without objection both
23 their direct and rebuttal testimony will be so
24 inserted.

25 Q (By Witness Price) Mr. Price, are you

1 sponsoring three exhibits which were attached to MCI's
2 petition in this docket, namely exhibits 1, 2 and 3
3 that have been identified in the Prehearing Order?

4 A That's correct.

5 Q Did you have attached to your direct
6 testimony four exhibits identified as DGP-1 to DGP-4?

7 A Yes, I did.

8 Q Do you have any changes or corrections to
9 DGP-1 through DGP-4?

10 A Yes, I do. At page -- I'm sorry, at DPG 2,
11 Page 12, I would make the same two changes that were
12 made in the direct testimony, which is the addition of
13 accounts 6722 for external relations and 6727 for
14 research and development.

15 Q And did you also have attached to your
16 rebuttal testimony one exhibit identified as DGP-5?

17 A Yes, I did.

18 Q Do you have any changes or corrections to
19 DGP-5?

20 A No.

21 Q And with the correction to Exhibit 2, are
22 your exhibits true and correct to the best of your
23 knowledge and belief?

24 A Yes, they are.

25 MR. MELSON: Chairman Deason, I guess I

1 would like to ask that the three exhibits to the
2 petition be identified as one composite exhibit.

3 COMMISSIONER DEASON: That will be
4 identified as Exhibit 21.

5 MR. MELSON: And that the four -- DGP-1
6 through 4, the exhibits to the direct testimony, be
7 identified as another composite exhibit.

8 COMMISSIONER DEASON: Yes, Composite
9 Exhibit 22.

10 MR. MELSON: That DPG-5 be identified as an
11 exhibit.

12 COMMISSIONER DEASON: Exhibit 23.

13 (Exhibits 21, 22 and 23 marked for
14 identification.)

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DIRECT TESTIMONY OF DON PRICE

ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION AND
MCImetro ACCESS TRANSMISSION SERVICES, INC.
(MCI/GTEFL ARBITRATION DOCKET)

August 26, 1996

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. HAVE YOU PREVIOUSLY TESTIFIED?

A. Yes, I have testified in proceedings before regulatory commissions in a number of states. Provided as Exhibit ___ (DGP-1) to this testimony is a document listing the cases in which I have testified. Also included as part of the document is a summary of my academic and professional qualifications.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to: 1) briefly describe the history of the negotiations between MCI and GTE Corporation (GTE); 2) describe

1 and make recommendations on several key wholesale service pricing
2 and provisioning policy issues that must be resolved in the context of
3 arbitrations under Section 252 of the Telecommunications Act of
4 1996; and 3) describe the ancillary arrangements that will be required
5 to eliminate barriers to competition and identify the relevant rules
6 ordered by the FCC in its rulemaking implementing the local
7 competition provisions of the Telecommunications Act of 1996.

8 9 **NEGOTIATIONS**

10 **Q. PLEASE SUMMARIZE THE HISTORY OF MCI'S NEGOTIATIONS WITH**
11 **GTE.**

12 **A. By letter dated April 3, 1996, a copy of which was attached as**
13 **Exhibit 1 to MCI's Petition for Arbitration in this docket, MCI formally**
14 **requested negotiations with GTE and all of its operating companies**
15 **pursuant to Section 252 of the Act.**

16 The first negotiating meeting pursuant to Section 252 of the
17 Act was held on May 14, 1996. Prior to that meeting, MCI furnished
18 GTE a copy of Version 3.2 of a document entitled "MCI Requirements
19 for Intercarrier Agreements" which set forth in detail MCI's
20 requirements for interconnection and access, unbundling, resale,
21 ancillary services and associated arrangements pursuant to the Act
22 (the "Term Sheet"). The Term Sheet, as subsequently revised on
23 June 7, 1996 (Version 4.0), served as the focal point of the
24 negotiations.

25 MCI and GTE held additional meetings and conference calls in

1 June, July and August. The parties reached an early impasse on
2 pricing issues, but continued to discuss a number of other issues.
3 While it appears that the parties may have reached agreement in
4 principle on a number of the items requested in the Term Sheet, the
5 parties have not yet agreed to specific contractual language on any
6 issue. MCI has therefore submitted all issues for arbitration.

7

8 Q. HAS MCI PREPARED A DOCUMENT WHICH SHOWS ITS REQUESTS
9 TO GTE AND GTE'S RESPONSE TO THOSE REQUESTS?

10 A. Yes. For purposes of this proceeding, MCI prepared an Annotated
11 Term Sheet, in which MCI has indicated its understanding of GTE's
12 response to each item requested in MCI's Term Sheet. I am
13 sponsoring this document, a copy of which was attached as Exhibit 2
14 to MCI's arbitration petition in this docket. Some of these term sheet
15 items are covered in my testimony, others are dealt with in the
16 testimony of other MCI witnesses.

17

18 **WHOLESALE SERVICES: PRICING AND PROVISIONING**

19 **Wholesale Services: Overview**

20 Q. HOW IS THIS PORTION OF YOUR TESTIMONY ORGANIZED?

21 A. First, I summarize the pertinent federal legislative and regulatory
22 requirements. Second, I discuss the necessary conditions of an
23 effective resale policy. Third, I describe the avoided cost model
24 employed herein. Finally, I present my conclusions. Attached as
25 Exhibit ___ (DGP-2) is a White Paper I co-authored which describes

1 MCI's position on these issues in a report format.

2

3 Q. WOULD YOU SUMMARIZE YOUR KEY CONCLUSIONS REGARDING
4 THE PRICING AND PROVISIONING OF WHOLESALE SERVICES?

5 A. Yes. The key conclusions are:

- 6 • An effective local resale market is essential to development of full
7 facilities based local competition.
- 8 • In addition to promoting facilities based competition, resale of
9 local services provides independent benefits to consumers
10 through retail competition.
- 11 • In order to capture all of these benefits, all local
12 telecommunications services must be made available for resale at
13 discounts that fully reflect avoidable costs.
- 14 • Wholesale services must not be provisioned in ways that
15 discourage entry by resellers or unreasonably raise their costs.
- 16 • An avoided cost study must reflect the jurisdictional allocation of
17 expenses.
- 18 • The appropriate resale discounts should be set on a state specific
19 basis where the data allow, and at the Regional Company level
20 otherwise.
- 21 • The discounts range from approximately 19 to 27 percent at the
22 Regional Company level.

23

24 **Wholesale Services: Legislative and Regulatory Requirements**

25 Q. WHAT ARE THE LEGISLATIVE AND REGULATORY REQUIREMENTS

1 REGARDING RESALE AND WHOLESALE PRICING BY GTEFL?

2 A. The Telecommunications Act of 1996 ("1996 Act") is designed to bring
3 competition to local telecommunications markets. The 1996 Act
4 recognizes that simply removing legal barriers to entry is insufficient to
5 allow competition to evolve. A number of procompetitive steps are
6 necessary and explicitly required by the 1996 Act. For example, every
7 incumbent local exchange carrier ("ILEC") is required to provide
8 requesting telecommunications carriers: (1) interconnection to its
9 network; (2) access to its unbundled network elements; (3) physical
10 collocation for interconnection or access to unbundled elements, and (4)
11 retail telecommunications services for resale at wholesale prices (rates).
12 Economic barriers to entry into local telephone markets will be reduced
13 substantially with an effective resale policy. In other words, resale of all
14 retail telecommunications services at wholesale rates is necessary to
15 the development of local competition.

16 The 1996 Act imposes a duty upon ILECs to offer certain services
17 for resale at wholesale rates. Specifically, Section 251(c)(4) requires
18 ILECs:

19 (A) to offer for resale at wholesale rates any tele-
20 communications service that the carrier provides at
21 retail to subscribers who are not telecommunications
22 carriers; and

23 (B) not to prohibit, and not to impose unreasonable or
24 discriminatory conditions or limitations on, the resale
25 of such telecommunications services, except that a

1 state commission may, consistent with regulations
2 prescribed by the Commission under this section,
3 prohibit a reseller that obtains at wholesale rates a
4 telecommunications service that is available at retail
5 only to a category of subscribers from offering such
6 service to a different category of subscribers.

7 Further, The 1996 Act also provides guidance on the determination of
8 wholesale prices for telecommunications services. Section 252(d)(3)
9 states that:

10 For the purposes of Section 251(c)(4), a state commission
11 shall determine wholesale rates on the basis of retail rates
12 charged to subscribers for the telecommunications service
13 requested, excluding the portion thereof attributable to any
14 marketing, billing, collection, and other costs that will be
15 avoided by the local exchange carrier.

16 These statutory requirements are clear and concise. As described
17 below, they are not only consistent with, they are essential to, the
18 development of local competition.

19

20 Q. WHAT STEPS HAS THE FCC TAKEN TO IMPLEMENT THESE
21 STATUTORY PROVISIONS?

22 A. The Federal Communications Commission ("FCC") recently released its
23 First Report and Order in CC Docket No. 96-98, In the Matter of
24 Implementation of the Local Competition Provisions of the
25 Telecommunications Act of 1996, issued August 8, 1996 ("251 Order").

1 The 251 Order addresses the need for resale competition stating that:
2 Resale will be an important entry strategy for many new
3 entrants, especially in the short term when they are
4 building their own facilities. Further, in some areas and for
5 some new entrants, we expect that the resale option will
6 remain an important entry strategy over the longer term.
7 Resale will also be an important entry strategy for small
8 businesses that may lack capital to compete in the local
9 exchange market by purchasing unbundled elements or by
10 building their own networks. In light of the strategic
11 importance of resale to the development of competition, we
12 conclude that it is especially important to promulgate
13 national rules for use by state commissions in setting
14 wholesale rates. (251 Order, Para. 907).

15 The Order establishes “. . . a minimum set of criteria for avoided cost
16 studies used to determine wholesale discount rates.” (para. 909)
17 Sections 605-617 of part 51 of the FCC Rules set forth the FCC’s
18 methodology. These Rules are included as Appendix II to the attached
19 White Paper, Exhibit ____ (DGP-2). Beyond the minimum criteria, the
20 FCC allows states “. . . broad latitude in selecting costing methodologies
21 that comport with their own ratemaking practices for retail services.”
22 (para. 910) States are allowed to select interim “default” rates from
23 within a range prescribed by the FCC if an avoided cost study such as
24 the one presented here is not available. (See FCC Rules Section
25 51.611.)

1 The methodology described here follows the approach suggested
2 by the FCC. However, it is appropriate to account for the jurisdictional
3 nature of some of the expenses that are avoided when ILECs no longer
4 perform the retail function. The necessary adjustments are described
5 below. These adjustments are consistent with state rate making
6 practices and therefore comply with the express desire of the FCC to
7 provide latitude to states.

8
9 **Wholesale Services: Necessary Conditions for Effective Resale**

10 Q. PLEASE DESCRIBE THE NECESSARY CONDITIONS FOR
11 EFFECTIVE RESALE.

12 A. There are several conditions necessary for an effective local resale
13 market. In general, the price of wholesale services must be reasonably
14 related to the cost of providing the service and the wholesale services
15 must be offered on reasonable terms and conditions. The specific
16 conditions necessary for effective resale are: 1) wholesale rates must
17 not include incumbent LEC retailing costs; 2) all retail services must be
18 offered at a discount; 3) service quality and adequate wholesale-reseller
19 interfaces must be maintained; and 4) service branding must be
20 provided for the retailers' services.

21
22 Q. YOU STATED THAT WHOLESALERATES CHARGED BY GTEFL
23 MUST NOT INCLUDE RETAILING COSTS. PLEASE EXPLAIN.

24 A. If ILECs are allowed to charge excessive wholesale service prices,
25 competition will be thwarted. In any market, resellers or retailers require

1 a margin between the retail price and the wholesale price sufficient to
2 allow recovery of their expenses, including a reasonable profit. The
3 FCC points out that:

4 There has been considerable debate on the record in this
5 proceeding and before the state commissions on whether
6 section 252(d)(3) embodies an “avoided” cost standard or
7 an “avoidable” cost standard. We find that “the portion [of
8 the retail rate] . . . attributable to costs that will be avoided”
9 includes all of the costs that the LEC incurs in maintaining
10 a retail, as opposed to a wholesale, business. In other
11 words, the avoided costs are those that an incumbent LEC
12 would no longer incur if it were to cease retail operations
13 and instead provide all of its services through resellers.
14 Thus, we reject the arguments of incumbent LECs and
15 others who maintain that the LEC must actually experience
16 a reduction in its operating expenses for a cost to be
17 considered “avoided” for purposes of section 252(d)(3).
18 We do not believe that Congress intended to allow
19 incumbent LECs to sustain artificially high wholesale prices
20 by declining to reduce their expenditures to the degree that
21 certain costs are readily avoidable. We therefore interpret
22 the 1996 Act as requiring states to make an objective
23 assessment of what costs are reasonably avoidable when
24 a LEC sells its services wholesale. We note that Colorado,
25 Georgia, Illinois, New York, and Ohio commissions have all

1 interpreted the 1996 Act in this manner. (251 Order, Para.
2 911).

3 If avoided costs are estimated correctly, and then subtracted from retail
4 prices, efficient resellers should be able to succeed in the retail market.

5
6 Q. YOU ALSO STATED THAT ALL RETAIL SERVICES MUST BE
7 OFFERED AT A DISCOUNT. PLEASE EXPLAIN.

8 A. All of the telecommunications services offered to end-users must be
9 made available to resellers at a wholesale discount. (Retail competitors
10 may wish to resell services such as Voice Mail and Inside Wire. These
11 services would likely be made available at avoided cost if the wholesale
12 market were competitive.) This includes Centrex, optional plans,
13 grandfathered services, promotions and contract services. (All contract
14 services must be available for resale. This includes government and
15 state agency contracts as well as any "umbrella" contract that allows
16 other entities to participate and obtain the benefits of a master contract.)
17 All ILEC retail services are at least partial substitutes for one another.
18 (The FCC Rules permit states to restrict "cross-class" selling. See
19 Section 51.613(a)(1).) Therefore, absent this requirement, ILECs will be
20 able to discriminate against resellers by making offers to customers that
21 their retail competitors are unable to match.

22 Ancillary services must also be made available for resale. This
23 includes custom calling services, CLASS features, and all Centrex
24 features. While some of these features may not be regulated,
25 depending on the state jurisdiction or the jurisdictional nature of the

1 service, they are all telecommunications services. If some features are
2 not discounted, the ILECs' reseller competitors effectively will be denied
3 the opportunity to market to a significant group of customers because
4 the lack of a discount on these features will reduce reseller margins to
5 inadequate levels.

6 Several state Commissions have already addressed the need for
7 identifying services available for resale and the need for unrestricted
8 resale. Several of these decisions are described in the FCC's 251
9 Order. (See paras. 898-906.)

10 The FCC's Rules also require promotions to be offered at a
11 discount in certain circumstances. (See Section 51.613(a)(2).) Granting
12 exceptions to the requirement that all services be made available at
13 wholesale discounts may lead to abuse. States should be alert to this
14 possibility and be prepared to take corrective action against ILECs that
15 abuse the exceptions.

16

17 Q. SHOULD GTEFL BE ALLOWED TO IMPOSE ANY RESTRICTIONS ON
18 THE RESALE OF SERVICES.

19 A. No, with extremely limited exceptions. The only exceptions that should
20 be permitted are 1) resale of flat rate residential service could be limited
21 to residential customers, 2) resale of grandfathered services could be
22 limited to customers who took the grandfathered service from GTEFL,
23 and 3) resale of Lifeline and LinkUp could be limited to qualifying low
24 income customers. Any other use or user restrictions, or other
25 limitations, would impede MCI's ability to compete through service

1 resale.

2

3 Q. YOU STATED THAT THE THIRD ISSUE IS THAT SERVICE QUALITY
4 AND ADEQUATE WHOLESALE-RESELLER INTERFACES MUST BE
5 MAINTAINED. WHAT IS THE IMPORTANCE OF THIS ISSUE?

6 A. The FCC has ruled that ILECs must provide resale services to
7 competitors under the same terms and conditions it enjoys itself. It is
8 crucial to a successful resale plan that interfaces between the ILEC's
9 operations support systems and resellers' systems are adequate to
10 allow the reseller to provide service to its customers efficiently. The
11 Commission must also ensure that ILECs offer resellers the same
12 quality service they provide to themselves and their own retail
13 customers. To accomplish this, ILECs must implement systems and
14 procedures that permit the ordering and use of wholesale services under
15 the same timetables available to the ILEC. These systems must
16 include:

- 17 • Pre-Service Ordering Capabilities. On-line access to all
18 information needed to verify availability of services and features,
19 scheduling of service installation, and number assignment.
- 20 • On-Line, automated order processing. Capability of transmitting
21 customer orders to the switch office and provide the reseller with
22 notice of confirmation and completion of its order. Competitively-
23 neutral long distance and local presubscribed carrier
24 administration processes must be implemented.
- 25 • Exchange of billing data and exchange of customer account data

- 1 on a timely basis. This must be done on a confidential basis.
- 2 ● On-Line Monitoring. Monitor the network, isolate trouble spots,
- 3 perform network tests, and schedule reports.
- 4 ● Service quality reports. Documenting service quality ILECs
- 5 provide themselves compared to the service they provide to
- 6 others.

7 All of these requirements are consistent with the FCC's finding that " . . .

8 service made available for resale be at least equal in quality to that

9 provided by the incumbent LEC to itself or to any subsidiary, affiliate, or

10 service made available for resale be at least equal in quality to that

11 provided by the incumbent LEC to itself or to any subsidiary, affiliate, or

12 any other party . . . " (251 Order, Para. 970).

13 Q. ANOTHER IMPORTANT CONDITION OF RESALE COMPETITION

14 THAT YOU MENTIONED WAS BRANDING. WHAT DO YOU MEAN BY

15 BRANDING AND WHY IS IT IMPORTANT?

16 A. Resellers require carrier-specific branding for all customer contacts.

17 Customers naturally expect services to be provisioned, serviced and

18 maintained by their carrier of choice, regardless of whether the service

19 is actually provided by another carrier through a resale arrangement.

20 Customer confusion will be significantly diminished if the customer does

21 not perceive that resold services are actually provided by another

22 carrier.

23 Customers would experience concern, confusion and

24 dissatisfaction when placing a bill inquiry, a directory assistance call, or

25 an operator service call to their provider of choice if they are greeted

 with the name of their old telephone company. Customers may even

1 conclude that they have been "slammed." State Commissions must
2 ensure that resale of all ILEC retail services occurs with the least
3 amount of customer confusion possible. Branding will minimize
4 customer confusion with respect to resold ILEC services.

5 In a resale environment, differentiation of the underlying product
6 is virtually impossible. Competitors must rely upon other factors to win
7 customer loyalty. Superior customer service, simplified billing, and
8 innovative pricing will provide the only opportunities to differentiate
9 products from the underlying network provider. Without the ability to
10 brand all resold LEC services, reseller efforts to provide superior
11 customer services are diluted. Brand dilution makes the investment in
12 these new service or billing innovations more difficult to justify.

13 A uniform branding standard will also reduce customer confusion
14 as the industry moves into an unbundled environment. For example, as
15 competitors develop their own operator services capabilities, the change
16 in the provider of this service will be transparent to the customer.

17 In sum, when the end user selects a local reseller it is important
18 that they can clearly identify their service provider and its brand.
19 Without a clear brand image the customer could face uncertainty when
20 using directory or operator services. Such clarity can only be achieved
21 by: (1) making reasonably available to local service resellers the ability
22 to brand their service at all points of customer-contact; and (2) barring
23 the incumbent LEC from unreasonably interfering with such branding.
24 As the FCC points out, "this brand identification is critical to reseller
25 attempts to compete with incumbent LECs and will minimize customer

1 confusion.” (251 Order, Para. 971)

2

3 **Wholesale Services: Setting Wholesale Rates**

4 Q. WHAT GUIDANCE IS PROVIDED BY THE RECENTLY ADOPTED FCC
5 RULES REGARDING THE ESTABLISHMENT OF APPROPRIATE
6 WHOLESALE PRICES?

7 A. The FCC’s Order establishes minimum criteria for the avoided cost
8 methodology based broadly on the MCI study. Essentially, the costs in
9 certain FCC Part 32 Uniform System of Accounts (“USOA”) accounts are
10 identified as directly avoided while costs in other accounts are treated
11 as indirectly avoided. The avoided indirect costs are calculated by
12 determining the ratio of directly avoided costs to total costs and then
13 applying that proportion to the accounts containing indirectly avoided
14 costs.

15

16 Q. WHAT ARE THE “DIRECTLY AVOIDED COSTS?”

17 A. The following specific accounts from the Uniform System of Accounts
18 (“USOA”) are directly avoided (see Code of Federal Regulations, Title
19 47, Telecommunication, Part 32):

- 20 ■ Account 6611: Product management
- 21 ■ Account 6612: Sales
- 22 ■ Account 6613: Product advertising
- 23 ■ Account 6621: Call completion services
- 24 ■ Account 6622: Number services
- 25 ■ Account 6623: Customer services

1 Q. YOU HAVE DISCUSSED "DIRECTLY AVOIDED COSTS." WHAT ARE
2 THE "INDIRECT AVOIDED COSTS?"

3 A. Within the USOA there are a number of expense accounts that are
4 either common costs or general overhead. By definition, overhead costs
5 support all other functions, including those that are avoided, such as
6 marketing. For example, the Human Resources department incurs
7 expenditures in the staffing of the marketing department. As marketing
8 expenses are avoided, so are the expenses incurred in supporting
9 marketing. Therefore, the portion of these expense items equal to the
10 proportion of direct avoided costs to total expense is excluded as an
11 avoided cost. Consistent with the FCC's paragraph 918, account 5301
12 rather than 6790 is used to calculate the avoided uncollectible revenues.

13 The following USOA accounts include common costs or general
14 overhead which support marketing and customer service operations:

- 15 ■ 6120 - General Support
- 16 ■ 6711 - Executive
- 17 ■ 6712 - Planning
- 18 ■ 6721 - Accounting and finance
- 19 ■ 6722 - *External Relations*
- 20 ■ 6723 - Human resources
- 21 ■ 6724 - Information management
- 22 ■ 6725 - Legal
- 23 ■ 6726 - Procurement
- 24 ■ 6727 - *RESEARCH + DEVELOPMENT*
- 25 ■ 6728 - Other general and administrative, and
- 5301 - Uncollectibles

Expenses in these accounts are, at least, partially avoidable.

1 Q. ARE THERE YET OTHER COSTS TO BE CONSIDERED?

2 A. Yes. While the ILECs will avoid substantial costs when they provide
3 wholesale services, they will incur a small amount of incremental
4 expenses to service the accounts of the resellers. However, these costs
5 will be quite small. The ILECs already are set-up to perform the
6 wholesaling function because they provide wholesale-like functions to
7 interexchange carriers ("IXCs") and Enhanced Service Providers
8 ("ESPs"). The incremental cost of providing these services to resellers
9 of wholesale local exchange service should be minimal. The FCC
10 addresses this issue by treating only 90 percent of the costs in certain
11 of the directly avoided categories as avoided for purposes of setting
12 default discounts. Specifically, the FCC determined that 90 percent of
13 accounts 6610, and 6623 would be avoided, while 100 percent of
14 accounts 6621 and 6622 would be avoided.

15 The FCC approach is very conservative. For example, Account
16 6623 (Customer Services) records the cost of setting up and billing end
17 user accounts. The purchaser of wholesale services will be providing
18 this service to its own end users. Any cost of billing the purchaser of
19 wholesale services, who will be billed for many end user lines, will be
20 minuscule in comparison with the cost of billing each of those individual
21 lines separately. Billing retail customers requires setting up accounts
22 and billing individual customers. Wholesale customers, on the other
23 hand, will be fewer in number, and are more acquainted with billing
24 processes, thus enabling them to be served at much lower cost.

25 Although there may be some minor Customer Services costs incurred by

1 ILECs to provide wholesale services, those costs are so small that they
2 could reasonably be completely excluded as avoided costs.
3 Nevertheless, MCI has followed the approach used by the FCC for
4 calculating default discounts and retained a portion of the expenses in
5 these accounts in the wholesale rate.

6
7 Q. WHAT OTHER FACTORS MUST BE TAKEN INTO ACCOUNT IN
8 ARRIVING AT THE APPROPRIATE WHOLESALe PRICES?

9 A. The FCC approach divides total avoided costs by total expenses on a
10 "subject to separations" basis. That is, both interstate and intrastate
11 costs were included. MCI's original model used this approach.
12 However, this study uses the original MCI model, as modified by the
13 FCC, using ARMIS 43-04 data on state operations, rather than the
14 Subject to Separations data in the original study.

15 The services to be resold are largely intrastate. The FCC has
16 specifically concluded that even though access charges will not be
17 moved to economic cost until after a transition period, interstate access
18 services will not be subject to the wholesale discount. (paras. 873-874)
19 Therefore, it is necessary for consistency to calculate the appropriate
20 wholesale discount by dividing total avoided ARMIS intrastate costs by
21 the total intrastate expenses for services that will be resold. Absent this
22 modification, both the numerator and the denominator of the discount
23 calculation will include expenses allocated to services that will not be
24 resold. The necessary revision can be done with the aid of ARMIS
25 Report 43-04, which breaks down the relevant costs on a jurisdictional

1 basis. (Note: Most of the interstate costs in the "directly avoided"
2 ARMIS accounts will be avoided by ILECs selling local services at
3 wholesale. That some of these costs appear in interstate accounts is an
4 artifact of the separations process. Therefore, it would be appropriate to
5 add interstate expenses in these accounts to the numerator of the
6 discount calculation. This study does not take this step in recognition of
7 the fact that complex jurisdictional issues are raised thereby. MCI will
8 modify its wholesale discount studies if the FCC rules on this issue.)
9

10 Q. TAKING ALL OF THE ABOVE INTO ACCOUNT, WHAT ARE THE
11 RESULTS OF YOUR ANALYSIS?

12 A. Having identified the accounts that can be fully or partially associated
13 with retailing functions that the ILEC will not perform, the next step is to
14 quantify the actual savings and produce a percentage discount. The
15 results on a holding company basis are shown in the white paper
16 attached as Exhibit ____ (DGP-2).
17

18 Q. WHAT ARE THE RESULTS FOR GTE - FLORIDA?

19 A. The GTE - Florida result is ^{17.68%}~~17.26%~~, and is set forth with the other major
20 GTE states in Exhibit ____ (DGP-3).
21

22 Q. HOW SHOULD THE COMMISSION REQUIRE THAT THESE
23 DISCOUNTS BE APPLIED TO SERVICES RESOLD BY MCI?

24 A. Discounts should be developed and applied on a uniform basis to
25 promote consistency and simplify the process. The wholesale discount

1 as calculated in this study for each ILEC should be applied to each of
2 the telecommunications services offered at wholesale rates. The
3 published information ARMIS Report 43-04 data provide a sufficient
4 basis for an aggregate discount across all services. These data are
5 broadly consistent across ILECs and are reported in a format that is
6 familiar. Service by service data are much harder to come by. Even if
7 more detailed information were publicly available on a product-by-
8 product basis, the consistency of the information would be questionable
9 due to the numerous allocations and assumptions the ILEC would have
10 to make to develop the product-specific information. While the FCC
11 Rules do not rule out service-specific discounts, requiring the ILEC to
12 provide such detailed information on a product-by-product basis would
13 be an administrative burden for the ILECs and the responsible federal
14 and state regulatory agencies. Moreover, the result would be highly
15 debatable product by product discount levels.

16 The discount should also apply to each rate element. Any other
17 basis provides opportunities for abuse. For example, applying the
18 discount on revenue per minute for a service may penalize resellers
19 whose sales by rate element are weighted differently than those of the
20 ILEC or other resellers.

21
22 **Wholesale Services: Summary**

23 Q. WOULD YOU PLEASE SUMMARIZE THIS SECTION OF YOUR
24 TESTIMONY?

25 A. Yes. Wholesale discounts are essential to the development of local

1 competition. Adequate wholesale discounts will provide immediate
2 consumer benefits by allowing retail competition to begin in advance of
3 full facilities based competition. The methodology described here for
4 developing these discounts is analytically correct and easy to
5 administer.

6

7

ANCILLARY ARRANGEMENTS AND SERVICES REQUIREMENTS

8

Ancillary Arrangements: Overview

9

Q. PLEASE EXPLAIN THE IMPLICATIONS OF THE 1996 ACT AND THE
10 RECENT FCC'S ORDER AND RULES.

10

11

A. The 1996 Act promotes competition by directly removing, or mandating
12 that the FCC and state Commissions remove, significant impediments to
13 efficient entry by imposing requirements such as access to unbundled
14 network elements, interconnection, and resale of retail services. The
15 1996 Act also removes either directly or through the federal and state
16 Commissions certain operational barriers to competition, by mandating
17 local number portability, dialing parity, and nondiscriminatory access to
18 rights of way. Eliminating these barriers by devising ancillary
19 arrangements and service requirements is essential if competition is to
20 develop in the local exchange market. These operational arrangements
21 will give new entrants the opportunity to provide to their customers high
22 quality, robust local exchange services. Absent these ancillary
23 arrangements, MCI will always be placed in the position of providing
24 inferior local exchange services and those services, regardless of their
25 prices, will likely never be competitive with those of the incumbent local

25

1 exchange carriers ("ILECs").

2 The purpose of this portion of my testimony is to describe the
3 ancillary arrangements and service requirements that will be required to
4 eliminate barriers to competition, to identify the relevant rules ordered by
5 the FCC in its rulemaking implementing the local competition provisions
6 of the 1996 Act, and to identify the actions that the state Commissions
7 must take to fully eliminate these barriers. The detailed interfaces and
8 performance standards needed for these ancillary arrangements will be
9 presented in testimony provided by another MCI witness.

10

11 Q. WHAT ARE THE KEY ANCILLARY ARRANGEMENTS ON WHICH
12 YOUR TESTIMONY FOCUSES?

13 A. My testimony focuses on seven specific ancillary arrangements and
14 services:

- 15 1. local number portability;
- 16 2. dialing parity;
- 17 3. directory assistance and operator services;
- 18 4. directory listing arrangements (both white and yellow pages);
- 19 5. access to 911 and E911 facilities and platforms;
- 20 6. access to poles, ducts, conduit, and rights-of-way; and
- 21 7. a bona fide request process for new unbundled network
22 elements.

23

24 **Ancillary Arrangements: Local Number Portability**

25 Q. WHAT IS THE SIGNIFICANCE OF LOCAL NUMBER PORTABILITY?

1 A. Both Congress and the FCC have recognized that service provider
2 portability -- the ability of end users to retain their telephone numbers
3 when changing service providers -- is necessary to give customers
4 flexibility in the quality, price, and variety of telecommunications services
5 they can choose to purchase. Conversely, it has been shown that the
6 lack of local number portability ("LNP") would likely deter entry by
7 competitive carriers into local markets because of the value customers
8 place on retaining their telephone numbers. Therefore, pursuant to
9 Section 251(b)(2) of the 1996 Act and rules recently established by the
10 FCC in its Telephone Number Portability order, In the Matter of
11 Telephone Number Portability, CC Docket No. 95-116, First Report and
12 Order and Further Notice of Proposed Rulemaking, July 2, 1996, ("LNP
13 Order"), all local exchange carriers ("LECs") are required to provide
14 permanent LNP according to specific implementation guidelines.

15 In addition, until the implementation of permanent LNP, §52.7 of
16 the FCC's rules requires each incumbent LEC to provide interim local
17 number portability ("ILNP") measures through remote call forwarding
18 ("RCF"), direct inward dialing ("DID"), or other comparable
19 arrangements, with as little impairment of functioning, quality, reliability
20 and convenience as possible.

21
22 Q. WHAT ARE THE IMPLICATIONS OF LONG TERM (OR TRUE)
23 NUMBER PORTABILITY TO THESE ARBITRATION PROCEEDINGS?

24 A. Because of actions taken by this Commission, the industry is moving in
25 a direction that should provide number portability to Florida customers in

1 accordance with the FCC's implementation schedule. For additional
2 information on the responsibilities that states have under the FCC's LNP
3 Order, please refer to Exhibit ___ (DGP-4).

4

5 Q. WHAT ARE THE IMPLICATIONS OF INTERIM NUMBER PORTABILITY
6 TO THESE ARBITRATION PROCEEDINGS?

7 A. The Commission must adopt a cost recovery mechanism for interim LNP
8 measures that is "competitively neutral" and is consistent with basic
9 criteria established in the LNP Order, i.e., it must not give one service
10 provider an appreciable incremental cost advantage over another
11 service provider, and it should not have a disparate effect on the ability
12 of competing providers to earn normal returns on their investment.

13 The Commission must approve terminating access arrangements
14 in the interim LNP context, such that terminating access charges paid by
15 IXCs on calls forwarded as a result of RCF or other comparable number
16 portability measures are shared between the forwarding and terminating
17 carriers.

18 The Commission must order the incumbent LEC to accept certain
19 billing arrangements necessitated by use of RCF and DID for number
20 portability purposes.

21

22 Q. WHAT RELIEF IS MCI SEEKING FROM THIS COMMISSION
23 REGARDING INTERIM PORTABILITY?

24 A. MCI requests that this Commission take the following steps with regard
25 to cost recovery and implementation of interim LNP measures:

1 (1) The Commission should mandate that each carrier must pay for
2 its own costs of currently available number portability measures.
3 This is the simplest and most direct mechanism for ILNP cost
4 recovery that meets the FCC's competitively neutral cost recovery
5 criteria.

6 This mechanism does not require special reporting
7 between carriers of revenues, minutes of use, number of
8 customer telephone numbers, etc. This is especially important
9 because ILNP measures will soon be replaced by permanent
10 LNP. Development and monitoring of the accounting and
11 reporting systems necessary to implement another, more
12 complicated, competitively neutral cost recovery mechanism
13 would be extremely inefficient given the short time frame it will be
14 in place. A second-best cost recovery option, which also is fairly
15 simple and straight-forward and meets the FCC's criteria is to
16 allocate ILNP costs based on a carrier's number of active
17 telephone numbers (or lines) relative to the total number of active
18 telephone numbers (or lines) in a service area.

19 (2) The Commission should direct the incumbent LEC to adopt meet-
20 point billing arrangements for access charges paid by IXCs
21 terminating calls directed to MCI via LEC-provided RCF or DID.
22 The appropriate split of access charges is: (i) the forwarding LEC
23 charging the IXC for transport from the IXC point of presence to
24 the end office where the RCF/DID is provided; and (ii) the
25 terminating LEC charging the IXC for the terminating LEC's

1 terminating switching function and common line. Any additional
2 intermediate switching and transport costs incurred by the
3 forwarding LEC should be recovered as part of the competitively
4 neutral cost allocation mechanism. In addition, if MCI is unable
5 to identify the particular IXC carrying a call subject to forwarding,
6 the LEC should provide MCI with the necessary information to
7 permit MCI to issue a bill to the IXC. This may include sharing
8 Percentage Interstate/Intrastate Usage data.

- 9 (3) The Commission must direct the incumbent LEC, when it is the
10 recipient provider, to accept MCI's billing to the incumbent
11 provider for charges resulting from third number and collect calls
12 being billed to the new entrant's directory numbers, per the
13 customer's direction. If this does not occur, MCI will have to
14 indicate in its line databases that collect or third-number billing
15 are not accepted for this number. When RCF or DID is used to
16 forward calls to an MCI customer, the donor provider must agree
17 to maintain the Line Information Database record for that number
18 to reflect appropriate conditions as reported to it by MCI.

19
20 **Ancillary Arrangements: Dialing Parity**

21 Q. WHAT IS THE SIGNIFICANCE OF "DIALING PARITY" IN
22 ESTABLISHING APPROPRIATE COMPETITIVE CONDITIONS?

23 A. The 1996 Act, in Section 251(b)(3), imposes on all LECs:

24 The duty to provide dialing parity to competing providers of
25 telephone exchange service and telephone toll service, and

1 the duty to permit all such providers to have
2 nondiscriminatory access to telephone numbers, operator
3 services, directory assistance, and directory listing, with no
4 unreasonable dialing delays.

5 Dialing parity achieved through presubscription allows customers to
6 preselect any provider of telephone exchange service or telephone toll
7 service without having to dial extra digits to route a call to that carrier's
8 network. In the Implementation of the Local Competition Provisions of
9 the Telecommunications 1996 Act of 1996, CC Docket No. 96-98,
10 Second Report and Order and Memorandum Opinion and Order, August
11 8, 1996 ("Second Order"), the FCC concluded at paragraph 4

12 ...that section 251(b)(3) requires LECs to provide dialing
13 parity to providers of telephone exchange or toll service
14 with respect to all telecommunications services that require
15 dialing to route a call...

16 Thus, customers must be able to access directory and operator services
17 and complete local and toll calls using the same dialing string,
18 regardless of the selected local or toll provider.

19

20 Q. PLEASE EXPLAIN THE IMPLICATIONS OF THESE OBLIGATIONS ON
21 BOTH "TOLL" AND "LOCAL" DIALING PARITY.

22 A. The FCC adopted broad guidelines and minimum standards to
23 implement toll dialing parity, including the requirements that LECs use
24 the "full 2-PIC" method (though states have the flexibility to impose
25 additional requirements), that dialing parity be defined by LATA

1 boundaries (though states may redefine dialing parity based on state
2 boundaries if determined to be in the public interest), and that LECs file
3 dialing parity implementation plans that must be approved by state
4 Commissions. LECs, including BOCs, must implement dialing parity by
5 February 8, 1999, and provide dialing parity throughout a state
6 coincident with their provision of in-region, interLATA or in-region,
7 interstate toll service.

8 For local dialing parity, the FCC requires (para. 9 of the Second
9 Order):

10 ...a LEC to permit telephone exchange service customers,
11 within a defined local calling area, to dial the same number
12 of digits to make a local telephone call, notwithstanding the
13 identity of the customer's or the called party's local
14 telephone service provider.

15 The FCC declined to prescribe national guidelines for LECs to
16 accomplish local dialing parity, consumer education and carrier selection
17 (para. 80 of the Second Order).

18
19 **Q. HOW ARE THE IMPLEMENTATION COSTS ASSOCIATED WITH**
20 **DIALING PARITY TO BE RECOVERED?**

21 **A. The FCC addressed recovery of dialing parity implementation costs at**
22 **para. 92 of the Second Order:**

23 We conclude that, in order to ensure that dialing parity is
24 implemented in a pro-competitive manner, national rules
25 are needed for the recovery of dialing parity

1 implementation costs. We further conclude that these
2 costs should be recovered in the same manner as the
3 costs of interim number portability...

4 That is, cost recovery for local and toll dialing parity (including
5 intraLATA equal access when it is implemented) must be limited to
6 incremental costs, and recovered from all providers in the area served
7 by a LEC, including that LEC, using a competitively-neutral allocator
8 established by the state. (Paragraphs 94 - 95 of the Second Order)

9 The FCC's requirement for nondiscriminatory access requires
10 ILECs to allow competing providers access that is at least equal in
11 quality to that the LEC provides itself. Thus, call set-up and call
12 processing times for MCI should be equivalent to that for the ILEC and
13 any dialing delays must be no longer than those experienced by the
14 ILEC's customers for processing calls on the ILEC network for identical
15 calls or call types.

16

17 Q. WHAT ARE THE ISSUES PERTAINING TO DIALING PARITY TO BE
18 RESOLVED IN THIS PROCEEDING?

19 A. MCI requests that the Commission ensure that only costs incremental
20 and directly related to dialing parity are recovered by allowing dialing
21 parity implementation costs to be subject to investigation and review.

22

23 **Ancillary Arrangements: Directory Assistance and Operator Services**

24 Q. YOU MENTIONED DIRECTORY ASSISTANCE AND OPERATOR
25 SERVICES AT THE OUTSET OF YOUR TESTIMONY AS ONE OF THE

1 ANCILLARY SERVICES THAT IS CRITICAL. WHAT IS THE
2 COMPETITIVE SIGNIFICANCE OF THESE SERVICES?

3 A. Access to directory assistance and operator services ("DA/OS") is an
4 essential component of basic telephone service. New entrants such as
5 MCI must be able to provide DA/OS services that are comparable in
6 quality to those provided by ILECs. Customers must be able to reach
7 MCI's DA/OS using the same dialing string as the ILEC and with no
8 unreasonable dialing delays, as described in the dialing parity section
9 above.

10

11 Q. WHAT IS REQUIRED BY THE TELECOMMUNICATIONS ACT AND
12 THE FCC'S RULES?

13 A. Section 251(b)(3) of the 1996 Act requires LECs to permit:

14 . . . nondiscriminatory access to telephone numbers, operator
15 services, directory assistance, and directory listing. . . .

16

17 The FCC recently concluded in its Second Order (at paragraph 101) that
18 the term "nondiscriminatory access" means that a
19 LEC that provides telephone numbers, operator
20 services, directory assistance, and/or directory
21 listings ("providing LEC") must permit competing
22 providers to have access to those services that is at
23 least equal in quality to the access that the LEC
24 provides to itself.

25 The FCC also concluded, in the First Report and Order in CC Docket

1 Nos. 96-98 and 95-185 ("First Order" or "the Order"), at paragraph 534:

2 We further conclude that, if a carrier requests an incumbent LEC
3 to unbundle the facilities and functionalities providing operator
4 services and directory assistance as separate network elements,
5 the incumbent LEC must provide the competing provider with
6 nondiscriminatory access to such facilities and functionalities at
7 any technically feasible point.

8 In addition to a general obligation to provide unbundled access to
9 DAVOS facilities and functionalities, the FCC went further in paragraph
10 536 to include additional obligations:

11 We therefore find that incumbent LECs must unbundle the
12 facilities and functionalities providing operator services and
13 directory assistance from resold services and other unbundled
14 network elements to the extent technically feasible. As discussed
15 above in our section on unbundled switching, we require
16 incumbent LECs, to the extent technically feasible, to provide
17 customized routing, which would include such routing to a
18 competitors operator services or directory assistance platform.

19 Each of these sections highlights the ILEC's obligation to offer these
20 services as unbundled network elements on a nondiscriminatory basis.
21 As additional direction, the FCC in paragraph 218 of its Order provided
22 the following definition of "nondiscriminatory" to be used in interpreting
23 sections of the 1996 Act and its own Order:

24 Therefore, we reject for purposes of Section 251, our historical
25 interpretation of "nondiscriminatory" which we interpreted to mean

1 a comparison between what the incumbent LEC provided other
2 parties in a regulated monopoly environment. We believe that the
3 term "nondiscriminatory" as used throughout section 251 applies
4 to the terms and conditions an incumbent LEC imposes on third
5 parties as well as on itself.

6 Taken together, the 1996 Act and the FCC provide support for MCI to
7 have the option of reselling the GTEFL's DA/OS platform, as well as the
8 option to purchase unbundled elements, including: DA database and
9 sub-databases, data resident within a database for the purpose of
10 populating an MCI database, and the DA platform including systems and
11 operators. In addition, GTEFL must provide access at any technically
12 feasible point and at nondiscriminatory terms and conditions at least
13 equal in quality to the access that it provides to itself.

14 The FCC specifically addressed the requirements and technical
15 feasibility of obtaining nondiscriminatory access to DA databases as
16 separate unbundled elements:

17 In particular, the directory assistance database must be
18 unbundled for access by requesting carriers. Such access must
19 include both entry of the requesting carrier's customer information
20 into the database, and the ability to read such a database, so as
21 to enable requesting carriers to provide operator services and
22 directory assistance concerning incumbent LEC customer
23 information...We find that the arrangement ordered by the
24 California Commission concerning the shared use of such a
25 database by Pacific Bell and GTE is one possible method of

1 providing such access. (Footnotes omitted.) (Paragraph 538)

2

3 The DA database should be sent to MCI by the ILEC electronically. The
4 FCC concluded that any exchange of data currently between any
5 incumbent LECs demonstrates technical feasibility (para. 554):

6 Finally, in accordance with our interpretation of the term
7 'technically feasible,' we conclude that, if a particular method of
8 interconnection is currently employed between two networks, or
9 has been used successfully in the past, a rebuttable presumption
10 is created that such a method is technically feasible for
11 substantially similar network architectures. Moreover, because the
12 obligation of incumbent LECs to provide interconnection of access
13 to unbundled elements by any technically feasible means arises
14 from sections 251(c)(3), we conclude that incumbent LECs bear
15 the burden of demonstrating the technical infeasibility of a
16 particular method of interconnection or access at any individual
17 point.

18 Section 252(d)(1) of the 1996 Act states that prices of unbundled
19 network elements must be based on cost. The Order adopted a pricing
20 method based on forward-looking costs (para. 620). In purchasing
21 DA/OS unbundled elements, DA data should cost no more than the
22 ILEC's cost of delivery to MCI, with no systems or storage costs
23 included.

24

25 Q. ARE THERE OTHER ISSUES PERTAINING TO DIRECTORY

1 ASSISTANCE AND OPERATOR SERVICES OF WHICH THIS
2 COMMISSION SHOULD BE AWARE?

3 A. Yes. It is important that DA/OS services be properly "branded." MCI
4 customers that obtain MCI's DA/OS services via GTEFL's DA platform
5 should be provided services in conjunction with MCI's brand name.
6 Paragraph 971 of the FCC Order specifically directs incumbent LECs to
7 provide branding as part of their wholesale DA/OS offering to other
8 carriers:

9 Brand identification is critical to reseller attempts to compete with
10 incumbent LECs and will minimize customer confusion....We
11 therefore conclude that where operator, call completion, or
12 directory assistance service is part of the service or service
13 package an incumbent LEC offers for resale, failure by an
14 incumbent LEC to comply with reseller branding requests
15 presumptively constitutes an unreasonable restriction on resale.

16

17 Q. WHAT ARE THE ISSUES PERTAINING TO DIRECTORY ASSISTANCE
18 AND OPERATOR SERVICES TO BE RESOLVED IN THIS
19 PROCEEDING?

20 A. There are three issues that must be resolved. They are:

21 (1) Customers should be able to retrieve directory information for all
22 subscribers either through the ILEC's database or an MCI
23 database, regardless of their local exchange provider, with the
24 exception of unlisted telephone numbers or other information a
25 LEC's customer has specifically asked the LEC not to make

1 available. Because all customers benefit from DA services that
2 are complete and accurate, there should be no charge for ILEC
3 storage of MCI customer information in the DA database.

4 (2) The Commission should require that MCI's local exchange
5 customers' information be included in an ILEC's DA database and
6 accessed through the ILEC's DA platform. Also, MCI should be
7 permitted to obtain an ILEC's DA information for the purpose of
8 populating an MCI DA database.

9 (3) Proprietary or sensitive information should be identified in the
10 database of another provider by the specific information's "owner"
11 for purposes of limiting access for reasons other than directory
12 assistance, and/or, licensing arrangements which would allow
13 greater flexibility in the use of the data with proper compensation
14 to the owner of the data.

15 The specific arrangements related to operational implementation for
16 DA/OS are covered in the testimony of another MCI witness.

17

18 **Ancillary Arrangements: Directory Listings**

19 Q. TURNING TO THE FOURTH OF THE ANCILLARY SERVICES THAT
20 YOU LISTED ABOVE, WHAT PRINCIPLES REGARDING THE
21 PROVISION OF DIRECTORY LISTINGS ARE CONTAINED IN THE
22 TELECOMMUNICATIONS ACT AND THE FCC'S ORDER AND RULES?

23 A. Section 251(b)(3) of the 1996 Act imposes on all telecommunications
24 carriers:

25 The duty...to permit all such [telephone exchange service and

1 telephone toll service] providers to have nondiscriminatory access
2 to...operator services, directory assistance, and directory listing,
3 with no unreasonable dialing delays.

4 At paragraphs 141 and 142 of the Order, the FCC stated:

5 We conclude that section 251(b)(3) requires LECs to share
6 subscriber listing information with their competitors, in "readily
7 accessible" tape or electronic formats, and that such data be
8 provided in a timely fashion upon request... Under the general
9 definition of "nondiscriminatory access," competing providers
10 must be able to obtain at least the same quality of access to
11 these services that a LEC itself enjoys. Merely offering directory
12 assistance and directory listing services for resale or purchase
13 would not, in and of itself, satisfy this requirement, if the LEC, for
14 example, only permits a "degraded" level of access to directory
15 assistance and directory listings. (Footnote omitted.)

16

17 Q. WHAT ARE THE COMPETITIVE IMPLICATIONS OF THESE
18 PASSAGES?

19 A. First, a single, complete white pages directory listing all subscribers in a
20 geographic area, regardless of their local service provider, is in the
21 public interest. A unified directory is of equal value to the customers of
22 all carriers, since customers will not know the local carrier of the party
23 for whom they are seeking information. In addition, it would be
24 frustrating and inefficient to cull through multiple carrier-specific
25 directories. Nor would it be efficient for each local exchange carrier to

1 publish its own white pages directory.

2 Second, the listing information used for white pages serves as the
3 basis for the simple listings (referred to as the "Service Required
4 Listings") in Yellow Pages. In most situations, it would not be efficient
5 for each local service provider to publish its own yellow pages directory.
6 It is traditional for the ILEC to provide each business customer a Service
7 Required Listing under the appropriate classified heading in its yellow
8 pages directory, even if the business does not purchase a display ad, or
9 even a bold-faced listing. CLEC business customers must be afforded
10 similar treatment with respect to Service Required Listings in the ILEC's
11 yellow pages directory at no charge. If CLEC business customers were
12 treated differently from ILEC customers, the ILEC could use its position
13 as the sole provider of a yellow pages directory to place the CLECs at a
14 competitive disadvantage in the business market.

15 The specific arrangements related to operational implementation
16 for directory listings are covered in the testimony of another MCI
17 witness.

18
19 Q. WHAT ARE THE ISSUES PERTAINING TO DIRECTORY LISTINGS TO
20 BE RESOLVED IN THIS PROCEEDING?

21 A. There are four such issues. They are:

22 (1) The Commission should require that all relevant CLEC subscriber
23 information should be incorporated in (or, in the case of "non-
24 published" numbers, excluded from) the white pages directory
25 listings at no charge to the CLEC since all customers benefit from

- 1 a unified directory. Data should be passed from the CLEC to the
2 ILEC using the directory assistance process.
- 3 (2) The Commission should require that if an ILEC provides pertinent
4 business information in the Customer Guide (information) pages
5 of its white pages directory (e.g., rates, calling areas, sales,
6 service, repair and billing information, etc.), the same information
7 also must be provided for the CLEC at no charge.
- 8 (3) The CLEC customer data provided to the ILEC is valuable since it
9 can be used for leads for Yellow Pages advertising. In exchange
10 for that data, the ILEC should provide a published white pages
11 directory for each CLEC subscriber at no charge. The ILEC
12 should deliver the white pages directories to CLEC subscribers as
13 well as to its own subscribers, with the total element long run
14 incremental costs of that distribution assigned to all local
15 exchange carriers on a pro rata basis. Since a "sweep" of all
16 dwellings is less costly than leaving directories only with
17 subscribers, if the ILEC were to refuse to perform the distribution,
18 it would be artificially imposing costs on the CLECs. A CLEC can
19 negotiate with the ILEC for an alternative arrangement -- for
20 example, delivery of the directories to the CLEC rather than to
21 subscribers, if the CLEC wishes to place its own cover on the
22 directories.
- 23 (4) CLEC business customers must be treated the same way as
24 ILEC business customers with respect to free Service Required
25 Listings in the ILEC's yellow pages directory.

1 **Ancillary Arrangements: 911 and E911 Platforms**

2 Q. YOU MENTIONED THE NEED FOR MCI TO HAVE ACCESS TO 911
3 AND E911 ABOVE. WHAT ARE THE PUBLIC POLICY REASONS
4 UNDERLYING THAT CLAIM?

5 A. There is no question that the public safety requires that 911 service be
6 provided at the highest possible level of quality. To achieve such
7 quality, MCI and the ILEC must ensure the seamless interconnection of
8 their networks for the delivery of 911 services. Such interconnection
9 impacts both carriers' networks and their operations support systems.

10

11 Q. WHAT ARE THE NETWORK REQUIREMENTS OF
12 INTERCONNECTION FOR 911/E911?

13 A. Seamless interfaces are required to support 911 service between the
14 incumbent's and MCI's networks. One crucial network requirement is a
15 dedicated trunk group for routing 911 calls from, for example, MCI's
16 switch to the incumbent's selective router. An additional interface
17 requirement is that the incumbent provide selective routing of E-911
18 calls received from MCI's switch.

19 The incumbent is obligated to provide such trunking and routing,
20 upon request by MCI, pursuant to the 1996 Act. The ILEC must
21 establish terms and conditions that permit 911 calls placed by MCI's
22 customers to reach the Public Safety Answering Point ("PSAP") in a
23 manner equal to 911 calls originated on the ILEC's network.

24 To ensure that such interconnection is of high quality, MCI also
25 requires that the ILEC provide industry-standard signaling on the trunks

1 used to interconnect with the 911 tandem. Signaling is how information
2 on call processing is passed between various network elements to
3 permit calls to be established and disconnected. The ILEC must adhere
4 to industry signaling standards in support of 911 calls. This is consistent
5 with the ILEC's duty under Section 251(c)(2)(C) to provide
6 interconnection that is at least equal in quality to that which it provides
7 to itself.

8 The ILEC must also provide MCI with reference and routing data
9 to assist in the configuration of the interconnected dedicated 911 trunks
10 and to ensure that 911 calls are correctly routed.

11 The ILEC must afford to MCI's 911 trunks the same level of
12 priority service restoration that it affords its own 911 trunks. The ILEC
13 also should notify MCI at least 48 hours prior to any scheduled outages
14 that would affect 911 service, and communicate immediately with MCI in
15 the case of an unscheduled outage. If the ILEC does not provide equal
16 restoration priority to MCI, and if outage notices are not provided, MCI
17 will not have interconnection that is "at least comparable" to the access
18 the ILEC provides to itself.

19

20 Q. WHAT ARE THE NECESSARY DATABASE ARRANGEMENTS TO
21 SUPPORT THE INTERCONNECTION OF NETWORKS FOR 911 AND
22 E911?

23 A. A new entrant must have access to the databases necessary to input
24 and maintain customer address and phone numbers in the proper
25 format. For example, the Automatic Location Identification ("ALI") is a

1 proprietary database managed by the incumbent, but should be treated
2 as the property of any participating new entrant. Further, it is essential
3 that information be exchanged on network testing and outages to permit
4 all network providers to respond to such event appropriately.

5 Another requirement for successful 911 integration will be the
6 ability to maintain accurate and up-to-date information. A key element
7 of a large database, such as the one that permits PSAP operators to
8 link a customer's phone number with the street address, is the need for
9 consistent and uniform data. In large metropolitan areas with
10 thousands of street names, for example, it is imperative that street
11 names be referenced consistently. If Oak Ave. and Oak St. denote two
12 different streets in the same city, a lack of consistency in listings in the
13 database could hamper the response of emergency crews.

14 ILECs possess or control a number of systems that are used to
15 screen and edit data for inclusion in the 911 ALI database. In order to
16 achieve consistency in street addresses, customers' data are edited
17 against a database referred to as the master street address guide
18 ("MSAG"). New entrants should be permitted access to the MSAG, any
19 mechanized systems used in the editing process, and any other systems
20 and processes used in populating the 911 ALI database.

21 Access to these databases must be available on conditions that
22 are comparable to the ILEC's access. Because the ILEC has electronic
23 interfaces to such systems, providing anything less to MCI would violate
24 the statutory requirement that interconnection be provided at quality
25 levels "at least equal" to that the incumbent provides to itself. In its

1 recent Order, the FCC has interpreted the 1996 Act to give MCI the right
2 to access such operations support systems on a nondiscriminatory
3 basis. (Order at Paras. 516 - 528)

4

5 Q. WHAT ARE THE ISSUES PERTAINING TO 911 SERVICE TO BE
6 RESOLVED IN THIS PROCEEDING?

7 A. There are three such issues, and they are:

8 (1) ILECs should provide the appropriate trunking, signalling and
9 routing of 911 and E911 calls from MCI switches.

10 (2) ILECs should be required to provide MCI's 911 trunks the same
11 level of priority service restoration that it affords its own 911
12 trunks. ILECs should be required to provide at least 48 hours
13 notice of any scheduled outages that would affect 911 service,
14 and immediate notice of any unscheduled outage.

15 (3) MCI should be allowed access to the MSAG, any mechanized
16 systems used in the editing process, and any other systems and
17 processes used in populating the 911 ALI database.

18

19 **Ancillary Arrangements: Rights-of-Way**

20 Q. WHAT OBLIGATIONS ARE IMPOSED BY THE 1996 ACT REGARDING
21 ACCESS TO RIGHTS-OF-WAY BY GTEGL?

22 A. The 1996 Act imposes on carriers (at section 251(b)(4)):

23 The duty to afford access to the poles, ducts, conduits, and
24 rights-of-way of such carrier to competing providers of
25 telecommunications services on rates, terms and

1 conditions that are consistent with section 224.
2 MCI believes that "poles, ducts, conduits and rights-of-way" refers to all
3 the physical facilities and legal rights needed for access to pathways
4 across public and private property to reach customers. These include
5 poles, pole attachments, ducts, conduits, entrance facilities, equipment
6 rooms, remote terminals, cable vaults, telephone closets, rights of way,
7 or any other inputs needed to create pathways to complete telephone
8 local exchange and toll traffic. These pathways may run over, under, or
9 across or through streets, traverse private property, or enter multi-unit
10 buildings.

11
12 Q. HOW DO THE RECENT FCC RULES IMPACT GTEFL'S OBLIGATION
13 TO PROVIDE ACCESS TO RIGHTS-OF-WAY AND OTHER
14 PATHWAYS?

15 A. To ensure that ILECs do not use their access to rights of way to
16 discriminate against new entrants, the FCC established general rules
17 (para. 1151 - 1157), stating (para. 1122):

18 in furtherance of our original mandate to institute an expeditious
19 procedure for determining just and reasonable pole attachment
20 rates with a minimum of administrative costs and consistent with
21 fair and efficient regulation, we adopt herein a program for
22 nondiscriminatory access to poles, ducts, conduits and rights-of-
23 way. (Footnote omitted.)

24 Significant steps to reduce barriers to entry were achieved by
25 addressing: requests for access and the requirement to expand

1 capacity; cost recovery associated with expanded capacity; and the
2 rates at which capacity is made available. Noting that utilities may
3 expand capacity for their own needs, and that the principle of
4 nondiscrimination applies to physical facilities as well as to rights of way,
5 the FCC stated (para. 1162 of the Order) that a lack of capacity on a
6 particular facility does not automatically entitle a utility to deny a request
7 for access. Further, since modification costs will be borne only by the
8 parties directly benefiting from the modification, harm to the utility and
9 its ratepayers is avoided. The FCC chose not to prescribe the
10 circumstances under which a utility must replace or expand an existing
11 facility and when it is reasonable for a utility to deny a request for
12 access, however, the FCC required (para. 1163) "...utilities to take all
13 reasonable steps to accommodate requests for access..."

14 The FCC required (para 1209) that absent a private agreement
15 establishing notification procedures, written notification of a modification
16 must be provided to parties holding attachments on the facility to be
17 modified at least 60 days prior to the commencement of the physical
18 modification. This provision provides at least some notice so that
19 entrants have the chance to evaluate the impact and opportunities
20 presented by the proposed modifications.

21 Where there are costs associated with freeing capacity (e.g., by
22 reconfiguring placement of cables on poles to allow for more cables),
23 the FCC requires (para 1213) modification costs be paid only by entities
24 for whose benefit the modifications are made, with multiple parties
25 paying proportionate shares based on the ratio of new space occupied

1 by each party to the total amount of new space occupied by all parties
2 joining in the modification.

3

4 Q. WHAT TERMS AND CONDITIONS SHOULD THIS COMMISSION
5 REQUIRE AS A RESULT OF THIS ARBITRATION PROCEEDING?

6 A. To ensure that CLECs are able to obtain nondiscriminatory access to
7 poles, conduits and rights-of-way in a timely manner requires that ILECs
8 provide certain information to new entrants. In addition, ILECs should
9 not interfere with or attempt to delay the granting of permits for MCI's
10 use of public rights-of-way or access to private premises from property
11 owners.

12 (1) The Commission should require ILECs to provide information on
13 the location and availability of access to poles, conduits and
14 rights-of-way within 20 business days of MCI's request. An ILEC
15 must not be permitted to provide information to itself or its
16 affiliates sooner than it provides the information to other
17 telecommunications carriers. For 90 days after a request, ILECs
18 should be required to reserve poles, conduits and rights-of-way
19 for MCI's use. MCI should be permitted six months to begin
20 attachment or installation of its facilities to poles, conduits and
21 rights-of-way or request ILECs to begin make ready or other
22 construction activities.

23 (2) Compensation for shared use of ILEC-owned or -controlled poles,
24 ducts, and conduit should be based on TELRIC.

25 Additional arrangements related to access to rights of way are covered

1 by the testimony of another MCI witness.

2

3 **Ancillary Arrangements: Bona Fide Request Process for Further**
4 **Unbundling**

5 Q. WHAT IS THE NEED FOR A PROCESS BY WHICH MCI CAN
6 REQUEST FURTHER UNBUNDLING OF THE GTEFL NETWORK?

7 A. The 1996 Act and the FCC Order recognized explicitly that in the future,
8 requesting carriers are likely to seek further unbundling of ILEC network
9 elements or the introduction of entirely new network elements. For
10 example, the FCC Order stated at para. 246,

11 ...we have the authority to identify additional, or perhaps different
12 unbundling requirements that would apply to incumbent LECs in
13 the future.

14 Since MCI plans to maintain a technologically advanced network, it fully
15 expects to be one of those requesting carriers, even as it continually
16 expands its facilities-based network. To ensure that an efficient process
17 exists for approving future unbundling requests, we propose that the
18 Commission implement the following bona fide request process,
19 consistent with the 1996 Act and the FCC Order, that places the burden
20 on the ILEC to demonstrate that a request is not technically feasible.

21 *When a carrier requests a new unbundled element from an ILEC,*
22 *if the ILEC does not accept the request within ten days, the requesting*
23 *carrier has ten days to file a petition with the Commission seeking its*
24 *determination that the ILEC be required to provide the unbundled*
25 *element. In its petition, the requesting carrier must provide an*

1 explanation of why the failure of the ILEC to provide access to that
2 element would decrease the quality, or increase the financial or
3 administrative cost of a service the requesting carrier seeks to offer,
4 compared with providing that service using other unbundled elements in
5 the ILEC's network. The requesting carrier also may provide evidence
6 that it is technically feasible for the ILEC to provide the unbundled
7 element and that such provision would not negatively affect network
8 reliability. The ILEC must respond within ten days of the petition being
9 filed and demonstrate either that it is technically infeasible to provide the
10 requested unbundled element, or that such provision would harm
11 network reliability. The state Commission would then rule on the
12 petition within 20 days of the ILEC response, and in no case more than
13 30 days after the filing of the requesting carrier's petition. In reaching
14 its determination, the burden of proof must lie with the ILEC.

15
16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes, it does
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1 REBUTTAL TESTIMONY OF DON PRICE

2 ON BEHALF OF

3 MCI TELECOMMUNICATIONS CORPORATION AND

4 MCImetro ACCESS TRANSMISSION SERVICES, INC.

5 DOCKET NO. 960980-TP

6 September 30, 1996

7

8 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

11

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

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

15

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

18 A. Yes, I am.

19

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

21 A. The purpose of this testimony is to rebut certain statements and allegations
22 made in the testimonies of GTE Florida, Incorporated ("GTE") witnesses
23 Charles F. Bailey, Rodney Langley, Beverly Y. Menard, Meade Seaman,
24 Douglas E. Wellemeyer, and Albert Wood. I will specifically provide rebuttal

1 to demonstrate the following: 1) that there is no basis for Mr. Seaman's claim
2 that GTE would experience "irreversible harm" under the scenario he
3 describes where rates are set at the FCC's proxy levels; 2) that there are
4 potential dialing parity issues raised by the testimony of Mr. Langley on the
5 topic of branding; 3) that notwithstanding the testimony of Mr. Wood on the
6 issue of line class codes, other means of providing "selective routing" of
7 operator and directory assistance calls exist; 4) that there is no basis for Ms.
8 Menard's conclusion that tariffing of interim number portability mechanisms
9 exempts carriers from the FCC's cost recovery guidelines; 5) that Mr. Bailey's
10 recommendations on rights-of-way are not founded in the Act and represent
11 bad public policy; and 6) that the recommendations of Mr. Wellemeyer
12 regarding resale are at odds with the requirements of the Act and sound public
13 policy, and would deny consumers the benefits of competition.

14 15 **NEGOTIATIONS BETWEEN MCI AND GTE**

16 **Q. THE TESTIMONY OF GTE WITNESS SEAMAN STATES AT PAGE 8**
17 **THAT "IT APPEARS MCI WANTS GTE TO RESELL ... [NON-**
18 **TELECOMMUNICATIONS SERVICES] UNDER THE AVOIDED COST**
19 **RATE REFERENCED IN THE ACT." IS THAT WHAT MCI IS**
20 **REQUESTING IN THIS PROCEEDING?**

21 **A. No. MCI recognizes that certain services provided by GTE to end users are**
22 **not "telecommunications services." MCI should be able to resell such services**
23 **in order to compete with GTE. However, it is recognized that GTE's**
24 **obligation to price services at the discount mandated in Section 252(d)(3) of**

1 the Act does not extend to non-telecommunications services provided on a
2 wholesale basis.

3

4 Q. MR. SEAMAN CLAIMS THAT GTE WOULD BE "IRREVERSIBLY
5 HARMED" IF THIS COMMISSION WERE TO IMPOSE PROXY RATES
6 ON SERVICES IN THIS PROCEEDING. WHAT IS YOUR REACTION TO
7 HIS CLAIM?

8 A. Mr. Seaman's claim that "the market cannot be retroactively corrected" is as
9 applicable to new local service providers such as MCI as it is to GTE. If,
10 instead of establishing rates that will compensate GTE for its forward looking
11 economic costs as required by the Act, this Commission were to set rates
12 based on GTE's poorly disguised make-whole proposals, the "irreversible
13 harm" that would occur would be to the competitive process and to
14 telecommunications users in GTE's Florida service territory.

15 The most telling thing about Mr. Seaman's claim is what it says about
16 GTE's confidence (or lack thereof) in its ability to market its services in a
17 competitive environment. Taking the situation that Mr. Seaman posits, the
18 "retroactive correction" would cause the new providers' rates to go up,
19 making their services less attractive. It is not obvious why the short term
20 effects of the scenario posited by Mr. Seaman would be "irreversible" unless
21 GTE is convinced that it simply will be unable to compete in the marketplace
22 under any circumstances.

23

24 Q. MR. SEAMAN ALSO TESTIFIES THAT THE TERM OF THE

1 statement Mr. Langley is suggesting that MCI's or AT&T's customers must
2 dial a 7 or 10 digit number to reach their respective repair centers, while
3 GTE's customers can reach repair by dialing 611, the dialing parity
4 requirement will be violated.

5
6 Q. DO YOU HAVE A SUGGESTION THAT WOULD AVOID VIOLATION
7 OF THE DIALING PARITY REQUIREMENT OF THE ACT?

8 A. Yes. It is my understanding that Bell Atlantic, the RBOC with telephone
9 operations in the mid-Atlantic states, has agreed that it will no longer use 611
10 for access to its repair service centers. In the future, all local service
11 providers will utilize 1-800- (or 1-888-) numbers to reach their respective
12 repair service centers in the Bell Atlantic service territories, thereby achieving
13 dialing parity with regard to access to repair services. Note also that this
14 solution resolves the issue of branding for calls to repair service centers,
15 because if the local service provider chooses not to provide its own service
16 center functions but rather to have the incumbent provide those functions, the
17 use of discrete, carrier-specific 800- numbers facilitates the branding of service
18 calls by the incumbent's customer service representatives.

19
20 **Directory Assistance/Operator Services**

21 Q. HAVE YOU REVIEWED THE TESTIMONY OF GTE WITNESS ALBERT
22 E. WOOD, JR. REGARDING WHAT HE TERMS "SWITCH
23 UNBUNDLING?"

24 A. Yes, I have.

1 Q. DO YOU DISAGREE WITH MR. WOOD'S CONCLUSION THAT THERE
2 ARE SIGNIFICANT IMPLEMENTATION ISSUES PERTAINING TO THE
3 USE OF LINE CLASS CODES TO PERMIT CALLS FROM AT&T'S
4 CUSTOMERS TO BE ROUTED TO AT&T OPERATORS?

5 A. I am not qualified to render a technical opinion on Mr. Wood's conclusions. I
6 would, however, note that Bell Atlantic has recently agreed to provide such
7 selective routing, based not on the use of switch line class codes but rather on
8 Advanced Intelligent Network ("AIN") capability in its network. Although I
9 am not intimately familiar with the terms of that agreement, the fact that a
10 Regional Bell Company has agreed to provide that functionality suggests that it
11 is both technically feasible and economically within reason.

12

13 Q. MR. WOOD ALSO CONCLUDES AT PAGE 27 OF HIS TESTIMONY
14 THAT REQUESTS "FOR UNBUNDLING OF GTE'S [DIRECTORY
15 ASSISTANCE] DATABASE WOULD ALSO PRESENT TECHNICAL
16 DIFFICULTIES (SIC) THAT WOULD, AT THE VERY LEAST, REQUIRE
17 [ENTRANTS] TO COVER GTE'S COSTS OF IMPLEMENTATION."
18 WHAT IS MCI'S RESPONSE TO THIS CLAIM?

19 A. Permitting MCI's operators to access the GTE database is not our preferred
20 method of obtaining access to such information. Rather, MCI would prefer to
21 purchase the database from GTE and load the data onto MCI's operator
22 platform, so that MCI's operators would be able to query our systems, rather
23 than those of GTE, to respond to a request for directory assistance. Because
24 such an arrangement already exists today between MCI and BellSouth, it

1 should be clear that no technical feasibility issues -- such as the "distinct and
2 specific technical interface" issues discussed by Mr. Wood -- are presented.
3 Further, because the database can be loaded onto a magnetic tape(s) (and in
4 fact is likely stored on such media within GTE's systems today), there are no
5 implementation issues, and GTE's cost to provide DA information to MCI in
6 this manner should be close to zero.

7

8 Interim Number Portability Issues

9 Q. AT PAGE 14 OF HER TESTIMONY, MS. MENARD STATES THAT THE
10 FCC'S GUIDELINES FOR RECOVERY OF INTERIM NUMBER
11 PORTABILITY COSTS "DO NOT NECESSARILY APPLY" IN STATES
12 SUCH AS FLORIDA WHERE INCUMBENTS HAVE BEEN REQUIRED
13 TO FILE TARIFFS. DO YOU AGREE WITH HER CONCLUSION?

14 A. No I do not. Ms. Menard's testimony cites paragraph 127 of the FCC's
15 "Number Portability Order," and I disagree with her reading of that
16 paragraph. Clearly, this Commission has the authority to require the filing of
17 "tariffs for the provision of currently available number portability measures."
18 However, I see nothing in the FCC's order which suggests that the filing of a
19 tariff provides a safe haven for incumbent LECs permitting them to ignore the
20 FCC's cost recovery guidelines.

21

22 Rights-of-Way

23 Q. WHAT ARE YOUR COMMENTS REGARDING MR. BAILEY'S
24 TESTIMONY REGARDING RIGHTS-OF-WAY, CONDUITS, AND POLE

1 ATTACHMENTS?

2 A. I will address Mr. Bailey's recommendations that GTE should be permitted to
3 deny access on capacity, safety, and reliability grounds and that GTE must be
4 able to reserve capacity because of its "carrier of last resort" obligations. I
5 will also discuss briefly Mr. Bailey's discussion of taking.

6

7 Q. MR. BAILEY CLAIMS THAT GTE SHOULD BE PERMITTED TO
8 RESERVE IN ADVANCE FIVE YEAR'S WORTH OF CAPACITY FOR
9 ITSELF. IS SUCH A RIGHT PERMITTED GTE UNDER THE ACT?

10 A. Although I am not an attorney, it is my understanding that the Act provides no
11 basis on which GTE can claim such a right. The relevant provisions of the
12 Act are as follows:

13 (f)(1) A utility shall provide a cable television system or
14 any telecommunications carrier with nondiscriminatory
15 access to any pole, duct, conduit, or right-of-way owned
16 or controlled by it.

17 (2) Notwithstanding paragraph (1), a utility providing
18 electric service may deny a cable television system or
19 any telecommunications carrier access to its poles, ducts,
20 conduits, or rights-of-way, on a non-discriminatory basis
21 where there is insufficient capacity and for reasons of
22 safety, reliability and generally applicable engineering
23 purposes. (47 U.S.C. 224)

24 For GTE to reserve five year's of capacity for its own use prior to allowing

1 other telecommunications carriers to access its facilities appears to me to
2 violate the nondiscriminatory access obligation of section 224(f)(1).

3

4 Q. WHAT IS YOUR RESPONSE TO MR. BAILEY'S CLAIM AT PAGE 9 OF
5 HIS TESTIMONY THAT "IT DEFIES LOGIC TO ALLOW ONLY
6 ELECTRIC UTILITIES TO DENY ACCESS ON ... GROUNDS" OF
7 CAPACITY, SAFETY, RELIABILITY AND GENERALLY APPLICABLE
8 ENGINEERING PRACTICES?

9 A. As I stated, I am not an attorney. But the language of the provisions cited
10 above seems relatively straightforward. It would appear that Congress wanted
11 to distinguish between utilities providing telecommunications services and
12 those utilities providing electric services. It would be consistent with the
13 overall procompetitive thrust of the Act for Congress to have imposed different
14 obligations on telecommunications utilities, because the purpose of much of the
15 Act was to stimulate competition between providers of telecommunications
16 services. Electric utilities, as we say in Texas, "don't have a dog in that
17 fight." Congress appears to have recognized that if the exception granted to
18 electric utilities was also available to incumbent LECs such as GTE, the
19 development of competition could be harmed. Thus, the exception was
20 granted only to electric utilities. When viewed in that light, the logic of the
21 provisions complained of by Mr. Bailey seems quite clear.

22 The FCC also found logic in those provisions, stating in the 251 Order
23 at paragraph 1170 that:

24 Permitting an incumbent LEC, for example, to reserve

1 space for local exchange service, to the detriment of a
2 would-be entrant into the local exchange business, would
3 favor the future needs of the incumbent LEC over the
4 current needs of the new LEC. Section 224(f)(1)
5 prohibits such discrimination among telecommunications
6 carriers. As indicated above, this prohibition does not
7 apply when an electric utility asserts a future need for
8 capacity for electric service, to the detriment of a
9 telecommunications carrier's needs, since the statute does
10 not require nondiscriminatory treatment of all utilities;
11 rather, it requires nondiscriminatory treatment of all
12 telecommunications and video providers. (Emphasis
13 added.)

14
15 Q. WHAT IS YOUR RESPONSE TO MR. BAILEY'S DISCUSSION OF GTE'S
16 "SPECIAL SERVICE OBLIGATIONS BY VIRTUE OF [ITS] STATUS AS
17 [A] PROVIDER[] OF LAST RESORT"?

18 A. I recognize that Mr. Bailey's claim has a superficial appeal, but do not believe
19 that his claim can withstand scrutiny. First, as the Maryland Commission has
20 noted, the "carrier of last resort obligation" provides a powerful advantage to
21 incumbents by virtue of their ability to provide service (and thereby obtain
22 additional revenues) in many instances immediately and without having to
23 expend capital for the installation of new or additional facilities. Likewise,
24 GTE is in a unique position within its service territory by virtue of its

1 historical exclusive franchise that has permitted it to obtain public right-of-way
2 and to construct conduit and poles in that right-of-way to the doorstep of
3 virtually every potential customer. As noted above, the plain language of
4 Section 224 of the Act suggests that Congress wanted to preclude ILECs such
5 as GTE from using these advantages to discriminate against other
6 telecommunications service providers to the detriment of competition.

7 Second, Mr. Bailey ignores the fact that *all* service providers
8 competing in a market will desire to be able to meet whatever demand for
9 their services arises. Facilities-based competitors, therefore, will desire access
10 to GTE's rights-of-way, conduits, and poles in order to rapidly meet demand
11 for service that they otherwise could be unable to meet. The effect of a
12 competitor using GTE's conduit or poles, however, would -- all else equal --
13 reduce the extent to which GTE will need to use such conduit or pole space to
14 meet market demand. Stated differently, to the extent that meeting users'
15 demand for service is a zero sum game, permitting other service providers to
16 utilize its poles and conduits will have little or no effect on GTE's so-called
17 carrier of last resort obligations.

18 Third, even if we assume that GTE's conduit and poles become filled
19 by other service providers, GTE will be compensated for the space utilized. If
20 GTE anticipates a future need for conduit or pole space along a route where
21 available capacity has been taken by other service providers, it may be able to
22 expand capacity without having to bear the entirety of the expansion costs. By
23 virtue of GTE's advantageous access to information of other service providers,
24 GTE could consciously decide not to expand capacity along a certain route

1 with the expectation that another provider will seek an expansion. Such a
2 situation would have the other provider, rather than GTE, bear the lion's share
3 of that expansion cost. This result could significantly benefit GTE in at least
4 two ways. It would reduce GTE's cost to accomplish the expansion. Also,
5 GTE would be provided another source of revenues; i.e., rental fees for the
6 use of what may initially be unused capacity. To the extent that meeting
7 users' service demands is not a zero sum game, both of these results would
8 serve to benefit GTE.

9
10 Q. YOU STATED THAT YOU WOULD RESPOND TO MR. BAILEY'S
11 DISCUSSION OF "TAKING." WHAT IS THAT RESPONSE?

12 A. Mr. Bailey states that GTE's lawyers have advised him that the United States
13 Supreme Court:

14 ...made it clear, however, that if section 224 mandated
15 access, it would constitute a taking in violation of the
16 Fifth Amendment.

17 It is my understanding that Mr. Bailey is about half correct. I am advised that
18 there is a significant difference between there being a taking and that taking
19 being in violation of the Fifth Amendment, which merely requires that a
20 person whose property is taken receive just compensation. And I understand
21 that, for its arguments to prevail, GTE must prove that the payment scheme
22 set forth in 224(d)(1) of the Act fails to provide it with constitutionally just
23 compensation.

24

RESALE ISSUES

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Restrictions on Resale

Q. DOES GTE STATE THAT IT WILL OFFER FOR RESALE AT WHOLESALE RATES ANY TELECOMMUNICATIONS SERVICE THAT IT PROVIDES AT RETAIL TO SUBSCRIBERS WHO ARE NOT TELECOMMUNICATIONS CARRIERS AS REQUIRED BY SECTION 251(c)(4) OF THE ACT?

A. No. Mr. Wellemeyer states at page 39 of his testimony that GTE “will offer all the services it currently offers on a retail basis,” and then six lines later in his testimony completes the listing of exceptions to the statement. Among the exceptions are services that GTE claims are provided “below-cost,” promotions, grandfathered services, and discounted calling plans, to name a few. If adopted by the Commission, GTE’s recommendation would exclude potentially significant offerings from its responsibility to permit resale.

Q. DOES GTE’S POSITION ON THE EXCEPTIONS TO ITS OBLIGATION TO PERMIT RESALE COMPLY WITH THE STANDARD IN THE ACT?

A. No. Section 251(c)(4) of the Act states that incumbent LECs have a duty:

(A) to offer for resale at wholesale rates any

telecommunications service that the carrier provides at

retail to subscribers who are not telecommunications

carriers; and

(B) not to prohibit, and not to impose unreasonable or

discriminatory conditions or limitations on, the resale of

1 such telecommunications service, except that a State
2 commission may, consistent with regulations prescribed
3 by the Commission under this section, prohibit a reseller
4 that obtains at wholesale rates a telecommunications
5 service that is available at retail only to a category of
6 subscribers from offering such service to a different
7 category of subscribers.

8 My reading of Mr. Wellemeyer's testimony leads me to conclude that his
9 requested exceptions to resale are not consistent with GTE's obligations under
10 the Act.

11
12 Q. DOES MR. WELLEMAYER ARGUE THAT THE SERVICES HE
13 PROPOSES TO RESTRICT FROM RESALE ARE NOT
14 "TELECOMMUNICATIONS SERVICE[S]"?

15 A. No. Mr. Wellemeyer's rationale includes a variety of factors which are not
16 mentioned in the Act. For example, he claims that services alleged to be
17 priced "below cost" should be excluded so that GTE can "cover its total
18 costs." He further claims that GTE should not have to offer promotions for
19 resale because GTE must be allowed to "respond to competition on a retail
20 basis and gives its customers more choices." Lastly, Mr. Wellemeyer avers
21 that GTE should not have to offer at wholesale rates "services that have no
22 avoided retail costs." None of these claims have a basis in the statutory
23 language cited above.

24 As noted above, grandfathered services would be excluded in his

1 recommendation, although he does not argue that such services are not
2 telecommunications services provided at retail to end user subscribers. MCI's
3 concern with this exclusion is the potential for GTE to use grandfathering of a
4 service in the future to avoid its responsibility to resell retail
5 telecommunications offerings. This concern is not simply academic, because
6 MCI has seen grandfathering of services used for strategic purposes in other
7 jurisdictions.

8
9 Q. ARE CERTAIN RESTRICTIONS ON RESALE PERMITTED BY THE
10 ACT?

11 A. Yes. I recognized in my direct testimony that there are certain limitations on
12 resale that have a valid public policy purpose (as opposed to merely providing
13 GTE with a strategic competitive advantage). I listed those restrictions that
14 would meet a public policy test, including 1) resale of flat rate residential
15 service limited to residential customers, 2) resale of grandfathered services
16 limited to customers who took the grandfathered service from GTE, and 3)
17 resale of Lifeline and LinkUp limited to qualifying low income customers.
18 The limitation of the resale of flat rate residential service to residential
19 customers should resolve GTE's concern regarding services it alleges are
20 "below cost." That is because GTE should be neutral to whether it provides
21 such services on a retail or wholesale basis, since the wholesale discount will
22 reflect costs avoided by GTE. In other words, GTE's margin on such services
23 would be unaffected, and it will be no worse (or better) off than when
24 providing the service on a retail basis. Any restrictions other than those listed

1 above should be rejected as contrary to the Act and to the public interest.

2

3 **Calculation of the Wholesale Discount**

4 Q. WHAT IS THE PURPOSE OF CALCULATING A WHOLESALE
5 "DISCOUNT?"

6 A. The purpose of calculating a wholesale "discount" is to quantify the costs of
7 the incumbent LEC -- in this case, GTE -- that are *not* incurred in the
8 provision of services at wholesale. This is so the costs that are not incurred in
9 the provision of wholesale services (i.e., GTE's costs of retailing) can be
10 deducted from GTE's retail rates to yield appropriate wholesale rates. This is
11 what is required by Sect. 252(d)(3) of the Telecommunications Act of 1996
12 ("the Act"). The concept is relatively simple, and can be shown with the
13 following illustration:

14

15		GTE's retail rate(s)
16	minus	<u>GTE's costs of retailing</u>
17	equals	GTE's wholesale rate(s)

18

19 Q. IS THE APPROACH YOU HAVE DESCRIBED CONSISTENT WITH THE
20 APPROACH TAKEN BY GTE'S WITNESS WELLEMAYER?

21 A. No. Mr. Wellemeyer states at page 8 of his testimony that he has defined
22 avoided costs as "the costs avoided when *a service* is offered through
23 wholesale, rather than retail, distribution channels." (Emphasis added.)
24 Because the Act requires that all of GTE's retail services be offered for resale,

1 however, Mr. Wellemeyer's use of the singular "service" in his definition
2 suggests that his analysis has not attempted to capture all of GTE's retailing
3 costs. Also at page 8, the testimony suggests that GTE's analysis sought to
4 answer a much different question; namely, what are the "true costs" for which
5 GTE should be compensated. While I readily agree with Mr. Wellemeyer that
6 it is important to establish wholesale rates at the appropriate level, I cannot
7 agree that GTE's "true costs" as he uses that phrase is a standard that is
8 consistent with the requirements of the Act.

9

10 Q. WHAT IS YOUR CONCERN WITH THE TERM "TRUE COSTS"?

11 A. My concern is that, if granted the right to recover whatever costs it claims are
12 associated with providing services on a wholesale basis, GTE would be given
13 incentives to wholesale services in ways that strategically benefit GTE and
14 harm retail competition. This concern is demonstrated by Mr. Wellemeyer's
15 discussion at page 9 where he states that GTE should be permitted to include
16 costs it claims are "associated with replacement wholesale activities" in
17 calculating the wholesale discount.

18 To the extent that new procedures and systems will be necessary to
19 provide wholesale services, GTE's mindset appears to be one of "cost plus,"
20 much like defense contractors whose compensation is based on whatever costs
21 they incur in the production of the good or service. There are well known
22 examples of cost excesses from the defense sector which stem from the
23 absence of compensation incentives to operate efficiently. If the "cost plus"
24 model were imported to the telecommunications industry as Mr. Wellemeyer

1 suggests, competitive distortions would arise, for at least two reasons. First,
2 GTE would face no incentive to wholesale efficiently, because the
3 compensation mechanism is designed to recover whatever costs GTE incurs,
4 regardless of whether such costs are efficiently incurred. Second, GTE would
5 have significant incentives to burden its retail competitors with excessive costs
6 as a means of gaining a competitive advantage in the retail market.

7

8 Q. ARE YOU SAYING THAT GTE SHOULD RECEIVE NO
9 COMPENSATION FOR ITS COSTS OF WHOLESALING?

10 A. No. In fact, my recommendation expressly recognizes, in compliance with the
11 FCC's 251 Order, that "some expenses ... will continue to be incurred with
12 respect to wholesale products and customers, and that some new expenses may
13 be incurred in addressing the needs of resellers as customers." (251 Order at
14 para. 928.) The approach Mr. Wellemeyer is suggesting, however, would
15 simply give GTE a blank check to recover whatever costs it claimed to be
16 associated with providing services at wholesale. As I stated above, such a
17 policy would encourage GTE to provide wholesale services as inefficiently as
18 possible. This would ultimately benefit GTE, whereas end users would bear
19 the "price" of a market that is less competitive than it otherwise could be.

20

21 Q. IN YOUR DISCOUNT CALCULATION, WHAT IS THE QUANTITY OF
22 GTE'S CONTINUING OR NEW COSTS ASSOCIATED WITH
23 WHOLESALING?

24 A. That amount is the difference between the "total direct" and the "avoided

1 direct" costs. Using the 1995 figures reported by GTE, that amount is \$8.4
 2 million. (See, Exhibit ___ (DGP-5), lines 13 and 14.) The discount I have
 3 recommended in this proceeding will, therefore, permit GTE to recover
 4 continuing costs and new costs associated with wholesaling its services.

5

6 Q. YOU STATED EARLIER THAT THE PURPOSE OF THE DISCOUNT
 7 CALCULATION IS TO QUANTIFY GTE'S COST OF RETAILING.
 8 PLEASE EXPLAIN.

9 A. There is no argument that GTE will continue to be a retail provider of
 10 telecommunications services or that it will incur retailing costs. But by
 11 looking only at the costs that GTE will no longer incur, as Mr. Wellemeyer
 12 suggests, the resulting discount would *overstate* the wholesale rates, place
 13 GTE in an unfair competitive position in the retail market, and deny to end
 14 users the benefits that resale competition could otherwise bring.

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

17

18		GTE's retail rate(s)
19	minus	some of GTE's retailing costs
20	plus	<u>GTE's claimed new wholesaling costs</u>
21	equals	GTE's wholesale rate(s) [<i>which includes the rest of</i>
22		<i>GTE's retailing costs, and new wholesaling costs</i>]

23

24 As this illustration demonstrates, by failing to take into account *all* of GTE's

1 retailing costs in calculating the discount, the resulting wholesale rates will
2 burden GTE's wholesale customers with recovery of the portion of GTE's
3 retail costs that were ignored in the calculation of the discount.

4

5 **Q. HAVE YOU REVIEWED "GTE'S AVOIDED COST STUDY" AND MR.**
6 **WELLEMAYER'S RELATED TESTIMONY?**

7 **A. I have not yet obtained a copy of the cost study because of GTE's claims that**
8 **the study includes proprietary information. I have reviewed the portions of the**
9 **testimony related to the study.**

10

11 **Q. WHAT CONCLUSIONS HAVE YOU REACHED BASED ON MR.**
12 **WELLEMAYER'S DISCUSSION OF THE MODEL IN HIS TESTIMONY?**

13 **A. The results of Mr. Wellemeyer's study appear to be driven by a number of**
14 **assumptions. As stated above, I have not seen the model and therefore have**
15 **no way of knowing the extent to which those assumptions impact his results.**
16 **However, there are a number of statements in his testimony that raise**
17 **questions about the accuracy of his study.**

18 • **At page 10, we are told that the "substitute retail costs"**
19 **were based on a proxy as opposed to direct information,**
20 **and the cost of the proxy was "assumed to be the same"**
21 **as the costs the study was to identify.**

22 • **At page 12, we learn that the study is based on GTE's**
23 **system-wide information rather than costs specific to**
24 **Florida operations.**

- 1 ● At page 13, we are advised that the study examined
2 “changes in workcenter costs that result from offering
3 services on a wholesale, rather than a retail, basis” as
4 opposed to identifying the costs of retailing.
- 5 ● At pages 16-17, we are told that the study calculations
6 were based on “the number of calls for service orders ...
7 multiplied by the average length of a service order call”
8 and that result was then “expressed as a percentage of
9 the total time spent on all calls received.”
- 10 ● At page 18, we find that the costs associated with certain
11 call centers were “directly assigned,” although that
12 approach could not be taken for the entire study because
13 “sufficient information” was not available.
- 14 ● At pages 18-20, we learn that assignments of “affected
15 costs” were made based on a variety of methods,
16 including a) “each service’s share of consumer and
17 business uncollectibles,” b) “business revenues relative to
18 total revenues,” c) “1995 sales quotas for the [Business
19 Sales Center],” d) “the relative size of the 1995 sales
20 quotas,” e) “the combined allocation of other ... branch
21 service workcenters’ costs,” f) “the combined allocation
22 of both ... branch sales service costs,” g) “the combined
23 allocation of all branch sales services, BSC, National
24 Accounts and Business Operations Support Service

1 costs,” and h) “the relative number of service-specific
2 calls received by the workcenter.”

3

4 Q. WHAT ARE THE IMPLICATIONS OF THE USE OF THESE VARIOUS
5 ASSUMPTIONS?

6 A. There are several. First and foremost, these assumptions demonstrate that the
7 study did not attempt to take into account all of GTE’s retailing costs.
8 Second, I am very skeptical of any quantification of “new costs” determined in
9 the study. Third, the testimony expresses the results of the study down to the
10 penny for certain services, and to the 1/1,000th of a penny for usage services.
11 (See, pages 21 and 25.) These figures imply a degree of precision in the study
12 that is totally at odds with the number of assumptions and allocations used to
13 derive the results. While I have not yet seen the study and thus have no basis
14 to conclude that errors were made in its conduct, the number of assumptions
15 and allocations used in the study is in my opinion sufficient to challenge the
16 implied precision in Mr. Wellemeyer’s results. The Commission should recall
17 that even minor accounting adjustments can be worth tens of millions of
18 dollars in the local exchange industry. It is simply not credible to suggest that
19 GTE has been able to accurately quantify the costs of providing services on a
20 wholesale basis down to the penny, and certainly not to the thousandth of a
21 penny.

22

23 Q. DO YOU HAVE OTHER COMMENTS ON MR. WELLEMAYER’S
24 STUDY?

1 A. Yes. I would note that Mr. Wellemeyer's study, the "GTE's Avoided Cost
2 Study," does not appear to attempt to rebut any of the presumptions contained
3 in the FCC's rules, §51.609(d).

4

5 Q. DO YOU HAVE A RESPONSE TO MR. WELLEMAYER'S DISCUSSION
6 OF THE NEED TO INCLUDE "OPPORTUNITY COST" IN THE
7 CALCULATION OF THE DISCOUNT?

8 A. I will briefly discuss the proposal, but refer to the testimony of Dr.
9 Goodfriend for her discussion of this issue in the pricing of unbundled
10 elements.

11 First, I would note that there does not appear to be any basis in section
12 252(d)(3) of the Act for GTE to claim an "offset" to recognize opportunity
13 costs in the calculation of the wholesale discount.

14 Second, the FCC rejected the inclusion of "non-cost factors or policy
15 arguments" in establishing the wholesale discount. MCI had argued that
16 certain costs such as external relations should be taken into account in
17 calculating the discount. The FCC rejected that argument as well as
18 arguments similar to GTE's "opportunity cost" recommendation that the
19 calculation of the discount should take into account various non-cost policy
20 factors. (See, 251 Order at paragraph 914.) Based on that portion of the
21 FCC's decision, the model on which I based my recommendation has been
22 modified from that which MCI proposed to the FCC to eliminate such "non-
23 cost factors or policy arguments." (See, Exhibit ___(DGP-5), lines 24-47.)

24 Third, to adopt Mr. Wellemeyer's recommendation and take

1 “opportunity costs” into account would be bad public policy. The effect of the
2 recommendation would be to ensure that GTE’s earnings are unaffected
3 regardless of whether it continues to offer services on a retail basis or solely as
4 a wholesaler. To protect GTE’s earnings from changes in its retail market
5 share would blunt incentives for GTE’s retail operations to respond to market
6 forces. Moreover, by raising the price a wholesaler pays above competitive
7 levels, such opportunity-cost pricing would discriminate against an equally-
8 efficient retail operation seeking to compete with GTE because the input prices
9 at wholesale to this retail entrant exceed GTE’s economic cost of providing
10 wholesale services. Such preferential treatment of GTE’s retail operations
11 would further blunt incentives for GTE’s retail operation to respond to market
12 forces. Finally, adjusting wholesale prices for opportunity costs would, by
13 altering an entrant’s choice between resale, partial-facilities-based competition
14 (or purchase of elements) and complete bypass of GTE facilities, induce
15 duplicative and inefficient investment by entrants. Such a result clearly is
16 inconsistent with the types of incentives that GTE should face in a local
17 exchange market that is experiencing the emergence of competition.

18
19 Q. DOES THE AVOIDED COST MODEL WHICH YOU SPONSORED IN
20 YOUR DIRECT TESTIMONY INCLUDE ALL OF GTE’S RETAILING
21 COSTS?

22 A. The model includes all such costs that are assigned to the intrastate jurisdiction
23 through the separations process. (To the extent that some retailing costs are
24 assigned to the interstate jurisdiction, the results of the model understate the

1 magnitude of the wholesale discount.) The model thus captures GTE's
2 retailing costs as required by Sect. 252(d)(3) of the Act and Part 51.609 of the
3 FCC's Rules, and thus provides a proper basis for calculating the wholesale
4 discount. As discussed previously Exhibit ___(DGP-5) shows the model's
5 calculation of the GTE-Florida discount based on the 1995 actuals in GTE's
6 ARMIS report.

7
8 Q. IN SUMMARY, HOW DOES MCI'S AVOIDED COST STUDY DIFFER
9 FROM THE OTHER STUDIES PRESENTED IN THIS PROCEEDING?

10 A. As noted above, the analysis presented by GTE through Mr. Wellemeyer's
11 testimony represents an approach which does not even attempt to overcome the
12 rebuttable presumption in Part 51.609(d) of the FCC's Rules with respect to
13 costs in certain accounts (i.e., accounts 6611-6613 and 6621-6623) which the
14 FCC concluded were presumed to be avoided. On the other hand, the analysis
15 presented by AT&T attempts to overcome the rebuttable presumption in Part
16 51.609(d) of the FCC's Rules with respect to costs in certain accounts (i.e.,
17 accounts 6110-6116 and 6210-6565) which the FCC concluded were presumed
18 to not be avoided.

19 In contrast with both these approaches, the model which I am
20 presenting and the result of which is reflected in Exhibit ___(DGP-5) does not
21 attempt to rebut any of the presumptions in Part 51.609(d) of the FCC's rules,
22 and included and excluded accounts strictly in accordance with the FCC's
23 presumptions in that section of its Rules. (See, column labeled
24 "Formula/Source" on Exhibit ___(DGP-5).)

1 **Application of the Wholesale Discount**

2 Q. DOES MR. WELLEMAYER'S TESTIMONY EXHIBIT AN
3 UNDERSTANDING OF THE DIFFERENCE BETWEEN THE
4 CALCULATION OF THE DISCOUNT AND ITS APPLICATION?

5 A. No. Throughout his testimony, Mr. Wellemeyer discusses how his analysis
6 was intended to quantify only those retailing costs that he believed would go
7 away. As I noted above, this is the wrong approach, because the question is
8 not the quantity of retailing costs that will go away, but the quantity of GTE's
9 retailing costs. I will readily acknowledge that there are a number of retailing
10 costs that GTE will continue to incur. But it would be wrong to set these
11 costs aside in calculating the wholesale discount.

12

13 Q. WHY?

14 A. It is wrong because the discount will *only* be applied to those services that
15 GTE provides on a wholesale basis. GTE will continue to recover its retailing
16 costs through every one of the services it continues to provide on a retail
17 basis. Thus, GTE will have ample opportunity to recover its retailing costs.
18 Because the wholesale discount will only be applied to those services that GTE
19 provides on a wholesale basis, the proper calculation of the wholesale discount
20 -- i.e., by including *all* of GTE's retailing costs -- is totally unrelated to the
21 question of whether GTE will be able to recover its retailing costs, and in no
22 way impairs GTE's ability to recover those costs.

23

24 **Separate Wholesale Discounts for Customer Classes**

1 Q. IS IT APPROPRIATE TO CALCULATE SEPARATE WHOLESALE
2 DISCOUNTS FOR DIFFERENT CUSTOMER CLASSES OR DIFFERENT
3 SERVICES?

4 A. There is nothing theoretically wrong with calculating different discounts for
5 different customer classes or services. The problem that is presented by Mr.
6 Wellemeyer's recommendation is that I have not yet seen the study, and
7 obviously have no means at this time to vouch for the correctness or validity
8 of the allocations he has made in arriving at his various discounts. My
9 experience in state ratemaking proceedings, however, suggests that a number
10 of GTE's assumptions could be vigorously contested, as there are no easy
11 answers to questions of which costs are associated with which services.
12 Further, as I noted above, the figures Mr. Wellemeyer presents imply a degree
13 of precision to the study that is totally at odds with the number of assumptions
14 and allocations used to derive the results. The fact is that the analyst(s)
15 conducting GTE's Avoided Cost Study had to exercise judgment at a variety of
16 steps in the process to allocate costs to individual services. Without a means
17 of tracking through every one of those decisions and determining the
18 reasonableness of each one, the results cannot be validated. This is why I
19 stated earlier in my testimony that GTE should not exclude from its obligation
20 to permit resale, services that it claims have no avoided costs. In summary, I
21 have absolutely no confidence in Mr. Wellemeyer's results as indicative of
22 GTE's avoidable costs even at the aggregate level, much less at the individual
23 service level at which the results are presented.

24

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes, at this time.

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1 BY MR. MELSON:

2 Q Mr. Price, could you briefly summarize your
3 direct and rebuttal testimony?

4 A Yes.

5 Good morning, Commissioners. My feeling of
6 deja vu that I had last week is even stronger this
7 week.

8 As you all recall we were in this same room
9 some months ago hearing complaints brought against GTE
10 under the 1995 Florida statute, and the fact is that
11 today Florida consumers still cannot exercise a choice
12 of local service providers.

13 The purpose of my testimony and the
14 testimony of the other MCI witnesses in this
15 proceeding is to seek your assistance under the
16 Federal Telecommunications Act in requiring GTE to
17 meet its statutory obligations to remove artificial
18 barriers to entry.

19 My testimony touches on resale and what I
20 have referred to as ancillary services, many of which
21 you are familiar with as a result of the earlier
22 proceedings.

23 As to resale, the key conclusions of my
24 testimony are that effective local resale is
25 absolutely essential if full facilities-based

1 competition is to develop in the state. And the
2 example that, I think, everyone is familiar with is
3 the fact that long distance services today are
4 provided by several major carriers over their own
5 independent networks, independent from AT&T's network,
6 and that was made possible in part by permitting
7 resale of all of AT&T's services when long distance
8 competition began. That same effect I think is
9 probably absolutely necessary in order for local
10 competition to take hold.

11 Independent of its impacts on the future of
12 facilities-based competition resale has its own
13 independent benefits to consumers. Some of those
14 benefits have already been mentioned in this
15 courtroom, which are that it prevents the old way of
16 doing things with respect to discrimination between
17 classes of customers, for example, from taking hold.
18 Those discriminations were necessary under the prior
19 regulatory regime. However, the only purpose that
20 such restrictions can result in today is prevention of
21 benefits to consumers and preventing prices from
22 becoming more rational.

23 None of these benefits, however, can be
24 captured unless all telecommunication services are
25 first made available for resale, and second, made

1 available at discount rates that fully reflect all of
2 the avoidable costs.

3 Taking into account the avoidable costs that
4 MCI has calculated, the discount that we've put forth
5 in this proceeding is 17.68% across all services.

6 I've mentioned that all of the services
7 should be available for resale. I did also include in
8 my direct testimony a couple of examples of
9 restrictions that would be appropriate under the cross
10 class resale restriction that the FCC acknowledged
11 with the exception of those limited restrictions that
12 I mention in my direct testimony. Nothing further in
13 that regard should be permitted as that would only
14 impede the benefits of competition from resale.

15 MCI witness Tim deCamp will talk briefly
16 about some of the appropriate interfaces and how
17 critical those interfaces are for resale competition
18 to develop. I'm not going to touch on that in my
19 summary.

20 With respect to the calculation of the
21 appropriate discount, it's important that the
22 Commission look at all of the costs associated with
23 GTE's retailing activities, that includes direct costs
24 of the sort that were included in MCI's calculation,
25 product management sales, product advertising,

1 etcetera, and also some indirect costs that are
2 essentially support activities for the direct costs
3 that will be avoided. Those include executive
4 planning, human resources for example.

5 As I sit here today I can tell you that
6 GTE's recommendation in this proceeding does not take
7 into account all of the relevant retailing costs, and,
8 therefore, would overstate the avoided cost and
9 overstate the wholesale rates that retail competitors
10 would pay in the Florida market.

11 Turning briefly to ancillary services, in my
12 testimony I talked about the importance of the pricing
13 of interim local number portability measures.

14 The recommendation that I make is consistent
15 with the Act, I think, and that is a requirement that
16 all carriers pay their own costs associated with the
17 provision of interim number portability measures.
18 That has several benefits, among which are that it is
19 very simple and it's a direct mechanism that meets the
20 competitively neutral criteria set forth --

21 **COMMISSIONER DEASON:** Mr. Price, you need to
22 wrap up your summary. Your five minutes expired.

23 **WITNESS PRICE:** Yes, sir, thank you.

24 The other ancillary services that I touch on
25 in my direct testimony are operator services, access

1 to poles, ducts, conduits and rights-of-way and bona
2 fide request process for new unbundled elements.

3 In my rebuttal testimony basically what I do
4 is take issue with the recurring theme that appears
5 throughout GTE's testimony, which is that it is asking
6 this Commission to essentially hold it harmless to any
7 competitive effects, and seeks authority to
8 discriminate against its competitors in ways that
9 would permit it to retain either its monopoly or the
10 benefits of its past monopoly.

11 As I point out, this is contrary to sound
12 public policy and to the interest of Florida
13 consumers.

14 That concludes my testimony. Thank you --
15 my summary. Sorry.

16 MR. MELSON: Mr. Price is available for
17 cross.

18 COMMISSIONER DEASON: Mr. Hatch.

19 MR. HATCH: Just so you understand, just to
20 alert you that there are some differences in the way
21 the avoidable cost is calculated with AT&T and MCI,
22 and I intend to ask a few questions of Mr. Price on
23 his calculations.

24

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CROSS EXAMINATION

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BY MR. HATCH:

Q Mr. Price, could you turn to your exhibit DGP-5, please, I think it's attached to your rebuttal testimony.

A All right.

Q The first line on that where it says "Account 6610," that's a summary account, is it not?

A Yes, it is. That includes the Account 6611, 6612, 6613.

Q In your model, do you treat all of those accounts as only 90% avoided?

A Yes. That's true.

Q When you look at your exhibit DPG-5 and it says -- the reference to the source is the FCC's order paragraph 928. Do you see that?

A Yes.

Q That comes from the FCC's methodology to create a default calculation?

A Yes, it does.

Q That 90% figure is not included in the FCC's criteria for the general calculation of avoided cost is it?

A It is not in the section of the rules which governs the calculation, which I believe is 51.609.

1 Q Under the FCC's criteria is it appropriate
2 to treat those four costs as 100% avoided?

3 A Yes, in the sense that the burden of proof
4 would be with GTE to demonstrate that it had either
5 new costs associated with wholesaling or that it would
6 continue to incur costs that are in those accounts
7 that are associated with wholesaling as it moves into
8 that environment.

9 The purpose of treating that the way that we
10 did in our model, was to try to comport as closely as
11 possible with the FCC order.

12 Q Would you agree that if those four cost
13 accounts were treated as 100% avoided that the
14 discount produced by MCI's study would go up?

15 A Certainly.

16 Q I believe you used ARMIS 4304 data in that
17 study; is that correct?

18 A That's correct.

19 Q And that data is separated data, is it not?

20 A Yes, it is. It's the data reported by GTE
21 in this case for the state of Florida to the FCC after
22 the regulated/nonregulated and then the separations
23 rules are taken into account on the books and records.

24 Q So the intrastate portion of that separated
25 data that includes intrastate access costs, does it

1 not?

2 A Yes, it would.

3 Q Would you agree that access should not be
4 included in the calculation of a wholesale discount
5 rate?

6 A I would agree in theory that access should
7 not be because those revenues -- that revenue stream
8 is not a stream that will be subject to a discount.

9 The difficulty that occurs is one -- it has
10 to do with methodology, I guess, if you will. We're
11 all familiar, some of us more than others, I guess,
12 with the separations process and the fact that there
13 are codified rules that permit the total regulated
14 books of the company to be split into their
15 jurisdictional counterparts; interstate versus
16 intrastate.

17 The problem arises once you get to the
18 intrastate piece of the pie, if you will, there are no
19 rules at that point which govern the allocation or the
20 assignment of costs between service categories, which
21 is one of the concerns that I have with the GTE
22 proposal in this proceeding is they have done that.

23 Q If you removed intrastate access costs,
24 whatever those are, would MCI's discount as produced
25 by the study increase?

1 A Yes, it would.

2 Q MCI's study uses the ratio of avoided direct
3 costs divided by total cost to calculate the portion
4 of avoided direct cost; is that correct?

5 A Yes. That's reflected at what is shown as
6 Line 49 on DGP-5.

7 Q Would you agree that the FCC's cost study
8 criteria require that indirect costs are avoided in
9 proportion to the avoided direct costs?

10 A Yes. And MCI has filed for clarification
11 with the FCC on exactly that point.

12 Q And if you used that ratio in your model,
13 then your discount as produced by your model would
14 increase, would it not?

15 A Yes, it would.

16 MR. HATCH: That's all I've got.

17 COMMISSIONER DEASON: Mr. Gillman.

18 MR. GILLMAN: Thank you, Chairman Clark.

19 **CROSS EXAMINATION**

20 **BY MR. GILLMAN:**

21 Q Good morning, Mr. Price.

22 A Good morning.

23 Q I think you referred to proposed rule of the
24 FCC, section 51609, did you not --

25 A Yes.

1 Q -- in your questioning from Mr. Hatch.

2 Now that particular rule doesn't ever use
3 the term "100%", does it?

4 A No, although the term "100%" does not
5 appear, although in 51.609(d) the rules are very clear
6 that costs in those accounts may be included in the
7 calculation only to the extent that the incumbent
8 proves to the state Commission that specific costs in
9 these accounts will be incurred and are not avoidable
10 with respect to services sold at wholesale, etcetera.

11 Q Also in subsection B of that rule doesn't it
12 say that avoided retail costs shall be those costs
13 that reasonably can be avoided?

14 A Yes.

15 Q And isn't that the test for determining
16 avoided retail cost?

17 A Yes. Well, under the FCC's rule it is. I
18 guess -- yes.

19 Q Now, the avoided cost study that you have
20 submitted in this case, as I understand it, was not
21 conducted by you, was it?

22 A I did not personally pull the ARMIS numbers
23 and populate the model with those numbers, no.

24 Q Nor was it prepared by you under your
25 direction?

1 A That's true.

2 Q Was it prepared by anyone who authored the
3 White Paper which was attached to your testimony?

4 A I believe the answer is that none of the
5 sponsors shown in Appendix I of the White Paper were
6 significantly more involved with that than I was.

7 Q Okay. Is there anyone testifying here today
8 for MCI who actually did the study?

9 A I guess I've got a bit of a question as to
10 what you mean by actually did the study. I mean I'm
11 familiar with the workings of the model. I can tell
12 you how it works, what it does, how the calculations
13 are performed, where the input data came from,
14 etcetera. I'm ready and willing to defend the model
15 here before you today, although as I said, I didn't
16 pull the numbers from the ARMIS Report and put them
17 into the cells in the spreadsheet.

18 Q Did anyone testifying actually do that? Did
19 anyone that's testifying here actually do that?

20 A No.

21 Q Now, I'm correct, am I not, that MCI
22 generally just followed the FCC rule in preparing this
23 study?

24 A Well, I think the purpose of this particular
25 study was to try to approximate as closely as possible

1 the process that the FCC went through in its
2 calculation, yes.

3 Q How did you determine whether to exclude 90%
4 or 100% of the ARMIS accounts?

5 A Well, the reference in my exhibit DPG-5 to
6 paragraph 928 represents the rationale underlying that
7 particular --

8 Q I'm sorry, where are you referring to?

9 A I'm looking at my exhibit DGP-5. What is
10 shown in the middle column is Line 2, it refers there
11 to the FCC's 251 order at paragraph 928.

12 Q Okay. I guess that's what I'm getting at.
13 The only thing that you relied upon in determining the
14 percentage avoided was the FCC order.

15 A To some extent I guess the answer is yes.
16 The specific 90% came from paragraph 928 as I've
17 already said.

18 When MCI's original model or original
19 calculations were submitted to the FCC, this
20 particular account was treated as 100%.

21 Q So you haven't done any GTE sort of -- an
22 investigation of any GTE-specific data as to what the
23 actual avoided retail cost would be, have you?

24 A Could you clarify what you mean by the
25 actual avoided retail cost means?

1 Q Did you do any investigation of GTE's retail
2 operations?

3 A Yes.

4 Q And was the extent of that investigation the
5 amounts provided in the ARMIS Report?

6 A Yes, that is a GTE-specific analysis of its
7 own reported cost associated with retailing.

8 Q Other than looking at the ARMIS Report, did
9 you do any other investigation regarding GTE's retail
10 functions?

11 A To my knowledge that represents the only
12 publically available information that we would have to
13 conduct such an analysis.

14 Q So your answer is no on that, right?

15 A Again, because of the limitation of publicly
16 available data.

17 Q Now, these embedded reports include embedded
18 costs, do they not?

19 A The ARMIS Reports reflect the booked numbers
20 as reported by GTE to the FCC.

21 Q Would you describe those as embedded or
22 historical costs?

23 A Yes. Book numbers are historical/embedded
24 costs.

25 Q Drawing your attention to Page 12 of your

1 direct testimony, beginning on Line 17 and going on to
2 Page 13 through Line 6, and you include a description
3 of several systems there. Could you describe, let's
4 say, what you mean by the preservice ordering
5 capabilities?

6 A Well, I think part of what is included in
7 this description would be the ability to identify
8 precisely what services are being furnished today by
9 GTE that would be transferred over upon conversion of
10 the customer; if MCI were successful in winning that
11 customer, would be converted over to MCI.

12 The scheduling of the service installation
13 and number assignment would actually be where there
14 was a new customer that was to be installed under a
15 resale environment where it would be a new install, if
16 you will, such that the service install number
17 assignment activities would need to be performed.

18 Q And these sort of capabilities are not
19 presently provided to GTE's retail customers, are
20 they?

21 A Information from GTE to a retail competitor
22 is not the same as the information that an end user
23 would need. I'm having trouble understanding your
24 question.

25 Q Well, this on-line access to all of this

1 information needed to verify all services and features
2 is not presently provided to GTE's retail customers,
3 is it?

4 A No, because your end-user customers would
5 not have a need for that sort of interface.

6 Q This sort of interface would apply only to
7 wholesale operations, would it not?

8 A Yes, I think so.

9 Q And these capabilities would require GTE to
10 incur additional cost to provide that to you, would it
11 not?

12 A I'm sure there would be some cost involved.
13 I'm not completely acquainted with the potential
14 magnitude but certainly some additional costs would be
15 incurred.

16 Q And it would be appropriate, would it not,
17 to include that as part of additional cost of
18 providing wholesale?

19 A Well, I think we could probably engage in a
20 fairly lively debate as to whether it is appropriate
21 or not. I can think of some very good policy reasons
22 why it might not be appropriate.

23 On the other hand, the reflection in the
24 calculation that I've presented in this proceeding
25 would permit GTE an amount in order to cover such

1 costs.

2 Q And how would those costs be recovered?

3 A They would be recovered by virtue of the
4 fact that they are not included in any way in the
5 discount calculation that I've presented to this
6 Commission. So they would be both recovered from
7 GTE's rates on an ongoing basis from its retail
8 customers as well as the rates that it would charge
9 its wholesale customers and retail competitors.

10 Q We would be required to recover these
11 increased wholesale expenses from our retail
12 customers?

13 A Well, as we discussed, there is an allowance
14 in your -- I'm sorry, let me back up.

15 Q Can you answer the question yes or no to
16 that question?

17 A Yes. But that does not mean you would be
18 talking about increasing your rates. As I mentioned
19 the amounts that are reflected in my DGP-5 are
20 historical amounts. To the extent that those
21 historical amounts take into account the -- some
22 allowance for such additional costs, then those costs
23 would be recovered by virtue of not having been taken
24 into account in the calculation of the discount rate.

25 Q You kind of went over it kind of fast. Your

1 answer is yes, that it will be recovered under retail
2 rates?

3 A Retail and wholesale.

4 COMMISSIONER DEASON: Let me ask a question
5 about that. You said these are costs that are not
6 reflected on the Company's books presently. These are
7 not costs currently being incurred by the Company; is
8 that correct?

9 WITNESS PRICE: That's correct.

10 COMMISSIONER DEASON: And you're applying a
11 discount to remove all of retailing costs, so how is
12 it that you would propose that through your discounted
13 rates you would be contributing anything towards
14 recovery of these costs?

15 WITNESS PRICE: I understand the confusion
16 and I'm sorry I probably didn't give as clear an
17 answer as I should have.

18 If you look at my DGP Exhibit 5 -- I say
19 that backwards I think -- the fact that only 90% of
20 the costs in the accounts in the 6610 series, the ones
21 I discussed with Mr. Hatch, and the 90% that is
22 included in the 6623 account, because only 90% of the
23 costs are taken into account, the other 10% are
24 excluded. And that amount would be the difference
25 between Lines 13 and 14 on my Schedule exhibit DGP-5.

1 So we're looking at something on the order of \$8- to
2 \$9 million that is not reflected in the discount
3 calculation. So that would be amounts that would be
4 included, if you will, in the wholesale rates under my
5 proposal so that we would actually pay that on an
6 ongoing basis, some portion of that 8 to 9 million.

7 **COMMISSIONER DEASON:** So you're saying that
8 the 10% that would remain within the rate you pay
9 would be designed to cover these additional expenses
10 which have not historically been incurred by the
11 company?

12 **WITNESS PRICE:** Yes.

13 **Q** (By Mr. Gillman) And, Mr. Price, you
14 stated you had no idea what the magnitude of those
15 costs would be, didn't you?

16 **A** I've not conducted an analysis to know what
17 amount that would be, yes.

18 **Q** So you can't -- you don't have a opinion
19 whether the 10% amount presumed by the FCC would be
20 sufficient to cover these preservice ordering
21 capabilities, do you?

22 **A** No. As I've said, I've not conducted an
23 analysis.

24 As I've stated previously -- I mean we could
25 engage in a lively debate as to whether or not it's

1 even appropriate for your competitors to pay that
2 cost. If there is some kind of a limitation such as
3 is inherent in my calculation, perhaps that would
4 provide some incentives for GTE to perform that
5 activity in the most efficient way so that it didn't
6 look to its retail competitors for a blank check for
7 whatever systems development it wanted to engage in.

8 Q If I asked you the same questions regarding
9 the on-line automated auto processing exchange billing
10 data -- let me back up.

11 The next four bullets you provide some
12 additional functionality that MCI is going to demand
13 from GTE as its wholesale provider, do you not?

14 A Yes.

15 Q And is it correct with respect to those next
16 four bullets that none of those systems are presently
17 provided to end-user customers today.

18 A With the same answer I gave you previously,
19 which is your end-user customers would not have a need
20 for on-line monitoring, for example, of trouble spots
21 in the network, etcetera.

22 Q And these additional systems that would be
23 provided to MCI and other wholesale purchasers would
24 require GTE to incur additional cost to provide
25 wholesale service?

1 A Yes. There would be some incremental cost
2 to do that. On the other hand, there would also be
3 significant savings to GTE operating in a wholesale
4 environment in performing its wholesaling functions in
5 this manner as opposed to in a manner where MCI were
6 to place a call to one of your end user service
7 centers or repair centers and have to utilize one of
8 your business office personnel, just as an end user
9 would in order to initiate service or change service
10 or check on the status of a repair.

11 So there's also some significant savings, I
12 believe, that will accrue to GTE as a result of the
13 kinds of things that we're discussing here.

14 Q What sort of -- you haven't done any studies
15 with respect to the amount of increased costs nor the
16 amount of alleged savings that would occur, have you?

17 A I don't know how I would or how MCI would
18 conduct such a study of GTE's costs given the absence
19 of publically available data. I just don't know how
20 that would be done.

21 Q You haven't conducted any studies as to what
22 it might cost for aany company to provide, say, an
23 on-line automated order processing system, have you?
24 Have you?

25 A As the term "study" -- as I understand the

1 term "study" the answer would probably be no.

2 Although certainly MCI is developing its own systems
3 and its own interfaces and its own processes that will
4 utilize these systems. So we have our own costs that
5 we're looking at in order to implement our side of
6 that interface and our side of those systems.

7 Q I think your answer was no to that, correct?
8 You don't have a study?

9 A We don't have a study. We're incurring
10 similar costs.

11 Q Is it your position that GTE's recovery of
12 these costs would only be on an incremental basis?

13 A I don't understand your question.

14 Q Well, in your reference to in answer to one
15 of my questions you said -- you talked about the
16 incremental cost of providing these five system
17 changes.

18 If GTE is going to recover these costs of
19 these five system changes, are you saying that GTE
20 should only recover its long run incremental cost of
21 those system changes?

22 A That's kind of a tough one because what
23 we're talking about is sort of one-time costs. Yes,
24 it's our position that those costs should be incurred
25 as efficiently as possible, but this is a little bit

1 different than the provision of an ongoing network
2 function such as also at issue in this proceeding.

3 Q There wouldn't be any recurring maintenance
4 and support costs to these systems?

5 A Yes. Just like MCI will have recurring
6 maintenance and process costs associated with its
7 systems.

8 Q And to the extent that those ongoing
9 recurring costs will be covered from its wholesalers,
10 is it MCI's position that those costs should be
11 determined on a long run incremental cost basis?

12 A I guess my answer would be yes, only to the
13 extent that the process of identifying that would also
14 take into account all of the efficiencies that GTE
15 would gain as a result of the use of such systems and
16 interfaces and processes as opposed to manual
17 processes that may be in place today for end users.

18 Q But isn't it correct now that if MCI is
19 considering its avoided cost it uses historical costs
20 for its avoidance analysis, but if you consider
21 additional costs created by GTE's wholesale
22 activities, is that MCI's position that only
23 incremental cost should be looked at?

24 A I think I understand your point, but I'm not
25 sure exactly why. I mean the issue is that those

1 costs are not costs that are reflected on your 1995
2 books so there's no way for me to take into account
3 future costs in my calculation.

4 Q I'll argue why in my brief. What's the
5 answer to the question?

6 A As I just stated, the costs that are in
7 MCI's analysis that I'm presenting in this testimony
8 are costs that are booked costs as the company has
9 reflected them in its 1995 records.

10 Q So when you're looking at avoided costs it's
11 booked costs. When you're looking at future incurred
12 expenses created by wholesale activities, those would
13 be incremental costs? Is that a yes or no?

14 A That is a qualified yes. And the
15 qualification is that there are, I believe,
16 inefficiencies that are reflected in your embedded
17 books today. Those inefficiencies, as a result of our
18 calculation, will continue to derive to the benefit of
19 GTE.

20 So what we've not tried to do is tried to
21 calculate an avoided cost factor that would properly
22 reflect all of the efficiencies that a -- I forget
23 what the exact phraseology is but that an efficient
24 forward-looking operation would have. We've not tried
25 to take that into account. So that inures to your

1 benefit or GTE's benefit.

2 In the future, it should be the case in a
3 competitive environment that GTE is only permitted to
4 recover those costs that a competitive firm operating
5 in a competitive market would incur to provide similar
6 functions. Unfortunately, we're not there so we're
7 left with the need to fall back on some kind of a
8 proxy, if you will, for that, and that's what the T-S
9 or T-E-LRIC is supposed to accomplish.

10 (Transcript follows in sequence in Volume 8.)

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