

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

REBUTTAL TESTIMONY OF GREG DARNELL

ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION AND
MCImetro ACCESS TRANSMISSION SERVICES, INC.

DOCKET NO. 961230-TP

NOVEMBER 19, 1996

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Greg Darnell, and my business address is 780 Johnson Ferry Road, Atlanta, Georgia, 30342.

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

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

Q. ARE YOU THE SAME GREG DARNELL WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this testimony is to rebut certain statements and allegations made in the testimonies of witnesses Michael Hunsucker and Randy Farrar for United Telephone Company of Florida and Central Telephone Company of Florida (collectively, Sprint). I will specifically provide rebuttal to demonstrate that notwithstanding the testimony of Mr. Hunsucker and Mr.

ACK _____
AFA _____
APP _____
CAF _____
CMU _____
CTR _____
EAG _____
LEG _____
LIN _____
OPC _____
RCH _____
SEC _____
WAS _____
OTH _____

1 Farrar, Lifeline, LinkUp, voice mail, inside wire maintenance service and
2 calling card services are telecommunications services provided to end users
3 and therefore must be made available for resale, and that Sprint's calculation
4 of wholesale discount percentages understates the appropriate discount
5 percentages and contains so many flaws it should be disregarded.

6

7 **SERVICES AVAILABLE FOR RESALE**

8 Q. WHAT DOES THE TELECOMMUNICATIONS ACT SAY REGARDING
9 THE SERVICES THAT AN INCUMBENT LOCAL EXCHANGE CARRIER
10 (ILEC) SUCH AS SPRINT MUST MAKE AVAILABLE FOR RESALE AT
11 A WHOLESALE DISCOUNT?

12 A. The 1996 Act is very clear on this issue. Section 251(c)(4) states that it is the
13 duty of all ILECs:

14 (A) to offer for resale at wholesale rates any telecommunications
15 service that the carrier provides at retail to subscribers who are
16 not telecommunications carriers; and

17 (B) not to prohibit, and not to impose unreasonable or
18 discriminatory conditions or limitations on, the resale of such
19 telecommunications service, except that a State commission
20 may, consistent with regulations prescribed by the Commission
21 under this section, prohibit a reseller that obtains at wholesale
22 rates a telecommunications service that is available at retail only
23 to a category of subscribers from offering such service to a
24 different category of subscribers.

25 Therefore, cross class selling is the only resale restriction that an ILEC is

1 permitted under the Act to impose on its telecommunications services that are
2 provided to subscribers who are not telecommunications carriers. In order for
3 an ILEC to completely withdraw a certain service from resale it must prove
4 the service is not a telecommunications service, or that the telecommunication
5 service is not provided to subscribers who are not telecommunications carriers.

6

7 Q. DOES SPRINT PROPOSE TO WITHHOLD CERTAIN SERVICES FROM
8 RESALE AT WHOLESALE RATES?

9 A. Yes. Sprint proposes that its Lifeline/LinkUp, voice mail, inside wire
10 maintenance service and calling card services will not be made available for
11 resale at wholesale rates.

12

13 Q. IS THIS APPROPRIATE?

14 A. No. Sprint has not proven that these services are not telecommunication
15 services provided to end users. Therefore all of these services must be made
16 available for resale at wholesale rates. If it is found that any of these services
17 are not telecommunications services provided to end users, a decision will be
18 needed as to whether these items are available at retail rates to CLECs. This
19 Commission should carefully evaluate whether an ILEC should be permitted to
20 refuse to resell its services to a CLEC. In a competitive marketplace, one
21 customer's money is as good as the next, and vendors do not normally impose
22 restrictions on who can buy their services.

23

1 **RESALE DISCOUNT CALCULATION**

2 Q. **HAVE YOU REVIEWED SPRINT'S AVOIDED COST STUDY AND USER**
3 **GUIDE?**

4 A. Yes I have.

5

6 Q. **HAVE YOU FOUND ANY ERRORS IN SPRINT'S AVOIDED COST**
7 **STUDY AND IF SO WHAT ARE THEY?**

8 A. Yes, I have found numerous flaws that cause Sprint's proposed wholesale
9 discount percentage to be too low. These errors are as follows: 1) the
10 numerator and denominator are not like terms; 2) Sprint incorrectly defines
11 "avoided cost"; 3) avoided common costs and overhead expenses are ignored;
12 4) Sprint fails to recognize avoided uncollectibles; 5) Sprint finds that certain
13 expenses are associated with services that will not be available for resale and
14 excludes them from the numerator of its discount percentage, however Sprint
15 fails to adequately adjust the denominator of that percentage; 6) Sprint
16 incorrectly assumes that some of its support costs for wholesale services will
17 be the same as its support costs for retail service; and 7) Sprint's incremental
18 wholesale costs are completely unsubstantiated.

19

20 Q. **HOW ARE THE NUMERATOR AND DENOMINATOR OF SPRINT'S**
21 **WHOLESALE DISCOUNT PERCENTAGE UNLIKE TERMS?**

22 A. Sprint's discount percentage is determined by taking what it deems to be
23 avoided expense and dividing by revenue (Exhibit No. RGF-2, Page 3 of 20).
24 Revenue is related to revenue requirement, which is equal to expense PLUS
25 return on average net investment. Therefore, the revenue included in the

1 denominator of the fraction is not related to just expense; it is related to
2 expense PLUS return on average net investment. Page 6 of Sprint's avoided
3 cost user guide states, "Because there will be no effect on investment, there
4 will be no effect on return." This appears to be Sprint's attempt to justify the
5 mismatch of its discount percentage's numerator and denominator. However,
6 Sprint's contention that there will be no avoided investment is incorrect and
7 therefore its model is fatally flawed. MCI recognizes that it may be difficult
8 for parties to agree on how much investment will be avoided, but to say there
9 will be no investment avoided is simply wrong.

10
11 Q. WHAT IS THE IMPACT OF THE MISMATCH BETWEEN THE
12 NUMERATOR AND DENOMINATOR IN SPRINT'S WHOLESALE
13 DISCOUNT PERCENTAGE?

14 A. Since the denominator of the fraction used to calculate the discount percentage
15 (i.e. revenue) is related to expense PLUS return on average net investment,
16 and the numerator (i.e. expense) is related only to expense and does not take
17 into account avoided return, the numerator is too small given the denominator
18 and the wholesale discount percentage Sprint proposes is understated. Avoided
19 Expense divided by Total Expense would be like terms, Avoided Revenue
20 divided by Total Revenues would be like terms, but Avoided Expense divided
21 by Total Revenues is a mismatch.

22
23 Q. WHAT LEADS YOU TO BELIEVE THAT SPRINT HAS INCORRECTLY
24 DEFINED "AVOIDED COST"?

25 A. On page 7 and page 10 of its Avoided Cost User Guide, Sprint states that the

1 costs contained in its forecasting and toll processing accounts will not be
2 avoided because these "functions will be required for all services including
3 wholesale/resell services." This may be true. However, it is not reasonable
4 to say that the new wholesale forecasting costs will equal the existing retail
5 forecasting costs and this is what Sprint has done by treating accounts
6 6611.07X as totally not avoided. In the wholesale market Sprint will be
7 dealing with only a handful of customers while in the retail market Sprint deals
8 with many thousands of customers. Therefore, Sprint's wholesaling costs
9 should be much less than the existing retailing cost and this should be reflected
10 by counting most of 6611.07X as avoided or by counting all of 6611.07X as
11 avoided and capturing the new wholesaling costs as incremental costs.

12

13 Q. SPRINT STATES THAT BECAUSE RESELLERS WISH TO PROVIDE
14 THEIR OWN OPERATOR SERVICES THAT THE COSTS CONTAINED IN
15 ACCOUNTS 6621 AND 6622 WILL NOT BE AVOIDED (Avoided Cost
16 User Guide, Page 8). DOES THIS MAKE ANY SENSE?

17 A. No. If resellers provide their own operator services, Sprint will not be
18 providing operator service to reseller's customers and as such the cost of
19 providing operator service will be avoided. Sprint's position to treat accounts
20 6621 and 6622 as not avoided would force any wholesale companies that want
21 to provide their own operator services to pay for all of their own operator
22 service expense, plus pay for part of Sprint's operator service expense through
23 an inappropriately low wholesale discount percentage.

24

25 Q. PAGE 6 OF SPRINT'S AVOIDED COST USER GUIDE STATES,

1 "COMMON COSTS ARE NOT AVOIDED" AND THEREFORE SPRINT
2 DOES NOT INCLUDE ANY COMMON COST IN ITS CALCULATION OF
3 AVOIDED COST (RCF-2, PAGE 4, SHOWS ACCOUNTS 6121, 6122,
4 6123, 6124, 6711, 6712, 6722, 6723, 6724, 6725, 6726, 6727 AND 6728 AS
5 0% AVOIDED). IS THIS APPROPRIATE?

6 A. No. It is intuitively obvious that if the direct cost of a service falls, then the
7 functions needed to support that service should also fall. If support services
8 were permitted to remain the same when direct services decline, support
9 resources, such as employees, would be lying idle causing expense but
10 providing no benefit. This logically would not occur. For example, when a
11 direct service such as customer service declines, support services such as
12 Human Resources will also decline proportionally.

13
14 Q. WHAT IS THE IMPACT OF SPRINT'S FAILURE TO INCLUDE
15 AVOIDED COMMON COSTS AND OVERHEAD IN ITS CALCULATION
16 OF AVOIDED EXPENSE AND THEREFORE THE NUMERATOR OF ITS
17 WHOLESALE DISCOUNT PERCENTAGE?

18 A. The numerator will be too small and therefore the wholesale discounts will be
19 understated.

20
21 Q. SPRINT CLAIMS THAT UNCOLLECTIBLES WILL NOT BE AVOIDED.
22 IS THIS REASONABLE?

23 A. No. Sprint provides a general explanation of why it believes uncollectibles
24 will not be avoided, stating that its "long distance division's experience with
25 reseller write-offs, unsubstantiated billing adjustments, and fraudulent code

1 abuse are similar to the rate of uncollectibles experienced by Sprint's local
2 division." However, Sprint never provides any data to support this claim.

3

4 Q. IS SPRINT'S CONTENTION THAT UNCOLLECTIBLES IN THE
5 WHOLESALE MARKET WILL BE EQUAL IN RELATIVE MAGNITUDE
6 TO UNCOLLECTIBLES IN ITS RETAIL MARKETS REASONABLE?

7 A. No. End user uncollectibles will be completely eliminated, since resellers will
8 be absorbing the bad debt associated with those customers. In line with the
9 FCC's methodology, MCI's study generously assumes that uncollectibles are
10 only avoided in proportion to the avoided direct expenses. Other ILECs have
11 assumed that uncollectibles will be completely avoided when dealing with
12 resellers. For example, BellSouth testified in the AT&T/MCI arbitration
13 proceedings that it "assumed that uncollectibles from customers who buy from
14 resellers will be avoided by BellSouth." (Reid, Tr. 2339) This contradicts
15 Sprint's contention that uncollectibles are not avoided. Sprint's experience in
16 its long distance business with write offs and billing adjustments may simply
17 be a result of inaccurate access billing and not a reflection of true
18 uncollectibles or the uncollectible rate it will experience in the local resale
19 business.

20

21 Q. WHAT IS THE IMPACT OF SPRINT'S FAILURE TO INCLUDE
22 UNCOLLECTIBLES IN ITS CALCULATION OF AVOIDED EXPENSE
23 AND THEREFORE IN THE NUMERATOR OF ITS WHOLESALE
24 DISCOUNT PERCENTAGE?

25 A. The numerator will be too small and therefore the wholesale discounts will be

1 understated.

2

3 Q. SPRINT FINDS THAT CERTAIN EXPENSES ARE ASSOCIATED WITH
4 SERVICES THAT WILL NOT BE AVAILABLE FOR RESALE (AVOIDED
5 COST STUDY - USER GUIDE, ACCOUNTS 6611.06X, 6612.02X,
6 6623.63x, P. 7, P. 10.), AND THEREFORE WILL NOT BE AVOIDED. IT
7 THEN EXCLUDES SUCH EXPENSES FROM THE NUMERATOR OF ITS
8 DISCOUNT PERCENTAGE. IS THIS APPROPRIATE?

9 A. Yes. The theoretically correct wholesale discount percentage should be based
10 on the following calculation:

11 Total Avoided Cost of the Service Subject to Discount
12 Total Cost of the Service Subject to Discount

13 Therefore, if the service is not subject to discount, its costs should not be
14 included in the numerator or denominator of the discount percentage.

15

16 Q. HAS SPRINT MADE THIS ADJUSTMENT CORRECTLY?

17 A. No. Sprint removes the avoided cost of the services not subject to discount
18 only from the numerator of its discount percentage, but fails to remove the
19 total cost associated with services not subject to the discount from the
20 denominator of its discount percentage.

21

22 Q. WHAT IS THE IMPACT OF THIS ERROR?

23 A. Since the numerator is reduced and the denominator stays the same, the
24 resulting discount percentage is once again understated.

25

- 1 Q. SPRINT REDUCES ITS AVOIDED COST AMOUNT TO REFLECT
2 INCREMENTAL WHOLESALE COSTS? IS THIS APPROPRIATE?
- 3 A. Yes, however its incremental wholesale costs are unsubstantiated. Sprint
4 provides a spreadsheet analysis of its incremental wholesale costs (Exhibit
5 RGF-2, page 19 of 20). Yet Sprint never explains how it derives any of its
6 purported systems development, support, miscellaneous or corporate staff
7 expense. Sprint provides no labor rates, no development work time and no
8 vendor costs and never explains what development work it is doing. In
9 addition, it appears that Sprint is attempting to recover all of its purported
10 system development costs in 4 years. If this is true, it is inappropriate. MCI,
11 as one resale customer, will benefit from any systems development work for
12 much longer than four years.
- 13
- 14 Q. HAS MCI RECAST ITS WHOLESALE DISCOUNT STUDY IN A EASIER
15 TO READ SIDE BY SIDE SPREADSHEET FORMAT?
- 16 A. Yes. Attached at Exhibit ___ (GJD-2) is MCI's Avoided Cost Study for
17 United Florida and Centel Florida recast into a side by side spreadsheet. The
18 results of these studies have not changed.
- 19
- 20 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?
- 21 A. Yes, at this time.
- 22
- 23
- 24
- 25

MCI AVOIDED COST MODEL SUMMARY

LINE #	ARMIS 43-04 ROW NUMBER	CORRESPONDING USOA SUMMARY ACCOUNT(S)	ACCOUNT DESCRIPTION	(1) TOTAL CENTEL FLORIDA STATE JURISDICTION	(2) % DIRECTLY AVOIDED	(3) DIRECT AVOIDED EXPENSES	(4) % INDIRECTLY AVOIDED	(5) INDIRECT AVOIDED EXPENSES	(6) TOTAL AVOIDED EXPENSES
1	5000	6110	NETWORK SUPPORT	168	0.00%	0	0.00%	0	0
2	5010	6120	GENERAL SUPPORT	8,831	0.00%	0	17.69%	1,563	1,563
3	5026	6210,6220,6230	CENTRAL OFFICE - SWITCHING	9,106	0.00%	0	0.00%	0	0
4			OPERATOR SYSTEMS		0.00%	0	0.00%	0	0
5			CENTRAL OFFICE - TRANSMISSION		0.00%	0	0.00%	0	0
6	5042	6310	INFORMATION O/T	1,773	0.00%	0	0.00%	0	0
7	5076	6410	CABLE & WIRE	17,629	0.00%	0	0.00%	0	0
8	6000	6510	OTHER PP&E	3	0.00%	0	0.00%	0	0
9	6010	6530	NETWORK OPERATIONS	17,098	0.00%	0	0.00%	0	0
10	6012	6540	ACCESS	2,077	0.00%	0	0.00%	0	0
11	6260	6560	DEPRECIATION & AMORTIZATION	31,181	0.00%	0	0.00%	0	0
12	7000	6610	MARKETING	5,668	90.00%	5,101	0.00%	0	5,101
13	7060	6621	TOTAL TEL OP	4,432	100.00%	4,432	0.00%	0	4,432
14	7076	6622	TOTAL PUB DIRECTORIES	399	100.00%	399	0.00%	0	399
15	7310	6623	TOTAL OTHER NUMBER SVC	14,877	90.00%	13,389	0.00%	0	13,389
16	7334	6710, 6720	CORP OPERATIONS	16,957	0.00%	0	17.69%	3,000	3,000
18	4040	5301	UNCOLLECTIBLES	<u>1,804</u>	0.00%	<u>0</u>	17.69%	<u>284</u>	<u>284</u>
20			TOTAL	131,803		23,322			<u>28,168</u>
21							TOTAL EXPENSE		<u>131,803</u>
22							DISCOUNT PERCENT		21.37%
23						17.69%	(ROW 20/ROW 21)		
24									
25									

NOTES:

COLUMN (1) PER CENTEL FLORIDA 1995 ARMIS REPORT 43-04, STATE JURISDICTION
 COLUMN (2) REFLECT PERCENT DIRECTLY AVOIDED UNDER FCC PROXY METHODOLOGY
 COLUMN (3) EQUAL COLUMN 1 MULTIPLIED BY COLUMN 2
 COLUMN (4) EQUAL COLUMN (3) ROW 20 DIVIDED BY COLUMN (1) ROW 20 FOR ACCOUNTS FCC PRESUMPTIVELY DEEMED INDIRECTLY AVOIDED
 COLUMN (5) EQUAL COLUMN (4) MULTIPLIED BY COLUMN (1)
 COLUMN (6) EQUALS COLUMN (5) PLUS COLUMN (3)
 INDIRECTLY AVOIDED COST ALLOCATION PERCENTAGE EQUAL COLUMN 3 LINE 20 DIVIDED BY COLUMN 1 LINE 20.