

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Sprint) Docket No. 961173-TP
 Communications Company Limited)
 Partnership d/b/a Sprint for)
 arbitration with GTE Florida)
 Incorporated concerning)
 interconnection rates, terms,)
 and conditions, pursuant to the)
 Federal Telecommunications Act)
 of 1996.)

FIRST DAY - MID AFTERNOON SESSION

VOLUME 4

PAGES 400 through 518

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER DIANE K. KIESLING
 COMMISSIONER JOE GARCIA

DATE: Thursday, December 5, 1996

PLACE: Betty Easley Conference Center
 Room 152
 4075 Esplanade Way
 Tallahassee, Florida

REPORTED BY: LISA GIROD JONES, RPR, RMR

APPEARANCES:

(As heretofore noted.)

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I N D E X - VOLUME 4

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EXHIBITS

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12 - (Steele) BIS-1 & BIS-2	407	516
13 - (Trimble) DBT-1 - 4, 6 - 8	409	516
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PROCEEDINGS

1
2 (Transcript continues in sequence from
3 Volume 3.)

4 MR. McCORMICK: GTE's next witnesses --
5 normally we put these witnesses on in a panel, but we
6 can put them on in a panel or separate, depending on the
7 Commission's preference, but it would be Dennis Trimble
8 and Bert Steele, our cost and pricing witnesses.

9 COMMISSIONER KIESLING: I thought we had
10 already dealt with this, Mr. Gillman, in the prehearing.

11 MR. GILLMAN: Yes, ma'am.

12 BERT STEELE and DENNIS TRIMBLE
13 were called as witnesses on behalf of GTE Florida, and
14 having been duly sworn, testified as follows:

15 COMMISSIONER KIESLING: There is limited desk
16 space and only one microphone, so I would ask you two to
17 bear that in mind when you're responding.

18 DIRECT EXAMINATION

19 BY MR. McCORMICK:

20 Q Mr. Steele, I'll start with you, if you could
21 identify yourself for the record, and state your
22 business address, please?

23 COMMISSIONER KIESLING: If you could, have you
24 both been sworn?

25 MR. McCORMICK: I believe so.

1 COMMISSIONER KIESLING: Okay. It's hard to
2 keep up.

3 WITNESS STEELE: My name is Bert, B-E-R-T,
4 Steele S-T-E-E-L-E. I work for GTE Telephone
5 Operations, 600 Hidden Ridge, Irving, Texas.

6 MR. McCORMICK: What position do you hold at
7 GTE Telephone Operations?

8 WITNESS STEELE: I'm the manager of pricing
9 and tariff support.

10 MR. McCORMICK: Did you cause to be prepared
11 direct testimony and exhibits in this proceeding?

12 WITNESS STEELE: That is correct.

13 MR. McCORMICK: And you have one exhibit,
14 those are the cost binders?

15 WITNESS STEELE: I have testimony, as well as
16 an attached exhibit to that testimony, including the
17 GTE's cost studies to middle, which is the binders that
18 you referred to.

19 MR. McCORMICK: Do you have any corrections,
20 deletions, additions or withdrawals to that testimony?

21 WITNESS STEELE: I have no changes.

22 MR. McCORMICK: And if I asked you the same
23 questions today that are in your prefiled testimony,
24 would your answers remain the same?

25 WITNESS STEELE: My answers would be the

1 same.

2 MR. McCORMICK: Commissioner, may we have this
3 testimony inserted into the record as though read?

4 COMMISSIONER KIESLING: Yes. The direct
5 testimony of Bert Steele will be inserted into the
6 record as though read.

7 MR. McCORMICK: And may we have the exhibits
8 marked for identification?

9 COMMISSIONER KIESLING: Yes. I need to
10 understand, there is an exhibit attached to the
11 testimony that is Exhibit BIS-1, 1 through 37 pages.

12 WITNESS STEELE: That is correct.

13 COMMISSIONER KIESLING: Where is the other
14 one? Is that a separate exhibit?

15 MR. McCORMICK: In the cost binders? And
16 they're getting them now, as I understand it. Is that
17 BIS-2? How is it identified in your testimony, the cost
18 binders?

19 WITNESS STEELE: The cost binders --

20 COMMISSIONER KIESLING: I just need to know if
21 it was a separate exhibit with a separate number or if
22 it was the backup data for BIS-1.

23 WITNESS STEELE: It's the specific results of
24 the companies that supports BIS-1.

25 MS. CASWELL: I'm sorry, Commissioner

1 Kiesling. I believe it should be a separate exhibit,
2 and all the binders should be labeled as one composite
3 exhibit, and I think referred to in your testimony,
4 Bert, as BIS-1, isn't it?

5 WITNESS STEELE: That is correct.

6 COMMISSIONER KIESLING: BIS-1 is attached.
7 It's an exhibit that has 37 pages in it. That's why I'm
8 a little confused.

9 MS. CASWELL: I'm sorry. I think the binder
10 should be a separate exhibit from the BIS-1 37-page
11 exhibit you've got there. If we could label all the
12 binders as a separate exhibit.

13 COMMISSIONER KIESLING: Is that BIS-2?

14 MS. CASWELL: Yeah, we can do that.

15 COMMISSIONER KIESLING: Let me just try to ask
16 one more time so I'm clear. Somewhere in his direct
17 testimony he referred to the binders. And what did he
18 call them?

19 MS. CASWELL: The binders are referred to as
20 BIS-1, so I'm not sure why the --

21 COMMISSIONER KIESLING: In the prehearing
22 order they're numbered differently. So that's why --

23 MS. CASWELL: I'm sorry.

24 COMMISSIONER KIESLING: I just want the record
25 to be clear. I don't care what we call them. And in

1 the prefiled, I believe on Page 3, the costing data is
2 referred to as tab 1.

3 MS. BARONE: Perhaps that's tab 1 of BIS-1.

4 COMMISSIONER KIESLING: Okay.

5 MS. CASWELL: I don't think that's right. It
6 was tab 1 in the response. (Pause) I think the
7 prehearing order is correct, that BIS-1 should be the 37
8 pages attached to Mr. Steele's testimony, and then BIS-2
9 is the cost study and supporting documentation of the
10 cost study binders.

11 COMMISSIONER KIESLING: Great. That's all I
12 needed clear. I've marked BIS-1 and 2 as Exhibit 12,
13 composite Exhibit 12.

14 (Exhibit No. 12 marked for identification.)

15 MR. McCORMICK: Mr. Trimble, please identify
16 yourself for the record and state your business
17 address.

18 WITNESS TRIMBLE: My name is Dennis B.
19 Trimble. My business address 600 Hidden Ridge, Irving,
20 Texas.

21 MR. McCORMICK: By whom are you employed and
22 in what capacity?

23 WITNESS TRIMBLE: I'm employed by GTE
24 Telephone Operations as Assistant Vice President -
25 Marketing Services.

1 MR. McCORMICK: And did you cause to be
2 prepared direct testimony and exhibits in this
3 proceeding?

4 WITNESS TRIMBLE: Yes, I did.

5 MR. McCORMICK: Do you have any additions or
6 corrections or deletions to your testimony?

7 WITNESS TRIMBLE: Yes. We do have some
8 deletions for withdrawn testimony which begins on Page
9 31, Line 21, and continues through Page 32, Line 5,
10 specifically the section on collocation. Along with
11 that we need to withdraw Exhibit DBT-5, which deals with
12 prices for collocation.

13 MR. McCORMICK: Anything else?

14 WITNESS TRIMBLE: That is it.

15 MR. McCORMICK: Other than those deletions, if
16 I asked you the same questions today that in are your
17 prefiled testimony, would your answers remain the same?

18 WITNESS TRIMBLE: Yes.

19 MR. McCORMICK: Commissioner, may we have this
20 testimony inserted into the record as though read?

21 COMMISSIONER KIESLING: Yes. I'm not sure I
22 inserted Steele's. I was still trying to get the
23 exhibits sorted out, but I'll insert both Steele and
24 Trimble's direct testimony in the record as though
25 read.

1 MR. McCORMICK: Thank you. May we have
2 Mr. Trimble's testimony and exhibits marked for
3 identification?

4 COMMISSIONER KIESLING: You can mark his
5 exhibits. His testimony is already in. So I guess with
6 the withdrawn one, it would be DBT-1 through 4 and 6
7 through 8.

8 MR. McCORMICK: I believe so.

9 COMMISSIONER KIESLING: Will be marked as
10 composite Exhibit 13.

11 (Exhibit No. 13 marked for identification.)

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1 Approximately fourteen of my twenty-four years with GTE have been
2 in the area of developing incremental costs for pricing decisions. I
3 have taken a number of incremental cost and pricing courses from
4 AT&T, Bellcore, United States Telephone Association ("USTA"), GTE
5 and the University of Chicago. For seven years I have been an active
6 participant of the USTA Economic Cost Analysis Subcommittee and
7 the USTA Training/Education Work Group responsible for promoting
8 awareness, understanding and proper application of economic
9 principles. At present, I am the chairman of the USTA Economic
10 Analysis Training/Education Work Group.

11

12 **Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER STATE**
13 **REGULATORY COMMISSIONS?**

14 A. I have testified on behalf of GTE's telephone operating companies as
15 an expert witness in the area of incremental costing before numerous
16 state public utility commissions including: Florida, California,
17 Pennsylvania, Oklahoma, Wisconsin and Illinois.

18

19

COST STUDIES

20 **Q. WHAT COSTING PRINCIPLES DID GTE EMPLOY IN DEVELOPING**
21 **ITS TOTAL ELEMENT LONG-RUN INCREMENTAL COST**
22 **("TELRIC") STUDIES?**

23 A. Exhibit No. BIS-1 to this testimony contains a detailed description of
24 the cost study methodology and principles used by GTE to develop
25 its TELRIC estimates for unbundled network services. Tab 1 of the

1 separately filed "GTE's Cost Submission" in this proceeding contains
2 further discussion on GTE's costing method and models. The cost
3 study methodology conforms to the long-run incremental cost study
4 methodology documented by Federal Communications Commission
5 in its First Report and Order dated August 8, 1996. Certain parts of
6 the FCC's First Report and Order have been stayed. Although I
7 reference some of its provisions in my testimony, I do not endorse all
8 of the FCC's rules.

9
10 **Q. WHAT COST STUDIES HAS GTE FILED IN THIS PROCEEDING?**

11 **A.** GTE's Cost Study Submission contains TELRIC estimates for certain
12 "network elements" as well as Total Service Long-Run Incremental
13 Cost ("TSLRIC") estimates for select bundled "services." The
14 Company has provided TELRIC estimates for the following elements:

- 15 - Network Interface Device ("NID"): Basic and 12X
- 16 - Loops: 2-wire and 4-wire
- 17 - Local Switching
 - 18 - Ports: 2-wire analog and DS-1
 - 19 - End Office Switching: Originating and Terminating
 - 20 - Vertical Features
- 21 - Tandem Switching
- 22 - SS7 Signal Links: 56kb and DS-1
- 23 - SS7 Signal Transfer Point ports
- 24 - Transport: Common and Dedicated

25 Collocation element cost studies were also provided for:

- 1 - Network Access Cross Connection: DS-0, DS-1, and DS-3
- 2 levels
- 3 - Physical Engineering Fee
- 4 - Building Modification Charges
- 5 - Partitioned Space Rental
- 6 - DC Power
- 7 - Cable Space Charges

8 The GTE Submission also provides Service Provider Number
9 Portability cost studies:

- 10 - Remote Call Forwarding per number ported
- 11 - Simultaneous Call paths

12 And it includes Service Ordering and Service Connection Activities.

13
14 In addition, TSLRIC studies were performed and submitted for other
15 services that the Company offers (e.g., basic local service, vertical
16 services, toll, and switched access). These studies were one of the
17 components used in deriving the Company's total "forward-looking"
18 costs for its services. This estimate of total forward-looking costs
19 helped the Company to estimate its "forward-looking" common costs.

20
21 GTE's Cost Study Submission also includes its "Avoided Cost Study"
22 analysis, which is a primary component of its recommended resale
23 rates. This study and the resulting recommended price levels for
24 resold services is the topic of GTE's Resale/Avoided Cost
25 Presentation.

1 Q. WHAT DISTINCTION DOES GTE MAKE BETWEEN TELRIC AND
2 TSLRIC STUDIES ?

3 A. GTE uses the terminology "TELRIC" when referring to network
4 element cost studies and "TSLRIC" when referring to cost studies
5 performed for GTE's current services.

6

7 Q. WHAT COST STUDIES ARE YOU SPONSORING?

8 A. I am presenting GTE's TELRIC and TSLRIC cost study methodology
9 as described in Exhibit No. BIS-1 to my testimony. I am also
10 sponsoring GTE's TELRIC and TSLRIC study results with the
11 exception of non-recurring charges (i.e., service order cost studies),
12 collocation and avoided costs. The cost study process and results for
13 these three items are being handled by other witnesses in the
14 proceeding.

15

16 Q. YOUR EXHIBIT NO. BIS-1 DOCUMENTS GTE'S TELRIC AND
17 TSLRIC METHODOLOGY. PLEASE PROVIDE AN OVERVIEW OF
18 GTE'S METHODOLOGY

19 A. The cost study prepared for this proceeding is a very special type of
20 cost study which captures the impact of providing loops, switching
21 and transport network elements. In this regard, all of the forward-
22 looking costs for loop facilities are assigned to loop network
23 elements, all of the forward-looking costs for switching are assigned
24 to switching network elements and all of the forward-looking costs for
25 transport are assigned to transport network elements. None of the

1 costs, from a cost study objective perspective, for loops, switching or
2 transport facilities are assigned to GTE's common costs. Stated
3 another way, all of the these forward-looking costs are included in the
4 per unit TELRIC and TSLRIC results, respectively. Accordingly, the
5 "cost objects" are the wholesale network elements not the retail
6 services. This is consistent with the FCC First Report and Order
7 ("Report"), which states in Paragraph 690, for example: ***"The***
8 ***increment that forms the basis for a TELRIC study shall be the***
9 ***entire quantity of the network element provided"***

10
11 Q. ARE THE LONG-RUN INCREMENTAL COST STUDY RESULTS
12 ESTIMATES OF GTE'S ACTUAL FORWARD-LOOKING COSTS?

13 A. Yes. GTE's cost study results are forward-looking and
14 representative, to the extent possible, of the future costs expected to
15 be incurred by GTE. These long-run incremental cost study results
16 are not for a hypothetical carrier nor are they representative of the
17 costs for a new entrant. Rather, all input prices for equipment,
18 installation, maintenance, repair and other expenses are estimates of
19 GTE's future costs. These input prices are based on the most
20 efficient outcome available to GTE as neither a hypothetical nor
21 embedded view is appropriate for determining long-run incremental
22 costs for the LEC. Forward-looking costs for the actual carrier in
23 question should be used to perform TELRIC and TSLRIC studies.

24
25

1 Q. DO THE COST STUDY RESULTS PROVIDE CONSERVATIVE
2 ESTIMATES OF GTE'S LONG-RUN INCREMENTAL COSTS?

3 A. Yes. The TELRIC and TSLRIC studies performed by GTE are
4 conservative in that they do not adjust for the overall change in risk
5 created by the introduction of competition intended by the
6 Telecommunications Act of 1996. In addition, the cost study models
7 currently available to GTE and the resulting input factors assume, for
8 the most part, that GTE is the sole provider of loop, switching and
9 transport facilities in the local network. This fact alone tells us that
10 the cost numbers must be lower bound estimates of GTE's future
11 costs since most certainly the marketplace will experience facility-
12 based entry.

13
14 Depreciation rates and cost of capital should be adjusted to account
15 for risks that a carrier incurs. Depreciation rates, in particular, should
16 be adjusted for declining technology costs, sunk investments and
17 rapid technology change. As even the FCC noted in the Report, an
18 increase in risk due to entry into the market can increase the LEC's
19 cost of capital. However, due to time constraints imposed by the
20 Telecommunications Act, GTE was unable to adjust its depreciation
21 lives for sunk investments and declining technology costs. In addition,
22 the cost of capital used is based on GTE's current capital structure
23 and rate of return. The cost of capital, therefore, was not adjusted to
24 account for changes in risk.

25

1 Q. DO THE GTE TELRIC RESULTS INCLUDE COMMON COSTS?

2 A. No, there are no common costs incorporated in GTE's TELRIC
3 results. Common costs, therefore, are addressed from a cost
4 recovery or pricing perspective rather than from a per unit TELRIC
5 perspective.

6
7 Q. WHY DOES GTE'S COST STUDY SUBMITTAL INCLUDE LOOP
8 COST STUDY RESULTS FROM THE BENCHMARK COST MODEL
9 - VERSION 2 ("BCM II")?

10 A. The BCM II results provide an independent estimate of GTE's two-
11 wire loop costs. A comparison of the GTE TELRIC for two-wire loops
12 with the BCM II results provides a further reflection of the
13 conservative nature of GTE's cost studies. (The following companies
14 have taken an active role in sponsoring BCM. Sprint, US West, and
15 NYNEX. See "Benchmark Cost Model," submitted to the FCC, CC
16 Docket No. 80-286, September 12, 1995. BCM II development has
17 been led by Sprint and US West.)

18
19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes.

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GTE FLORIDA INCORPORATED
DIRECT TESTIMONY OF DENNIS B. TRIMBLE
DOCKET NO. 961173-TP

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.

A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75015. I am employed by GTE Telephone Operations as Assistant Vice President - Marketing Services and am representing GTE or "the Company" in this arbitration proceeding with Sprint.

Q. WILL YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. I received a B.A. in Business in 1970 and an M.B.A. in 1973, both from Washington State University. In 1972, I became an Assistant Professor at the University of Idaho, where I taught undergraduate courses in statistics, operations research and decision theory. From 1973 through 1976, I completed course work towards a Ph.D. degree in Business at the University of Washington, majoring in quantitative methods with minors in computer science, research methods, and economics. I began my career with GTE in 1976 as an Administrator - Pricing Research with General Telephone Company of the Northwest ("GTENW"). Through 1985, I held various jobs with GTENW and GTE Service Corporation, almost all related to demand analysis, market research, and/or strategic planning. In 1985, I was

1 named Director - Market Planning for GTE Florida, Incorporated
2 ("GTEFL") and in 1987, I became GTEFL's Director - Network
3 Services Management. During most of 1988 and early 1989, I was
4 also Acting Vice President - Marketing for GTEFL. From 1989
5 through most of 1994, I was employed by GTE Telephone Operations
6 as Director - Demand Analysis and Forecasting. In October of 1994,
7 I became Director - Pricing and Tariffs for GTE Telephone Operations
8 and assumed the additional responsibilities of the Assistant Vice
9 President - Marketing Services position in August, 1995.

10

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED ON BEHALF OF GTE?**

12 A. Yes. I have presented testimony on behalf of GTE before the
13 California Public Utilities Commission, the Florida Public Service
14 Commission and the Hawaii Public Utilities Commission.

15

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THE**
17 **DOCKET?**

18 A. In response to Sprint's request for arbitration filed with this
19 Commission, I will address GTE's proposed pricing for: (1) unbundled
20 network elements and associated ordering/provisioning non-recurring
21 charges ("NRC's"), (2) local interconnection elements, (3) collocation
22 elements, and (4) service provider number portability ("SPNP").
23 [SPNP is also know in the industry as interim number portability
24 ("INP").]. The economic rationale supporting the pricing policies
25 employed by GTE in the development of its proposed rates for

1 unbundled network elements is the subject of the Economic
2 Presentation in this proceeding. In addition, GTE's costing
3 procedures are addressed by the direct testimony of GTE witness
4 Bert Steele. I will also address the estimation and magnitude of the
5 Company's "common costs" as well as the inappropriateness of any
6 pricing proposals resembling the Federal Communications
7 Commission's ("FCC") proxy rates (which a U.S. appeals court has
8 stayed) for unbundled network elements.

9

10 **PRICING PRINCIPLES FOR UNBUNDLED NETWORK ELEMENTS**

11 **Q. WHAT OVERRIDING PRINCIPLES DID GTE FOLLOW IN THE**
12 **DEVELOPMENT OF ITS UNBUNDLED NETWORK ELEMENT**
13 **PRICES?**

14 **A.** As discussed in GTE's Economic Presentation, one of the principles
15 employed by GTE was to base rates for unbundled network elements
16 on their Total Element Long-Run Incremental Cost ("TELRIC") plus
17 a reasonable contribution to the Company's "common costs." TELRIC
18 is a term coined by the FCC. See the FCC's First Report and Order
19 issued in CC Docket No. 96-98 on August 8, 1996; hereinafter
20 referred to as the FCC's "First Report." The other major principle
21 discussed in GTE's Economic Presentation is to incorporate
22 competitive market assumptions into GTE's ratemaking process that
23 limit rates to be less than or equal to the Stand-Alone-Cost ("SAC")
24 of that network element.

25

1 Q. PLEASE DESCRIBE THE MAJOR UNBUNDLED ELEMENTS GTE
2 PROPOSES AND HOW THEY CAN BE USEFULLY COMBINED
3 WITH THE ALTERNATIVE LOCAL EXCHANGE CARRIERS'
4 ("ALEC"S) SELF-PROVISIONED NETWORKS AND SERVICES TO
5 DELIVER COMPETITIVE LOCAL EXCHANGE SERVICE.

6 A. GTE's major proposed unbundled services are:

- 7 • Unbundled Loops. The unbundled loop provides a
8 voice-grade path between an end user and a GTE wire center.
9 An ALEC may obtain this loop from GTE and connect it to a
10 cross connect available at the end office through a collocation
11 arrangement. The ALEC could self-provision the transport
12 facilities from GTE's end office to the ALEC's own switching
13 center. In such an arrangement the ALEC would provide,
14 through its own switch, all related switching services such as
15 local usage, custom calling services, switched access service
16 (both originating and terminating), and toll services. Today,
17 most of these are high-margin services which provide GTE
18 with significant contributions (revenues minus costs) to cover
19 its common costs and overheads, thus enabling GTE to
20 support the level of investment infrastructure necessary to
21 operate as a carrier of last resort ("COLR") and achieve the
22 Commission's public policy objectives (e.g., universal service).
23
24 GTE is also offering loop conditioning services for unbundled
25 loops that assure that desired loops have the technical

- 1 capability to handle enhanced end user services (e.g., ISDN,
2 switch data).
3
- 4 • Unbundled Port / Local Switching The unbundled port
5 provides access to switching services from a GTE switch to be
6 used with an ALEC-provided loop. This element would apply
7 in areas where ALECs have loop facilities but do not have a
8 local switching center in service. In this situation, the ALEC
9 will cross connect its loop with GTE's switch through a
10 collocation arrangement. Through the port, the ALEC can
11 obtain access to both the local switching capability of GTE's
12 switch (e.g., local calling, switch features) and the capability to
13 route calls from the trunk side of the switch (e.g., switched
14 access, toll service, E-911 service, directory service, etc.)
15 The local switching functionality of the switch (e.g., local
16 calling, switch features) will be purchased from GTE under one
17 of two alternative scenarios which I will discuss later.
18
 - 19 • Collocation. GTE filed a physical collocation tariff on October
20 2, 1996 with an expected implementation date of November
21 16, 1996. GTE proposes to use the rates, terms and
22 conditions in this tariff for all collocation elements. The cross
23 connections contained in that tariff are used to facilitate the
24 physical delivery of a loop from GTE's main distribution frame
25 to the ALEC's collocated facilities.

1 • SS7 Interconnection SS7 interconnection allows an ALEC to
2 connect to GTE's SS7 network at a Signal Transfer Point
3 ("STP"). This connection enables ALECs to exchange SS7
4 messages without providing the underlying SS7 network. It
5 also provides access to database services (e.g., Database 800
6 Carrier Selection Service and Line Information Database
7 ("LIDB")). This interconnection will also support efficient call
8 setup and delivery of SmartCall™ services without first
9 connecting to a GTE switch. Because there is such a vast
10 array of possible services provided with SS7 interconnection,
11 the Company proposes that interconnection arrangements be
12 provided subject to negotiated contracts. With negotiated
13 contracts, agreements can be customized to meet the specific
14 SS7 requirements of each ALEC. These contracts would
15 reference the signal links and STP ports currently tariffed in
16 the GTOC Tariff FCC No. 1.

17

18 COMMON COSTS

19 Q. DO GTE'S TSLRIC OR TELRIC STUDIES INCORPORATE JOINT
20 AND COMMON COSTS?

21 A. The methodology GTE currently employs to develop its TELRIC
22 estimates does not incorporate common costs. (Throughout this
23 testimony, Total Service Long-Run Incremental Cost ("TSLRIC") will
24 be used as synonymous with TELRIC.) These costs must be
25 recovered through the pricing of services.

1 Q. WHAT TYPE OF EXPENSES MAKE UP GTE'S COMMON COSTS?

2 A. GTE's current TELRIC methodology for services and unbundled
3 elements includes the following expenses (a) depreciation, (b) return
4 on investment, (c) income taxes, (d) plant-specific maintenance and
5 repair, (e) central office land and buildings, (f) customer operations
6 (e.g., sales), and (g) miscellaneous fees and taxes (e.g., ad valorem
7 tax, gross receipts tax) GTE's TELRIC methodology does not
8 include the following expense items (and they are the ones
9 considered to be common expenses of the Company). (a) plant
10 specific expenses (e.g., network support, general support and
11 general purpose computers), (b) plant non-specific expenses (e.g.,
12 network planning, engineering), (c) general support assets (e.g.,
13 furniture, office support equipment, company communications
14 equipment, and general purpose computers), (d) land and buildings
15 (other than central offices), (e) indirect labor, (f) corporate expenses,
16 and (g) other taxes and fees, such as local franchise taxes, federal
17 superfund taxes, local and state business license and occupation
18 taxes). It is not unusual for the magnitude of these expense
19 categories to be from 40% to 60% of the Company's total direct costs
20 (i.e., sum of TSLRICs) Exhibit No. DBT-1 contains a depiction of
21 GTE's estimate of total "forward-looking" common costs for this state

22

23 Q. GTE'S BASIC PRICING PHILOSOPHY FOR A NETWORK
24 ELEMENT IS BASED ON TELRIC PLUS A REASONABLE SHARE
25 OF COMMON COSTS. BUT, VARIOUS PARTIES TO THE

1 **ARBITRATION PROCESS HAVE ASSERTED THAT GTE'S**
2 **"COMMON COSTS" ARE EITHER NONEXISTENT OR DE MINIMIS.**
3 **DO YOU AGREE?**

4 **A.** No. GTE, as with most full-service local exchange companies,
5 exhibits significant levels of common costs. As shown in Exhibit No.
6 DBT-1, the annual common costs for GTE's operations in this state
7 exceed \$455 million, which translates to about 36% of GTE's total
8 revenues. These "common costs" should not be arbitrarily allocated
9 to the various TELRICs for aggregate network elements (loops,
10 switching, transport, etc.); such an allocation would be a step
11 backward to "Fully Distributed Costing" procedures. Recovery of
12 these forward-looking costs must be addressed in the development
13 of the prices at issue in this arbitration proceeding. GTE is not asking
14 the ALECs to pay for all of GTE's "common costs," but is only asking
15 that they contribute their "fair share" towards coverage of the
16 Company's "common costs." The Company's "common costs" are
17 integral to the efficient operation of GTE and do support the offering
18 of all the network elements requested by ALECs.

19
20
21 **Q.** **VARIOUS ALECS HAVE ARGUED THAT THEY SHOULD NOT BE**
22 **REQUIRED TO CONTRIBUTE TO THE RECOVERY OF GTE'S**
23 **"COMMON COSTS" BECAUSE THEY HAVE THEIR OWN**
24 **COMMON COSTS TO RECOVER. WOULD YOU PLEASE**
25 **COMMENT ON THIS POSITION?**

1 A GTE's proposed rates include only a "fair share" amount of
2 contribution. GTE's common cost structure supports those elements
3 that the ALECs purchase from GTE and GTE must be allowed to set
4 network element prices that include a reasonable allocation of the
5 Company's forward-looking common costs. In fact, this was properly
6 recognized by the FCC in its First Report (see paragraph 682 and
7 Sections 51.503 and 51.505).

8

9 **Q. HOW WERE GTE'S ESTIMATES OF ITS TOTAL FORWARD-**
10 **LOOKING "COMMON COSTS" DEVELOPED?**

11 A. As described in GTE's Economic Presentation, GTE computed its
12 forward-looking "common costs" as the difference between its 1995
13 revenues and the sum of its total directly attributable forward-looking
14 costs (i.e., TELRIC and TSLRIC). This computation was performed
15 using the data presented in Exhibit No. DBT-1 and resulted in a fixed
16 allocator of 47%. If the prices for all of GTE's network elements and
17 services were to include a level of contribution equal to this "fixed
18 allocator," then GTE's prices would exactly recover its total forward-
19 looking costs. GTE does not support this method of price
20 development in all cases, as it is likely that this methodology does not
21 introduce rational market considerations into the development of price
22 sets.

23

24 **Q. WHY ARE THE COMMON COSTS YOU DEFINED ABOVE**
25 **EXCLUDED FROM GTE'S TELRIC METHODOLOGY?**

1 A. The total amounts in these common cost categories are appropriately
2 excluded from GTE's TELRIC studies because GTE's Universal
3 System of Accounts ("USOA")-based accounting system records do
4 not contain sufficient information to directly attribute (if appropriate)
5 any of these expenses to specific network elements, and/or there is
6 not a cost-causative method to associate these to specific elements
7 of the network. The USOA-driven accounts, which GTE has identified
8 as representing common costs, might include many items that are, in
9 reality, service (or element) specific. However, as I have previously
10 stated, those costs cannot be separately identified because the
11 USOA-based accounting system does not contain a level of detail
12 sufficient to allow direct attribution of those costs to their appropriate
13 service (or network element). Thus, the USOA-based accounting
14 processes limit GTE from identifying any remaining costs that may
15 belong in the FCC's definition of TELRIC. However, even if GTE
16 possessed an elaborate (and expensive) managerial accounting
17 system that facilitated the direct assignment (when appropriate) of
18 these common costs to specific network elements, this capability
19 would result in only a minor change in the level of GTE's "total"
20 common costs. The USOA accounts that GTE currently incorporates
21 in its TELRIC studies represent a vast majority of all directly
22 assignable costs.

23

24 **Q. TO WHAT PRODUCT CATEGORIES HAS GTE ALLOCATED ITS**
25 **COMMON COSTS?**

1 A. GTE's TELRIC studies do not attempt to perform this allocation of
2 common costs. (Paragraph 694 of the First Report states: "Certain
3 common costs are incurred in the provision of network elements. As
4 discussed above, some of these costs are common to only a subset
5 of the elements or services provided by the incumbent LEC's. Such
6 costs shall be allocated to that subset, and should then be allocated
7 among the individual elements of services in that subset, to the
8 greatest possible extent." (Emphasis added.) Allocation of these
9 common costs to specific products for recovery is accomplished
10 through GTE's pricing activities, not through GTE's incremental
11 costing activities. Thus, GTE's TELRIC methodologies (as currently
12 employed) will lead to incremental cost estimates that will assuredly
13 be substantially below what the FCC intended to be incorporated in
14 the development of TELRICs

15

16 **Q. DID GTE USE ANY OTHER METHODOLOGY TO EXAMINE**
17 **WHETHER ITS COMMON COSTS ARE NOT DE MINIMIS?**

18 A. Yes. GTE also reviewed its USOA data for 1995 as an independent
19 analysis to be used as a validation (or not) of the magnitude of its
20 "common costs." Page 2 of Exhibit No. DBT-1 presents GTE's
21 analysis and illustrates the type of costs GTE considers to be
22 "common" to all network elements as well as GTE's network services.
23 It should be apparent to all that the work activities depicted in Exhibit
24 No. DBT-1 are integral to the operation of an efficient
25 telecommunications network.

1 Q. DO THE TWO METHODOLOGIES THAT GTE EMPLOYED TO
2 ESTIMATE ITS FORWARD-LOOKING "COMMON COSTS"
3 RESULT IN THE SAME ESTIMATES?

4 A. No, the real issue is not whether the resulting percentages are
5 identical but whether they are reasonably close and also whether they
6 are significantly different from zero, which they are. The FCC
7 seemed to believe that many of these "common costs" should be
8 allocated to the Company's TELRICs. But that arbitrary allocation
9 process would just result in higher TELRIC estimates (and thus
10 artificially lower the level of common costs). GTE believes that the
11 implied allocation of common costs should not be done during the
12 TELRIC-costing exercise, but is only appropriately done during the
13 development of element-specific pricing.

14
15 Q. WHICH OF THE TWO COMMON COST FIGURES DID YOU
16 EMPLOY IN YOUR PRICING DEVELOPMENT?

17 A. To be conservative, in those instances where the Company has
18 employed the average contribution to "common costs" in the
19 development of its proposed prices, GTE has elected to use the lower
20 percentage presented in Exhibit No. DBT-1.

21

22

PRICING

NON-RECURRING CHARGES

23
24 Q. BASED ON GTE'S ANALYSIS OF NON-RECURRING COSTS,
25 WHAT WHOLESALE NRCS ARE YOU PROPOSING?

1 A. In general, charges have been designed to recover separately the
2 costs of service ordering and installation activities, recognizing to the
3 extent possible any like functions required for various types of Local
4 Service Request ("LSR") activity. By structuring the NRCs in this
5 way, common charges are established that apply to all types of
6 ordering activities, simplifying administrative processes for both the
7 Company and the ALECs

8
9 The proposed NRC structure reflects the remaining differences in
10 anticipated costs for various types of ordering activities, and enables
11 a reasonable relationship between the service connection charges
12 and the incurred costs of associated work functions on an order-by-
13 order basis.

14
15 Service ordering and installation charges are proposed both for
16 unbundled services and resale services.

17
18 **Q. HOW WERE THE SERVICE ORDERING CHARGES FOR**
19 **UNBUNDLED SERVICES DESIGNED?**

20 A. These NRCs were designed to recover the costs of work functions
21 performed by GTE's National Open Market Center ("NOMC") on a
22 per-order basis. The Initial Service Order charge is based on the
23 costs for the install, summary bill master, disconnect and all other
24 ordering functions, plus system processing.

25

1 Separate charges are proposed for a Transfer of Service and for a
2 Customer Service Record Search. The Transfer of Service charge will
3 be administered as required by the type of LSR, a transfer of service
4 charge is required on any change in service from GTE to a ALEC
5 where GTE must continue end user billing on the account, for CPE or
6 directory advertising, for example.

7
8 Customer service record research is performed at the request of the
9 ALEC to obtain a summary of the services subscribed to by the end
10 user. The Customer Service Record Research charge will be
11 administered whenever account information is requested.

12
13 The Subsequent Service Order charge will be applied on LSRs
14 requesting a service change on an existing account, and is designed
15 to recover the costs of work functions performed by the National
16 Open Market Center on a per-order basis for all service change
17 requests.

18

19 **Q. HOW WERE THE INSTALLATION CHARGES FOR UNBUNDLED**
20 **SERVICES DESIGNED?**

21 **A.** Installation NRCs were designed to recover the costs of work
22 functions performed by facility assignment, dispatch assignment and
23 customer zone technician personnel. A separate Loop Facility
24 Charge for outside facilities work by customer zone technicians will
25 be administered when such work is required to complete LSRs for

1 unbundled loop services. The balance of the installation costs are
2 recovered through installation charges on a per-line or per-port basis.
3

4 **Q. WOULD YOU PLEASE EXPLAIN THE CIRCUMSTANCES WHICH**
5 **WOULD CALL FOR APPLICATION OF THE PROPOSED RESALE**
6 **NRCS?**

7 A. Yes. There are two resale scenarios, which I will refer to as "new"
8 and "conversion". A "new" resale service is one for an end user who
9 establishes service within a GTE local service area, but chooses a
10 ALEC reseller for local service. A "conversion" represents the loss of
11 an existing GTE retail end user to a ALEC reseller.
12

13 Since the anticipated GTE ordering activities required to complete the
14 associated LSRs are the same, and since the installation charges will
15 be applied only when the installation work is required (e.g., for "new"
16 services) there was no need to distinguish between these two cases
17
18

19 **Q. WHAT NRC RATES IS GTE PROPOSING TO THE ALECS FOR**
20 **SERVICE ACTIVITIES?**

21 A. GTE's proposed rate structure and rate levels for NRCs are
22 presented in Exhibit No. DBT-2. These rates are, in most cases,
23 being proposed at the direct cost of the specific NRC activity.
24
25

1 UNBUNDLED NETWORK ELEMENTS

2 Q. **WHAT ARE THE COMPANY'S PROPOSED RATES FOR**
3 **UNBUNDLED NETWORK ELEMENTS?**

4 A. Exhibit Nos. DBT-3A and DBT-3B present GTE's proposed rates for
5 the various unbundled elements. Although the elements identified in
6 Exhibit Nos. DBT-3A and DBT-3B are priced as though they are
7 unbundled elements, GTE does not believe that all the elements in
8 Exhibit Nos. DBT-3A and DBT-3B are "network elements" under the
9 Telecommunications Act of 1996 ("Act"). Two attachments are
10 necessary since GTE is proposing two alternative rate structures for
11 unbundled ports / local switching. These specific scenarios will be
12 discussed later in this testimony.

13
14 Q. **WHAT IS THE BASIS UPON WHICH THESE UNBUNDLED**
15 **NETWORK ELEMENT RATES WERE DEVELOPED?**

16 A. The procedure employed by the Company along with the economic
17 (and practical) rationale supporting the procedure are the topic of
18 Company's Economic Presentation in this proceeding. Based on the
19 procedures prescribed in the Economic Presentation, the
20 development of the specific rates for each element presented above
21 will be described in the following testimony.

22 1. Unbundled Loops

23 The basic unbundled loop was priced at GTE's estimate of its
24 Stand Alone Cost ("SAC"). This \$33.08 estimate was not only
25 supported by GTE's Cost Study Submission but also by GTE's

1 analysis of the Benchmark Cost Model - Version II ("BCM II")
2 [The following companies have taken an active role in
3 sponsoring BCM Sprint, MCI, US West, and NYNEX. See
4 "Benchmark Cost Model," submitted to the FCC, CC Docket
5 No. 80-286, September 12, 1995. BCM II development has
6 been led by Sprint and US West.] which provided another
7 independent estimate of GTE's TELRIC for unbundled loops.
8 The unbundled loop cost estimates resulting from the use of
9 BCM II are presented in Tab 21 of GTE's Cost Study
10 Submission and supported by Company witness Mr. Bert
11 Steele

12

13 2. Unbundled Ports / Local Switching

14 GTE is proposing two alternative rate structures for local
15 switching elements. ALECs may choose from either
16 alternative based on their evaluation of which structure best
17 fits their specific needs. Under both scenarios, basic ports
18 were priced at GTE's estimates of the TELRIC for the element
19 plus an appropriate level of contribution to the Company's
20 common costs. The main difference between each scenario
21 is their proposed structure for purchase of switching (local
22 minutes of use) and switch features. I will discuss GTE's
23 specific local switching proposals later in this testimony.

24

25

1 3 Collocation
2 These elements were priced at GTE's proposed Interstate
3 Tariffed rates

4
5 4 Transport (Dedicated and Common), Multiplexing and SS-7
6 Services

7 All of these network elements were priced at existing Facility
8 for Interstate Access Tariff rates.

9

10 **Q. WHAT WOULD BE THE COST IMPLICATION OF ALLOWING**
11 **ALECS TO COMBINE UNBUNDLED NETWORK ELEMENTS OR**
12 **REQUIRING GTE TO OFFER A "COMBINATION" OF NETWORK**
13 **ELEMENTS?**

14 A. The concern arises when ALECs wish to obtain multiple unbundled
15 elements from GTE that resemble GTE's network only by combining
16 network elements. Absent valid and complete rate rebalancing, such
17 a proposal would render meaningless the Act's clear and intentional
18 distinction between unbundled network elements, which are priced
19 according to cost plus reasonable profit, and resale of retail services,
20 which are priced at a wholesale discount.

21

22 **A. UNBUNDLED LOOPS**

23 **Q. HOW HAVE YOU EVALUATED THE REASONABLENESS OF THE**
24 **COMMON COSTS RECOVERED IN YOUR PROPOSED**
25 **UNBUNDLED LOOP RATES?**

1 A. In addition to the pricing rules described in GTE's Economic
2 Presentation, I utilized three basic criteria to assure myself of the
3 overall reasonableness of GTE's proposed unbundled loop rates.
4 These are: (1) an evaluation of the relationship of GTE's unbundled
5 loop TELRICs to their respective Interstate special access (special
6 access is a "functionally" equivalent service to an unbundled loop)
7 rates; (2) the overall (looking at all services, both wholesale and
8 retail) GTE average percentage contribution levels, above direct cost
9 (I am defining direct cost here as TELRIC and/or TSLRIC), required
10 to achieve full recovery of the Company's forward-looking common
11 costs; and (3) the "upper bound" loop price presented in the
12 Economic Presentation.

13

14 **Q. PLEASE EXPLAIN YOUR APPLICATION OF THE ECONOMIC**
15 **PRESENTATION'S "UPPER BOUND" LOOP PRICE.**

16 A. The "upper bound" loop price can be considered an assumed price
17 level that would preserve GTE's overall levels of contribution to
18 common costs. If GTE were to propose an unbundled loop price
19 above the "upper bound," it would potentially be making more
20 revenue contributions (and maybe net income), than it does without
21 the introduction of unbundled loops. Thus, GTE's pricing proposals
22 for unbundled loops have a constrained ceiling, even if the "upper
23 bound" price is below GTE's estimate of entrants' "Stand Alone
24 Costs" for unbundled loops.

25

1 Q. WHY DID YOU RELY ON AN EVALUATION OF THE INTERSTATE
2 SPECIAL ACCESS RATES IN DETERMINING THE
3 REASONABLENESS OF THE COMMON COSTS RECOVERED IN
4 YOUR UNBUNDLED LOOP RATES?

5 A. Special access elements (i.e., two-wire and four-wire special
6 access/entrance facilities) are functionally equivalent to basic
7 unbundled loops. In addition, the FCC stated at paragraph 821 of its
8 First Report that it believes interstate special access rates to be at or
9 close to their economic cost levels. Thus, I reviewed GTE's interstate
10 rates to determine their appropriateness as a benchmark for GTE's
11 unbundled loop rates. When this evaluation indicated that the
12 interstate rate for a 2-wire facility was reasonable (above its TELRIC
13 with some contribution to common costs and also below the estimate
14 of "upper-bound" ceiling price), the current two-wire Interstate
15 Entrance Facility rate was proposed for the two-wire unbundled loop.
16

17 Q. IN THOSE CASES WHERE THE TELRIC EXCEEDED THE
18 CURRENT INTERSTATE ENTRANCE FACILITY RATE, HOW DID
19 YOU DETERMINE THE REASONABLENESS OF THE COMMON
20 COSTS RECOVERED IN YOUR UNBUNDLED LOOP RATES?

21 A. When the current Interstate Entrance Facility rate was not a good
22 indicator of the economic costs of an unbundled loop (i.e., below
23 TELRIC), the company relied on the TELRIC as a price floor and the
24 "upper-bound" price as a ceiling for the unbundled loop rate. That is,
25 if the TELRIC was above the current Interstate Entrance Facility rate,

1 then this rate could not be a good indicator of the economic costs of
2 the unbundled loop element. In those cases, the Company
3 determined a mark-up to provide a reasonable contribution to
4 common costs. The proposed rate in this instance provides minimal
5 contribution when compared to the rate required to recover an equal
6 percentage mark-up. Again, in no case do I propose a rate for an
7 unbundled loop that I consider to be above the SAC of an unbundled
8 loop.

9

10 **Q. PLEASE EXPLAIN WHY YOU COMPARED GTE'S PROPOSED**
11 **UNBUNDLED LOOP RATES TO A RATE DERIVED FROM AN**
12 **"EQUAL PERCENTAGE MARK-UP" CALCULATION**

13 A. The FCC in its First Report at paragraph 696 concluded that "... one
14 reasonable allocation method would be to allocate common costs
15 using a fixed allocator, such as a percentage markup over the directly
16 attributable forward looking cost." Although GTE disagrees with this
17 methodology, we wanted to check our results against the FCC's
18 proposal.

19

20 **Q. IF THE COMPANY WOULD HAVE EMPLOYED AN EQUAL**
21 **PERCENTAGE (FIXED ALLOCATOR) MARK-UP RATE AS**
22 **ADVOCATED BY THE FCC, HOW WOULD THOSE RESULTS**
23 **COMPARE WITH THE COMPANY'S METHODOLOGY?**

24 A. The comparative results of this evaluation are presented in Exhibit
25 No. DBT-3A. As can be seen in Exhibit No. DBT-3A, GTE's proposed

1 2-wire unbundled loop rate generates less contribution to the
2 Company's "common costs" than would result from the FCC's fixed
3 allocator procedure. But even though the FCC's methodology would
4 result in higher rates for GTE than GTE's methodology, GTE does not
5 advocate adoption of the FCC's methodology

6

7 **Q. WHAT PERCENT MARGIN CONTRIBUTION WILL GTE BE**
8 **MAKING FROM ITS PROPOSED RATES FOR UNBUNDLED**
9 **LOOPS?**

10 A. Based on an average unbundled loop cost of \$23.26, GTE will
11 achieve an approximate 42% margin above cost with its proposed
12 \$33.08 unbundled loop rate. We believe this is a reasonable
13 contribution to the Company's common costs, since on the average,
14 across all product offerings GTE must achieve an average 47%
15 margin above all TELRICs (directly attributable forward looking costs)
16 to fully recover its "forward-looking" common costs

17

18

19 **Q. COULD GTE'S PROPOSED RATES FOR UNBUNDLED LOOPS BE**
20 **CONSIDERED "MAKE-WHOLE" RATES?**

21 A. Absolutely not. The major contributor to this "not-make-whole"
22 situation is GTE's proposed unbundled 2-wire loop price of \$33.08.
23 As presented in GTE's Economic Presentation material, the upper
24 bound price (contribution preserving price) for an average business
25 unbundled loop would be \$64.56. The difference between the \$64.56

1 and GTE's proposed rate of \$33.08 represents a permanent loss of
2 contributions to the Company; \$31.48 "on the average" will be lost for
3 every unbundled loop provisioned to an ALEC's business customers.
4 If ALECs target business customers with above average usage
5 characteristics, the losses in contributions that the Company will
6 experience will greatly exceed \$31.48 per unbundled loop. As can be
7 seen from Exhibit No. DBT-4, this loss of contributions results from
8 the loss of high margin services (toll, switched access, and vertical
9 services) that will certainly be lost when an ALEC provides a GTE
10 unbundled loop to a business customer. Exhibit No. DBT-4 presents
11 similar data for GTE's average residential customers and presents
12 the computed rates that GTE would be required to charge if it were to
13 be made whole (\$64.56 for business, \$29.47 for residence, or \$38.49
14 for an "average" unbundled loop), ignoring market realities. GTE's
15 proposed unbundled loop rate of \$33.08 is substantially lower than
16 any make-whole rate.

17
18 It should be noted that the "upper bound" loop rate of \$64.56 is the
19 result of many decades of pricing services based on their perceived
20 "value of service" along with the complementary outcome that
21 revenue contributions from business customers should be used to
22 keep residential rates low. GTE's current rate structure, as mandated
23 by regulation, continues to provide incentives for the inefficient entry
24 of competitors whose major objective will be to capture the above-
25 market contributions that are used by the Company to support public

1 policy objectives. ALECs will use these captured contributions to
2 finance their entry into the local market.

3

4 **Q. ASSUMING THE COMMISSION ACCEPTS GTE'S PROPOSED**
5 **UNBUNDLED LOOP RATE, WILL SUCH A RATE PROVIDE**
6 **REVENUE AND CONTRIBUTION OPPORTUNITIES FOR ALECS**
7 **TO EFFECTIVELY COMPETE WITH GTE?**

8 A. Yes, and the ALECs do not have to be as efficient as GTE for this to
9 occur. Equally efficient entrants would be just incented to enter the
10 marketplace if GTE's unbundled loop rate were proposed at its
11 "upper bound" loop price; but market conditions preclude this rate
12 from being proposed. As illustrated in Exhibit No. DBT-4, the
13 financial opportunities available to ALECs, in terms of their ability to
14 earn additional contributions to their common costs and overheads,
15 would equal the difference between any revenues GTE would have
16 received from the end users (assuming the ALECs match GTE's retail
17 rates) less the rate of GTE's unbundled loop and any self-provisioned
18 elements.

19

20 At a \$33.08 unbundled loop rate, ALECs should be highly motivated
21 to attract GTE's business customers, whose revenue streams exceed
22 \$69.00. For illustrative purposes let's assume that the ALEC obtains
23 10 percent of GTE's end user customers through the use of GTE's
24 unbundled loop. Under this scenario, the annual revenue
25 contributions available to the ALEC, assuming its price and cost

1 structures mirror GTE's, would be nearly \$4.7 million per year as
2 shown in Exhibit No. DBT-4

3
4 To look at it another way, GTE (on the average for combined
5 business and residence lines) obtains approximately \$15.23
6 contribution per month (Source: The total contribution levels are
7 presented in Exhibit No. DBT-4); which provides for recovery of the
8 Company's forward-looking common costs. From Exhibit No. DBT-4,
9 one can compute that an equally-efficient ALEC (which we will
10 assume the ALEC is) should be able to generate approximately
11 \$28.31 in contribution from an average business customer. Actual
12 contribution levels for ALECs should be larger since they are not
13 likely to be targeting an average business customer, but more likely
14 will be targeting high-volume business customers. In addition, by
15 purchasing GTE's unbundled loop, ALECs will most likely not have
16 any of the common costs that result from the provision of loops, thus
17 it is likely that their level of common costs will be significantly below
18 GTE's average per line amount (\$15.23). Of course the ALECs'
19 contribution gains are also GTE's contribution losses.

20
21 **B. UNBUNDLED PORTS / LOCAL SWITCHING**

22 **Q. MR. TRIMBLE, PLEASE SUMMARIZE GTE'S PROPOSAL FOR**
23 **LOCAL SWITCHING ELEMENTS.**

24 **A** GTE is presenting two alternative proposals for the pricing of local
25 switching elements. The first proposal (which I will call Proposal A)

1 has access to all local switching elements (minutes of use switching,
2 vertical services, etc.) being accomplished through the ALEC's
3 purchase of GTE's unbundled "line-side" port element. Minutes-of-
4 use switched and vertical services would then be resold to the ALEC
5 (i.e., rates would be found in GTE's discounted resale tariff).

6

7 **Q. IS GTE'S "PORT AND RESALE SERVICES" OFFERING A**
8 **REASONABLE METHOD FOR PRICING UNBUNDLED LOCAL**
9 **SWITCHING?**

10 A. Yes. Many ALECs may find this proposed pricing structure to be
11 quite satisfactory. But to be as responsive as possible to the varying
12 positions taken by ALECs, GTE has developed a second pricing
13 scenario which ALECs can elect for unbundled local switching

14

15 **Q. PLEASE DESCRIBE YOUR ALTERNATIVE RATE STRUCTURE**
16 **FOR UNBUNDLED LOCAL SWITCHING.**

17 A. Similar to GTE's "port and resale switching" proposal, this alternative
18 proposal (which I will call Proposal B) includes monthly and any
19 appropriate non-recurring charges for the unbundled port, and
20 unbundled switch features, and a local per-minute-of-use switching
21 charge.

22

23

24 **Q. WHAT RATE LEVEL IS GTE PROPOSING FOR EACH RATE**
25 **ELEMENT CONTAINED IN PROPOSAL B?**

1 A GTE is proposing a monthly rate for the basic unbundled port at
2 \$6.60. In addition, GTE is proposing a usage charge of \$0.004938
3 for each minute of use traversing the unbundled switching element
4 Proposed switch "feature" rates are presented in Exhibit No. DBT-3B

5

6 **Q. WHAT IS THE BASIS UPON WHICH YOU DEVELOPED THE**
7 **RATES FOR PROPOSAL B'S UNBUNDLED SWITCHING**
8 **ELEMENTS?**

9 A GTE's Proposal B contains a monthly recurring port rate based on
10 TELRIC plus a 47% contribution to the Company's common cost.
11 Similarly, GTE's proposed usage rate per minute is based on TELRIC
12 times 1.47, and available features are also priced at their TELRIC
13 times 1.47, with a minimum twenty-five cent (\$.25) rate. In addition,
14 for minutes of use which traverse the port, GTE will apply the
15 applicable carrier common line charge and 100% of the applicable
16 residual interconnection charges, similar to the procedure discussed
17 by the FCC in Part 51.515(b) and (c).

18

19 **Q. HOW DID YOU EVALUATE THE REASONABLENESS OF THE**
20 **COMMON COSTS RECOVERED IN YOUR LOCAL SWITCHING**
21 **RATES?**

22 A Proposal B's switching elements were priced to provide an average
23 percentage recovery of the Company's common costs. An average
24 level of contribution can only be considered reasonable.

25

1 Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING YOUR
2 PRICING PROPOSAL?

3 A. Yes. The prices presented therein are interdependent and must be
4 considered as such. If the Commission changes relationships within
5 the structure, such as the balance between loops, usage and
6 features, all rates elements must be simultaneously adjusted to
7 provide for appropriate cost recovery.

8

9 C. APPLICATION OF ACCESS CHARGES

10 Q. WHAT ACCESS CHARGES, IF ANY, SHOULD BE COLLECTED ON
11 A TRANSITIONAL BASIS FROM CARRIERS WHO PURCHASE
12 GTE'S UNBUNDLED LOCAL SWITCHING ELEMENT?

13 A. GTE will assess a per minute charge to the ALEC for all traffic
14 switched by GTE (local, intraLATA toll, and interLATA toll - both intra-
15 and interstate). For calls that "traverse" an unbundled local switching
16 element (i.e., port) that was purchased by the ALEC and would incur
17 access charges in today's environment, GTE will assess the local
18 switching rate plus the Carrier Common Line Charge (CCLC) and the
19 residual interconnection charge (RIC). These charges should not be
20 referred to as "access charges," rather they are local switching
21 charges that provide continued contributions in lieu of access
22 charges. They do not alter the ALEC's right/obligation to assess
23 access charges. The ALEC will be responsible for assessing access
24 charges on the IXC. Note that for calls that do not traverse an
25 unbundled port, full switched access rates will apply.

1 The FCC notes that application of these elements is intended to
2 provide continued contribution to universal service and local service
3 rate support objectives. Therefore, application of the rates should
4 continue at their currently tariffed levels and not at the diminished
5 levels contained in the FCC's First Report. To do so would be
6 ratemaking in an arbitrary and capricious manner, as no justification
7 has been provided for applying only 75% of the RIC. In addition,
8 GTE has not been provided an opportunity to rebalance those rate
9 structures that are currently supported by the contributions from the
10 RIC and CCLC rate elements.

11

12 **Q. HOW LONG SHOULD ANY TRANSITIONAL PERIOD LAST?**

13 A. Application of these rate elements should continue until a
14 "reassignment" of revenues associated with these elements to
15 appropriate rate elements is fully addressed. This is likely to occur
16 through access reform, universal service and some form of rate
17 rebalancing. GTE fully supports efforts to rationalize all rates,
18 including local and access. It is our belief that only when rates have
19 been fully rationalized can the magnitude of the funding issues
20 associated with public policy choices be identified and dealt with.
21 Further, GTE believes that funding of these public policy choices
22 must be accomplished in a competitively neutral manner.

23

24

25

1 LOCAL INTERCONNECTION

2 Q. WHAT RATE LEVEL DOES GTE PROPOSE FOR THE
3 TERMINATION OF LOCAL TRAFFIC?

4 A. Compensation for termination of local traffic should be based on cost
5 plus a reasonable contribution. GTE is willing initially to accept a bill-
6 and-keep arrangement in the interest of expediting the initiation of the
7 competitive process. However, as soon as traffic becomes out of
8 balance by plus-or-minus 10% or more, GTE would require a mutual
9 compensation provision. GTE proposes to charge its interstate
10 switched access rates for all minutes terminated to GTE that exceed
11 that 10% "threshold of balanced traffic."

12

13 Q. WHY DO YOU BELIEVE THAT GTE'S CURRENT TARIFF RATES
14 FOR INTERSTATE SWITCHED ACCESS ARE REASONABLE
15 RATE LEVELS FOR LOCAL INTERCONNECTION?

16 A. Interstate switched access rates are rates that represent our current
17 wholesale offering to interexchange carriers ("IXC"). GTE has no
18 desire to continually introduce new rate levels that vary by "class of
19 wholesale customer" (e.g., ALEC versus IXC, etc). The current
20 switched access rates have been blessed by the FCC as appropriate
21 rates for wholesale switching elements, and with GTE's "bill-and-
22 keep" proposal, these proposed rates would not be effective until
23 traffic becomes "out-of-balance". The arbitration process must be
24 cognizant of the impacts that the "arbitration decision" will have on
25 GTE's entire non-ALEC product offerings (i.e., decisions in this

1 proceeding should not exacerbate nor accelerate the arbitrage of
2 GTE's existing tariffs).

3

4 **Q. DO MUTUAL COMPENSATION AGREEMENTS CREATE ANY**
5 **ADDITIONAL RATEMAKING ISSUES?**

6 A. Yes. Traditionally, in instances where GTE has paid other Local
7 Exchange Carriers ("LEC"s) to terminate GTE-originated traffic, rate
8 structures have been available that allowed GTE to recover those
9 costs by levying charges to end users. Toll charges and Extended
10 Area Service ("EAS") adders are examples of such rate structures.
11 Historically, when GTE did not have a mechanism to levy charges to
12 end users, GTE did not pay for the termination of its traffic. With
13 mutual compensation, GTE's expenses will increase. Recovery of
14 such costs will necessitate a rate structure that allows charges to end
15 users (the "cost-causer") for originating such traffic. Incumbent LECs,
16 as well as all other telecommunications providers, should have the
17 option of implementing such end user charges. This may require
18 charging all end users for all originating traffic (perhaps with a
19 provision for the terminating customer to accept such charges).

20

21 **COLLOCATION**

22 **Q. WHAT RATES ARE PROPOSED BY GTE FOR PHYSICAL**
23 **COLLOCATION?**

24 A. GTE's proposed rates for physical collocation can be found in Exhibit
25 No. DBT-5. These rates were filed with the FCC on October 2, 1996

1 and are expected to be approved on November 16, 1996. In general,
2 the proposed non-recurring rate levels are set at the direct cost of the
3 specific element, while the monthly recurring rates provide a
4 reasonable level of contribution toward the recovery of common
5 costs.

6
7 **SERVICE PROVIDER NUMBER PORTABILITY**

8 **Q. WHAT RATES ARE PROPOSED BY GTE FOR SPNP?**

9 **A** GTE's proposed rates for SPNP can be found in Exhibit No. DBT-3A.
10 The rate structure proposed by GTE includes a price per number
11 ported. If an end user desires additional simultaneous call paths,
12 then an additional call path price applies to each requested
13 simultaneous path. The prices for both of these rate elements were
14 set at GTE's TELRIC estimates with an approximate 10% contribution
15 to common cost.

16
17 **FCC's PROXY RATES**

18 **Q. SHOULD THIS COMMISSION GIVE ANY CONSIDERATION TO THE**
19 **FCC'S PROXY RATES?**

20 **A** No. This Commission should not give any consideration to using the
21 default proxy rates proposed by the FCC in its First Report as
22 amended by the FCC's September 27, 1996 announcement of
23 reconsideration. First, those sections of the FCC's First Report that
24 dealt with pricing rules, including proxy rates, were stayed by the
25 U.S. Court of Appeals for the Eighth Circuit (pending final judicial

1 review) on October 15, 1996. The Court imposed the stay with a
2 detailed opinion, pending its final judicial review of the merits of
3 GTE's objections. This fact alone eliminates the proxy rates from
4 consideration by this Commission. In addition, I will address two
5 points that conclusively illustrate that the FCC's proxy rates are
6 absolutely inappropriate: (a) The results of cost studies prepared by
7 GTE using the FCC's prescribed methodology, when compared with
8 the FCC's mandatory proxy price ceilings, show that GTE's TELRIC
9 costs are not covered by the proxy rates. Consideration of GTE's
10 common costs, as required by the Act, would exacerbate this
11 situation; and (b) GTE would experience a severe, prejudicial
12 revenue shortfall under the FCC's proxy rates, as demonstrated by
13 comparing, on the one hand, the revenues that would be obtained
14 using the FCC's proxy prices from an average customer in GTE's
15 service area to, on the other hand, both the revenues generated from
16 elements priced at GTE's TELRICs and to current average per line
17 revenues.

18

19 **Q. DESCRIBE THE RESULTS WHEN YOU COMPARE, AS YOU HAVE**
20 **DESCRIBED, GTE'S TELRICS WITH THE FCC'S PROXY PRICE**
21 **CEILINGS.**

22 **A.** As Exhibit Nos. DBT-6 and DBT-7 demonstrate, when GTE applies
23 the FCC's prescribed costing methodology, the costs that result are
24 much higher than the FCC's proxy ceiling prices. Specifically, GTE's
25 loop costs (without the NID) average at least 50 percent larger than

1 the FCC's ceiling price for unbundled loops, and GTE's unbundled
2 end office switching costs average at least two times the FCC's price
3 ceiling of \$0.004 per minute plus \$2.00 for a switch port, even when
4 all possible switching features and functions are not included.
5 Moreover, as Exhibit No. DBT-8 shows, when GTE compares the
6 revenues that would be obtained from the FCC's proxy prices to
7 either the revenues from elements priced at the TELRICs computed
8 by GTE or to current revenues per line, it is clear that a large gap
9 exists. It is also obvious that the effective discount from the
10 equivalent retail service price using the FCC proxy prices is much
11 larger than the discount ceiling established by the FCC for resold
12 services (25 percent).

13

14 **Q. PLEASE EXPLAIN HOW EXHIBIT NO. DBT-6 WAS DEVELOPED**
15 **AND WHAT IT SHOWS.**

16 A. GTE's TELRIC cost studies are based upon the methodology
17 prescribed by the First Report (at para 672-702). GTE first
18 calculated the direct forward-looking cost of each network element.
19 GTE then determined the common costs that could not be attributed
20 to any particular element or sub-group of elements. These latter
21 costs are to be allocated to all network elements during the pricing
22 process.

23

24 The First Report specified (at ¶ 744) that the rate for unbundled local
25 loops be a flat, per-month charge. Further, the FCC specified (at ¶

1 794, Appendix D) the statewide weighted average ceiling price that
2 a state regulatory agency could adopt in an arbitration proceeding
3 unless the state commission had completed its review of cost studies
4 that comport to the FCC methodology. Exhibit No. DBT-6 shows the
5 results of the GTE cost studies for loops in several states where GTE
6 serves a large number of customers. The cost developed using a
7 TELRIC methodology averages 50 percent larger than the FCC's
8 statewide weighted average proxy ceiling price. This difference
9 clearly supports my conclusion that the FCC's statewide weighted
10 average loop proxy price is arbitrary and inappropriate (at least as it
11 applies to GTE) because it is based upon a mixture of cost estimates
12 for only the bare incremental cost of a loop, rather than being based
13 upon a TELRIC methodology. Further, to assure a proper
14 comparison, neither the proxy price nor the GTE TELRIC results
15 described above include any allocation of common costs as the
16 FCC's own cost methodology requires.

17

18 **Q. WHAT ASSUMPTIONS DID YOU EMPLOY IN THE DEVELOPMENT**
19 **OF YOUR LOCAL SWITCHING COMPARISON FOUND IN EXHIBIT**
20 **NO. DBT-7, AND WHAT WERE THE RESULTS?**

21 **A.** The First Report specified (at ¶ 412) that the unbundled local
22 switching network element is to include not only line-to-line and line-
23 to-trunk "basic switching," but also all of the features, functions, and
24 capabilities, such as a telephone number, directory listing, dial tone,
25 signaling, and access to 911, operator services and directory

1 assistance, all vertical features including custom calling and CLASS
2 features, Centrex, and any technically feasible customized routing
3 functions. The unbundled local switching rate structure was required
4 to include "a combination of a flat-rated charge for line ports, which
5 are dedicated to a single new entrant, and either a flat-rate or per-
6 minute usage charge for the switching matrix and for trunk ports,
7 which constitute shared facilities, best reflects the way costs for
8 unbundled local switching are incurred." *Id.* at ¶ 810. Unless a state
9 regulatory agency has completed its review of cost studies that
10 comport with the FCC's costing methodology, it would have been
11 required (*Id.* at ¶ 815) to set the rate for unbundled local switching "so
12 that the sum of the flat-rated charge for line ports and the product of
13 the projected minutes of use per port and the usage-sensitive charges
14 for switching and trunk ports, all divided by the projected minutes of
15 use, does not exceed 0.4 cents (\$0.004) per minute of use and is not
16 lower than 0.2 cents (\$0.002) per minute of use." The FCC's
17 September 27 order on reconsideration introduced an additional
18 fixed-rate port charge in the range of \$1.10 to \$2.00 per month.

19
20 Exhibit No. DBT-7 compares the FCC's proxy price for unbundled
21 local switching to the results of cost studies prepared by GTE using
22 the FCC's TELRIC methodology. Shown are GTE's cost estimates for
23 three end office switching cost elements for a number of states where
24 GTE serves a large number of customers. Those elements are: (i) a
25 per minute cost to switch a call; (ii) a per line per month cost for the

1 non-usage sensitive components of a switch (e.g., port); and (iii) a per
2 line per month cost for a representative feature package. The cost
3 element of a per line, per month cost for the feature package was
4 chosen to comply with the FCC's mandate that a rate structure
5 recover costs "in a manner that efficiently apportions costs among
6 users." First Report at ¶ 755. It is very important to note that the
7 feature package selected for illustrative purposes does not include all
8 of the features, functions and capabilities that a switch may be
9 capable of providing. The package selected includes many of the
10 most commonly used features (e.g., Call Waiting, Speed Calling,
11 Time of Day Routing). Also not included in any of the three cost
12 estimates in Exhibit No. DBT-7 are the costs associated with a
13 directory listing or the more esoteric switch features such as
14 customized routing and Meet-Me Conference Bridging. For
15 comparison purposes, the analysis was performed twice for two
16 states, Indiana and Ohio, to show the potential cost impact resulting
17 from the incorporation of additional or advanced features.

18
19 To provide a logical comparison, GTE converted the two per line, per
20 month cost elements into an equivalent per minute cost by dividing by
21 the average switched minutes of use per month, including minutes
22 associated with both local and long distance calls. The result of this
23 calculation is a composite TELRIC per minute cost that is three times
24 the FCC's upper price ceiling (even ignoring the two instances that
25 incorporated feature packages which include extraordinary features)

1 These results confirm my conclusion that the FCC's local switching
2 proxy price was based upon information that estimated the
3 incremental cost of line-to-line or line-to-trunk basic switching, but did
4 not, as the FCC's own methodology requires, include either the costs
5 related to other switch features and functions, or common costs. If
6 GTE were to integrate all of the vertical features that its switches
7 could provide into a "you get them all with switching" package, GTE's
8 required price per minute of use would be astronomical. If each port
9 came with a full complement of vertical services, the full TELRIC cost
10 of the "free" vertical services could exceed \$100 per month (see Tab
11 23 of GTE Cost Study Submission for the TELRICs of most vertical
12 services), which could never be recovered with a \$2.00 port charge
13 and a \$0.004 per minute of use switching charge. Even for a
14 reasonable level of vertical services, prices for a local switching
15 network element would have to be in the \$0.03 to \$0.05+ per minute
16 range for the Company to recover its forward-looking costs

17

18 **Q. IF THE DEFAULT PROXY RATES WERE IMPLEMENTED, WOULD**
19 **GTE EXPERIENCE A SUBSTANTIAL REVENUE SHORTFALL?**

20 A. Exhibit No. DBT-8 compares the FCC's proxy price for a combination
21 of unbundled local switching and an unbundled local loop (i.e., the
22 reassembled equivalent of local service) to both the results of GTE's
23 TELRIC study, and to GTE's current average revenues per line. To
24 prepare this comparison, GTE derived the average monthly usage per
25 line, including local and toll minutes of use, for an average of

1 residence and business lines. This average number of minutes was
2 multiplied by the FCC's proxy price ceiling of \$0.004 per minute, and
3 that switched usage revenue amount was added to the flat rate
4 components that would also be needed to comprise reassembled
5 local service (i.e., a port at the FCC's \$2.00 rate, a local loop and a
6 Network Interface Device, or "NID"). GTE also derived the current
7 revenues per line for an average of business lines, including flat rate
8 local charges, local and toll usage charges, and vertical feature
9 charges. When the unbundled network elements of switching
10 (including the port), a loop and a NID are combined to replicate local
11 service, the revenues from those elements when priced at the FCC's
12 proxy rates are only fifty-seven percent of GTE's TELRIC for the
13 combined service (Exhibit No. DBT-8, \$21.30 compared to \$37.31 per
14 month). This comparison of price to cost understates the shortfall,
15 because by definition TELRIC does not include an allocation of
16 common costs. Further, the FCC's proxy prices would provide new
17 entrants with approximately a 62 percent discount off GTE's current
18 average business retail revenue per line (Exhibit No. DBT-8, \$21.30
19 compared to \$56.27 per month). Clearly neither the FCC proxy price
20 nor the TELRIC methodology come anywhere close to providing
21 revenues that cover GTE's cost of providing service.

22
23 Moreover, the 62 percent discount that results from the FCC proxy
24 price cannot be squared with the FCC's interim wholesale rates.
25 Section 51.611 of the FCC's rules required that resale discounts

1 should be "no more than 25 percent." Thus, the FCC's proposed
2 requirements for its two pricing mechanisms (resale and unbundling)
3 were totally inconsistent. The potential discount is significantly below
4 the Company's costs and would result in GTE subsidizing competitive
5 entry.

6
7 Based upon my and my staff's review of the FCC's First Report and
8 FCC's subsequent September 27, 1996 reconsideration, I am
9 convinced that the FCC's proxy price ceilings for unbundled loops
10 and local switching are significantly understated

11

12 **Q. SHOULD THE FCC'S PROPOSED LOOP PROXY RATES, AS**
13 **PUBLISHED IN ITS FIRST REPORT, PLAY ANY PART IN THE**
14 **ARBITRATION PROCEEDING?**

15 **A** No. The FCC's proposed proxies have no relationship to reality. To
16 begin with, they are subject to the Eighth Circuit's stay order. Further,
17 for this state, the FCC's unbundled loop proxy price is \$13.68. But
18 GTE's 2-wire unbundled loop TELRIC is \$23.26. A simple
19 comparison of these two numbers summarily illustrates that the FCC's
20 proxy rate is significantly understated. Similarly, the FCC's price is
21 also significantly understated when compared with the BCM II
22 produced TELRIC (\$25.44) (See Tab 21 of GTE's Cost Study
23 Submission.) This Commission must reject from consideration the
24 FCC proxy rates and any other proposed rates that resemble the
25 FCC's rates.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

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1 MR. McCORMICK: Mr. Steele, please present the
2 Commission with a summary of your testimony.

3 WITNESS STEELE: Good afternoon. The TELRIC
4 studies prepared in response to the Telecommunications
5 Act of 1996 and presented in the arbitration proceedings
6 are different from the LRIC or TELRIC studies prepared
7 and filed before this Commission in the past. For the
8 most part, the incremental cost studies filed in past
9 and prior to these arbitration proceedings captured only
10 the volume-sensitive costs associated with the services
11 in question. Stated another way, the volume-insensitive
12 costs reviewed is common to or shared among the services
13 in prior commission proceedings.

14 This approach is not appropriate for TELRIC
15 studies. The cost studies presented in these
16 arbitration proceedings must include both the
17 volume-sensitive and volume-insensitive costs. That is,
18 the per unit TELRIC for each network element includes
19 all the costs associated with the entire increment of
20 that network element. Now this approach to costing is
21 not only consistent with GTE's cost study principles,
22 but is consistent with the FCC's First Report, as well
23 as the local service providers of MCI, AT&T and Sprint,
24 and others as well, including the Staff of this
25 Commission.

1 The basic method used by GTE to capture both
2 the volume-sensitive and volume-insensitive costs for
3 each network element are addressed in the attachment to
4 my testimony on preface Page 1.10, which is attached to
5 my testimony, as just stated.

6 In summary, the documentation states that GTE
7 used forward-looking average fill factors to capture
8 both the volume-sensitive and volume-insensitive costs
9 for loops, switching and transport facilities. Most
10 specifically, GTE used forward-looking average fill
11 factors to determine the per unit TELRICs for loop and
12 transport network elements. The total cost, both
13 volume-sensitive and volume-insensitive, for switching,
14 was developed in a similar manner.

15 As the attachment to my testimony states, the
16 volume-sensitive and volume-insensitive costs for
17 switching were developed directly from GTE's COSTMOD
18 model, C-O-S-T-M-O-D, and the Bellcore SCIS model
19 provided to GTE under license agreement from Bellcore.

20 GTE also incorporated Benchmark Cost Model,
21 version 2, or BCM-2, results, in its cost study
22 submittal to further the record. BCM-2, which is a
23 publicly available model, excuse me, is sponsored by
24 Sprint and US West, was used to further support GTE's
25 2-wire loop price of \$33 proposed in this proceeding.

1 In this regard, the BCM-2 model provided two
2 price estimates for the 2-wire loop network element for
3 GTE's operations in Florida. These price estimates,
4 which are based on AT&T, MCI and Sprint, fixed allocator
5 pricing formula, are \$25.44 when BCM-2 is run as default
6 capacity mode, and \$33.61 when the model is run with
7 Lucent Technology contract prices, specifically for
8 GTE.

9 In this regard, therefore, there are three
10 price points for 2-wire loops, \$25.44 for the BCM-2
11 model and its default capacity, \$33.08 based on GTE's
12 M-ECPR pricing method, and \$33.61 based on the BCM-2
13 model with Lucent Technology contract prices
14 specifically for GTE.

15 Next, GTE's switching TELRIC per-minute-of-use
16 costs do not include the costs for vertical services.
17 Consistent with Mr. Trimble's direction and GTE's
18 interpretation of the Act and the FCC's report, GTE
19 developed TELRIC studies for vertical services
20 separately with the prices proposed in GTE's pricing
21 schedule separately and a la carte.

22 Finally, we must proceed with caution as it
23 relates to the common costs, because clearly there is a
24 difference between the USOA, or Uniform System of
25 Account, items included in GTE's common costs

1 calculation, and the USOA items that are recommended in
2 the common costs category by local service providers.
3 MCI, AT&T and Sprint have advocated that the per unit
4 TELRICs include all costs other than corporate
5 operations expenses. GTE's corporate operations
6 expenses are 12 percent of revenues, or 14 percent of
7 direct costs, which are certainly in line with what
8 Sprint and others have advocated.

9 However, there remains additional cost items
10 in GTE's common costs which represent 18 percent of
11 revenues or 27 percent of direct costs. These are the
12 very costs which the local service providers proposed be
13 included in the per unit TELRIC results. If the
14 Commission agrees with the local service providers, then
15 GTE's TELRIC results would increase by 27 percent to
16 capture the additional cost items, with the remaining
17 corporate operations expense handled as a fixed
18 allocator.

19 If, however, the Commission agrees with GTE's
20 approach, then in turn the Commission and Staff would
21 recognize that GTE's common costs are 30 percent of
22 revenues with implied fixed allocator of 47 percent.
23 Thank you.

24 MR. McCORMICK: Thank you, Mr. Steele.

25 Mr. Trimble, please present your summary.

1 WITNESS TRIMBLE: Good afternoon. I'll see if
2 I can do this very, very quickly. On the pricing side,
3 GTE has employed -- and I believe it is consistent with
4 all parties that we've met with today -- pricing
5 guidelines of TELRIC plus X, where X is the amount of
6 common costs, or contribution to common costs, that
7 should be recovered from each element.

8 As Dr. Sibley stated, we did use M-ECPR, but I
9 must point out we only used M-ECPR for the loop and the
10 port in what we have presented as a proposal A. In
11 proposal B, we used it for the loop, the port and local
12 switching. We did not attempt, in any case, to
13 rebalance existing wholesale rates that are found in the
14 FCC interstate tariff or in the state tariffs to reprice
15 transport, DS1, et cetera, et cetera. We only used
16 M-ECPR for loops, ports and local switching.

17 Now, when we get into TELRIC plus X, I would
18 like to build upon what Mr. Steele stated and look at
19 what is in our recommendation for X. And that can be
20 found in Attachment 1 of my direct testimony, Page 2 of
21 2, where I have -- the attachment states, "What's in GTE
22 Florida's Common Costs?" As Mr. Steele stated, for
23 corporate operations, which are USOA Account 6700, which
24 is listed at the bottom of the page, the number that GTE
25 has is 12 percent of its total revenues or 19 percent of

1 direct costs. There's \$153 million there. That is
2 specifically what is used by the Hatfield Model, BCM-2,
3 and many other models as the definition of common
4 costs. GTE's definition of common costs include several
5 other items that are listed on that page that account
6 for another 18 percent of revenues, or 28 percent of
7 direct costs.

8 If the Commission were to mark up our TELRICs
9 by something in the range of 10 or 11 percent, there
10 would be no recovery of the general support cost, plant
11 specific operations or plant non-specific operations
12 cost. There would be no mechanism for recovering those
13 at all.

14 Now, I believe what has happened over time is
15 the definition of what is common cost? We have
16 presented ours here. Many people say it's just
17 corporate operations. But if we look at the costs we
18 have here, you cannot specifically identify those to any
19 element. We do not believe they should be arbitrarily
20 allocated, therefore we left them as common and did not
21 include them in our TELRICs.

22 Now, if we look at what results in the sense
23 Sprint is advocating, as I understand it now, what the
24 Staff has recommended in -- or what has been approved in
25 the AT&T/MCI arbitration, I would like to give you an

1 idea of what type of impact this has on GTE, and I do it
2 quite simply. I say if you can rebundle all the
3 elements, all it takes to replicate all of GTE's
4 services are loop, a port and local switching. The
5 recommended rates in the AT&T/MCI case, and the ordered
6 rates, are \$20 for loop, \$4.75 for a port and \$3.20 for
7 switching. That's based on 800 minutes of use, and I'll
8 use the conservative four-tenths of a cent per minute,
9 for a total of \$27.95 per loop. That provides all
10 switching, all vertical services, everything. If we
11 multiply that out by the 1.9 million lines GTE has and
12 then multiply it by 12 months to get an annual number,
13 we'd come to \$650 million. GTE's current revenues for
14 the same set of services is \$964 million. The
15 difference is \$314 million or a 33 percent reduction in
16 revenues. And GTE is still the sole provider of all
17 services.

18 Now, this is significantly higher than either
19 the FCC's proxy of 18.8 percent or the Staff's
20 recommendation of 13 percent for a resale discount.
21 They should be the same. And in fact a very reasonable
22 test for the Commission to employ in pricing is that the
23 implied discount by summing all the unbundled network
24 elements should be less than or equal to the resale
25 discount, or arbitrage will necessarily occur.

1 Now, in conclusion, I would say the difference
2 that I've just presented here of 314 million, or a 33
3 percent reduction, totally implies to me that the
4 unbundled rates do not allow GTE to recover its
5 forward-looking costs. Thank you.

6 MR. McCORMICK: Commissioner, we will tender
7 both of these witnesses for cross-examination.

8 COMMISSIONER KIESLING: I just have one
9 question just so that I'm clear. The summary that you
10 just gave was not based on the testimony that you
11 filed. It included additional information; is that
12 true?

13 WITNESS TRIMBLE: All the numbers were in the
14 testimony. The summary did include the analysis of the
15 Staff's recommendation, which I obviously did not have.

16 COMMISSIONER KIESLING: Okay. Who is going to
17 cross? Mr. Fincher.

18 CROSS EXAMINATION

19 MR. FINCHER: Mr. Steele and Mr. Trimble, I'm
20 Ben Fincher with Sprint. I have just a few questions.

21 Mr. Trimble, would you look at Page 32 of your
22 prefiled testimony, Lines 7 through 15?

23 WITNESS TRIMBLE: Yes.

24 MR. FINCHER: You see that? Is it your
25 understanding that service provider number portability

1 is an issue in this proceeding?

2 WITNESS TRIMBLE: At the time the testimony
3 was written, I understand it was an issue. I am not
4 sure what is happening in the arbitration proceedings.
5 I do know there is a docket scheduled within this
6 Commission.

7 MR. FINCHER: Would you be surprised if I told
8 you that that is not an issue in this proceeding?

9 WITNESS TRIMBLE: Then I would not be
10 surprised.

11 MR. FINCHER: On Page 33 and -- 33 of your
12 testimony at Line 3 and 4, says, this fact alone
13 eliminates proxy rates from consideration by this
14 Commission, referring to the stay of the 8th Circuit.
15 Would you agree that there is nothing in the stay that
16 would preclude this Commission from considering the
17 FCC's proxy rates?

18 WITNESS TRIMBLE: Yes, I would agree with
19 you.

20 MR. FINCHER: You were not part of the
21 negotiation team between GTE and Sprint, were you?

22 WITNESS TRIMBLE: I was part of probably two
23 days of discussions, off and on, in terms of cost
24 models.

25 MR. FINCHER: You testified in the AT&T/GTE

1 arbitration?

2 WITNESS TRIMBLE: Yes, I did.

3 MR. FINCHER: And the testimony and pricing
4 methodologies you presented in that case are similar to
5 what you're presenting in this case?

6 WITNESS TRIMBLE: There is one major
7 difference. The overall methodology is the same. The
8 testimony is relatively the same, but I believe in the
9 AT&T proceeding, we had only presented one proposal for
10 unbundled network elements where in this case we have
11 two proposals.

12 MR. FINCHER: Mr. Steele, would your answer be
13 similar to that, if I asked you the same question?

14 WITNESS STEELE: Just that one question?

15 MR. FINCHER: That one question.

16 WITNESS STEELE: You'll have to repeat the
17 question.

18 MR. FINCHER: You participated or testified in
19 the AT&T/GTE proceeding?

20 WITNESS STEELE: Yes, I did, that's correct.

21 MR. FINCHER: And was your testimony and
22 pricing methodologies offered in that case similar to
23 what you're offering in this case?

24 WITNESS STEELE: That is correct. The
25 exception would be based on discussions that took place

1 with Mr. Ivanuska and me in the summer of 1996 where
2 those meetings we discussed GTE's cost models and
3 procedures and reached some reconciliation on how cost
4 studies would be performed. With that exception.

5 MR. FINCHER: Were the cost studies the same,
6 that you presented in the AT&T case, the same that you
7 presented in this case?

8 WITNESS STEELE: Yes, they are.

9 MR. FINCHER: Is the cost of providing an
10 unbundled element or providing services to one CLEC the
11 same as to another CLEC? Would there be any difference
12 in the cost?

13 WITNESS STEELE: Under the same or similar
14 circumstances the costs should be the same or similar,
15 but certainly there are potential for different types of
16 arrangements between local service providers or CLECs,
17 which could account for cost differences.

18 MR. FINCHER: Generally it would be the same,
19 with the exception that there could be some differences,
20 depending on the circumstances?

21 WITNESS STEELE: Depending on what's being
22 negotiated by each party and what their desires are for
23 network elements, there can be differences.

24 MR. FINCHER: I'm talking about the cost now,
25 the cost to GTE for providing that service.

1 WITNESS STEELE: Yes, if Sprint, as a local
2 service provider, required specific types of network
3 elements provided in a specific way, then the costs may
4 very well be different.

5 MR. FINCHER: Conversely, if it's the same
6 element under the same circumstances, the costs would be
7 the same?

8 WITNESS STEELE: That's what I originally
9 said, under same or similar circumstances I would expect
10 the costs to be the same or similar.

11 MR. FINCHER: This is for Mr. Steele. In your
12 summary you stated that the loop costs, as computed from
13 BCM-2 was \$25.40; is that correct?

14 WITNESS STEELE: No, that's not correct. The
15 loop price produced by the BCM-2 model in its default
16 capacity is \$25.44.

17 MR. FINCHER: \$25.44, okay.

18 WITNESS STEELE: And the loop price using the
19 Lucent Technology contract prices, which are from the
20 contract that we provide Sprint in the summer of 1996,
21 are \$33.61.

22 MR. FINCHER: I see. Thank you.

23 COMMISSIONER KIESLING: I realize it's
24 awkward, but could you try to keep your head facing the
25 microphone when you're giving technical information,

1 even though I know you're trying to answer him.

2 WITNESS STEELE: Yes, ma'am, I'll do that.

3 MR. FINCHER: Would you agree that the BCM-2
4 model includes costs for local switching, time cards and
5 network interface device in addition to the cost for the
6 local loops? I'm sorry, line cards, not time cards.

7 WITNESS STEELE: The cost studies that were
8 performed by GTE in conjunction with Sprint's meetings
9 in the summer do not include anything other than the
10 loop costs.

11 MR. FINCHER: Local loop is the only thing
12 that is included.

13 WITNESS STEELE: That is correct. And the NID
14 is in there because it's required to be in there as a
15 part of the loop. Your witness testified that it should
16 be separate. It should not. The network element of the
17 NID is a separate network element offered when Sprint
18 provides its own loop and connects with GTE's NID. When
19 GTE provides a loop, it must provide interconnection at
20 the main distribution frame, as well as the
21 interconnection at the network interface device to the
22 inside wire of the business or residence establishment.

23 MR. FINCHER: Did you make any adjustments for
24 discounts? Are there any discount adjustments in
25 there? As an example, 30 percent for AT&T?

1 WITNESS STEELE: Yes, what we did was during
2 the summer -- July of 1996, we provided a full copy of
3 the Lucent Technology contract prices for splicing and
4 placing of outside plant facilities to Sprint, and met
5 with them in Kansas City to incorporate those into the
6 model, the BCM-2 model. Those are the -- those resulted
7 in the price of \$33.61 that I just testified to.

8 MR. FINCHER: And this is Mr. Trimble. In
9 your summary you used a -- or quoted, I believe, a
10 number of \$950 million in revenue. Do you recall that?

11 WITNESS TRIMBLE: Yes, I do.

12 MR. FINCHER: What was included in that
13 figure?

14 WITNESS TRIMBLE: That number was derived from
15 Attachment 1 of my direct testimony, the Page 1 of 2.
16 That includes local service, intraLATA toll type
17 revenues, switched access and private lines. It
18 excludes all other revenues which are, for example,
19 directory advertising revenues, nonrecurring charges,
20 and I can give you a fuller list if you would like.

21 MR. FINCHER: That's fine. We're looking at
22 Page 1 of 2 of Exhibit DBT-1. You have revenue, TSLRIC
23 and contribution. Now the contribution, what does that
24 represent in that third column?

25 WITNESS TRIMBLE: That represents just the

1 difference between the revenues and the direct costs.
2 That was as used by Dr. Sibley initially to be in one of
3 our estimates of our level of common costs.

4 MR. FINCHER: Okay. And then Page 2 is the
5 actual accounts and the revenue from those accounts; is
6 that correct?

7 WITNESS TRIMBLE: That is the expenses
8 associated with those accounts, that is correct.

9 MR. FINCHER: Let me just clarify one thing.
10 On that revenue figure of \$950 million we referred to
11 earlier, did you say that included access?

12 WITNESS TRIMBLE: Yes, it does.

13 MR. FINCHER: And GTE keeps -- that's -- comes
14 to all of GTE; is that correct? That's GTE's revenue
15 entirely?

16 WITNESS TRIMBLE: Under our proposal B, where
17 we have priced local switching, I believe, at four and a
18 half tenths of a cent per minute, that included all
19 minutes that transverse the port or unbundled element,
20 we would charge that amount. The CLEC could do what it
21 desired in terms of charging the carriers the switched
22 access rates.

23 MR. FINCHER: But when you sell the switch,
24 switching as an element, you get the access, ultimately;
25 is that correct? I mean you bill the CLEC for the

1 access?

2 WITNESS TRIMBLE: No, it would be up to the
3 CLEC to bill the carrier for the access. We will bill
4 the CLEC for the minutes of use transversing that port.
5 It is the CLEC's responsibility to bill the carriers for
6 access.

7 MR. FINCHER: That's all I have.

8 MS. BARONE: Staff has several. And I would
9 like to explain, what we're going to pass out right now
10 for ease of everyone's eyes, we're going to pass out
11 portions of confidential cost studies in 984, 985, which
12 was marked as Exhibit No. 4. We're also going to pass
13 out portions of Exhibit No. 5, which consist of the
14 deposition transcript, which is also confidential,
15 late-filed deposition exhibits of Mr. Trimble and
16 Mr. Steele, and also -- yes, that's it.

17 And just so I can explain to you, I'm going to
18 ask you questions based on the numbers at the bottom of
19 what I've given you, but I'm then going to also refer to
20 the actual exhibit numbers for the record. And for
21 clarification, I'll point out that Page 1 -- Pages 1 and
22 2 -- Page 1 deals with the -- 1 and 2 deal with the 2-
23 and 4-wire loop costs submitted in this proceeding.
24 Pages 4 and 5 address the 2- and 4-wire loop costs in
25 the 960847 proceeding, and Page 7 addresses the combined

1 2-wire and 4-wire loop costs in the 950984 proceeding,
2 which was the state proceeding on unbundling and
3 resale.

4 CROSS EXAMINATION

5 MS. BARONE: With that, I would like to refer
6 you to -- first, I would like to ask you both whether
7 the revisions that were made in the 960847 proceeding,
8 which is the AT&T/MCI/GTE case, were made in this -- in
9 the cost studies submitted in this proceeding?

10 WITNESS STEELE: That would be the revision,
11 the late-filed exhibit?

12 MS. BARONE: Yes.

13 WITNESS STEELE: I think it was No. 8, if my
14 memory is right. And the answer would be those have not
15 been submitted as changes. Throughout the
16 MCI/AT&T/Sprint process we submitted the same cost
17 information contained in my exhibits.

18 MS. BARONE: So you don't think that the
19 revisions that you made in the 960847 proceeding were
20 appropriate in this proceeding?

21 WITNESS STEELE: No, I do believe they're
22 appropriate. I did not submit them as changes.

23 MS. BARONE: So they were incorporated into
24 the cost studies that you submitted?

25 WITNESS STEELE: They are not incorporated,

1 but they are relevant.

2 MS. BARONE: How are they relevant if they are
3 not incorporated?

4 WITNESS STEELE: They are relevant because
5 they provide the most accurate estimate of the cost for
6 GTE's 2-wire and 4-wire services in its territory.

7 MS. BARONE: If you would turn to Page 3 of
8 the confidential information that Staff has given you,
9 which would be tab 1 of your late-filed exhibits
10 attached to your deposition.

11 WITNESS STEELE: Is that the one that starts,
12 "The attached sheet provides"?

13 MS. BARONE: Yes.

14 WITNESS STEELE: I have that.

15 MS. BARONE: You stated that there were three
16 changes incorporated in the cost study for 2-wire
17 loops. Were those the same changes made for the 4-wire
18 loops?

19 WITNESS STEELE: Yes, they are the same
20 changes.

21 MS. BARONE: Would you please explain the
22 error in the utilization factor that was utilized for
23 the pair-gain technology that caused the increase?

24 WITNESS STEELE: Yes, I will. In the GTE's
25 cost study submittal, there is a very simple

1 mathematical formula that's used to convert the fill
2 factors used when the GTE COSTMOD loop model is run to
3 produce the TELRIC results. And in that formula for
4 converting the costs produced by the model in its output
5 report for the pair-gain device, spelled P-A-I-R -
6 G-A-I-N, or concentrator, an error was made. I can
7 refer to you the specific pages of the cost study
8 submittal, if that would help.

9 MS. BARONE: Yes, it would.

10 WITNESS STEELE: If you would, for example,
11 refer to tab 4, the COSTMOD system loop technology
12 module output, you will see under the utilization fill
13 factor --

14 MS. BARONE: Excuse me, I'm sorry, can you
15 refer us to which binder? Tab 4 of which --

16 WITNESS STEELE: It would be tab 4 of the
17 binder supplemental materials.

18 MS. BARONE: Give us one moment.

19 MR. GILLMAN: We took Chairman Clark's
20 suggestion and got red binders, as you see.

21 COMMISSIONER KIESLING: I see. Although, I
22 call them orange myself.

23 WITNESS STEELE: And we can just refer to one
24 of the pages, which is Page 73.

25 MS. BARONE: Would you be referring to A-71?

1 WITNESS STEELE: Yes, I am, A-73. You notice
2 down on the bottom portion of the printout for the
3 model, you will see a column header with U-T-I-L, and
4 underneath that F-C-T-R, which stands for utilization
5 factor. Down at the bottom.

6 MS. BARONE: Which line?

7 COMMISSIONER KIESLING: Yours looks different
8 than mine does.

9 WITNESS STEELE: It appears that you are
10 looking at the work papers. My eyes aren't as good as
11 they used to be. You need the supplemental materials
12 binder. The one that has tab 4 under it. I think that
13 would be the first binder.

14 MS. BARONE: That's why we asked which
15 binder.

16 WITNESS STEELE: And again, under tab 4 of
17 Page 71, or I believe yours says A-73, and you should
18 have something that looks like a printout in a portrait
19 of the loop model that says at the top "COSTMOD System,"
20 and just under that "Loop Technology Module." Down at
21 the bottom you'll see a column header U-T-I-L F-C-T-R
22 for utilization factor.

23 MS. BARONE: Yes.

24 WITNESS STEELE: And you will notice that
25 several of those utilization factors, particularly the

1 first four items, are different than the remaining items
2 on the page. If you'll go forward to the very first
3 page under that tab, which would be Page 1, I believe
4 you're calling it A-1.

5 MS. BARONE: No, not now. That was from the
6 other binder. This is one. Are you telling me you have
7 A-1?

8 WITNESS STEELE: It's in both binders. You
9 can refer to either --

10 MS. BARONE: We have it.

11 WITNESS STEELE: Whatever one is more
12 convenient for you. The same pages in each binder. But
13 if you go to the very first page under tab 4, you will
14 see the very last line of the page provides note 1
15 utilization factor, and what the model does on this
16 first sheet is adjust from that utilization factor,
17 assuming that is the output from the COSTMOD loop model,
18 to provide the TELRIC for that network element. And if
19 this model is corrected to capture the different
20 utilization factors for the various production units
21 identified on that Page 73, it results in the cost
22 change that's identified in the late-filed Exhibit No. 8
23 that was filed in the MCI/AT&T arbitration proceeding.
24 And that mathematical correction is what is contained
25 under the late-filed Exhibit No. 8 on the additional

1 page that was provided to Staff with that late-filed
2 exhibit.

3 COMMISSIONER KIESLING: And may I just ask one
4 clarifying question? When you're talking about the --
5 whatever late-filed Exhibit No. 8, it's the document
6 that has Page 3 at the bottom of it, in the confidential
7 exhibits that were just handed out?

8 WITNESS STEELE: That is correct. This page
9 with 3 on the bottom, it was the first page under that
10 late-filed exhibit providing a summary of the material
11 that followed.

12 MS. BARONE: Sir, how did you come up with the
13 70 percent for the utilization factor? Where does that
14 come from?

15 WITNESS STEELE: At the time that I performed
16 the analysis, I knew that a TELRIC should be tabulated
17 and calculated based on an average forward-looking fill
18 factor for GTE. The analysis that I had readily
19 available provided information at the fill factors
20 that's identified on that page. That is the number that
21 you just read, plus the others for the circuit
22 equipment, and switching equipment.

23 In order to properly calculate the TELRIC for
24 this network element, I must adjust to make sure I
25 capture the average forward-looking fill factor.

1 Ideally, I would have run the model with the average
2 forward-looking fill factor as the primary input and no
3 adjustment would be needed since I knew, mathematically,
4 that that's the case that would take place. As long as
5 I multiplied something times a factor and divided by the
6 other, I knew mathematically I would get the same
7 answer. So that's why I performed the calculation. It
8 was just a time saver, if you will.

9 MS. BARONE: What depreciation rates were used
10 in the original study provided by GTE, Florida?

11 WITNESS STEELE: I can't recall actually if
12 the prescribed rates are not, although in the late-filed
13 exhibit, or this Page 3 that we're referring to, it
14 shows what the impact would be, that is it adds 30
15 cents, if we would use the forward-looking economic
16 depreciation rates that are provided by a colleague of
17 mine, Al Sovereign, in the evaluation and cost group of
18 GTE Telephone Operations.

19 MS. BARONE: Do you know if you used
20 Commission-prescribed depreciation rates in your
21 calculations?

22 WITNESS STEELE: I should have that in memory,
23 but I do not. I apologize. It's hard to keep them all
24 straight, and I probably should have written it down,
25 but I did not.

1 COMMISSIONER KIESLING: Does that mean you
2 don't know right now if you used the Commission-approved
3 rates?

4 WITNESS STEELE: I believe I did, but my notes
5 do not tell, and I would have to check that to be
6 certain.

7 MS. BARONE: Would you be able to provide a
8 late-filed exhibit to let us know whether you used the
9 state-approved depreciation rates?

10 WITNESS STEELE: Yes, I can do that.

11 COMMISSIONER KIESLING: All right, I'll mark
12 late-filed Exhibit 14. And it's going to say yes or no,
13 I guess. What do you want it to -- what form do you
14 want?

15 MS. BARONE: I would like you to show the
16 depreciation rates that you used and indicate whether
17 that was state-approved or not.

18 Also, another question I have, if you don't
19 know this, we would like to add this to the late-filed
20 exhibit as well. Do you know the depreciation that you
21 used to result in the 30 cent increase that you just
22 spoke about?

23 WITNESS STEELE: Those I have. I can provide
24 those to you now if you would like, or I can just
25 incorporate it into the late-filed exhibit if that's

1 more convenient.

2 MS. BARONE: Go ahead, you can tell me. Oh,
3 if you have to look it up, that's fine. We can
4 incorporate it into the late-filed. I thought you
5 knew. We'll incorporate it.

6 WITNESS STEELE: Well, there's a number of
7 accounts. I don't have them all in memory.

8 MS. BARONE: That's fine. Just incorporate it
9 into the late-filed. So the late-filed exhibit will
10 include depreciation rates for the 30 cent increase and
11 also the depreciation rates for the original study.

12 WITNESS STEELE: I understand.

13 MS. BARONE: Thank you.

14 COMMISSIONER KIESLING: And what short title
15 shall I give this? Depreciation Rates Used?

16 MS. BARONE: Yes, in the original study.

17 COMMISSIONER KIESLING: That's not a short
18 title. I'll just call it Depreciation Rates Used, and
19 it will reflect that it was the original study and the
20 30 percent increase and whether those rates are
21 state-approved.

22 MS. BARONE: Thank you.

23 COMMISSIONER KIESLING: You're welcome.

24 (Late-filed Exhibit No. 14 identified.)

25 MS. BARONE: Now I would like you to turn on

1 Pages 4 and 5 of the confidential material that was
2 passed out to you, which would be tab 8 of your
3 late-filed deposition exhibit. Would you please walk
4 through the three changes that you discussed earlier as
5 they're illustrated in this exhibit that result in the
6 increase in the loop costs? And for the record, we'll
7 just reflect that those changes -- and correct me if I'm
8 wrong -- were the impact of correcting the utilization
9 factor for pair-gain technology, the impact of
10 incorporating economic depreciation rates and the impact
11 of adjusting customer operations expenses to remove
12 billing, service order and retail costs.

13 WITNESS STEELE: That is correct. We can
14 start out by looking at the page that has 5 at the
15 bottom. And it shows in the middle of the page the
16 difference, which is the -- from the adjusted filed
17 number for both high, medium and low density areas.
18 This is the total impact of incorporating the change due
19 to the math error. The support material on Page 6
20 calculates for the two accounts that are impacted by
21 this, which is the pair-gain device or concentrator, the
22 impact that would result in the utilization factor to
23 bring everything to the same level. And when that's
24 brought forward to Page 5, everything at that level of
25 the analysis is at the same level of utilization factor,

1 if you will, and as a result we now have a TELRIC that's
2 identified on the sheet -- it's actually called
3 TSLRIC-loop -- which is at the average forward-looking
4 fill factor. That's also identified in the sheet, the
5 third line from the bottom. (Pause)

6 It would be helpful for me to look at the
7 entire late-filed exhibit, and since I know we have a
8 copy here, that would jog my memory on the other two and
9 provide the reference pages.

10 MS. BARONE: Okay. (Pause)

11 WITNESS STEELE: It would have helped if I had
12 put tabs in there, in the materials that you provided
13 me, although you did not provide all the pages, but in
14 the late-filed exhibit are landscape runs, output runs
15 of GTE's models for the high, medium and low density
16 area, and they provide the detail for each kilofoot
17 distance from the office. And behind that is a series
18 of sheets that actually tabulates the costs for each
19 kilofoot length, or it shows the annual cost factors for
20 each investment account. And those sheets have in the
21 front, on this landscape sheet, BNF, which stands for
22 Basic Network Function, Cost Study in the top. And that
23 provides all the backup information for each kilofoot
24 length, monthly cost. That's carried forward in the
25 previous sheet that I just discussed. So that will take

1 care of the math error associated with the pair-gain
2 device.

3 The correction for the depreciation expense or
4 the impact of the depreciation expense, I will be
5 responding to that in the late-filed exhibit, to show
6 you those depreciation rates. And when I do, you will
7 see the actual depreciation rates that are on these
8 landscape runs, again the ones labeled with BNF Cost
9 Study on the top. They will be identical to that.

10 The last item is to remove billing costs and
11 service order costs, and to make sure that all the
12 retail costs are excluded from the cost study. And you
13 did not provide that page, but that just happens to be
14 the very last page under the late-filed Exhibit No. 8,
15 which is, again, a landscape sheet that provides and
16 says at the top, "Original Customer Operations Factor,"
17 and then makes adjustments to remove each of the items
18 that I covered in this sheet: First, the billing
19 service order and then last the retail cost. And the
20 resulting appropriate factor is the second line from the
21 bottom on that landscape sheet. And you'll notice that
22 when you go and look at the landscape runs for the BNF
23 Cost Study, that you'll see those numbers under the
24 customer operations, Line 10 and Line 24, for each
25 kilofoot length.

1 MS. BARONE: You were referring to the last
2 page of your late-filed exhibit; is that correct?

3 WITNESS STEELE: Yes. It's the one that says
4 Original Customer OPNS, which stands for Operations
5 Factor at the top.

6 MS. BARONE: We have that, thank you.

7 COMMISSIONER KIESLING: Just so that the
8 record is clear, when you're talking about some
9 late-filed exhibit, it's not late-filed in this
10 proceeding, it was late-filed in another proceeding?

11 MS. BARONE: Yes, ma'am, it's your late-filed
12 deposition --

13 COMMISSIONER KIESLING: So it's not actually
14 in the testimony here?

15 MS. BARONE: Correct. It's a late-filed
16 exhibit to your deposition transcript which is now an
17 exhibit in this proceeding.

18 MS. BARONE: Is this true that GTE Florida
19 included land and building costs in developing its costs
20 for 2- and 4-wire loops?

21 WITNESS STEELE: That is correct, we did.

22 MS. BARONE: Why do you think it's appropriate
23 to include land and building costs for the development
24 of loop costs?

25 WITNESS STEELE: The longer loops that are

1 used in this state incorporated our model containing
2 pair-gain devices, as well as electronics that are
3 located in the central office to communicate a digital
4 signal. And based on our analysis of the costs, we
5 determined that land and buildings should assigned to
6 those. Circuit and central office equipment costs, as
7 well as any other switching costs, such as those used to
8 derive the port or minute-of-use cost, are also
9 contained in our cost studies for network elements.

10 MS. BARONE: Have you performed a cost study
11 that does not include land and buildings?

12 WITNESS STEELE: The cost studies for loops
13 identify land and buildings as a separate item. So
14 indirectly, I guess, I performed a cost study, as I can
15 go to the first page under tab 4 and remove the land and
16 buildings cost. So I guess indirectly I've done that
17 since I can subtract it.

18 MS. BARONE: Can you explain the adjustment
19 provided for the 2- and 4-wire loops, which is shown in
20 your late-filed deposition exhibit? And it's Page 6 of
21 the confidential information that we passed out
22 earlier.

23 WITNESS STEELE: Yes, I can. The purpose of
24 this one-page portrait layout is to remove the
25 mathematical error that was used in converting from the

1 fill factor that provided -- was provided on the output
2 of the loop model to the average forward-looking fill
3 factor that was identified in the first sheet. And what
4 you'll see here is there's several calculations. First
5 is to remove the fill factor calculation entirely. In
6 essence, then, the investments that would be labeled
7 there are without any adjustment for fill factor. And
8 then in the second step, to adjust the fill factor to be
9 consistent with the other fill factors that were
10 identified on the loop model output. Once they're on
11 the same level, they're all the same fill factor, then
12 the mathematical formula, which is used in the first
13 page under tab 4 and the first page of tab 5, can be
14 applied without error.

15 MS. BARONE: Would you explain the main
16 differences between the loop costs and the arbitration
17 study in this proceeding and the loop costs in Docket
18 950984? That would be a part of Exhibit No. 4, which
19 includes the cost studies from the 950984 proceeding.
20 You can look at Pages 4, 5 and 7 of the confidential
21 information that was passed out earlier.

22 WITNESS STEELE: The only item of significant
23 difference in the first six lines that are labeled on
24 Page 7 is for the one item labeled loop, L-O-O-P, on the
25 left. In the material provided on Page 7, you will see

1 that in the top it labels it as LRIC. And you might
2 recall my opening comments. I had testified that the
3 cost studies performed in the past in this proceeding
4 did not include both volume-sensitive and
5 volume-insensitive costs. Rather they included just the
6 volume-sensitive costs. So the primary difference in
7 the cost calculation would have to be that the
8 volume-insensitive costs are excluded from the Line 2 of
9 Page 7. If you look at the attachment to my testimony,
10 it says that the methodology used by GTE was to ensure
11 that all the facility-based costs for loops are assigned
12 to the loop network elements. And this is not only
13 consistent with the thinking that we had relative to the
14 right principles, but also the FCC and Sprint and other
15 parties in these proceedings.

16 MS. BARONE: Now, isn't it true, though, if
17 you look at the volume-sensitive and the
18 volume-insensitive figure total in the 950984 docket,
19 that figure is less than the figure in this proceeding?

20 WITNESS STEELE: What lines are you referring
21 to on Page 7?

22 MS. BARONE: Page 7, looking at Line 13. Now,
23 that is the 2-wire and 4-wire loop combination, which
24 includes both volume-sensitive and volume-insensitive
25 costs.

1 WITNESS STEELE: Yes, on that particular Page
2 7, where it adds up the costs on Line 13, it includes
3 both the volume-sensitive and volume-insensitive costs.
4 And I did testify on that during the question that I
5 received during the deposition, and I did verify that.
6 And I know the loop sample was a portion of the
7 analysis.

8 MS. BARONE: Now you're referring to your
9 deposition in the 960847 proceeding; is that correct?

10 WITNESS STEELE: Yes I have to be very clear,
11 don't I? I'm talking about the MCI and AT&T arbitration
12 where I was provided testimony as a deposition. But to
13 provide a precise answer, since my mind can't seem to
14 hold everything that's going on as I get the opportunity
15 to go from one proceeding to another, I don't remember
16 the precise difference.

17 MS. BARONE: So you don't know why there's a
18 difference between the loop costs in the 950984 state
19 proceeding versus this proceeding; is that what you're
20 saying?

21 WITNESS STEELE: I know it's back there in my
22 long term memory someplace, but I cannot recall it right
23 now.

24 MS. BARONE: Now, I would like to refer you to
25 Page 10 of the confidential information that was passed

1 out earlier, which is Page 370, tab 12 of the late-filed
2 exhibit attached to Mr. Steele and Mr. Trimble's
3 deposition in Docket 960847. I'm referring to Page 10
4 that we passed out to you. Would you please explain how
5 the volume-insensitive factors on Lines 55 through 77
6 were determined, generally?

7 WITNESS STEELE: Yes, they are the ratio of
8 the volume-insensitive cost to the volume-sensitive
9 cost, as a factor. If you -- yes, by definition, they
10 would be the ratio of the volume-sensitive fill factor
11 that was used in analyzing the cost divided by the
12 volume-insensitive fill factor that would be used to
13 determine the TELRICs. For example, if the analysis of
14 the run was run at a .9 and the average fill factor, for
15 example, was .65, or 65 percent, then .9 divided by .65
16 would give you 1.38. Subtracting 1 from that gives
17 you .38, and you'll see that as one of the numbers.

18 The .9 in my example is the fill factor that
19 was used in providing the costs, in this example, for
20 entrance facilities or direct trunk transport, divided
21 by the forward-looking average fill factor used to
22 determine TELRICs. In that case it would be the
23 objective fill divided by the average fill, .9 divided
24 by .65, subtract 1 from that and you get 0.38, which is
25 on the sheet.

1 For end office switching, that information was
2 derived directly from the SCIS and COSTMOD models. And
3 again, it is the ratio of the cost that would be derived
4 based on the total cost of switching divided by the
5 average cost that you would incur, or in essence, the
6 objective fill divided by the average fill, subtract 1
7 and you'll get the number that's shown next to end
8 office switching. And that information was obtained
9 from the Switching Cost Information System model that we
10 have under license agreement with Bellcore, as well as
11 from GTE's COSTMOD model, or its GTE-5 switch.

12 The arithmetic is done in one step, if you
13 will, versus the two-step process that I showed recently
14 when we were talking under tab 4. Remember under tab 4,
15 we took the costs that we had and we took it and
16 multiplied it times the fill factor that was used, that
17 came out of the COSTMOD model, and divided that by the
18 average fill factor to derive a TELRIC for that network
19 element. This is doing the same thing. It's taking the
20 fill factor that's used from the model in the numerator,
21 dividing that by the forward-looking average fill factor
22 used to derive TELRICs and using that number to adjust
23 costs to get a TELRIC for that network element. The
24 computation is identical. In the previous page, on tab
25 4 and 5, it was done in two steps. Here it's done in

1 one step.

2 MS. BARONE: Next I want to ask you a question
3 that compares Page 8 and Page 12 of the confidential
4 information that was passed out earlier.

5 WITNESS STEELE: Yes, I have Page 8. And Page
6 12, you said?

7 MS. BARONE: Yes. And for the record, Page 8
8 is a portion of the cost study in Exhibit No. 4
9 submitted in this proceeding. And Page 12 is attached
10 to Mr. Trimble's testimony as DBT-3-A in this
11 proceeding, 961173.

12 WITNESS STEELE: I'm with you.

13 MS. BARONE: Sir, with respect to these, what
14 is the difference in cost provided for the 2- and 4-wire
15 entrance facility provided in the arbitration study in
16 this case, and in Docket 950985, which refers to Page
17 12?

18 WITNESS STEELE: Now, this was also covered in
19 the MCI/AT&T arbitration late-filed exhibit. And there
20 was two reasons for the difference. One is that I
21 stated in that response that the 2-wire and 4-wire costs
22 are identical to what was used for 2-wire and 4-wire
23 unbundled loop elements; and second is that the LRIC
24 shown on Page 8 only includes volume-sensitive costs.

25 MS. BARONE: I would like to clarify, you

1 mentioned MCI, but the 950985 docket was the state
2 proceeding. So I want to be sure we're clear.

3 WITNESS STEELE: I was referring to Page 12
4 where there was a question, I believe, in the late-filed
5 exhibit about -- under the MCI and AT&T proceeding of
6 GTE's 2-wire and 4-wire entrance facility cost.

7 MS. BARONE: I just want to be sure that I've
8 articulated the question and we have the answer that
9 we're looking for. I would like you to explain what the
10 difference is -- difference in cost provided for the 2-
11 and 4-wire entrance facility in this proceeding versus
12 that in the local interconnection state proceeding,
13 which is Docket 950985.

14 WITNESS STEELE: Where the latter refers to
15 Page 8, correct?

16 MS. BARONE: Yes.

17 WITNESS STEELE: And the former refers to Page
18 12?

19 MS. BARONE: Yes, sir.

20 WITNESS STEELE: The difference is discussed
21 in my preface attached to my testimony where the cost
22 object being analyzed included both the volume-sensitive
23 and volume-insensitive cost. That is the cost object,
24 is the basic network function or network element. And
25 the information on Page 8 provides a tabulation of GTE's

1 volume-sensitive cost only. It does not include both
2 volume-sensitive and volume-insensitive costs.

3 There is yet a second reason. In the cost
4 submittal that's identified on Page 12 which you
5 provided me, you will notice that the cost information
6 is the same as what is provided for the 2-wire network
7 element, as well as the 4-wire network element; that is,
8 all 2-wire loop cost studies, that is the 2-wire and
9 4-wire loop cost studies, in the network element as well
10 as for the entrance facility, were set to be identical,
11 because the technology and the service is identical.

12 MS. BARONE: Sir, would you please turn to
13 Page -- compare -- we're going to look at Page 12 and
14 Page 13 of the confidential information submitted.

15 WITNESS STEELE: I have that.

16 MS. BARONE: And for the record, Page 12 is
17 DB, as it boy, T-3-A, which is attached to your direct
18 testimony in this docket, 961173, and Page 13 is also
19 attached to your direct testimony, DBT-3-A in this
20 proceeding.

21 Would you -- can you explain to me -- it
22 appears, rather, that the entrance facility, the 2-wire
23 and 4-wire, there are two different entries. Can you
24 explain why that's different? If you look under local
25 loops, the costs don't appear to be the same to me. Can

1 you explain the difference?

2 WITNESS STEELE: Yes. In the analysis for
3 entrance facilities -- (Pause) Yes, the difference is
4 identified under tab 17 of GTE's Cost Study submittal,
5 not only in the previous MCI and AT&T proceeding, but
6 also in this Sprint proceeding under -- I believe what
7 you're calling A-359 is for a network access channel
8 connection basic level, which is the connection that
9 takes place between the entrance facility and the tandem
10 switch that's located at the serving wire center, or the
11 network access channel connection basic level that takes
12 place between the entrance facility and the direct trunk
13 transport that Sprint or any other party would purchase
14 from GTE under tariff. Think of it as a jumper. That
15 cost difference is to run and connect the entrance
16 facility to the direct trunk transport of the tandem
17 switch. That is not included in the 2- and 4-wire costs
18 because that particular element is included in the
19 collocation items under the cross-connect. It would be
20 the cross-connect for -- at the DS-0 or voice grade
21 level. The requirements that we have were to identify
22 the collocation cost studies separately, where one of
23 the cost elements is referred to, I think by
24 Mr. Trimble, as the expanding interconnection service
25 cross-connect, or the cross-connect. And that

1 information is provided under tab 9 of this same cost
2 study submittal.

3 COMMISSIONER KIESLING: Can I ask a quick
4 clarifying question? Why are Pages 12 and 13 included
5 in the confidential exhibit when the information is also
6 attached to his testimony in exactly the same form? Is
7 it confidential or not confidential?

8 MR. GILLMAN: No, no. Page --

9 COMMISSIONER KIESLING: DBT --

10 MR. GILLMAN: Page 12 is not confidential.

11 COMMISSIONER KIESLING: And Page 13 is also
12 attached to his testimony.

13 MR. GILLMAN: That's true.

14 MS. BARONE: Yes, ma'am. And this was for
15 convenience. It will not be marked for -- as
16 confidential.

17 COMMISSIONER KIESLING: That's all I wanted to
18 know.

19 MR. BOYD: Commissioner, are you referring to
20 DBT-1, Pages 1 and 2 that's attached to his --

21 COMMISSIONER KIESLING: No, I'm referring to
22 the confidential exhibits that were handed out.

23 MR. BOYD: Yes, ma'am, but you said it was
24 also attached to his testimony.

25 COMMISSIONER KIESLING: It's attached to his

1 testimony as DBT Exhibit 3-A.

2 MR. BOYD: Thank you.

3 MS. BARONE: It was just included. It's not
4 confidential.

5 COMMISSIONER KIESLING: Okay.

6 MS. BARONE: One more question referring to
7 this confidential information. We're going to compare
8 Pages 9 and 13.

9 WITNESS STEELE: Yes, I have Pages 9 and 13.

10 MS. BARONE: And this information, for the
11 record, would be included in Staff's Exhibit No. 4,
12 which reflects cost studies in Docket 950985. Could you
13 explain the difference in costs provided for end office
14 switching provided in this arbitration proceeding and in
15 Docket 950985?

16 WITNESS STEELE: Again, this was addressed as
17 part of my response in the late-filed exhibits filed in
18 the MCI and AT&T arbitration, and I will go from
19 memory. The material is, I believe, a part of the
20 record here so people can review it, and is written
21 out. There were two primary differences. The most
22 significant was that the volume-insensitive costs were
23 excluded from the previous analysis because they were
24 not total element long run incremental cost. Second is,
25 if my memory serves me correctly, there was an updated

1 study of the average holding time, and that is
2 incorporated in GTE's cost study submittal, not only in
3 the MCI and AT&T arbitration proceeding, but also here
4 for Sprint.

5 MS. BARONE: When Staff performed an analysis,
6 it appeared that there was a 205 percent difference in
7 the costs between the two studies, and we would like to
8 understand why that is.

9 WITNESS STEELE: Okay, I'll explain it to
10 you. The previous study only captured what I would call
11 a real world estimate of GTE's marginal costs; that is
12 what it costs to provide an additional minute of use.
13 The cost studies that are required for TELRIC, where the
14 cost object is the entire network element, must capture
15 both the volume-sensitive and volume-insensitive costs.

16 Approximately five minutes ago or so we
17 discussed the relationship between the fill factors that
18 were used to convert GTE's costs provided from the SCIS
19 and COSTMOD model to produce TELRIC results. And one of
20 the adjustments that's needed to convert a marginal
21 cost, or a volume-sensitive cost, to a TELRIC cost is to
22 make sure that you capture all the costs both fixed and
23 variable, or what I call in our cost study submittal
24 both volume-sensitive and volume-insensitive costs, in
25 the unit costs that are determined by the company.

1 Stated another way, we did not include any of the
2 switching costs in GTE's cost study submittal identified
3 in Mr. Trimble's testimony labeled as common costs. To
4 make sure that we capture those costs from a network
5 element perspective, we must capture both these fixed
6 and variable costs and incorporate them in the per unit
7 TELRICs. That is a primary difference between Page 9
8 and Page 13.

9 In the previous analyses that GTE performed in
10 this state, it took a very microscopic view at a
11 service. We weren't addressing a minute of use of a
12 switch in its generic state. We were dealing with a
13 minute of use of a marginal cost or a unit incremental
14 cost perspective without regard for the fixed or
15 volume-insensitive costs that GTE incurs relative to
16 providing switching. When we performed the cost studies
17 from a TELRIC perspective, again, not only consistent
18 with GTE's philosophy, but that of the MCI's, AT&T's and
19 Sprint's, as well as the FCC report, we must ensure that
20 we capture all of the costs that are incremental with
21 the network element without regard to service
22 classification. (Pause)

23 MS. BARONE: Does GTE Florida recommend that
24 proposal A or proposal B be used for setting rates for
25 unbundled elements?

1 WITNESS TRIMBLE: GTE presented two separate
2 proposals so that the CLECs or new entrants could have a
3 choice as to whichever one they would find most
4 appropriate given their business objectives. My guess
5 is if you were to set rates that you believe -- if the
6 Commission were to order rates that it believes most
7 reflect what is seen in the FCC order, which has been
8 stayed, that proposal B would probably most follow that
9 order.

10 MS. BARONE: So what's the difference between
11 the rates in proposal A and proposal B?

12 WITNESS TRIMBLE: In proposal A we have an
13 unbundled loop, we have an unbundled port, but when a
14 person, or an ALEC, or CLEC, buys the unbundled port, it
15 gives them access to switching and features on a resale
16 basis. Proposal B, when they buy the unbundled port,
17 there are also specific rates that are different than
18 resale for features and switching.

19 For example, under proposal A, if a CLEC were
20 to purchase three-way calling, the rate may be -- the
21 retail rate may be -- I'll just take an estimate -- \$3.
22 The resale rate of that may be \$2.90 or \$2.70. Under
23 proposal B, the price would probably be 25 cents.

24 MS. BARONE: Earlier there was questions
25 regarding the \$300 million loss, or the discussion where

1 GTE alleges that there would be a \$300 million loss in
2 revenue as a result of the rates approved by the
3 Commission. You stated that this figure is based on the
4 revenues for all 1.9 million lines provided by GTE; is
5 that correct?

6 WITNESS TRIMBLE: That is correct.

7 MS. BARONE: Does GTE Florida believe that it
8 would lose all of its customers associated with those
9 1.9 million lines?

10 WITNESS TRIMBLE: No. Let me explain the
11 comparison a little better. From the standpoint of
12 evaluating the appropriateness of a pricing proposal, a
13 very valid way to do that is to look at what happens if
14 you're totally in a resale or a wholesale only
15 business. Will the prices you set in that wholesale
16 only business recover the expenses you have? I am not
17 implying that GTE expects to lose all of its customers.
18 I use that comparison to say, look what the rates
19 specifically do. The rates themselves are not
20 compensatory in the resale arena. They do not recover
21 the costs that are incurred for them.

22 If you take the objective of saying what
23 specific rates will be set, it is quite possible, if
24 there is a 30 percent discount, or 40 percent discount,
25 or 50 percent discount, potentials in terms of loss of

1 revenues, that the ability of CLECs to totally erode the
2 market could be greatly enhanced. You could lose 50
3 percent of your market share very, very quickly. But
4 the analysis I gave was just to say, does the pricing
5 proposal make sense? And intuitively, just looking at
6 the numbers, the answer must be no.

7 MS. BARONE: Sir, earlier you stated that
8 there may be potential losses, but you're not really
9 sure what those losses might be; are you?

10 WITNESS TRIMBLE: I can assure you if --

11 MS. BARONE: If any?

12 WITNESS TRIMBLE: If the cost structures --
13 there have been estimates made over time of likely
14 erosion. None of those estimates were based on resale
15 reductions, or should I say wholesale rates, as
16 significantly different than what we had envisioned. It
17 is quite likely that there will be significant erosion,
18 especially if the cost characteristics you have just
19 given to the new entrants are significantly lower than
20 the cost characteristics you yourself face. It would be
21 very hard for us to compete with somebody whose costs of
22 doing service, or of doing business, are significantly
23 lower than ours. Basic economics tells us that the
24 company with the lowest cost structure usually wins. We
25 do not have the cost structure, as shown by our exhibits

1 and our revenues and our TSLRICs, that would be passed
2 on to the new entrants. We will lose. And it will be
3 all our services. We will still be providing them.

4 MS. BARONE: So the 300 million figure that
5 you've stated as what you think will be lost, based on
6 the Commission's approved rates run by the network
7 elements, you're really not exactly sure of that figure;
8 are you?

9 WITNESS TRIMBLE: No. Let's take the
10 300 million and say, assuming the Commission's rates --
11 and they are in effect or will be in effect and people
12 do buy those -- let's say that results in a 40 percent
13 market share. And it may be -- and let's assume that
14 the market share is just of an average customer. We
15 don't lose the high volume customers, we just lose
16 average customers. The total loss then would be the
17 300 million times .4 or 120 million. It's really
18 dependent on the market share that results out of that.

19 MS. BARONE: So it's not really based on the
20 rate; it's based on the market share?

21 WITNESS TRIMBLE: Well, market share will be
22 determined pretty much by the relationship of the rates
23 that you pass on to customers.

24 MS. BARONE: So is it your testimony that the
25 Commission should set rates so that GTE Florida does not

1 lose revenues even though its market share is reduced by
2 competition?

3 WITNESS TRIMBLE: No. Even the pricing
4 proposals we have made, either proposal A or proposal B,
5 are not make-whole proposals. I think that's quite well
6 documented in my direct testimony. The only way GTE can
7 be made whole with the rates it proposes, and I believe
8 it must be addressed, is through an end user surcharge.
9 The end user surcharge is the mechanism that does the
10 mitigation of any takings potentials.

11 MS. BARONE: Are you an attorney?

12 WITNESS TRIMBLE: No. This is, again, a
13 layperson speaking.

14 MS. BARONE: Do you think it's the
15 Commission's responsibility to make GTE Florida whole?

16 WITNESS TRIMBLE: I think it is the
17 Commission's responsibility to assure that the rates
18 that it recommends and sets and puts in place do not
19 arbitrarily discriminate against the company that is
20 offering those rates. When we get into discrimination,
21 as I've heard today, Sprint says it does not want to be
22 discriminated against in terms of different rates, but
23 discrimination, to me, also says the seller cannot be
24 discriminated against.

25 MS. BARONE: But, do you think it's the

1 Commission's responsibility to make GTE Florida whole?

2 WITNESS TRIMBLE: I believe it's the
3 Commission's responsibility to address the historic
4 attributes of the rate making processes in whatever
5 agreements and incumbent burdens that it has
6 participated in with the ILECs over time.

7 MS. BARONE: You would agree that we are now
8 embarking in a competitive environment, correct?

9 WITNESS TRIMBLE: Yes, I would.

10 MS. BARONE: And we're no longer under rate
11 base regulation; are we?

12 WITNESS TRIMBLE: That is correct.

13 MS. BARONE: So, yes or no, do you believe
14 it's the Commission's responsibility to make GTE Florida
15 whole?

16 WITNESS TRIMBLE: I believe the Commission
17 must address the historic attributes --

18 COMMISSIONER KIESLING: Excuse me, would you
19 please answer yes or no?

20 WITNESS TRIMBLE: I will say yes then.

21 MS. BARONE: How do you define making a
22 company whole?

23 WITNESS TRIMBLE: I believe, as described by
24 Dr. Sibley, making the company whole is not making the
25 company whole in terms of revenues. It is making it

1 whole in terms of contributions to support historic
2 investments.

3 MS. BARONE: You believe it's the Commission's
4 responsibility to be sure that GTE Florida's costs are
5 covered?

6 WITNESS TRIMBLE: GTE Florida's historic costs
7 should be covered, I believe, yes. Going-forward costs
8 should be recovered through pricing based on TELRIC plus
9 reasonable levels of forward-looking common costs.

10 MS. BARONE: So you're saying that the costs
11 should be based on embedded costs?

12 WITNESS TRIMBLE: No. From a pricing
13 standpoint, and we should split the pricing into -- the
14 proposed rates for unbundled elements should be TELRIC,
15 plus a reasonable level of forward-looking costs. The
16 remainder should be addressed through the end user
17 surcharge. Now, I should also point out that when you
18 look at the end user surcharge, much of that element,
19 even the \$300 million, potentially, is mitigated by rate
20 rebalancing and universal service. They're all tied
21 together.

22 MS. BARONE: You stated that the Commission
23 should look at historical costs. Aren't historical
24 costs embedded costs?

25 WITNESS TRIMBLE: Embedded costs may also be

1 forward-looking costs, and historic costs are definitely
2 embedded, yes.

3 MS. BARONE: But didn't you testify that the
4 Commission should look at TELRIC, which is a
5 forward-looking cost methodology?

6 WITNESS TRIMBLE: In terms of setting -- yes,
7 in terms of setting the rates for unbundled network
8 elements. The end user surcharge is not a rate for an
9 unbundled network element.

10 MS. BARONE: So if the Commission sets rates
11 that cover GTE Florida's costs, then they have met their
12 responsibility?

13 MR. McCORMICK: Commissioner, I would object
14 to the form of that question. I think it calls for a
15 legal conclusion.

16 MS. BARONE: In your opinion. I'm not asking
17 for a legal conclusion.

18 WITNESS TRIMBLE: I have a hard time saying
19 exactly what -- and from my standpoint, the Commission
20 has a very, very hard job in terms of balancing the
21 needs of the new entrants, the consumers of Florida, and
22 also the historic requirements that have resulted from
23 past regulation. To me it's an extremely tough job.

24 MS. BARONE: What is included in TELRIC?

25 WITNESS TRIMBLE: The best definition of

1 TELRIC are to look at the total costs of a company with
2 the element and then the total costs of the company
3 without the element, and the difference between the two
4 of those is the total TELRIC.

5 MS. BARONE: Does TELRIC include a profit?

6 WITNESS TRIMBLE: TELRIC includes a return on
7 and return of capital, yes.

8 MS. BARONE: What would you consider a
9 reasonable level of contribution?

10 WITNESS TRIMBLE: A reasonable level of
11 contribution depends on many things. It depends on the
12 level of common costs you have, as well as the
13 competitiveness of the market. Demand characteristics
14 should play a role in all pricing.

15 MS. BARONE: Thank you. That's all I have.
16 I'm sorry, I have two more.

17 Would you please refer to Page -- Mr. Trimble,
18 refer to Page 18, Lines 10 through 20 of your direct
19 testimony.

20 COMMISSIONER GARCIA: Sorry, what page?

21 MS. BARONE: Page 18, Lines 10 through 20.

22 WITNESS TRIMBLE: Yes.

23 MS. BARONE: Sir, can you cite to anywhere in
24 the Act or the FCC order that says that costs to the
25 ALEC should be the same whether they buy a service at

1 wholesale or combine unbundled elements to recreate the
2 same service?

3 WITNESS TRIMBLE: No, I cannot. But I would
4 also like to state that I do not want telecommunications
5 to be the first industry in the world that has two sets
6 of wholesale rates for exactly the same thing that are
7 dramatically different.

8 MS. BARONE: Would you agree, subject to
9 check, that the FCC's order at Section 51.315(c), states
10 that ALECs can combine unbundled elements in any manner
11 they so desire?

12 WITNESS TRIMBLE: Yes, I am aware of that.

13 MS. BARONE: Thank you. That's all I have.

14 COMMISSIONER KIESLING: How much redirect are
15 you going to have?

16 MR. McCORMICK: I think about five minutes.

17 COMMISSIONER KIESLING: What's everybody's
18 pleasure? Do we want to take a five-minute break or do
19 we want to finish?

20 MR. McCORMICK: I say take a break.

21 COMMISSIONER KIESLING: You say take a break?
22 I say let's finish. That won't give you as much time to
23 make up more questions.

24 MR. McCORMICK: It won't be five minutes like
25 the Staff's five minutes.

1 MR. BOYD: Commissioner Kiesling, may I ask
2 your indulgence, in the interest of fairness, could I
3 ask three questions of Mr. Trimble to follow up on the
4 \$300 million figure that was just discussed?

5 COMMISSIONER KIESLING: No. And the reason is
6 that that he gave in his summary, you had a chance to
7 cross it, you didn't ask any questions on it, so you're
8 not following up Staff. You just failed to do it on
9 your cross. Redirect?

10 REDIRECT EXAMINATION

11 MR. McCORMICK: Mr. Trimble, could prices for
12 unbundled network elements to different CLECs be
13 different and not be discriminatory?

14 WITNESS TRIMBLE: Yes, they could.

15 MR. McCORMICK: Why is that?

16 WITNESS TRIMBLE: I believe when you put
17 together a pricing proposal, that you must look at the
18 entire pricing proposal. If there are differences in
19 terms, if there are differences in conditions, if there
20 are differences in any sort of wants and desires, prices
21 could vary between the elements and satisfy the
22 requirements of the specific entity that has signed the
23 contract. There's more to -- there's more than just
24 price to a contract. But price is used to reflect the
25 values of those contracts.

1 MR. McCORMICK: Now you said a moment ago that
2 you didn't want the telecommunications industry to be
3 the first one in the world to have two sets of wholesale
4 rates for the same thing. What did you mean by that?

5 WITNESS TRIMBLE: What I meant was if you take
6 unbundled network elements, as we just discussed on
7 terms of combining unbundled network elements, the
8 order, I also believe, says anybody may combine elements
9 to recreate any resale service, or any retail service
10 they so desire. You must look at the specific price
11 levels for the unbundled network elements and also for
12 resale to assure yourself that you have not created an
13 absolute arbitrage level. For example, in my simple
14 analysis in my opening where I said if you put all these
15 together, it implies a 32 percent reduction, that 32
16 percent reduction compares to the 13 percent reduction
17 in the resale environment. With that capability, there
18 will be no resale in this state. People will just order
19 the unbundled network elements and get the 33 percent
20 reduction.

21 MR. McCORMICK: What would that do to the
22 telecommunications infrastructure?

23 WITNESS TRIMBLE: I'm certain, as Dr. Sibley
24 said earlier this morning, that the ability to attract
25 capital and continue to build the infrastructure would

1 be very limited on GTE's part.

2 MR. McCORMICK: Thank you. Mr. Steele, a
3 couple of questions. Are you aware that Sprint's -- of
4 Sprint's position that it advocates a fixed uniform
5 markup of 15 percent?

6 WITNESS STEELE: Yes, I am. That's the markup
7 that includes corporate operations expense.

8 MR. McCORMICK: How does that 15 percent
9 markup from common costs differ from the common cost
10 proposals made by GTE?

11 WITNESS STEELE: Well, there are two
12 differences which are outlined in Mr. Trimble's
13 testimony, Page 2 of 2. The first difference is that we
14 included more than just corporate operations expense in
15 our common cost category. Our corporate operations
16 expense are 12 percent of revenues, which is well within
17 the bounds that are advocated by Sprint, and that would
18 be 14 percent of direct costs. And their proposal is to
19 make sure it doesn't exceed 15 percent.

20 The other difference is that we also include
21 in our common cost calculation, as identified on Page 2
22 of 2 of Mr. Trimble's Exhibit 1 attached to his
23 testimony, the specific costs identified and associated
24 with general support costs, plant-specific operations
25 and plant non-specific operations. Now, these are items

1 that GTE truly believes are part of the common costs,
2 but Sprint advocates that they should be part of the
3 TELRIC, and it is only the corporate operations expense
4 which should be addressed in the common costs and
5 therefore markup determination.

6 MR. McCORMICK: If GTE were to adopt Sprint's
7 uniform markup proposal, how would that impact GTE's
8 TELRICs?

9 WITNESS STEELE: Well, I would have to go to
10 tab 4 which provides GTE's TELRIC of --

11 MR. McCORMICK: Why don't you take one
12 element, for example, a 2-wire loop?

13 WITNESS STEELE: Okay, I can do that. It's
14 \$23.26, and I guess I can say that because it's also in
15 Mr. Trimble's non-proprietary attachment. I would then
16 have to go to Mr. Trimble's Page 2 of 2. It's the
17 exhibit that has labeled at the top, "What's in GTE
18 Florida's Common Costs?" And so to be consistent with
19 Sprint's, as well as, by the way, MCI and AT&T's
20 advocacy, which is to include the general support costs,
21 network specific operations and plant nonspecific
22 operations directly in the TELRIC studies, I would have
23 to take those as a function of GTE's direct cost, and
24 when I do that, that's approximately 27 percent. So I
25 take the \$23.26 times 1.27. That would be close

1 enough. And then at that point I would mark that up by
2 a number not to exceed the 15 percent advocated by
3 Sprint. And since our number is 14 percent, I'll just
4 use that. That would result in a price, again, based on
5 Sprint's advocated fixed allocator of \$33.68.

6 MR. McCORMICK: How does that compare to the
7 price advocated by GTE?

8 WITNESS STEELE: It's within 50 or 60 cents.

9 MR. McCORMICK: Thank you, Mr. Steele.
10 Nothing further, Commissioner.

11 COMMISSIONER KIESLING: All right, exhibits.

12 MR. McCORMICK: We would move into evidence
13 Steele Exhibit 12, which is a composite including six
14 cost binders, and Trimble Exhibit 13, also a composite
15 exhibit.

16 COMMISSIONER KIESLING: Exhibit 12 and 13 are
17 admitted without objection. And the late-filed -- well,
18 we can't do until we have it.

19 (Exhibit Nos. 12 and 13 received into
20 evidence.)

21 COMMISSIONER KIESLING: Are these witnesses
22 excused?

23 MR. McCORMICK: Yes, ma'am.

24 COMMISSIONER KIESLING: Okay. Let me just ask
25 you, it's 4:30, and I don't know how long people

1 anticipate Ms. Menard's testimony taking. Should we
2 save her for tomorrow after we have Mr. Wellemeyer and
3 Mr. Drew, or should we take a break and come back and
4 finish Ms. Menard?

5 MR. GILLMAN: We can do whatever the
6 Commission would like. I will say that I don't think if
7 we put Ms. Menard off until tomorrow, I don't think --
8 we're probably going to be done by in the morning with
9 all three witnesses. So I think we have plenty of time
10 that we would not have to push forward ahead tonight.

11 COMMISSIONER KIESLING: All right.

12 COMMISSIONER GARCIA: So you're saying we'll
13 finish before noon tomorrow?

14 COMMISSIONER KIESLING: Even with all three
15 witnesses?

16 COMMISSIONER GARCIA: Even if we don't take
17 Ms. Menard today?

18 MR. GILLMAN: It's somewhat out of our
19 control, but I would be surprised if it goes longer than
20 that. Also, as I understand, that we may have reached
21 kind of a national settlement on the OSS, and it --
22 Mr. Drew is expected to go -- will not take very long.

23 MR. BOYD: Yes, Commissioner. We'll finish in
24 the morning by noon.

25 MS. BARONE: If I may add. If you don't

1 settle, then we have quite a few questions for
2 Mr. Drew.

3 MR. BOYD: The word that we get is the OSS has
4 been resolved. We're going to confirm that this
5 evening.

6 MR. GILLMAN: Supposedly Mr. Drew is bringing
7 sort of the terms of the settlement with him tonight.

8 COMMISSIONER KIESLING: In that case we'll go
9 ahead and adjourn the proceedings for today and come
10 back tomorrow morning, begin with Mr. Wellemeier, then
11 Mr. Drew, and finish up with Ms. Menard.

12 MR. BOYD: And we'll start at what time?

13 COMMISSIONER KIESLING: Why don't we start at
14 9:30?

15 MR. BOYD: The usual time it, right?

16 COMMISSIONER KIESLING: The usual time, yes.

17 MR. BOYD: Thank you.

18 (Thereupon, the hearing adjourned at 4:37
19 p.m., to reconvene at 9:30 a.m., Friday, December 6,
20 1996 at the same location.)

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