GTE FLORIDA INCORPORATED

DIRECT TESTIMONY OF WILLIAM E. MUNSELL

DOCKET NO. 961537-TP

Q. **PLEASE STATE YOUR NAME AND YOUR BUSINESS ADDRESS.**

A. My name is William E. Munsell. My business address is 600 Hidden Ridge, Irving, TX 75038.

Q. **BY WHOM ARE YOU EMPLOYED, AND WHAT IS YOUR POSITION?**

A. I am employed by GTE Telephone Operations as Senior Product Manager-Switched Access Service.

Q. **PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.**

A. I have an undergraduate degree in Economics from the University of Connecticut, and a masters degree from Michigan State University in Agricultural Economics. I joined GTE in 1982 with GTE of Florida. During the course of my career with GTE, I have held positions in Demand Analysis, Pricing and Product Management. Given that GTE has many separate arbitration proceedings underway at the same time, GTE requests that it be permitted, if necessary, to substitute a witness for my testimony.

Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to address ACSI's request for reciprocal compensation for the transport and termination of local traffic.

Q. HOW IS YOUR TESTIMONY STRUCTURED?

A. My testimony will be presented in five sections. Section A is a general description of interconnection, transport and termination as background; Section B is a discussion of certain of the Act's requirements; Section C sets forth the parties' positions on these issues; Section D discusses GTE's position on the issue; and Section E provides a brief summary.

Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.

A. The Telecommunications Act of 1996 (the "Act") requires GTE to (1) permit any requesting telecommunications carrier to interconnect with its network and (2) establish reciprocal compensation arrangements for the transport and termination of telecommunications traffic which provides for the recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities. Further, the Act sets forth certain minimum conditions and rate standards for interconnection, transport and termination. While the Act allows significant flexibility in the parties' arrangements for interconnection, transport and termination, it nevertheless imposes fair and rational limits. GTE should be allowed to charge rates for interconnection, transport and termination that are just, reasonable and nondiscriminatory and that allow GTE full recovery of its costs and a reasonable profit.

SECTION A: DESCRIPTION OF TRANSPORT, INTERCONNECTION AND TERMINATION

Q. PLEASE DESCRIBE THE MANNER IN WHICH COSTS ARE INCURRED WITH RESPECT TO INTERCONNECTION TRANSPORT AND TERMINATION.

A. Once an ILEC interconnects with an ALEC, the ILEC can complete the ALEC's calls by transporting and terminating those calls over its network system, and vice versa. When an ILEC or ALEC transports and terminates its own traffic, the costs of transport and transmission are part of the carrier's overall costs. With interconnection, an ILEC or an ALEC still incurs costs for the transport and termination of calls it terminates for other carriers. Thus, in interconnection agreements, ILECs and ALECs usually quantify these costs at a given rate per minute of usage.

These costs may differ depending on the extent to which completion of calls from the point of interconnection, onto either the ILEC's or ALEC's network, involves tandem switching and transport. If an ALEC interconnects with an ILEC at an end office, the ILEC will incur the cost of switching at the end office and termination to the end user. If, on the other hand, an ALEC interconnects with an ILEC at a tandem switch, the ILEC incurs the costs of switching at the tandem office, transport to the end office, switching at the end office and termination to the end user. Thus, parties to an interconnection agreement will take into account the functions of tandem switching, transport and termination involved and generally price these elements separately.

Q. **WILL THE COSTS OF INTERCONNECTION BE THE SAME FOR AN ILEC AS FOR AN ALEC?**

A. No. The cost of transport and termination will generally be higher for an ILEC than an ALEC. With regard to GTE specifically, traffic on GTE's network is usually dispersed throughout a large network of end offices and tandem switches, which serve a relatively large number of low volume residential customers. By contrast, an ALEC will have relatively few end office switches which can be expected to serve a relatively large number of high volume business customers. Thus, because an ALEC's network is handling a relatively higher volume of traffic through a fewer number of switches, an ALEC's switches and transmission plant can be expected to have a higher throughput than an ILEC's switches and transmission plant. Because the total capacity of an ALEC's network tends to be more fully utilized than the capacity of the ILEC's network, the ALEC's per unit cost for transport and termination can be expected to be lower than the ILEC's per unit cost.

Therefore, if a transport and termination agreement accurately reflects the true relative costs incurred by an ALEC and an ILEC for terminating each other's traffic, the agreement will, most likely, provide that the ILEC recovers its costs at a higher rate than the ALEC. If, however, a transport and termination agreement provides for symmetrical rates (i.e., each carrier charges the other the same price), the agreement does not necessarily reflect the actual costs of interconnection for each party.

Q. **ARE COMPENSATION ARRANGEMENTS NORMALLY INCLUDED IN INTERCONNECTION AGREEMENTS?**

A. Transport and termination agreements usually include a compensation arrangement to allow the parties to bill the amounts owed to one another on a periodic basis. Alternatively, transport and termination agreements may provide for a "bill-and-keep" system whereby each party keeps whatever it bills to the end user and does not pay the other party for the costs of transport and termination. Where local traffic exchanged between the two carriers is approximately equal, a bill-and-keep system may be appropriate.

SECTION B: THE "ACT"

Q. **DOES THE ACT ADDRESS THE METHOD FOR PRICING INTERCONNECTION SERVICES?**

A. Although the parties are free to negotiate the price of interconnection, in the event the parties seek arbitration by a State commission under section 252 of the Act, rates for interconnection set by the State commission shall be "based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection . . . and . . . nondiscriminatory, and . . . may include a reasonable profit." 47 U.S.C. § 252(d)(1)(A)-(B) (1996).

With regard to transport and termination, the Act provides that a State commission may not consider the terms and conditions of reciprocal compensation to be just and reasonable unless such terms and conditions "provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier" and determine costs "on the basis of a reasonable approximation of the additional costs of terminating such calls." 47 U.S.C. § 252(d)(2)(A)(i)-(ii) (1996). Section 252(d) also states that such pricing standards shall not be construed to prevent parties from arranging for "the mutual recovery of costs through the offsetting of reciprocal obligations, including arrangements that waive mutual recovery (such as bill-and-keep arrangements)." 47 U.S.C. § 252(d)(2)(B)(i) (1996).

SECTION C: UNRESOLVED ISSUES

Q. PLEASE IDENTIFY THE ISSUES THAT ARE IN DISPUTE BETWEEN GTE AND ACSI AND THEIR RESPECTIVE POSITIONS.

A. Although contract language has yet to be worked out, I understand that ACSI and GTE seem to have agreed in principle to a range of interconnection issues that will not be addressed here. However, ACSI's petition presents three issues yet to be resolved.

(1) *Should bill-and-keep be used as a reciprocal compensation arrangement for transport and termination?*

ACSI's Position: Yes, subject to the following conditions:

i) If, during the first 12 months of the agreement, one party's volume of terminating traffic exceeds that of the other party by more than 2 million minutes in a state, the parties shall mutually compensate each other, and

ii) During the second 12 months of the agreement, bill-and-keep will be used unless one party's volume of terminating traffic exceeds that of the other party by more than 10 percent and the amount of compensation for the excess traffic would exceed $10,000;

iii) Per section 251(b)(5), GTE is responsible for tracking the volume of traffic exchanged in order to determine when compensation should be applied per (i) and (ii) above.

GTE's Position: While GTE's preferred position is asymmetrical rates as stated below, the Company is willing to enter into bill-and-keep arrangements initially, but only where traffic is approximately equal and other specified parameters are met. As and when traffic becomes out of balance by plus or minus 10%, then individual charges should be issued.

Section 251(b)(5) imposes upon GTE "the duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications." Section 251(b)(5) does not impose upon GTE the responsibility to track the volume of traffic exchanged between GTE and an ALEC. ACSI has erronously indicated that GTE has agreed to perform this function on behalf of both parties. GTE believes that each party should be responsible for measuring traffic terminating to it from the other party, and have the capability to perform the traffic studies necessary in order to determine whether the two-way traffic flows are either in or out of balance.

(2) *What should be the rate for the transport and termination of local traffic?*

ACSI's Position: ACSI proposes that each carrier transport and terminate local traffic originating on the other carrier's network at a total compensation rate of $0.009 per minute.

GTE's Position: Compensation for the transport and termination of local traffic should be based on the costs of each party, plus a reasonable contribution. GTE proposes to charge its interstate switched access rates for all minutes terminated to GTE that exceed a 10% "threshold of balanced traffic."

(3) *Does ACSI's network perform equivalent functions as GTE's tandem switch?*

ACSI's Position: From a functional perspective, ACSI's network will provide the same service as is provided by GTE's tandem switched network.

GTE's Position: Tandem switches perform switching functions which are unique from end offices: tandem switches direct traffic between interoffice trunk groups, while end offices direct traffic between lines served by that end office, or between a line served by that end office and the interoffice trunk(s). While ACSI may elect to deploy tandem switches in their network, the extent of geography which any of their end office switches serves has no bearing on whether their switch is performing a tandem switching function.

SECTION D: GTE'S POSITION

Q. IS THE BILL-AND-KEEP METHOD OF PRICING APPROPRIATE OR NECESSARY?

A. The Act requires that transport and termination arrangements allow for "the mutual recovery of costs through the offsetting of reciprocal obligations." 47 U.S.C. § 252(d)(2)(B). Among the other possible options for mutual recovery of costs, parties may opt for "arrangements that waive mutual recovery (such as bill-and-keep arrangements)," id., but are not required to do so. Thus, the Act does not require or permit the Commission or the FCC to impose bill and keep on GTE and ACSI.

The Commission is likewise not required to impose bill and keep under the FCC's Order. The Order states that a State commission "may" impose bill and keep if neither party has rebutted the presumption of symmetrical pricing and if the volume of traffic exchanged is approximately equal. See Order, ¶ 1111. Not only has GTE rebutted the presumption of symmetrical pricing, but there presently exists no way for the Commission to determine whether the volume of traffic exchanged will, in fact, be equal. Thus, neither precondition has been met.

While GTE's preferred position is as stated above, the company is willing to enter into a bill-and-keep compensation arrangement given certain parameters. The proposed arrangement, predicated upon approximately equivalent traffic flows, would be for the transport and termination of end-user local traffic. The arrangement would specifically exclude any toll or access traffic. Also, interLATA access traffic must be carried over separate trunk groups and may not be included with the local and local toll traffic.

GTE, in the interest of expediting the competitive process, is proposing a fairly broad definition of roughly balanced. The Company is proposing that roughly balanced equates to plus or minus ten percentage points. This means that the originating/terminating split could be 60/40. GTE does not believe the position presented by ACSI, which could result in 100/0 traffic imbalance, can be construed to meet the requirements under the act that bill-and keep is appropriate if traffic is roughly balanced.

GTE is willing, in the spirit of the Act, to reach a compromise position regarding the issue of bill and keep. This definition, in conjunction with certain parameters, provides a reasonable approach.

The following parameters are fundamental to GTE's proposed bill-and-keep arrangement:

1) The arrangement applies to the termination of interconnected calls and does not apply to internetwork facilities.

2) The arrangement applies to local and EAS traffic only and has no implications to access (or wireless) compensation. For purposes of traffic compensation, local and EAS calling scopes are as defined in the GTE exchange services tariff, and do not include optional wide area calling scopes.

3) Traffic must be local end-user traffic. An ALEC may not aggregate traffic other than its end-user local and mandatory EAS traffic for the purposes of this arrangement. Toll and access type traffic should be compensated via access charges.

4) Traffic is assumed to be roughly balanced unless there are records available which would indicate otherwise. Either party may request traffic studies be performed on not more frequently than a quarterly basis.

5) If traffic studies indicate that traffic is outside of the roughly balanced range, either party may request that billing commence.

6) Either party may terminate the arrangement with twelve months' notice.

Q. DOES SYMMETRICAL PRICING ALLOW RECIPROCAL AND MUTUAL RECOVERY OF COSTS AS A REASONABLE APPROXIMATION OF THE COST OF TERMINATING CALLS?

A. Section 252(d)(2)(A)(i) of the Act requires that the terms and conditions for transport and termination must "provide for the mutual and reciprocal recovery by each carrier of costs . . . of calls that originate on the network facilities of the other carrier." The terms and conditions for transport and termination must "determine such costs on the basis of a reasonable approximation of the additional costs of terminating such calls." 47 U.S.C. § 252(d)(2)(A)(ii) (1996).

Symmetrical pricing between ACSI and GTE may not afford GTE recovery of its costs. ACSI's costs for terminating calls will, most likely, be less than GTE's costs for terminating calls. As discussed above, this is due to the expectation that ACSI will utilize a relatively higher percentage of its network's capacity. Using symmetrical pricing based on GTE's costs, ACSI will receive a subsidy from GTE, because it will be receiving far more than the cost it incurs to complete a call. Thus, GTE's costs are not a suitable proxy for determining the actual costs of ACSI for the transport and termination of local telecommunications traffic. Accordingly, the Commission should adhere to the letter and intent of the Act and allow the parties to recover their respective true costs of transport and termination.

At a minimum, the cost studies submitted by GTE justify a departure from symmetrical pricing, as GTE believes its costs for transport and termination to be significantly higher than ACSI's costs. (See Direct Testimony of Dennis Trimble and attachments thereto.) GTE's costs are thus not a suitable proxy for ACSI's costs, and symmetrical pricing is not justified.

B. SHOULD ACSI BE ALLOWED TO CHARGE GTE A TANDEM SWITCHING CHARGE BASED ON THE GEOGRAPHY THEIR END OFFICE SWITCHES SERVE?

A. While ACSI may elect to deploy tandem switches in their network, the geography which any of their end office switces serves has no bearing on whether their switch is performing a tandem switching function. Untill such time as a party deploys tandem switches in their network, that party does not incur any tandem switching costs, and should not be allowed to charge call originators a tandem switching charge.

SECTION E: SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. While interconnection is a significant step towards creating a competitive market for local exchange services, this step is not intended to open up GTE's network to interconnection at any point for any price. Accordingly, the Commission should:

- reject symmetrical pricing for transport and termination, and

- allow bill-and-keep compensation only within the parameters specified herein.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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GTE

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January 24, 1997

Re: Docket No. 961537-TP
Petition by American Communications Services, Inc., and its local exchange operating subsidiaries, for Arbitration with GTE Florida Incorporated pursuant to the Telecommunications Act of 1996

Dear Ms. Bayo:

Please find enclosed for filing an original and fifteen copies of the direct testimony of Kirby D. Cantrell, Michael J. Doane, Gregory M. Duncan, Donald W. McLeod, Beverly Y. Menard, William E. Munsell, Bert I. Steele, and Dennis B. Trimble on behalf of GTE Florida Incorporated in the above matter. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this matter, please contact me at (813) 483-2615.

Very truly yours,

Cantrell - 00930-97
Doane - 00931-97
Duncan - 00932-97
McLeod - 00933-97
Menard - 00934-97
Munsell - 00935-97
Steel - 00936-97
Trimble 00937-97

Anthony P. Gillman
APG:tas
Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the direct testimony of Kirby D. Cantrell, Michael J. Doane, Gregory M. Duncan, Donald W. McLeod, Beverly Y. Menard, William E. Munsell, Bert I. Steele, and Dennis B. Trimble on behalf of GTE Florida Incorporated in Docket No. 961537-TP were sent via overnight delivery on January 23, 1997, to the parties listed below.

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