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July 8, 1997

Mrs. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Docket No. 970172-TP, 970173-TP & 970281-TL

Dear Mrs. Bayo:

Enclosed for filing in the above referenced docket
are an original and fifteen (15) copies of the Direct
Testimony of Mike Guedel.

Copies of the foregoing are being served on all
parties of record in accordance with the attached
Certificate of Service.

Yours truly,

Tracy Hatch

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DIRECT TESTIMONY OF MIKE GUEDEL
ON BEHALF OF AT&T COMMUNICATIONS
OF THE SOUTHERN STATES INC.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NOS. 970172-TP, 970173-TP,
970281-TL
FILED: JULY 8, 1997

Q. WILL YOU PLEASE IDENTIFY YOURSELF?

A. My name is Mike Guedel and my business address is AT&T, 1200 Peachtree Street, NE, Atlanta, Georgia, 30309. I am employed by AT&T as Manager-Network Services Division.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCES.

A. I received a Master of Business Administration with a concentration in Finance from Kennesaw

1 State College, Marietta, GA in 1994. I
2 received a Bachelor of Science degree in
3 Business Administration from Miami University,
4 Oxford, Ohio. Over the past years, I have
5 attended numerous industry schools and seminars
6 covering a variety of technical and regulatory
7 issues. I joined the Rates and Economics
8 Department of South Central Bell in February of
9 1980. My initial assignments included cost
10 analysis of terminal equipment and special
11 assembly offerings. In 1982, I began working
12 on access charge design and development. From
13 May of 1983 through September of 1983, as part
14 of an AT&T task force, I developed local
15 transport rates for the initial NECA interstate
16 filing. Post divestiture, I remained with
17 South Central Bell with specific responsibility
18 for cost analysis, design, and development
19 relating to switched access services and
20 intralATA toll. In June of 1985, I joined
21 AT&T, assuming responsibility for cost analysis
22 of network services including access charge
23 impacts for the five South Central States
24 (Alabama, Kentucky, Louisiana, Mississippi, and
25 Tennessee).

1 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

2

3 A. My current responsibilities include directing
4 analytical support activities necessary for
5 AT&T's provision of intrastate communications
6 services in Florida and other southern states.
7 This includes detailed analysis of access
8 charges and other Local Exchange Company (LEC)
9 filings to assess their impact on AT&T and its
10 customers. In this capacity, I have
11 represented AT&T through formal testimony
12 before the Florida Public Service Commission,
13 as well as regulatory commissions in the states
14 of Georgia, Kentucky, North Carolina, and South
15 Carolina.

16

17

18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

19

20 A. The purpose of my testimony is to recommend
21 that the Commission utilize all available
22 revenues identified through this payphone
23 operations investigation to reduce intrastate
24 switched access charges (specifically the
25 Carrier Common Line or RIC elements).

1 Q. COULD YOU DESCRIBE THE GENESIS OF THIS
2 PROCEEDING?

3
4 A. Yes. In order to promote competition among
5 payphone service providers, the
6 Telecommunications Act of 1996 (the Act)
7 directed the Federal Communications Commission
8 (FCC) to:

9
10 (A) establish a per call compensation plan
11 to ensure that all payphone service
12 providers are fairly compensated for each
13 and every completed intrastate and
14 interstate call using their payphone,
15 except that emergency calls and
16 telecommunications relay service calls for
17 hearing disabled individuals shall not be
18 subject to such compensation;

19 (B) discontinue the intrastate and
20 interstate carrier access charge payphone
21 service elements and payments in effect on
22 such date of enactment, and all intrastate
23 and interstate payphone subsidies from
24 basic exchange and exchange access
25 revenues, in favor of a compensation plan

1 as specified in subparagraph (A); 47 U.S.C
2 Section 276(b)(1)(A)&(B).
3

4 Issues pending before the Commission in this
5 docket flow directly from this statutory
6 language or from FCC orders implementing the
7 contained directives.
8
9

10 **Q. HAS THE FCC REQUIRED LOCAL EXCHANGE COMPANIES**
11 **(LECs) TO ESTABLISH PROCEDURES TO ENSURE THAT**
12 **LEC PAYPHONE SERVICE OPERATIONS ARE NOT BEING**
13 **SUBSIDIZED BY LEC REGULATED OPERATIONS?**
14

15 **A. Yes. Through CC Docket No. 96-128, the FCC**
16 **required that each LEC (including the BOCs)**
17 **classify its payphone operations as non-**
18 **regulated for Part 32 accounting purposes. In**
19 **addition, the FCC required each BOC to**
20 **establish non-structural safeguards (including**
21 **accounting firewalls) separating its payphone**
22 **operations from its continuing regulated**
23 **operations. Further, the FCC identified the**
24 **interstate financial flows associated with the**
25 **reclassification and transfer of LEC payphone**

1 service operations and ordered each LEC to
2 adjust its respective Carrier Common (CCL)
3 revenues (and/or reduce the current CCL Cap for
4 price cap companies) by the determined dollar
5 amount.

6
7

8 **Q. HOW DID THE FCC DETERMINE THE APPROPRIATE**
9 **ADJUSTMENT AMOUNTS?**

10

11 **A.** The amounts were determined in a two step
12 approach:

13

14 First, the FCC identified the costs that would
15 be transferred from the regulated to the non-
16 regulated operation - essentially the costs
17 associated with the Payphone CPE.

18

19 Second, the FCC identified the additional
20 dollars that the regulated operation would
21 receive in new Subscriber Line Charge (SLC)
22 payments associated with the payphone access
23 lines that the non-regulated operation would be
24 purchasing from the regulated operation.

25

1 The sum of these two revenue amounts equaled
2 the required dollar reduction in CCL revenue.
3 The net effect of this process was to hold the
4 regulated operation revenue neutral - in a
5 revenue requirements sense.

6

7

8 **Q. HAVE THE LECS PROPOSED REDUCTIONS IN THEIR**
9 **INTRASTATE SWITCHED ACCESS CHARGES IN FLORIDA**
10 **AS A RESULT OF THE PAYPHONE RECLASSIFICATION**
11 **PROCESS?**

12

13 **A. No. BellSouth has identified revenues**
14 **available for rate reductions. However,**
15 **instead of utilizing the available revenues**
16 **toward reductions in the CCL, BellSouth has**
17 **chosen to apply the amount toward reductions in**
18 **rotary hunting charges. For reasons discussed**
19 **below, this proposal is not in the public**
20 **interest and should be rejected by the**
21 **Commission.**

22

23

24 **Q. HAS BELLSOUTH AGREED TO REDUCE ITS SWITCHED**
25 **ACCESS CHARGES IN OTHER STATE JURISDICTIONS IN**

1 **CONJUNCTION WITH ITS RECLASSIFICATION OF ITS**
2 **PAYPHONE OPERATIONS?**

3
4 A. Yes. BellSouth agreed to reduce its intrastate
5 CCL rate element in Mississippi by \$1,380,000,
6 the amount identified in its Mississippi
7 Payphone Subsidy Study, without a hearing. In
8 North Carolina, BellSouth stated that it did
9 not object to reducing access with amounts
10 identified in the North Carolina Payphone
11 Subsidy Study if the North Carolina Utilities
12 Commission ordered it.

13
14
15 Q. **COULD YOU DESCRIBE THE CURRENT LEVEL OF**
16 **INTRASTATE SWITCHED ACCESS CHARGES IN FLORIDIA?**

17
18 A. Yes. BellSouth's switched access charges are
19 approximately \$.05 (5 cents) per minute
20 including two ends of switched access - or, on
21 an average basis, approximately \$.025 (2.5
22 cents) per access minute of use (one end of
23 access). GTE switched access charges are
24 approximately \$.12 (12 cents) per minute
25 including two ends of switched access - or, on

1 an average basis, approximately \$.06 (6 cents)
2 per access minute of use (one end of access).
3 Access charges for other Florida LECs range
4 from approximately 11 cents for Indiantown to a
5 high or over 14 cent for Centel - again
6 including two ends of switched access.

7
8
9 **Q. HOW DOES THIS PRICE LEVEL COMPARE WITH THE**
10 **UNDERLYING COST OF PROVIDING SWITCHED ACCESS**
11 **SERVICES?**

12
13 **A.** Information made available through Florida
14 Public Service Commission Docket No. 950985-TP
15 indicates that BellSouth's cost of providing
16 switched access service is less than \$.0025 per
17 access minute of use - perhaps as low as \$.002
18 or less. Thus, the price of BellSouth's
19 switched access remains at a level of 10 to 13
20 times that of the underlying cost. Said
21 another way, BellSouth is enjoying a mark-up
22 above cost of at least 900% and possibly as
23 much as 1200% in the provision of its switched
24 access services. This mark-up is significantly
25 higher than the mark-up BellSouth enjoys on any

1 other major revenue producing service that it
2 offers.

3
4 Similar information made available through
5 Florida Public Service Commission Docket No.
6 950985-TP indicates that GTE's cost of
7 providing switched access service is likewise
8 less than \$.0025 per access minute of use.
9 Thus, the price of GTE's switched access
10 remains at a level of 24 times that of the
11 underlying cost. Said another way, GTE is
12 enjoying a mark-up above cost of at least 2300%
13 in the provision of its switched access
14 services. This mark-up is significantly higher
15 than the mark-up GTE enjoys on any other major
16 revenue producing service that it offers.

17
18

19 **Q. WHAT IS THE INCREMENTAL COST INCURRED BY THE**
20 **LECS IN PROVIDING THE CCL ELEMENT?**

21

22 **A.** The incremental cost is zero. In other words,
23 a 10% increase in demand for the CCL would
24 result in a zero percent increase in a LEC's
25 costs. The CCL is a pure contribution element,

1 a tax if you will, levied by LECs on all
2 interexchange carriers purchasing LEC local
3 switching access service.

4

5

6 **Q. WHY IS IT NECESSARY FOR THE COMMISSION TO**
7 **UTILIZE ALL AVAILABLE REVENUES TO REDUCE LECs**
8 **SWITCHED ACCESS CHARGES AT THIS TIME?**

9

10 A. The Commission has long recognized the need to
11 reduce Switched access charges in Florida - and
12 the Commission has made some significant
13 progress over the years. However, recent
14 events have raised the stakes surrounding high
15 access charges.

16

17 First, the Telecommunication Act of 1996 has
18 become law with a spirit of introducing
19 competition into all phases of the
20 telecommunications industry. High access
21 charges have never been conducive of
22 competitive development - and they will surely
23 become much more of an impediment under the new
24 Act. Access charges in excess of incremental
25 cost provide the incumbent monopolist with the

1 opportunity to exact a contribution or "a
2 tribute" from any potential competitor that
3 would "dare" to attempt to compete with an
4 incumbent's retail services. High access
5 charges can distort the economics of
6 competitive local entry - perhaps encouraging
7 potential entrants to build facilities where
8 other forms of entry such as resale may make
9 better economic sense. In either case, the end
10 user receives less than the desired results of
11 competition.

12
13 Second, LEC election of "price cap" regulation
14 under the recent Florida statute has greatly
15 limited the Commission's authority to control
16 access rates. This instant opportunity may
17 offer the Commission a last obvious chance to
18 drive access charges closer to (though still
19 very far from) the underlying cost.

20
21
22 **Q. SHOULD THE COMMISSION FOCUS ON APPLYING THE**
23 **AVAILABLE REVENUES TOWARD REDUCING RATES THAT**
24 **WILL "HELP LECS MEET COMPETITION"?**

25

1 A. No. Most LECs have elected price cap
2 regulation under the current Florida statutes
3 as a means to adjust their prices to meet
4 competitive needs. With respect to these
5 companies, the Commission need not further
6 augment this process. The Commission should
7 instead focus its prescribed rate relief on
8 those rate elements or services that are:
9 1) recognized to be priced in excess of cost
10 today, and 2) either not likely to be
11 positively influenced by competition, or likely
12 to frustrate competition if prices remain at
13 current levels. This focus will tend to
14 optimize the consumer benefits associated with
15 this revenue disposition.

16
17
18 Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?

19
20 A. Yes. The Commission should utilize all
21 available revenues resulting from the
22 reclassification of payphone operations toward
23 the reduction of switched access charges.
24 Switched access charges currently include mark-
25 ups above cost that are significantly higher

1 than current mark-ups on any other major
2 revenue producing service offered by the LECs.
3 In fact, the incremental cost of providing two
4 of the switched access elements (the CCL and
5 the RIC) is zero. The Commission should take
6 this opportunity to move toward the complete
7 elimination of these switched access elements.

8

9

10 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

11

12 A. Yes.

CERTIFICATE OF SERVICE

DOCKET NOS. 970172-TP, 970173-TP & 970281-TL

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties of record this 8th day of July, 1997:

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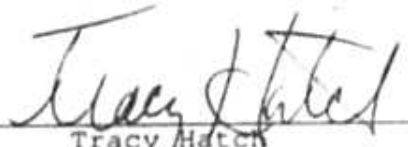
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