

Tracy Hatch  
Attorney

Suite 700  
101 N. Monroe St.  
Tallahassee, FL 32301  
904 425-6364  
FAX: 904 425-6361

May 8, 1998

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

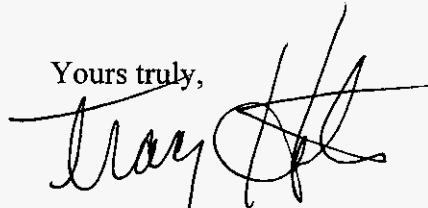
Dear Mrs. Bayo:

Re: Docket No. 970808-TL

You will find enclosed an original and fifteen (15) copies of the Direct Testimony of Mike Guedel on behalf of AT&T for filing in the above-referenced docket.

Copies of the foregoing are being served on the parties of record in accordance with the attached certificate of service.

Yours truly,



Tracy Hatch

ACK  
AFA Wright

APP \_\_\_\_\_

CAF \_\_\_\_\_ TH/mr

CMU 1 Enclosures

CTR \_\_\_\_\_ cc: Parties of Record

EAG \_\_\_\_\_

LEG 1

LIN Stog

OPC \_\_\_\_\_

RCH \_\_\_\_\_

SEC 1

WAS \_\_\_\_\_

OTH \_\_\_\_\_

RECEIVED & FILED

FPSC BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

05216 MAY-8 88

FPSC-RECORDS/REPORTING

**CERTIFICATE OF SERVICE**

**DOCKET NO. 970808-TL**

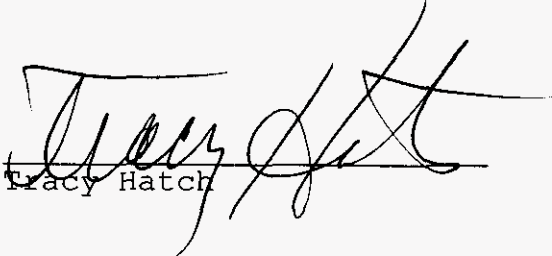
I HEREBY CERTIFY that a true copy of the foregoing has been furnished by United States Mail or hand-delivery to the following parties of record this 8<sup>th</sup> day of 1998, 1998:

Ms. Nancy White  
C/o Ms. Nancy Sims  
BellSouth Telecommunications  
150 S. Monroe Street, Suite 400  
Tallahassee, Florida 32301

David B. Erwin  
127 Riversink Road  
Crawfordville, FL 32327

Beth Keating  
Division of Legal Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Charles J. Beck  
Deputy Public Counsel  
c/o The Florida Legislature  
111 W. Madison St.  
Suite 812  
Tallahassee, FL 32399-1400

  
Tracy Hatch

# ORIGINAL

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

4  
5 BEFORE THE  
6 FLORIDA PUBLIC SERVICE COMMISSION  
7 DOCKET NO. 970808-TL  
8 FILED: MAY 8, 1998  
9  
10

11 Q. PLEASE STATE YOUR NAME AND ADDRESS.

12

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

17

18

19 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND  
20 WORK EXPERIENCES.

21

22 A. I received a Master of Business Administration  
23 with a concentration in Finance from Kennesaw  
24 State College, Marietta, GA in 1994. I  
25 received a Bachelor of Science degree in

DOCUMENT NUMBER-DATE

1

05216 MAY-88

FPSC-RECORDS/REPORTING

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

24  
25

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 address the  
21 issues related to the current interLATA subsidy  
22 (or pooling) arrangements between BellSouth and  
23 GTC, Inc. (GTC). Specifically, I recommend that  
24 the Commission: 1) eliminate the current  
25 interLATA subsidy pool as it applies to

1 BellSouth and GTC, 2) require BellSouth to  
2 reduce switched access charges by an amount  
3 equal to its relief from subsidy payments and,  
4 3) offer no relief to GTC pending a showing by  
5 GTC that an increase is justified consistent  
6 with Section 364.051(5), Florida statutes.

7  
8

9 **Q. SHOULD THE CURRENT INTERLATA SUBSIDY POOL BE**  
10 **ELIMINATED?**

11

12 A. Yes. The pool was clearly intended to be a  
13 temporary institution and the Commission has  
14 over the course of the years taken appropriate  
15 action to eliminate the subsidy draw of all of  
16 the original drawing companies with the  
17 exception of GTC. The Commission should take  
18 the final step through this proceeding to  
19 completely and finally eliminate the subsidy  
20 pool. GTC should not be allowed to use price  
21 cap regulation as a shield to forever protect  
22 the continued flow of subsidy dollars - subsidy  
23 dollars that were clearly intended for support  
24 only during a transitory phase.

25

1 Q. SHOULD BELLSOUTH BE REQUIRED TO REDUCE ITS  
2 SWITCHED ACCESS CHARGES BY AN AMOUNT EQUAL TO  
3 THE RELIEF IT RECEIVES FROM THE DISCONTINUATION  
4 OF SUBSIDY PAYMENTS?

5  
6 A. Yes. In making this determination the  
7 Commission should consider two facts. First,  
8 the original subsidy pool was established in a  
9 manner such that each local exchange company's  
10 earnings would be unaffected - i.e., the fund  
11 was a revenue "wash." In other words,  
12 BellSouth has never been required to compromise  
13 its earnings to fund the pool. Second, the  
14 pool was funded by contributions of a portion  
15 of BellSouth's access revenue. In other words,  
16 Interexchange carriers (payers of access  
17 charges) were the true funding agents of the  
18 pool. BellSouth and other contributing LECs  
19 merely performed a "clearinghouse" function.  
20 Thus, if the subsidy pool is to be eliminated,  
21 BellSouth should be required to reduce other  
22 charges to avoid enjoying a windfall profit,  
23 and it should reduce access charges - charges  
24 that have been and continue to be the real  
25 source of the subsidy revenues.

1

2 Q. DOES THE FACT THAT BELLSOUTH HAS SIGNIFICANTLY  
3 LOWERED SWITCHED ACCESS CHARGES SINCE 1985  
4 RELIEVE IT OF THE RESPONSIBILITY TO LOWER  
5 ACCESS CHARGES IN CONJUNCTION WITH THE  
6 ELIMINATION OF THESE SUBSIDY PAYMENTS?

7

8 A. No. The major BellSouth access reductions were  
9 accomplished in conjunction with earnings  
10 reviews. Because the subsidy payments were  
11 part of BellSouth's intrastate operations at  
12 the time of these reviews, presumably these  
13 subsidy payments were included in the  
14 determination of intrastate earnings. In other  
15 words, previous rate reductions reflected  
16 excess earnings determined after the  
17 recognition of the subsidy payments. Thus,  
18 previous access reductions have not compromised  
19 the "revenue neutral" character of the pool or  
20 eliminated would-be surpluses if the subsidy  
21 requirements were terminated. Therefore, even  
22 after recognizing previous reductions,  
23 BellSouth would still clearly enjoy a financial  
24 windfall from the subsidy relief if it does not  
25 further reduce other rates. BellSouth should



1 not be permitted to reap these windfall  
2 profits.

3

4

5 **Q. SHOULD THE COMMISSION GRANT GTC ANY RATE**  
6 **INCREASES IN CONJUNCTION WITH THE ELIMINATION**  
7 **OF THE SUBSIDY PAYMENTS?**

8

9 A. No. To my knowledge GTC has made no showing  
10 before this Commission of a need to increase  
11 other service rates. The fact that GTC will  
12 loose certain revenues if the subsidy fund is  
13 eliminated does not constitute sufficient  
14 justification for any rate increase under price  
15 cap rules. If at some point GTC feels that  
16 price increases are necessary it can exercise  
17 its options under Section 364.051(5), Florida  
18 statutes.

19

20

21 **Q. IF THE COMMISSION DID DECIDE TO PROVIDE SOME**  
22 **RATE RELIEF TO GTC, SHOULD SUCH RELIEF INCLUDE**  
23 **AN INCREASE IN ACCESS CHARGES?**

24

1 A. No. GTC's current switched access charges are  
2 approximately 12.7 cents per minute (for two  
3 ends of access). This rate is over two and one  
4 half times the rate that BellSouth charges for  
5 intrastate switched access and is among the  
6 highest access rates in the state. These rates  
7 simply should not be increased. The Commission  
8 has recognized on numerous occasions that the  
9 appropriate direction for access charges is  
10 down. The Commission should hold to that  
11 position and not approve any increase in  
12 switched access charges in conjunction with  
13 this docket. Further, it appears that an  
14 increase in intrastate access charges may be in  
15 conflict with Section 364.163, Florida  
16 Statutes.

17  
18 In addition, increasing access charges for GTC  
19 runs counter to the newly enacted legislation  
20 that just passed the Florida Legislature. In  
21 House Bill 4785, the Legislature found that  
22 charges for intrastate switched access services  
23 may be set above cost in order to provide an  
24 implicit subsidy to residential basic local  
25 telecommunications service. Automatically

1 raising switched access charges for GTC without  
2 determining whether such an increase is  
3 warranted would seem to be in conflict with the  
4 intent of the new legislation.

5

6

7 **Q. HOW DO GTC'S ACCESS RATES COMPARE WITH THE**  
8 **UNDERLYING COST OF PROVIDING SWITCHED ACCESS**  
9 **SERVICES?**

10

11 A. AT&T does not have specific information  
12 regarding GTC's cost of providing access  
13 service. However, information made available  
14 through Florida Public Service Commission  
15 Docket No. 950985-TP indicates that both  
16 BellSouth and GTE incur costs of less than  
17 \$.0025 per access minute of use - perhaps as  
18 low as \$.002 or less. Even if we assume that  
19 GTC's costs could be twice as high as those of  
20 the larger companies, GTC is still enjoying a  
21 mark-up above cost of well over 1000% on its  
22 switched access services. This mark-up is  
23 significantly higher than the mark-up GTC  
24 enjoys on any other major revenue producing  
25 service that it offers.

1

2 **Q. WILL AT&T FLOW THROUGH NET ACCESS REDUCTIONS**  
3 **THAT IT RECEIVES THROUGH THIS DOCKET?**

4

5 A. Yes.

6

7 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

8

9 Yes. It is appropriate at this time for the  
10 Commission to eliminate the interLATA subsidy pool.  
11 However, in so doing, the Commission should ensure  
12 that the benefits of their action are enjoyed by the  
13 rate payers of the state. To this end, the  
14 Commission should: 1) require BellSouth to reduce  
15 switched access charges by an amount equal to its  
16 relief from subsidy payments and, 2) offer no relief  
17 to GTC pending a showing by GTC that an increase is  
18 justified consistent with Section 364.051(5) of the  
19 Florida statutes.

20

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

22

23 A. Yes.