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March 1, 2002

BY HAND DELIVERY

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Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

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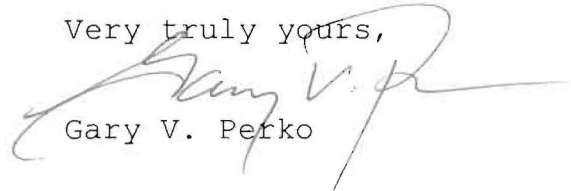
Re: Docket No. 000075-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI WorldCom, Inc. are the original and fifteen copies of Joseph Gillan's Testimony and Exhibits.

By copy of this letter, copies have been furnished to the parties shown on the attached certificate of service. If you have any questions regarding this filing, please give me a call at 425-2359.

Very truly yours,



Gary V. Perko

GVP/jlm

Enclosures

cc: Certificate of Service

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

JOSEPH P. GILLAN

ON BEHALF OF

MCIMETRO ACCESS TRANSMISSION SERVICES, LLC

AND

WORLDCOM COMMUNICATIONS, INC.

Docket No. 000075-TP

Filed March 1, 2002

1 **Q. Please state your name, business address and occupation.**

2

3 A. My name is Joseph Gillan. My business address is P. O. Box 541038, Orlando,
4 Florida 32854. I am an economist with a consulting practice specializing in
5 telecommunications.

6

7 **Q. Please briefly outline your educational background and related experience.**

8

9 A. I am a graduate of the University of Wyoming where I received B.A. and M.A.
10 degrees in economics. From 1980 to 1985, I was on the staff of the Illinois
11 Commerce Commission where I had responsibility for the policy analysis of
12 issues created by the emergence of competition in regulated markets, in particular
13 the telecommunications industry. In 1985, I left the Commission to join U.S.
14 Switch, a venture firm organized to develop interexchange access networks in
15 partnership with independent local telephone companies. At the end of 1986, I
16 resigned my position of Vice President-Marketing/Strategic Planning to begin a
17 consulting practice. Over the past twenty years, I have provided testimony before
18 more than 35 state commissions, five state legislatures, the Commerce Committee
19 of the United States Senate, and the Federal/State Joint Board on Separations
20 Reform. I currently serve on the Advisory Council to New Mexico State
21 University's Center for Regulation.

22

23 **Q. On whose behalf are you testifying?**

1 A. I am testifying on behalf of MCImetro Access Transmission Services, LLC and
2 WorldCom Communications, Inc. (collectively WorldCom).

3

4 **Q. What is the purpose of your testimony?**

5

6 A. The purpose of my testimony is to address two, relatively straightforward, issues:

7

8 Issue 13: How should a “local calling area” be defined for
9 purposes of determining the applicability of
10 reciprocal compensation?

11

12 Issue 17: Should the Commission establish compensation
13 mechanisms governing the transport and
14 termination of traffic subject to Section 251 of the
15 Act, to be used in the absence of the parties
16 reaching agreement or negotiating a compensation
17 mechanism? If so, what should be the mechanism?

18

19 I characterize these issues as relatively straightforward because the Commission
20 has, at least in large measure, already established its basic policy in prior
21 proceedings over the last decade. As to the first issue – what boundary should
22 define the local calling area – the Commission effectively decided, in the mid-
23 1990’s, that the LATA should be the default local area when it authorized

1 expanded local calling areas that supplanted the intraLATA toll market. While
2 there remain some minor “residual” routes within the LATA that incumbents still
3 price as a retail toll service, the “expanded local calling” plans essentially
4 declared the LATA a local calling area nearly a half decade ago.

5
6 As to the second issue – should the Commission establish a default compensation
7 scheme – the answer is equally clear. The Commission is already on record
8 favoring unified compensation and the Telecommunications Act makes clear that
9 cost-based rates for the “transport and termination of traffic” are appropriate,
10 subject to a limited exception where traffic is roughly in balance. As I show
11 below, local traffic is decidedly not in balance – therefore, the default mechanism
12 must be a cost-based rate.

13
14 Although the Commission does not have the ability to bring all intercarrier
15 compensation regimes to cost-based levels, in the one area where it does have
16 clear authority – i.e., local (which is to say, intraLATA) traffic – it should
17 establish the cost-based rate.

18
19 **Issue 13: The IntraLATA Local Calling Area**

20
21 **Q. Why do you say that the Commission has *already* established the LATA as**
22 **the de facto local calling area?**

1 A. In the mid-1990's, the Commission allowed BellSouth and GTE to largely
2 eliminate intraLATA toll services in Florida through "expanded calling services"
3 (ECS). In essence, these plans redefined intraLATA toll into a local service,
4 effectively eliminating the intraLATA toll market. For instance, prior to the
5 introduction of ECS in the Southeast LATA, BellSouth's toll revenue in that
6 LATA was approximately \$120 million per year. In fact, the Southeast LATA
7 toll market was larger than the *entire* toll market in every other BellSouth state.
8 The first round of ECS implementation in the Southeast LATA eliminated
9 approximately \$100 million of that revenue, shrinking the market by more than
10 80%. As the Commission itself later observed:

11
12 Last year the Commission authorized the use of \$25 million in
13 unspecified rate reductions to implement virtual LATA wide ECS
14 in the Southeast LATA. The effect of this was essentially to
15 convert every toll route in that market to local. This enhanced
16 BST's competitive position substantially. (Order No. PSC-97-
17 0128-FOF-TL, page 29, issued February 7, 1997, in Docket No.
18 920260-TL, emphasis added).

19
20 **Q. Has the Commission already concluded that these ECS services are**
21 **local traffic?**

22

1 A. Yes. The Commission reclassified these ECS routes as “local service”, in part to
2 make sure that the imputation requirements of Chapter 364 would not need to be
3 satisfied:

4
5 Because ECS will be part of basic local telecommunications
6 service, it does not violate the imputation requirement of Section
7 364.051(6)(c), Florida Statutes.

8
9 As stated above, we have determined that the ECS plan shall be
10 part of basic local telecommunications service. Thus, it is not
11 "functionally equivalent" to intraLATA toll service. (Order No.
12 PSC-95-1391-FOF-TL, pages 4 and 9 respectively, Docket No.
13 920260-TL, issued November 8, 1995).

14
15 The important point in this proceeding is that the Commission, in effect, *already*
16 established the LATA as the local calling area so that it could permit the
17 incumbents to offer below-access extended calling plans. While some small
18 residual intraLATA toll market remains, this lingering remnant hardly justifies
19 applying some other definition now. For instance, in 1991 BellSouth collected
20 \$4.38 in intraLATA toll revenue per line; by 2000 that had declined to \$0.42.
21 Similarly, in 1991 GTE received \$5.51 per line from intraLATA toll service; by
22 2000 that average had declined to \$0.69.

23

1 compensation regime would be one which applied the *same* cost-based rate for the
2 termination of all traffic, irrespective of its labeling. As I show below, however,
3 the beneficiary of today’s disjointed compensation regime – with different rates
4 for access and local minutes – is the incumbent.

5

6 **Q. Can the Commission adopt a default “bill and keep” regime under a**
7 **presumption that traffic is roughly in balance?**

8

9 A. No. Factually, traffic is not “roughly in balance” and the Commission cannot
10 establish a “default” compensation arrangement that is clearly contrary to reality.
11 Exhibit JPG-1 illustrates the traffic imbalance that currently exists between
12 ALECs and BellSouth, and contrasts those traffic flows to the traffic exchanged
13 between BellSouth and Commercial Mobile Radio Providers (CMRS, also known
14 as “cellular and PCS”), and between BellSouth and long distance carriers
15 (intrastate access only). As Exhibit JPG-1 clearly indicates, no policy that
16 assumes balanced traffic plausibly reflects reality, given the substantial imbalance
17 that actually exists.

18

19 **Q. Does the traffic imbalance illustrated by Exhibit JPG-1 disadvantage**
20 **BellSouth?**

21

22 A. No. The traffic imbalance illustrated by Exhibit JPG-1 tells only part of the story.
23 Although BellSouth does terminate more traffic with ALECs than ALECs

1 terminate with BellSouth, BellSouth also charges other carriers far more for
2 terminating their traffic than its cost. Exhibit JPG-2 compares traffic and *revenue*
3 flows, clearly indicating that BellSouth benefits from the disjointed compensation
4 scheme in place today.

5
6 **Q. Should the Commission adopt a local compensation mechanism that is**
7 **consistent with a unified compensation regime?**

8
9 A. Yes. Commission already has indicated a preference for unified compensation by
10 its prior decisions moving intrastate access rates towards cost. Indeed, in the
11 Commission's very last opportunity to order rate reductions (before losing that
12 authority), the Commission stated:

13
14 Rates for local interconnection will not be priced in the same
15 fashion as switched access has been. These rates recover the cost of
16 terminating a local call on the LEC network. Switched access rates
17 recover the cost of terminating a toll call on the LEC network. The
18 network over which the toll and local calls are terminated is one and
19 the same. We agree with the IXCs that the difference between
20 switched access rates and local interconnection rates, which at the
21 moment is substantial, cannot be maintained. In comments to the
22 FCC, BST has also recognized that there needs to be a "common

1 model for interconnection that is not based on classification of
2 carriers as LECs, IXCs, CMRS, or ESPs."

3 ***

4 We believe that it is necessary to reduce switched access charges,
5 and to do so quickly. (Order No. PSC-0128-FOF-TL, page 24,
6 issued February 7, 1997, in Docket NO. 920260-TL).

7

8 In that same order, the Commission explained that a unified scheme best reduces
9 implementation and auditing costs (page 25):

10

11 Second, we agree that a substantial difference in rates for
12 terminating a local vs. a toll call on the same network will require
13 time, effort, and expense to calculate, bill, and audit.

14

15 For these (and other reasons), the Commission applied more than 92% of
16 the revenues available for rate reduction (i.e., \$37.6 million out of an
17 available \$40.7) to move access rates towards cost-based (i.e.,
18 interconnection) rate levels.

19

20 **Q. How should the Commission proceed here?**

21

22 A. The Commission has already – with limited exception – defined the LATA as the
23 appropriate boundary for the *incumbent's* local calling area. There is no reason to

1 not continue this policy by simply adopting the LATA boundary as the default
2 local calling area for application of reciprocal compensation rates.

3

4 Second, a first step towards adopting a unified compensation scheme is
5 establishing the cost-based rate and applying that rate to as much traffic as the law
6 allows. Today, that would mean adopting a cost-based rate and applying it to all
7 calls within the LATA.

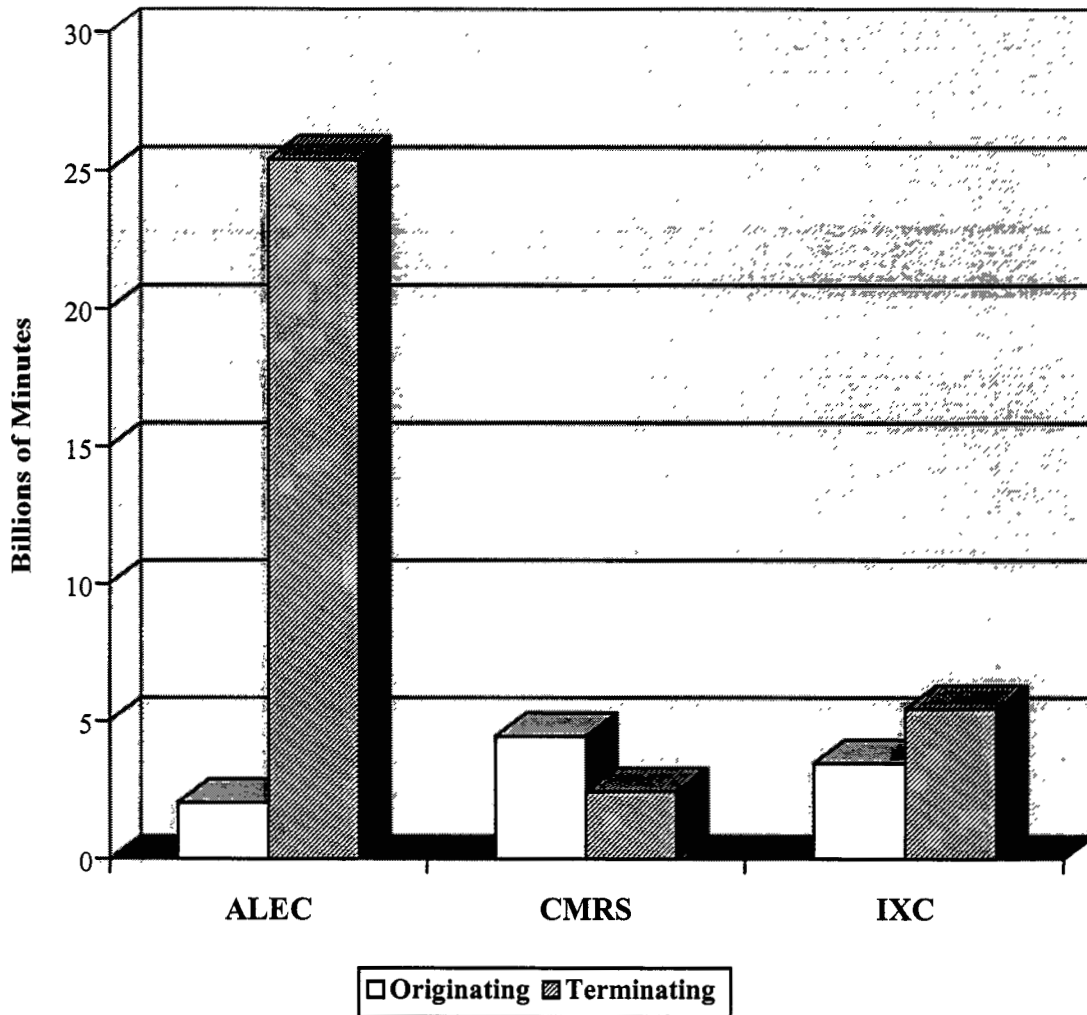
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9 **Q. Does this conclude your direct testimony?**

10

11 A. Yes.

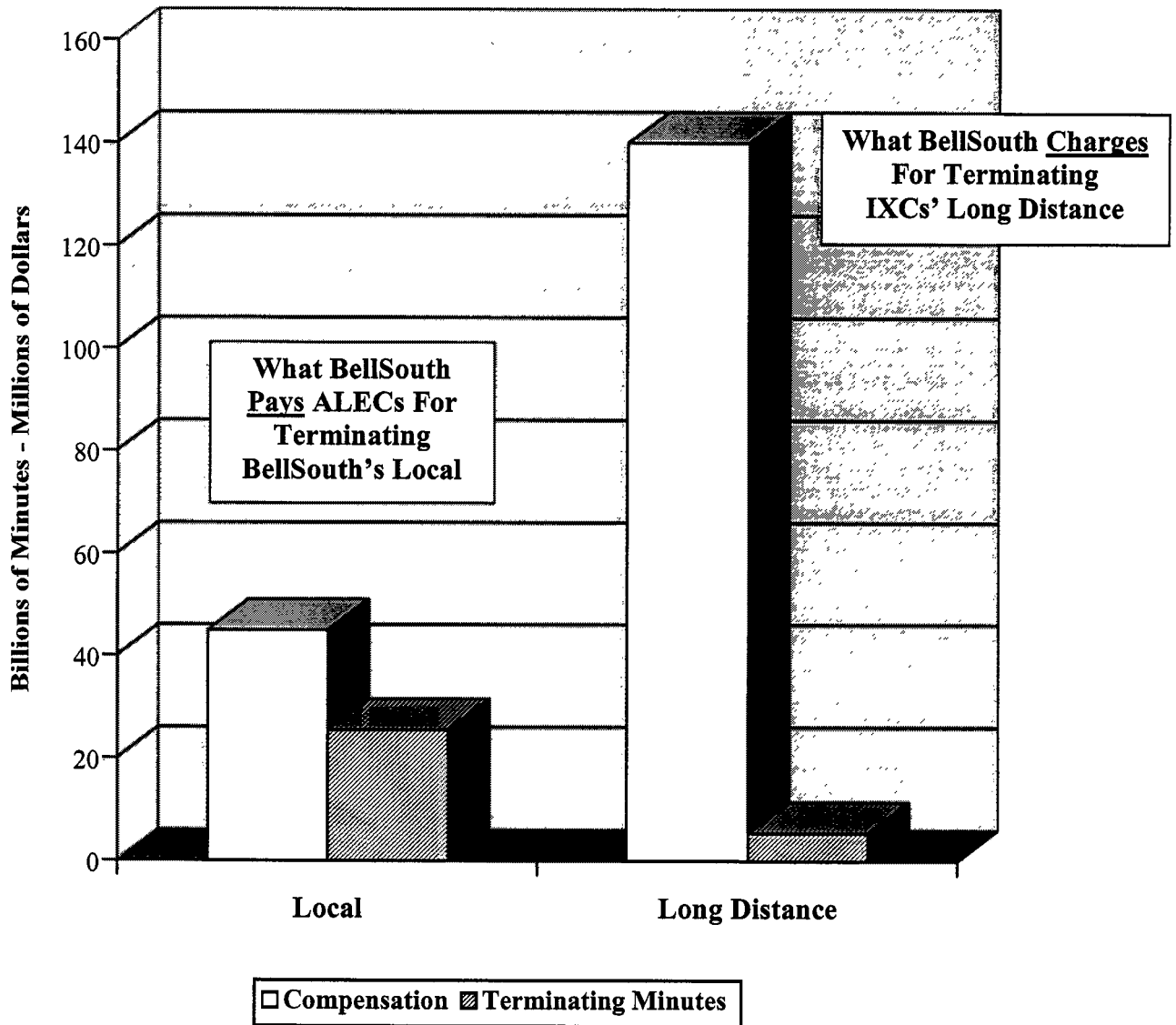
**Comparing the Relative Traffic Flows:
ALECs, CMRS Providers and Interexchange Carriers
(Florida – 2000)**



Sources

- ALEC Traffic Data: BellSouth Response to Item No. 8, FCCA's 2nd Set of Interrogatories, Docket No. 960786-TL
- CMRS Traffic Data: BellSouth Response to Item No. 8, FCCA's 2nd Set of Interrogatories, Docket No. 960786-TL
- IXC Traffic Data: IntraState InterLATA Billed Access Minutes, ARMIS 43-08, Table IV, assigned to originating/terminating based on the relative distribution of originating/terminating CCLC minutes, ARMIS 43-01, Table II, average of 1997 and 1998.

Comparing Traffic to Revenue



Sources

Reciprocal Compensation: UNE Local Switching, Tandem Switching and Common Transport rates, Order No. PSC-01-2051-FOF-TP

Access Rates: BellSouth Access Services Tariff

Assumed Mileage: 10 miles

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served upon the following parties by Hand Delivery (*) and/or U.S. Mail this 1st^h day of March, 2001.

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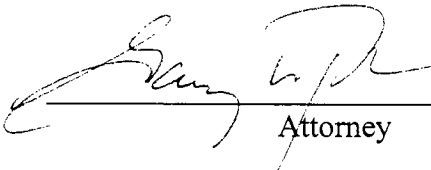
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