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March 25, 2002

BY HAND DELIVERY

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

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COMMISSION
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Re: Docket No. 000075-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCIMetro Access Transmission Services, LLC, WorldCom Communications, Inc. and Intermedia Communications, Inc. are the original and fifteen copies of the Rebuttal Testimony of Joseph Gillan.

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,

Richard D. Melson

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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 25th day of March, 2001.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

JOSEPH P. GILLAN

ON BEHALF OF

MCIMETRO ACCESS TRANSMISSION SERVICES, LLC

WORLDCOM COMMUNICATIONS, INC.

AND

INTERMEDIA COMMUNICATIONS, INC.

Docket No. 000075-TP

Filed: March 25, 2002

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

2

3 A. My name is Joseph Gillan. My business address is P. O. Box 541038, Orlando,
4 Florida 32854.

5

6 **Q. On whose behalf are you filing rebuttal testimony?**

7

8 A. I am testifying on behalf of MCImetro Access Transmission Services, LLC,
9 WorldCom Communications, Inc., and Intermedia Communications Inc.
10 (collectively WorldCom). I previously filed direct testimony on behalf of
11 WorldCom in this proceeding.

12

13 **Q. What is the purpose of your rebuttal testimony?**

14

15 A. The purpose of my testimony is to respond to the claims by the incumbent local
16 exchange carriers that the Commission should:

17

18 * define the default “local calling area” for the application
19 of reciprocal compensation as equal to the incumbent
20 LECs’ retail calling area, and

21

22 * adopt a presumption that local traffic is “roughly in
23 balance,” even though the facts – including the facts

1 presented by the ILECs themselves – plainly show that
2 such an assumption is demonstrably false.

3
4 As I explain in more detail below, there is no reason to establish the ILEC's
5 local calling area as the default local calling area boundary. ALECs need the
6 ability to design their own local services, and that ability would be substantially
7 impaired by a government policy limiting reciprocal compensation to the
8 incumbents' legacy offerings. The rationale that the ILECs have offered – that
9 their revenues could decline – is a *normal* consequence of competition, not a
10 basis for rejecting the proposal.

11
12 As to the second issue – should the Commission adopt a presumption that traffic
13 is in balance -- there really is no open issue. The facts plainly demonstrate the
14 traffic is not in balance, and the Commission would gain nothing by adopting a
15 presumption that is knowingly false.

16

17

Issue No. 13

18

The Local Calling Area

19

20

**Q. What do the ILECs generally recommend that the Commission use as the
21 default local calling area?**

22

1 A. Predictably, the ILECs claim that the “right” local calling area is “their” local
2 calling area. Most strident in this regard is Verizon, which claims that using the
3 LATA boundary to define the default local area for reciprocal compensation
4 purposes would:

5
6 * threaten universal service through a reduction in the
7 ILEC’s access entitlement;

8
9 * disadvantage ILECs and IXCs, and

10
11 * create administrative problems.
12

13 **Q. Would defining a LATA-wide local calling area threaten universal service?**

14
15 A. No. First, it is useful to note that Verizon did not offer a single fact to support
16 its assertion that LATA-wide local calling areas would affect universal service.
17 Rather, it simply claimed that because the reciprocal compensation rate *could*
18 provide less revenue for Verizon than intraLATA access (or toll), that any lost
19 revenue would threaten universal service.

20
21 Of course, there is no automatic linkage between Verizon’s revenues/profits and
22 universal service. There is no statutory linkage -- or economic linkage -- that
23 requires that every dollar that Verizon does not collect from one customer

1 creates the immediate need, and guarantees the indisputable right, to collect a
2 dollar from some other customer. Rather than make any effort to demonstrate
3 this linkage factually, Verizon simply claims that this matter is beyond the scope
4 of this docket (Trimble, page 9):

5
6 The Commission cannot responsibly consider doing away with
7 the local/toll distinction for purposes of applying intercarrier
8 compensation without also considering the negative consumer
9 effects of eliminating these access subsidy flows to basic local
10 rates.

11
12 I believe a comprehensive treatment of that issue is beyond the
13 scope of this docket, which was intended to address intercarrier
14 compensation. If the Commission is inclined to make the
15 fundamental policy shift inherent in approving LATA-wide
16 reciprocal compensation payments, then all potentially interested
17 parties should have fair notice and opportunity to comment on
18 this major change.

19
20 Of course, Verizon never explains *why* it has filed testimony asserting a threat to
21 universal service, while *simultaneously* claiming that appropriate notice has not
22 been provided. Nor does Verizon ever explain why the wording of Issue 13 --
23 which states, "How should a 'local calling area' be defined, for the purposes of

1 determining the applicability of reciprocal compensation?" -- provides
2 insufficient notice that the Commission might consider defining the LATA as
3 the local calling area for that purpose.

4

5 **Q. Would you expect that a LATA-wide reciprocal compensation system could**
6 **jeopardize universal service?**

7

8 A. No, of course not. First, reciprocal compensation payments would only
9 substitute for access payments (if at all) as fast as ALECs gained local market
10 share. There is no evidence to suggest, particularly in the Verizon service
11 territory, that local competition is growing faster than the incumbent's ability to
12 adjust -- the problem with local competition is its absence, not its rampant
13 growth.

14

15 Second, the relative importance of intraLATA calling to intrastate access has
16 been steadily declining since 1996. Exhibit ___ (JPG-3) documents this trend
17 and places the significance of intraLATA traffic into perspective. As detailed in
18 Exhibit ___ (JPG-3), even if the access revenue associated with intraLATA
19 calling is eliminated in its entirety – and there is no offsetting reciprocal
20 compensation revenue – the estimated effect per line would range from only
21 \$0.37/month (Sprint) to \$0.56/month (BellSouth). Moreover, even in this
22 scenario, the decline in intrastate revenues would be between 1.1% (Sprint) to

1 1.5% (BellSouth) – hardly a change that could be viewed as a threat to universal
2 service.

3
4 Finally, in the unlikely (if not impossible) event that a problem did arise, the
5 Commission would have the authority to address universal service through an
6 external subsidy. Of course, before doing so, an ILEC would have to *prove*,
7 rather than merely *claim*, that a changed circumstance was posing a credible
8 threat.

9
10 **Q. How do you respond to Verizon’s claim that a LATA-wide calling area for**
11 **reciprocal compensation would discriminate against IXCs?**

12
13 A. As a threshold observation, it useful to note that there are no IXCs in this
14 proceeding expressing this concern, only Verizon. To the extent that
15 “imputation” requirements cause any problem for Verizon (or the other ILECs),
16 there is nothing preventing them from responding by reducing their intrastate
17 access rates. Verizon’s position is one of revenue protection, not competitive
18 concern.

19
20 **Q. As to Verizon’s final objection – the administrative practicality of an**
21 **intraLATA calling area – does this view have merit?**

22
23 A. No. Consider the basis of Verizon’s argument in this regard (Trimble, page 21):

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The current system has the advantage because it has worked well over the years and it is easier to maintain an existing, proven system than to implement and administer a new one. More important, under the current system, all carriers in Florida have an absolute understanding as to what is considered local traffic and what is considered toll traffic for intercarrier compensation purposes.

Other than providing a generalized argument to never change anything – a strategy that is impossible to square with the major changes required by the Telecommunications Act of 1996, as well as revisions to Chapter 364 – Verizon’s rationale here makes no sense. A LATA-based system is no more difficult to administer than a system based on the ILEC’s retail plans – indeed, such a system should be simpler because LATA boundaries change far less frequently.

Q. Verizon claims that maintaining the ILECs’ local/toll boundaries for reciprocal compensation purposes would have no effect on ALEC retail pricing (Trimble, page 27). Is this plausible?

A. No. While retail pricing plans can sometimes accommodate small cost differences, there is no evidence that anyone can offer local service while

1 incurring access-costs for terminating calls. If the Commission wants pricing
2 innovation, including competitively determined expanded calling, the best
3 approach is to establish the LATA as the default boundary for reciprocal
4 compensation.

5

6 **Q. BellSouth has expressed the concern that reciprocal compensation would**
7 **eliminate originating access (Shroishi, page 9). Do you agree?**

8

9 A. No. In those instances where originating calls are routed to a different network
10 via the LPIC, this arrangement could continue to be treated as access service,
11 and originating access charges would apply. In addition, to assure that
12 reciprocal compensation rates only apply to situations where the carrier is the
13 customer's local service provider, it would not be unreasonable for terminating
14 access rates to similarly apply to minutes that originate in this manner (i.e.,
15 using intraLATA presubscription). In this way, the only minutes to which
16 reciprocal compensation would apply would be those minutes that are originated
17 by an ALECs' local customer.

18

19 **Q. Verizon claims that Florida Statutes require the application of access**
20 **charges to calls outside the ILEC's local calling area (Trimble, page 22). Is**
21 **this accurate?**

22

1 A. The ILECs are not entirely of the same mind on this issue. Verizon and
2 BellSouth both suggest that the Commission can adopt a “presumption” that
3 traffic is roughly in balance, leaving it to individual circumstances for carriers to
4 rebut (Shroishi, page 14; Trimble, page 28). Verizon appears to adopt this
5 position reluctantly, recommending that the Commission defer the issue until the
6 FCC concludes its intercarrier compensation proceeding (Trimble, page 30).

7

8 **Q. How do you respond to the Verizon/BellSouth view?**

9

10 A. I have no position (as a non-lawyer) as to whether the Commission can legally
11 presume that traffic is in balance. But factually, there is no question that it is
12 not. Other than setting itself up for an obvious appeal – or creating a worthless
13 precedent – there is no reason for the Commission to assume a fact that is
14 known to be false. On this point I am in agreement with Sprint (Hunsucker,
15 page 13):

16

17 [A]doption of a definition of “roughly balanced” would provide
18 little, if any, benefit to the industry and would potentially place a
19 greater workload on the Commission to review all the rebuttal
20 pleadings that would result. For this reason, Sprint sees little
21 benefit to the adoption of a definition of “roughly balanced.”

22

1 **Q. BellSouth recommends that any traffic less than a 3:1 ratio should be**
2 **deemed to be “roughly in balance” (Shroishi, page 12). Is this a reasonable**
3 **approach?**

4
5 A. No. BellSouth’s proposal is merely an effort to create a “heads I win, tails you
6 lose” rule to avoid paying ALECs a cost-based reciprocal compensation rate.
7 For traffic above the 3:1 ratio, it would appeal to the FCC’s claim that such
8 traffic is presumptively interstate (and, therefore, subject to the FCC’s ISP
9 compensation scheme). For traffic below 3:1, BellSouth would have this
10 Commission define the traffic as “roughly in balance” and, therefore, avoid
11 making any reciprocal compensation payment for its termination.

12
13 Like Sprint, I do not believe the Commission can assume that which it
14 knowingly understands to be false. Nor can the Commission plausibly define
15 traffic that is out-of-balance by 200% to be “in balance.” As Sprint pointed out,
16 “...given the constraints of [sp] the Commission’s ability to adopt bill-and-keep,
17 there is little benefit from adopting a definition [of roughly balanced].”

18
19 **Q. Does this conclude your rebuttal testimony?**

20
21 A. Yes.

Exhibit ___ (JPG-3)
Witness: Gillan
Docket No. 000075-TP
Declining Importance of IntraLATA Calling

Percentage of Intrastate Calling that is IntraLATA

	BellSouth	Verizon	Sprint
1996	30.4%	20.0%	26.9%
1997	33.4%	14.9%	14.1%
1998	34.4%	9.7%	4.7%
1999	19.7%	7.7%	5.1%
2000	18.2%	6.6%	4.9%

Placing An Estimate of IntraLATA Access in Perspective

	BellSouth	Verizon	Sprint
State Access (\$000s)	\$251,215	\$182,181	\$201,855
Percent IntraLATA	18.2%	6.6%	4.9%
Estimated IntraLATA Access	\$45,805	\$12,042	\$9,942
Estimated Per Switched Line	\$0.56	\$0.41	\$0.37
Percent Total Revenue	1.5%	1.2%	1.1%

Data Sources:

ARMIS 43-08, Table IV - IntraLATA Calls Completed
 ARMIS 43-08, Table IV - Intrastate InterLATA Calls Completed
 ARMIS 43-08, Table III - Switched Access Lines
 ARMIS 43-01 - State Operating Revenue
 ARMIS 43-03 - State Access Revenues

Notes:

Percentage IntraLATA = (IntraLATA Calls)/(IntraLATA Calls + Intrastate InterLATA Calls)

State Access Revenues overstates potential substitution by reciprocal compensation because State Access Revenues includes intrastate special access revenues (which are unlikely to be substituted by reciprocal compensation).