BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In Re: Resolution of petition(s) to establish nondiscriminatory rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes.	:	DOCKET NO. 950985-TP

FIRST DAY - LATE AFTERNOON SESSION

VOLUME 4

PAGES 335 through 461

PROCEEDINGS: **HEARING**

BEFORE: CHAIRMAN SUSAN F. CLARK
COMMISSIONER J. TERRY DEASON
COMMISSIONER JULIA L. JOHNSON
COMMISSIONER DIANE K. KIESLING
COMMISSIONER JOE GARCIA

DATE: Monday, March 11, 1996

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LISA GIROD JONES, RPR, RMR

APPEARANCES:

(As heretofore noted.)

I N D E X - VOLUME 4

WITNESSES

EXHIBITS

NUMBER	IDENTIFIED	ADMITTED
13 - (Wood) Vita	342	461
14 - (Wood) DJW-2	445	461
15 - (Wood) DJW-3	445	461

PROCEEDINGS

(Transcript continues in sequence from Volume 3.)

CHAIRMAN CLARK: Call the hearing back to order. Mr. Wood. Ms. Weiske.

DON J. WOOD

was called as a witness on behalf of Time Warner AxS of Florida, L.P., and Digital Media Partners, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. WEISKE:

Q Mr. Wood, would you state your name and address for the record please?

A Yes. My name is Don J. Wood.

Q Is your microphone on, Mr. Wood?

A I hope so.

Q Speak up.

A My name is Don J. Wood. My business address is 914 Stream Valley Trail, Alpharetta, A-l-p-h-a-r-e-t-t-a, Georgia 30302.

Q And on whose behalf are you appearing here today?

A I am appearing on behalf -- let me actually turn the page to make sure I get it right. Time Warner AxS of Florida L.P. and Digital Media Partners.

Q And did you cause to have prefiled in this case, either by you or under your supervision, direct testimony dated December 22nd, 1995?

A Yes, I did.

Q And attached to that testimony is one exhibit, which is your resume?

A That's correct.

Q And did you also have prefiled testimony dated January 5th, 1996?

A Yes.

Q Did you also prefile testimony dated January 26th, 1996?

A Yes.

Q Did you also prefile testimony dated February 6th, 1996?

A Yes.

Q And finally, did you also prefile rebuttal testimony dated February 20th, 1996?

A Yes.

Q And if you were asked the questions contained in those five testimonies today, would your answers be the same?

A I do have one correction, and it's in the direct testimony, the first one that you asked me about.

Q The testimony dated December 22nd?

A That's right. On Page 4, Line 7, the last word on that line is "and." I would like -- just for clarity, I don't think it changes the substance, but to make the testimony more clear, I would like to strike the word "and," and insert the words "or in the alternative."

COMMISSIONER KIESLING: Could you tell me again? I'm sorry.

WITNESS WOOD: I'm sorry.

COMMISSIONER KIESLING: What page?

WITNESS WOOD: Line 7. Strike "and," and insert "or in the alternative." And I simply want to make it clear that the primary recommendation here is bill and keep or mutual traffic exchange. Obviously if that alternative is not selected, it would create the need for an imputation requirement.

Q (By Ms. Weiske) And other than that change, Mr. Wood, are the remainder of your responses to the questions in the prefiled testimony the same?

A Yes.

Q We would ask that these five testimonies be marked for identification.

CHAIRMAN CLARK: How many pieces of testimony?

MS. WEISKE: There are five, Your Honor, one is dated December 22nd. One is dated January 5th. One is dated January 26th, February 6th and February 20th. And much like with Ms. McGrath and Mr. Engleman, two of those are two-pagers that simply adopt the original testimony related to the other petitioners in this case.

CHAIRMAN CLARK: Well, I don't seem to have the February 26th.

MS. WEISKE: February 20th?

CHAIRMAN CLARK: 20th. I may have it, but it's not labeled.

MS. WEISKE: Is that the only one you're missing, Your Honor?

CHAIRMAN CLARK: Yeah, I have one that's seven pages long, but it isn't labeled as to when it was. It is labeled. I was looking down at the bottom. All right. I have all the testimony now. The prefiled direct testimony of Mr. Wood dated December 22nd, 1995 will be inserted in the record as though read. Prefiled direct testimony of Mr. Wood dated January 5th, 1996 will be inserted in the record as though read, and the prefiled direct testimony of Mr. Wood dated February 6th, will be inserted in the record as though read. And the prefiled rebuttal testimony of Mr. Wood dated January 26th will be inserted in the record as though read. And the prefiled rebuttal testimony of Mr. Wood dated February 20th, 1996 will be inserted in the record as though read.

MS. WEISKE: And do we need to number his one exhibit, Your Honor?

CHAIRMAN CLARK: We'll number the exhibit attached to his December 22nd testimony as Exhibit 13.

(Exhibit No. 13 marked for identification.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950985-TP

DIRECT TESTIMONY OF

DON J. WOOD

ON BEHALF OF TIME WARNER AxS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

Q: PLEASE STATE YOUR NAME AND ADDRESS.

A: My name is Don J. Wood, and my business address is 914 Streatm Valley Trail, Alpharetta, Georgia 30202. I provide consulting services to the ratepayers and regulators of telecommunications utilities.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND AND EXPERIENCE.

A: I received a BBA in Finance with distinction from Emory University and an MBA with concentrations in Finance and Microeconomics from the College of William and Mary. My telecommunications experience includes employment at both a Regional Bell Operating Company ("RBOC") and an interexchange company ("IXC").

I was employed in the local exchange industry by BellSouth Services, Inc. in its Pricing and Economics, Service Cost Division. My responsibilities included performing cost analyses of new and existing services, preparing documentation for filings with state regulatory commissions and the Federal Communications Commission ("FCC"), developing methodology and computer models for use by other analysts, and performing special assembly cost studies. I was employed in the interexchange industry by MCI Telecommunications Corporations, as Manager of Regulatory Analysis for the Southern Division. In this capacity I was responsible for the development and implementation of regulatory policy for operations in the southern U.S. I then served as a Manager in the Economic Analysis and Regulatory Affairs Organization, where I participated in the development of regulatory policy for national issues.

Q: **HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE STATE REGULATORY COMMISSIONS?**

A: Yes. I have testified on telecommunications issues before the regulatory commissions of twenty-three states, the District of Columbia, state courts, and have presented comments to the FCC. A listing of my previous testimony is attached as Exhibit DJW-1.

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

A: Pursuant to Section 364.162, Florida Statutes, Time Warner AxS and DMP have petitioned the Florida Public Service Commission (FPSC or Commission) to establish nondiscriminatory rates, terms, and conditions for local interconnection with Sprint United Telephone Company of Florida (Sprint United). My testimony is filed in support of those petitions.

The successful resolution of interconnection issues between Time Warner and Sprint United should create and sustain a marketplace in which local exchange competition can flourish. A competitive market will provide consumers with innovative services at lower prices and fulfill the mandate of the Florida Legislature. In order to accomplish these objectives, it is essential that Time Warner be treated as a co-carrier for the provision of local exchange service.

To allow Time Warner to efficiently use its network to offer innovative consumer products, the Commission should require the following:

- a rate structure for mutual interconnection that enables Time Warner to develop an efficient network, which would include bill and keep for local interconnection, ~~and~~ or in the alternative imputation of appropriate interconnection costs; tariffing of interconnection rates; recognition of the impact of collocation costs; and options for Time Warner's interconnection points with Sprint United.
- efficient and cooperative network coordination between Sprint United and Time Warner, which would include mutual network management and design (discussed by Time Warner witness Dan Engleman).
- equal priority notification on outages; cooperative 911 network arrangements and database access; access of Time Warner to adequate numbering resources; compensation for terminating access charges to ported numbers. These issues are addressed by Time Warner witness Joan McGrath.

- access to and use of existing operator and directory functions, which would include access to operator services; input of directory assistance and directory listings provided at no charge; options for the provision of directory assistance; free white page/yellow page listings for Time Warner customers; an information page in the directory for Time Warner; directories provided and distributed free of charge to Time Warner customers. These issues are also addressed by Time Warner witness McGrath.

Q: **WHAT IS LOCAL INTERCONNECTION?**

A: Local interconnection is the ability of two local exchange service providers to connect their networks to provide service. This allows customers from one company's network to communicate with customers from another company's network. Interconnection encompasses an array of technical issues, as well as compensation arrangements needed for two or more local exchange providers to connect their networks. Interconnection also includes the provision of service provider number portability, coordinated network design and architecture, the arrangement of signaling, the transfer of information, access to data bases and billing information, and many other detailed coordination requirements. Equitable interconnection is necessary to ensure that consumers will benefit from local competition.

Q: WHY IS LOCAL INTERCONNECTION SO IMPORTANT TO TIME WARNER?

A: Without nondiscriminatory interconnection with Sprint United, Time Warner will be unable to ubiquitously serve its potential residential and business customers.

Q: WHAT KIND OF ENVIRONMENT IS TIME WARNER FACING AS IT ENTERS THE LOCAL EXCHANGE TELECOMMUNICATIONS MARKET?

A: Time Warner is entering an environment characterized by the overwhelming dominance of one monopoly LEC, Sprint United. In each of its local exchanges Sprint United has nearly 100% of the market, a ubiquitous network, brand identity and loyalty, and control over essential facilities that Time Warner needs in order to begin serving consumers. For competition to be sustainable, facilities-based providers--companies which invest in, own, and operate switches and networks--must be able to provide service. To do so, ALECs such as Time Warner must make large investments in their own networks and must also connect those networks with that of the ubiquitous incumbent LEC, in this case Sprint United, which stands to lose market share (although not necessarily revenues) by such interconnection. Thus, Sprint United will have little self-interest or economic incentive to enter into interconnection arrangements that are economically viable and technically efficient for the new entrant.

Time Warner must build brand loyalty by providing better service at lower prices in order to gain market share. If consumers perceive the service Time Warner provides to be in any way inferior to that of Sprint United, Time Warner will not be able to attract and keep customers. This will be true even if the perceived deficiency is caused by the operating systems, practices, or interconnection offerings of Sprint United. Without nondiscriminatory and equal interconnection to Sprint United's networks by Time Warner, customers are denied the very real benefits of competition--technological innovation and lower prices.

Q: WHEN DETERMINING INTERCONNECTION COMPENSATION ARRANGEMENTS AND RELATED ISSUES, WHAT FACTORS SHOULD THE COMMISSION TAKE INTO ACCOUNT TO RENDER A POLICY DECISION THAT PROMOTES COMPETITION TO THE ULTIMATE BENEFIT OF CONSUMERS?

A: There are several factors:

- First, the Commission should consider that the only way Time Warner can reach all consumers today is through Sprint United's ubiquitous network. Although the LECs argue that having to serve everyone everywhere is a burden, they gain marketing benefits from a ubiquitous network. (AT&T exploited a similar circumstance in its advertising during the early years of toll competition.) Because of LEC ubiquity, every entrant that wants to do business must interconnect with the LEC.
- Second, the Commission should consider the impact of various rate structures and levels on the development of competition and promotion of customer choice and innovative technology.

It is my understanding that the Commission's objective is to ensure the availability of the widest range of consumer choice at the best price. The absolute best way to provide consumers with superior, innovative local exchange service and the lowest price is to provide consumers with choices.

- Third, interconnection arrangements should create incentives for competitive infrastructure development. The development of sustainable competition will be significantly enhanced if competitors do not have to rely exclusively on the LEC for the provision of service. Interconnection arrangements should encourage companies to invest in plant and drive facilities-based competition where facilities-based competition is efficient.
- Fourth, interconnection arrangements should promote technological innovation and encourage timely implementation of new technologies as they become available. The Legislature has directed the Commission to exercise its jurisdiction to encourage not only consumer choice of new providers, but also to encourage

the introduction of new services. The price structure for interconnection should not be tied to price structures which force a new market entrant such as Time Warner to subsidize the inefficiencies of the incumbent LECs or duplicate the incumbent LECs' pricing structures.

- Fifth, interconnection rates should not include a contribution to universal service. Interconnection compensation arrangements should promote the introduction of competition and should permit efficient pricing of local service. The funding of a permanent universal service mechanism, to the extent necessary, should remain an issue that is separate and distinct from the pricing of interconnection.

- Sixth, service provider number portability is necessary for Time Warner to compete. In surveys, customers have told Time Warner that they value retaining their local telephone number. Remote call forwarding, the only currently viable option for temporary number portability, is an inferior technology. As a result of some of the shortcomings of remote call forwarding for temporary number portability, Time Warner experiences longer call set-up times, customer confusion, and loss of the availability of some custom calling features. These problems can be a perceived drawback for consumers considering using Time Warner.

Further, because toll calls lose their identity when they arrive at the Sprint United switch on the way to Time Warner's switch, Time Warner would lose terminating access charge revenues on calls to ported numbers. The parties to the stipulation in the number portability docket (No. 950737-TP) agreed that compensation issues such as the loss of terminating access charges to ported numbers would be a subject of interconnection negotiations.

Q: **WHAT ARE THE APPROPRIATE RATE STRUCTURES, INTERCONNECTION RATES, AND OTHER COMPENSATION FOR THE EXCHANGE OF LOCAL TRAFFIC BETWEEN TIME WARNER AND SPRINT UNITED?**

A: The most appropriate arrangement for the exchange of local traffic is a bill and keep arrangement.

Q: WHAT IS BILL AND KEEP?

A: Bill and keep is the local interconnection arrangement most often employed between incumbent LECs today in Florida. With bill and keep the two networks connect at some agreed-upon point, and each company bears the cost of its network, keeping the revenues it generates, and not charging the other company to use its network. Bill and keep is a "payment in kind" for local interconnection, thus, meeting the statutory requirement that it cover costs.

Q: WHY DO YOU RECOMMEND A BILL AND KEEP ARRANGEMENT?

A: There are a number of reasons why I recommend a bill and keep arrangement.

- First, a bill and keep arrangement is reciprocal, thus acknowledging that all participants are co-carriers. Competing local exchange carriers should be treated as co-carriers in light of the fact that the necessity for interconnection is mutual once an entrant signs up its first customer. In this case, once Time Warner gains its first customer, both Sprint United and Time Warner will have a mutual need for services from the other if each is to offer its customers the ability to reach all telephone subscribers served by the other local service provider.

- Second, bill and keep is certainly the least cost method of compensation for terminating traffic, and thus, is the approach most likely to help drive local exchange rates as low as possible for customers.
- Third, bill and keep will minimize the opportunity for incumbent LECs to use the compensation mechanism to impose unnecessary and anti-competitive costs upon Time Warner. Thus, it is the method least likely to result in new, unnecessary barriers to entry.
- Fourth, bill and keep is neutral in terms of both the technology and architecture that Time Warner might choose to adopt. Opening the local exchange to entry and developing local exchange competition benefits Florida residents with competition between different technologies and different architectures. If the compensation arrangements for terminating traffic force new providers to choose inferior technology or architecture, then a primary benefit of entry will be reduced or

eliminated. Such a result would not be in the public interest.

Q: HOW DOES BILL AND KEEP ELIMINATE COSTS THAT ACT AS A BARRIER TO ENTRY?

A: Once there is local competition, the amount of compensation owed to one network would be offset by the amount owed to the other. Unless there are significant distortions between networks, the traffic between networks should be in balance over time. Sprint United has proposed a flat rate port charge, which could be a reasonable structure, since it eliminates the need to measure all calls flowing between the two networks. However, Sprint United has chosen to establish an excessive price for its ports, creating a price squeeze. Put simply, Time Warner cannot pay the rates for interconnection proposed by Sprint United and offer a competitively priced service option to potential residential or business customers.

Q: HAVE ANY OTHER STATES ADOPTED BILL AND KEEP?

A: Yes. Bill and keep has gained approval in a number of states that have addressed interconnection issues. The California PUC recently adopted interim local competition rules that include bill and keep. (*See, Initial Rules for Local Exchange Service Competition in California,* California Public Utilities Commission, Docket No. R 95-04-043/I 95-04-044, Section 7: Interconnection of LEC and CLEC Networks for Termination of Local Traffic, page 10 [July 24, 1995].) A Michigan Public Service Commission decision also adopts bill and keep if the traffic is in balance within five percent. (*See, Opinion and Order, In the matter of the application of City Signal, Inc.,* Case No. U-10647, pages 19-30 [February 27, 1995].) Recently the Connecticut Commission also adopted bill and keep for twelve months, with five options, chosen by the ALEC, at the end of that time. (*See, DPUC Investigation into the Unbundling of the Southern New England Telephone Company's Local Telecommunications Network, State of Connecticut Department of Public Utility Control,* Docket No. 94-10-02, pages 63, 70, 71 [September 22, 1995].) Also, the Washington Utilities and Transportation Commission recently ordered bill and keep until a database number portability solution is reached. Thereafter, unless proven otherwise, interconnection rates will be cost based. (*See,* *Fourth Supplemental Order Rejecting Tariff Filings and Ordering Refiling; Granting Complaints, in Part, Washington Utilities and Transportation Commission;* Docket Nos. UT-941464, UT-941465, UT-950146, UT-950265, pages 29-33 [October 31, 1995].) Also, the *Texas Public Utility Regulatory Act of 1995, Title III, Subtitle J, Section 3.458,* requires that in the absence of a mutually agreed compensation rate, bill and keep shall apply for a period of nine months.

Q: IF THE COMMISSION REJECTS A BILL AND KEEP ARRANGEMENT, WHAT INTERCONNECTION ARRANGEMENT WOULD YOU RECOMMEND?

A: If the Commission rejects a bill and keep approach, I recommend an interconnection charge that is equally applied to Sprint United and Time Warner in a nondiscriminatory fashion and which requires that Sprint United, the holder of the bottleneck monopoly network, pass an imputation test. Imputation ensures that Sprint United cannot use its bottleneck monopoly facilities to impose rates on its competitors that are not also imposed on Sprint United. For example, the use of flat rated port for termination of local traffic instead of a bill and keep approach would create a price squeeze for Time Warner. The only way for the Commission to avoid a price squeeze and not preclude competitive entry would be to require Sprint United to impute into its local exchange rates the same rates it charges Time Warner. However, I would like to reiterate my recommendation to institute bill and keep for local interconnection, which has the clear advantage of administrative simplicity and which avoids the need for the development of an imputation test for interconnection rates. Also, the value of this compensation arrangement is reflected in its adoption by states throughout the country.

Q: **PLEASE EXPLAIN WHY SPRINT UNITED SHOULD BE REQUIRED TO IMPUTE THE LOCAL INTERCONNECTION RATES THAT IT CHARGES TO TIME WARNER INTO ITS LOCAL INTERCONNECTION RATES.**

A: For the reasons described above, Time Warner must purchase interconnection to Sprint United's network in order to offer a ubiquitous service to its customers. Within Sprint United's operating territory, there is no alternative source of supply for local network interconnection. In such a scenario, interconnection to the network of the incumbent carrier is, by definition, an essential monopoly bottleneck function. The pricing of an essential monopoly bottleneck function above the level of properly calculated incremental cost creates the opportunity for the incumbent carrier to create a price squeeze. This opportunity, combined with the incentives created by a competitive, or potentially competitive marketplace, make it essential that an imputation standard be applied.

If interconnection is to be provided at an above-cost rate, rather than at a rate set equal to incremental cost or on a compensation in kind basis, Sprint United should be required to impute the rates that it charges to Time Warner in its retail rate structure for local exchange services in order to prevent such a price squeeze. Of course, a bill and keep arrangement or the establishment of interconnection rates equal to incremental cost will likewise preclude this form of anticompetitive pricing by Sprint United, but bill and keep has the additional benefit of administrative simplicity.

Q: IF THE COMMISSION SETS RATES, TERMS, AND CONDITIONS FOR INTERCONNECTION BETWEEN TIME WARNER AND SPRINT UNITED, SHOULD SPRINT UNITED TARIFF THE INTERCONNECTION RATE(S) OR OTHER ARRANGEMENTS?

A: Yes. Tariffing implies a generally available offering which can be purchased by like customers under the same circumstances. Tariffs are appropriate for monopoly services such as interconnection.

Q: DO SPRINT UNITED'S PROPOSED COLLOCATION RATES CREATE A BARRIER TO ENTRY FOR TIME WARNER?

A. Yes; Sprint United's proposed rates charged for collocation have the ability to create an effective barrier to entry for Time Warner. Time Warner understands that the expenditures it makes for entry into the telecommunications market cannot easily be recovered should its market entry fail. However, the greater the level of investment that would be unrecoverable if entry were unsuccessful (potential loss for the investor), the higher the barrier to entry. If the potential loss is higher, Time Warner's investors will expect greater returns to make the investment a reasonable risk. The higher expected returns will increase the cost of doing business.

For example, collocation-related investment for Time Warner includes the capital required to build to Sprint United central office, equipment costs, and the Sprint United rate elements applied to Time Warner for collocation (floor space, power, cabling, conduit, etc.). The costs for collocation are nonrecoverable if market entry does not succeed. To encourage competition, and to permit end users to benefit from the lowest possible prices, the rates for collocation should be as close to cost as possible.

Q: **HOW SHOULD THE NETWORKS OF TIME WARNER AND SPRINT UNITED BE INTERCONNECTED PHYSICALLY?**

A: To protect consumers and encourage the development of competition, physical interconnection should be done in the most efficient manner. To this end, interconnection should be permitted wherever reasonably possible, and should not be arbitrarily limited. In addition, signaling networks need to be interconnected and need to pass sufficient signaling information so that all of the services possible with current technology can be offered to all customers.

Based on the types of interconnection available today, interconnection is possible at several points. For example, interexchange companies interconnect with the LEC either at their own points of presence or at the switch of the LEC. Incumbent LECs often interconnect with each other at a "meet point" (frequently at a company boundary), which is a division of ownership of a trunk connecting two switches owned by different companies. In this context it is reasonable that Time Warner should have the flexibility to interconnect at a Sprint United end office, tandem, or other mutually agreed upon point in the network--whichever is more efficient.

Q: **PLEASE SUMMARIZE YOUR TESTIMONY.**

A: Time Warner has petitioned the Commission because negotiations with Sprint United have not been fruitful. In order to manage the risk inherent in making the necessary investment, Time Warner must have certain resolution of all interconnection issues before entering the market.

For Time Warner to have a reasonable chance to compete, and so that consumers receive the benefits of local competition, Time Warner believes that the Commission should adopt a bill and keep approach for local interconnection. Bill and keep is payment in kind and covers Sprint United's cost of interconnection. Further, Time Warner requests an interconnection arrangement that permits and encourages the following, in addition to the recommendations of Time Warner witnesses Engleman and McGrath:

- efficient network design by Time Warner
- options for interconnection points by Time Warner in Sprint United's network
- imputation of essential monopoly inputs, including collocation
- reasonable prices for collocation

In short, the Commission should develop a structure that encourages competition by permitting Time Warner to exercise reasonable control over its cost of doing business.

Q: DOES THIS COMPLETE YOUR TESTIMONY?

A: Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950985-TP

(CONTINENTAL PETITION SPRINT/CENTEL/UNITED)

INTERVENOR DIRECT TESTIMONY OF

DON J. WOOD

ON BEHALF OF TIME WARNER AxS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

Q: PLEASE STATE YOUR NAME AND ADDRESS.

A: My name is Don J. Wood, and my business address is 914 Stream Valley Trail, Alpharetta, Georgia 30202. I provide consulting services to the ratepayers and regulators of telecommunications utilities.

Q: ON WHOSE BEHALF ARE YOU TESTIFYING TODAY?

A: I am testifying on behalf of Time Warner AxS of Florida, L.P. ("Time Warner AxS") and Digital Media Partners ("DMP") (collectively "Time Warner").

Q: HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A: Yes.

Q: **WHAT IS THE PURPOSE OF YOUR INSTANT TESTIMONY?**

A. The purpose of this testimony is to provide the Commission with additional information to use in resolving the Continental Petition to establish rates, terms, and conditions for interconnection with Sprint/Centel and Sprint/United. To this end, and to avoid needless duplication, I adopt as Intervenor Direct Testimony in the Continental Petition my Direct Testimony that was filed in the Time Warner Petition for the Commission to establish rates, terms, and conditions for interconnection with Sprint/United.

Q: **DOES THIS CONCLUDE YOUR TESTIMONY?**

A: Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950985-TP

MFS PETITION FOR SPRINT/CENTEL/UNITED AND GENERAL

INTERVENOR DIRECT TESTIMONY OF

DON J. WOOD

ON BEHALF OF TIME WARNER AxS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

Q: PLEASE STATE YOUR NAME AND ADDRESS.

A: My name is Don J. Wood, and my business address is 914 Stream Valley Trail, Alpharetta, Georgia 30202. I provide consulting services to the ratepayers and regulators of telecommunications utilities.

Q: ON WHOSE BEHALF ARE YOU TESTIFYING TODAY?

A: I am testifying on behalf of Time Warner AxS of Florida, L.P. ("Time Warner AxS") and Digital Media Partners ("DMP") (collectively "Time Warner").

Q: HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A: Yes.

Q: WHAT IS THE PURPOSE OF YOUR INSTANT TESTIMONY?

A. The purpose of this testimony is to provide the Commission with additional information to use in resolving the Metropolitan Fiber Systems of Florida, Inc. ("MFS") Petitions to establish rates, terms, and conditions for interconnection with Sprint/Centel and Sprint/United and General Telephone of Florida ("GTEFL"). To this end, and to avoid needless duplication, I adopt as Intervenor Direct Testimony in the MFS Petitions my Direct Testimony that was filed in the Time Warner Petition for the Commission to establish rates, terms, and conditions for interconnection with Sprint/United.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950985D-TP

(TIME WARNER AxS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

PETITION SPRINT UNITED)

REBUTTAL TESTIMONY OF

DON J. WOOD

ON BEHALF OF TIME WARNER AXS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

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

A: My name is Don J. Wood, and my business address is 914 Stream Valley Trail, Alpharetta, Georgia 30202. I provide consulting services to the ratepayers and regulators of telecommunications utilities.

Q: **ON WHOSE BEHALF ARE YOU TESTIFYING TODAY?**

A: I am testifying on behalf of Time Warner AxS of Florida, L.P. ("Time Warner AxS") and Digital Media Partners ("DMP") (collectively "Time Warner").

Q: **HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

A: Yes.

Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the testimony of Sprint United witness F. Ben Poag. Specifically, Mr. Poag argues that a payment in kind arrangement will not permit co-carriers -- including Sprint United and, presumably, Time Warner -- to recover their costs pursuant to §364.162, Florida Statutes. His detailed discussion of Sprint United's proposed interconnection offerings, however, indicate that this is not the case. Mr. Poag also presents a number of arguments in support of his assertion that Sprint United's proposed rates will not create a barrier to entry for Time Warner or other co-carriers. These arguments are inconsistent with both the best available data and other portions of Mr. Poag's testimony. Finally, Mr. Poag's arguments that imputation is not necessary fail to address the issue and in no way diminish the necessity of an effective imputation standard if competition is to have to opportunity to develop for local exchange services.

Q: DO YOU AGREE THAT A PAYMENT IN KIND ARRANGEMENT WILL NOT RESULT IN ADEQUATE COMPENSATION FOR ALL

CO-CARRIERS, INCLUDING BOTH SPRINT UNITED AND TIME WARNER?

A: No. In my direct testimony, I describe Time Warner's proposal using the phrase "bill and keep," because this phrase has been used historically in the industry to describe a scenario in which carriers accept traffic from each other for termination. LECs have engaged in this arrangement in Florida and elsewhere in order to offer ubiquitous service in a cost-efficient and administratively simple manner. Time Warner is now recommending that this same process be used to address the same issue; hopefully with the same results.

A suggestion that so-called "bill and keep" is based on the idea that the LEC and other co-carriers are not to be compensated merely because cash is not exchanged is simply incorrect. A fundamental and universally accepted concept in economics is that compensation can take many forms; it is the exchange of value, not the exchange of coin of the realm, that determines whether parties to a transaction have received compensation for their efforts. As LECs have apparently found to be the case over a number of years, mutual exchange of traffic has value for both carriers, and an agreement for each carrier to terminate calls originated by the other is a form of "payment in kind." A "payment in kind" is no less compensatory than a "payment in cash," however, and this is the point that Mr. Poag fails to consider in his reasoning. Of course, if the recommended form of "payment in kind" is administratively simpler and less costly to implement than a corresponding "payment in cash," society in general, and Florida ratepayers in particular, will benefit from such a proposal, whether it is labelled as payment in kind, mutual exchange of traffic, or bill and keep.

Q. DO OTHER REFERENCES IN MR. POAG'S TESTIMONY SUPPORT THIS CONCLUSION?

A. Yes. In his testimony he describes in detail two forms of interconnection being offered by Sprint United: a flat rate port charge and a per minute charge.

Mr. Poag describes the logistics of the flat rate port arrangement at pp. 6-7 of his testimony: "With a port charge the ALEC purchases the capacity of a DS1 for terminating traffic to Sprint United. Similarly, Sprint United would purchase the capacity of a DS1 from the ALEC...The rates and charges for the various interconnection components would be based on Sprint United's network access services rates and charges....Sprint United would pay the ALEC based on the same rates, terms, and conditions for the services required to terminate Sprint United's customers' traffic the ALEC's customers."

Based on this description, it is unclear why it would be more efficient for the money to change hands than for Sprint United and other co-carriers to agree to perform these functions for each other. The only apparent difference between such a payment in kind scenario and Mr. Poag's payment in cash scenario is the cost associated with the effort by each carrier to render a bill to the other.

At page 18 of his testimony, Mr. Poag describes how the minute of use interconnection arrangement would be implemented, and notes that "measurement and billing based on actual use is required." He goes on to explain that "the recording of the usage requires special software which Sprint United has not deployed in its switches; however, Sprint United does not plan to install the software in its access tandem switches in the first and second quarter of 1996. However, *because of the high cost of the software*, the Company does not plan to deploy the software in any switches other than the access tandem at this time" (emphasis added).

Based on my review of the costs associated with the systems necessary to conduct the necessary measurement of traffic, I fully agree with Mr. Poag's characterization of the necessary software as "high cost."[1] In fact, Mr. Poag goes on to admit that "the cost of recording and billing for the usage" represent a disadvantage of Sprint United's proposal. Of course, the "high cost of the software" necessary for measurement and the additional costs for billing can be avoided if

[1] While the actual numbers are proprietary and cannot be reported, I was able to determine from information provided by US West in a recent proceeding that these measurement costs exceeded all other costs associated with the termination of traffic originated by a co-carrier. In other words, the decision to measure the traffic caused the cost of terminating a call originated by a co-carrier to more than double.

payment in kind -- rather than payment in cash -- is utilized.

Q. **IN YOUR DIRECT TESTIMONY, YOU STATED THAT A CO-CARRIER SUCH AS TIME WARNER MAY BE UNABLE TO MAKE ECONOMIC USE OF A FLAT RATED PORT FACILITY. PLEASE EXPLAIN YOUR REASONING.**

A. With initial relatively low volumes of traffic being exchanged between co-carrier networks, no carrier, including Time Warner and Sprint United, will be able to make efficient use of a port designated for this purpose. While this arrangement is inefficient for the LEC, it clearly has more immediate financial consequences for the new entrant. Put simply, an increase in the level of traffic reduces the cost incurred on a per unit basis. As a result, the new entrant must have sufficient traffic to make a flat rated port an economic choice. Of course, a higher rate for the port both increases the volume of traffic necessary for the port to be a economic alternative and increases the costs of entry for the new entrant.

Based on my understanding of his testimony, Mr. Poag and I are in general agreement on this issue.

At page 8-9 of his testimony he states that "a potential disadvantage of the port methodology might be that the port must be purchased in a fixed size. Thus, an ALEC may not have sufficient traffic to justify purchasing a full port on day one of its operations. Similarly, when a second port is necessary to avert blockage on the first port, full utilization of the second port may not take place until some time later, but the interconnector must pay the full rate on day one."

Such a rate structure creates a barrier to entry for Time Warner and other co-carriers. The magnitude of this barrier is exaggerated by the magnitude of Sprint United's proposed charge. Clearly, the Commission does not expect, and the Legislature did not expect when drafting Chapter 364, that new entrants into the market for local exchange services will have a substantial number of customers (and therefore be carrying a substantial amount of traffic) on day one. Sprint United's flat rate port proposal is inconsistent, therefore, with an objective of the development of the consumer benefits that are created by a competitive marketplace.

Q. HOW DOES SPRINT UNITED'S PROPOSED PRICING STRUCTURE CREATE INCENTIVES FOR CO-CARRIERS, INCLUDING TIME WARNER, TO MAKE POTENTIALLY INEFFICIENT INVESTMENTS?

A. A rate structure that exaggerates the cost differential for interconnection by a new entrant at a Sprint United tandem versus a Sprint United end office will create an incentive for co-carriers, including Time Warner, to construct inefficient facilities. The "build or buy" decision facing a new entrant can only be rationally made if the rate differential accurately reflects the cost differential. My review of the costs incurred by the LEC for termination of a call originated on a co-carrier's network indicates that the cost differential for end office and tandem interconnection is much smaller than Sprint United's rates indicate. As a result, co-carriers may build facilities to Sprint United end offices when it would be more efficient to utilize the access tandem as an interconnection point.

Sprint United's position is unclear on this issue. Mr. Poag argues that the bill and keep arrangement proposed by Time Warner will create incentives for co-carriers to interconnect at Sprint United's tandem office, rather than to act to avoid the higher proposed charge by interconnecting at the end office. As cited above, however, Mr. Poag has stated that Sprint United does not plan to deploy the necessary measurement software in any locations other than the access tandem. If Sprint United's proposal is adopted, therefore, new entrants will face detrimental impacts in both the short and long run. In the short run, new entrants will be unable to avoid the higher (and unjustified by cost differentials) proposed rates for interconnection at the access tandem. Over the long run, assuming Sprint United eventually does install the necessary software, the proposed rates structure will send inaccurate signals to the marketplace, potentially resulting in the wasteful investment of scarce resources.

Q. **DO YOU AGREE WITH MR. POAG'S RESPONSE TO TIME WARNER'S IMPUTATION PROPOSALS?**

A. No. At pages 32-33 of his testimony, Mr. Poag makes a number of arguments that are either wholly irrelevant (imputation is not necessary because Sprint United cannot increase its local service rate for three to five years) or which indicate the difficulty of applying an effective standard (Sprint United would need to conduct additional cost work in order to have a basis for beginning an imputation analysis).

While an effective imputation standard is absolutely essential if Sprint United charges rates above its direct cost for interconnection (either on a minute of use basis or for a flat-rated facility), it is avoidable if co-carriers adopt a payment in kind arrangement for the termination of traffic. To the extent that applying an imputation standard would create additional costs for either Sprint United or other co-carriers, these costs should be added to the ever growing list of costs that can be avoided if a payment in kind arrangement is implemented. It is Sprint United's inconsistence on a payment in cash rather than payment in kind arrangement that creates the costs associated with traffic measurement, carrier billing, and, to the extent they prove to exist, the application of an imputation standard. If bill and keep is not adopted, then I recommend that the rates charged to Time Warner and other ALECs with the cost of Sprint United's non-essential component should be imputed into the local exchange rates of Sprint United.

Q. **PLEASE SUMMARIZE YOUR TESTIMONY.**

A. My rebuttal testimony attempts to respond to a number of issues raised by Sprint United's witness Poag. Mr. Poag's conclusions are summed up at page 33 of his testimony, where he argues that Sprint United's rates do not, in contrast to the assertions in my direct testimony, create barriers to entry. Specifically, he states that "I cannot specifically address Time Warner's specific situation, but I can tell you that Sprint United's tariffed collocation rates are lower than the rates for many LECs." Such a "we're no worse than anybody else" defense is hardly a demonstration that Sprint United's proposed rates will not create a barrier to entry and effectively preclude the development of effective competition.[2] It is certainly not a basis for sound public policy.

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[2] Of course, Sprint United's collocation rates are only a part of the rate structure necessary for local interconnection.

In order for Florida ratepayers to benefit from the development of effective competition for local exchange telecommunications services, it will be necessary to implement a compensation arrangement that compensates co-carriers, including Sprint United and Time Warner, for the termination of calls originated *on* the networks of other co-carriers. This compensation arrangement should minimize, to the extent possible, both the magnitude of administrative costs (including measurement, *billing*, *and* administration) and the incumbent LEC's ability to create barriers to entry. The bill and keep proposal described in my direct testimony will best meet these objectives.

If a flat rate port arrangement is adopted, the rate must not prevent new entrants from utilizing such an arrangement with the relatively low initial traffic volumes that it is reasonable to expect these carriers to have. Otherwise, an effective barrier to entry will be created. Similarly, if a per minute of use rate structure is considered, it is essential that an effective imputation standard be applied in order to prevent a price squeeze.

In addition to the objectives of minimizing total costs and avoiding the creation of barriers to entry, the compensation arrangement adopted for local interconnection should not distort the signals to the marketplace in a way that causes inefficient investment and wasted resources.

Q. **DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

A. Yes. It does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950985-TP

REBUTTAL TESTIMONY OF

DON J. WOOD

ON BEHALF OF TIME WARNER AxS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

FILED: FEBRUARY 20, 1996

Q: PLEASE STATE YOUR NAME AND ADDRESS.

A: My name is Don J. Wood, and my business address is 914 Stream Valley Trail, Alpharetta, Georgia 30202. I provide consulting services to the ratepayers and regulators of telecommunications utilities.

Q: ON WHOSE BEHALF ARE YOU TESTIFYING TODAY?

A: I am testifying on behalf of Time Warner AxS of Florida, L.P. ("Time Warner AxS") and Digital Media Partners ("DMP") (collectively "Time Warner").

Q: HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A: Yes.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the direct testimony of Dr. Nina W. Cornell on behalf of MCI Metro Access Transmission Services, Inc. ("MCIMetro") and Mr. F. Ben Poag on behalf of United Telephone Company of Florida and Central Telephone Company of Florida ("Sprint United").

In my direct testimony filed December 21, 1995, and rebuttal testimony filed January 26, 1996, I described the importance of a regulatory framework for local interconnection between Time Warner (and other ALECs generally) and the network of Sprint United. Specifically, I described the importance of a compensation scheme that 1) compensates each carrier while avoiding the creation of unnecessary costs, 2) avoids the creation of excessive per unit costs for new entrants with relatively low initial levels of traffic, 3) prevents, to the extent possible, the ability of Sprint United to create a price squeeze for new entrants, and 4) does not create, through inconsistent cost/rate relationships, artificial incentives for new entrants to make inefficient investments. In addition, any compensation arrangement for local interconnection should not artificially limit the ability of competitive market forces, as they develop, to encourage all carriers -- including both incumbents and new entrants -- to operate as efficiently as possible. The cost savings that result from these efforts will translate into lower prices from consumers. These same objectives should be met in any framework for local interconnection adopted for GTE Florida, Incorporated ("GTE-FL"). Each of the recommendations in my previous testimony can, and should, be applied to GTE-FL. Accordingly, the Commission should also order for GTE-FL that a "payment in kind," rather than "payment in cash," compensation arrangement be implemented, and that if a "payment in cash" arrangement is adopted, that an effective imputation standard be applied and that rate/cost relationships not be permitted that will distort the information available to a new entrant when making a "build or buy" decision.

Q. IN YOUR PREVIOUS TESTIMONY, YOU DESCRIBED ADDITIONAL COSTS THAT WILL BE INCURRED BY BOTH INCUMBENT LECS AND NEW ENTRANTS IF A "PAYMENT IN

CASH" ARRANGEMENT IS ADOPTED. DOES THE TESTIMONY OF OTHER WITNESSES SUPPORT YOUR OBSERVATIONS?

A. Yes. Specifically, I described my review of cost information provided by other LECs that suggests that measurement and billing costs constitute the bulk of the reported incremental cost of terminating a local call originated by a co-carrier. In other words, it is likely that over half of the incremental cost incurred by Sprint United or GTE-FL to provide local interconnection on a per minute basis *can be avoided* if a "payment in kind" arrangement is adopted, thereby eliminating the need for measuring and billing this traffic. At p. 14 of her testimony, Dr. Cornell points out a similar experience: "based on information that I have seen in other states, developing such a measurement and billing system could more than double the total service long run incremental cost of the switching function for terminating traffic from the cost without measurement and billing." As in his previous testimony, Mr. Poag at p. 15 also describes the necessary measurement and billing software as "relatively expensive," and again goes on to state that because of this expense, Sprint United will only be providing this capability at access tandems. Clearly, if a capability that is "relatively expensive" enough to constitute more than half of the incremental cost of providing local interconnection can be avoided, customers of both incumbents and new entrants will benefit. A "payment in kind" arrangement provides such an opportunity.

Q. **IN YOUR PREVIOUS TESTIMONY YOU DESCRIBED THE IMPORTANCE OF AN EFFECTIVE IMPUTATION STANDARD IF A "PAYMENT IN CASH" ARRANGEMENT IS ADOPTED. DO OTHER WITNESSES AGREE WITH YOUR ASSESSMENT?**

A. Yes. At pp. 20-23 of her testimony, Dr. Cornell describes in details why a price squeeze will be created if Sprint United or GTE-FL is permitted, as proposed, to charged switched access rates to co-carriers for local interconnection. I wholeheartedly agree with her conclusion at p. 21 that "use of switched access charges for compensation for terminating local traffic under Sprint/GTEFL's currently regulatory restrictions would deny the public all of the benefits that could come from local exchange competition." Since existing local exchange rates are capped (and to permit Sprint

United or GTE-FL to increase rates in order to meet an imputation test would hardly constitute a benefit to consumers), it is necessary to adjust the proposed interconnection charges in order for a price squeeze to be avoided.

The most administratively simple and least costly method of avoiding a price squeeze is "payment in kind" mechanism. If a "payment in cash" mechanism is adopted, rates for interconnection elements should be set at a level equal to the total service, long run incremental cost ("TSLRIC") of the incumbent LEC of providing them. With such a rate level, incumbent LECs will be fully compensated (including a fair return on capital) for all costs incurred as a result of offering local interconnection. End users, meanwhile, will have the opportunity to fully benefit from the action of competition market forces, without the artificial constraints imposed by a rate structure that establishes the rates for "wholesale" services, such as local interconnection, at a level above TSLRIC.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?
A: Yes, it does.

Q (By Ms. Weiske) Mr. Wood, do you have a summary to present at this time?

A I do.

Q Please do so.

A Good afternoon. In order to offer a service of satisfactory quality their customers, competing local exchange carriers must, pursuant to some agreement, terminate local calls that are originated by their competitors. Their offering of a ubiquitous service by any of the local carriers is simply not possible otherwise. In this market the old AT&T advertising slogan "From Anywhere to Anywhere" can certainly be expected to hold its weight.

In order for effective and efficient competition for local exchange services to have the opportunity to develop, any compensation arrangement among the carriers must be consistent with the following objectives: First, it should fully compensate each carrier for the total service long run incremental costs incurred when terminating a call originated by a co-carrier. Second, it should prevent, to the extent possible, the ability of the incumbent to engage in a price squeeze or other anti-competitive pricing structure. Third, it should prevent, to the extent possible, the creation of excessive and unnecessary costs. And fourth, it should not penalize new entrants for constructing efficient networks, nor should it provide financial incentives for new entrants to make inefficient investments. Also -- and I think this is perhaps one of the key points before your consideration: Any framework for interconnection compensation should not artificially limit the ability of competitive market forces, as they develop, to provide incentives for all competing local carriers, both incumbents and new entrants, to operate as efficiently as possible and to identify opportunities to reduce costs wherever possible.

I understand that there was some interest in this issue earlier today. If you set rates for interconnection, for local interconnection, at total service long run incremental cost, you will assure yourself of two things: First, that there are no additional costs that are caused by United/Centel's decision or requirement to offer local interconnection that aren't being recovered; and second, you can be assured that there is no need to add additional contribution for additional costs into any rate. TSLRIC should be fully compensatory if the Company has done its cost studies correctly.

Now, a mechanism of mutual traffic exchange best meets each of these objectives. It's fully compensatory, it prevents, in many ways, the ability for the incumbent to engage in a price squeeze. It avoids the creation of a number of unnecessary costs, and it permits new entrants to deploy their networks in the most efficient manner possible.

But putting the debates of all the parties aside, I think you have an opportunity to gain some insight into the merits of mutual traffic exchange just by looking at the current environment. If you look at a case in which existing LECs who need to terminate traffic for each other, but which have no competitive interests involved, if you look at the type of arrangements that they have adopted, you will see that -- both here in Florida and around the country -- they have determined that mutual traffic exchange, so-called bill and keep, is the most efficient means of doing so. It's not until you get a competitive interest involved by an incumbent looking at a new entrant that suddenly you hear the cries of the necessity of having both a cash exchange, in terms of rates, and rates that are set far in excess of TSLRIC in order to be fully compensatory.

And I think that's important. I think if you take the competitive element out of the scenario and look at what LECs are going to do when they have every incentive to do what's most efficient, you're going to see bill and keep. When you add the competitive element back into the mix and provide a different set of incentives, then you're getting different proposals.

If you determine that the exchange of cash is necessary, a rate for interconnection set equal to TSLRIC is by definition fully compensatory for the costs caused by the incumbents -- the incumbent's decision or requirement to offer local interconnection, or in other words the cost caused by the new entrant for termination of traffic that it originates.

Any rate set above TSLRIC is going to do two things. First, it's going to make it absolutely essential that an effective imputation standard be adopted and rigorously applied. The second thing it's going to do is it's going to diminish the ability of end users to receive benefits from having alternative suppliers of local services, because again, it's going to build into the rate structure costs that are beyond the costs caused by providing local interconnection, and costs that are in the incumbent structure which are not going to be subjected to a market test. They're going to be fully insulated. And one way I've heard it put, you're going to be institutionalizing those costs. I strongly urge you not to do that, but to allow all of the costs to be fully subjected to competitive market tests. That's the only way we're going to find out which costs should be there and which shouldn't. That concludes my summary.

MS. WEISKE: Mr. Wood is available for cross-examination.

CHAIRMAN CLARK: Ms. Wilson?

MS. WILSON: FCTA has no questions.

MR. CROSBY: No questions.

MR. MELSON: I've got a few.

CROSS-EXAMINATION

BY MR. MELSON:

Q Mr. Wood, I'm Rick Melson representing MCI Metro.

A Good afternoon, sir.

Q I believe you said during your summary that rates -- if I got it right -- rates set at total service long run incremental costs would be fully compensatory, assuming the cost studies were done correctly; is that correct?

A Yes, that's right.

Q Have you had the opportunity to review cost studies of the cost of interconnection around the country?

A Yes. I have looked recently at cost studies for all of the Bell Atlantic states, most of the U.S. West states, quite a few of those. At least, with regards to Southwestern Bell for Texas and for Pacific Bell for California.

Q Have you had an opportunity to review the confidential cost study that Sprint-United/Centel made available to the -- today to the parties who signed protective agreements in this docket?

A Well, I have it here. I've had an opportunity for a brief review, and of course I only got the document this morning, so I've not been able to go through in the detail I would have liked.

Q Let me ask you a couple of questions. How do the costs portrayed in that study compare -- without -- I don't want to get into specific numbers because of confidentiality concerns.

A Yes, sir.

Q But in a general sense, how do the costs portrayed in that study compare with what you've seen in other states?

A I guess there are two things that strike me about what's been provided. If I look at, I guess Page 2 of the response, that's a -- I guess a supplement to the response to Staff's first interrogatory, and again without revealing any numbers, I'm actually -- I guess the best way to put it is I'm not sure what to make of this. There's language here that says that what's being reported is the TSLRIC of terminating a call for local interconnection purposes. And there's also language here that says that the study assumes all intraCompany traffic. So I'm not sure what that means.

There is a description here of interoffice traffic assuming one CLASS 5 office and a local tandem assuming two. I guess the bottom line there is that I'm accustomed to seeing services that, in a sense, break out the functional components of local interconnection, of terminating a local call. I would expect to see an end office cost that includes essentially the local switching function. And I would expect to see an access tandem termination type cost that would include some transport, some tandem switching and some local switching.

What's being presented here is -- it's not at all clear which functions underlie these line items. And the costs that are presented here, without revealing the numbers, are not consistent -- again, I don't know how to compare them to what I've seen, but they're not consistent to what I've seen.

Q When you say they're not consistent, are they higher or lower than what you would have expected to see?

A Well, it's hard to compare these directly. If I look at a different page, which I believe is the response to Question 64, these costs, in a sense, are presented in terms of the functions that I would expect to see. And at least with regard to local switching, again without revealing the number, what's being reported here is substantially in excess of the proprietary numbers I've seen.

There is a nonproprietary number that's been provided around the country of .2 cents a minute for local switching, and obviously, we'll all have to -- without revealing the number, we'll have to compare the response to 64, Page 3, Line 9 for ourselves to that .2 cents a minute. But I think without revealing anything proprietary, I can certainly say that what's being reported here is well in excess of both the proprietary and non-proprietary numbers that I've seen around the country.

Q So I get it right when I have Mr. Poag on the stand, that was Item 64, Page 3, Line 9, did you say?

A Yes, it looks -- it's the revised confidential United/Centel Docket 950985-TP, Staff's Third Set.

Q Is there a bate stamp number on the bottom of it?

A 0175.

Q That's all I need. Thank you.

CHAIRMAN CLARK: Mr. Logan.

MR. LOGAN: No questions.

CHAIRMAN CLARK: Mr. Horton.

MR. HORTON: No questions.

CHAIRMAN CLARK: Mr. Rindler.

MR. RINDLER: No questions.

CHAIRMAN CLARK: Mr. Gillman.

MR. GILLMAN: Thank you, Chairman Clark

CROSS-EXAMINATION

BY MR. GILLMAN:

Q Mr. Wood, my name is Tony Gillman. I'm representing GTE in this case.

A Good afternoon, Mr. Gillman.

Q Thank you. In your summary you talked about rates should be set at TSLRIC. When you made that statement, were you referring to the cost of terminating a call in the incumbent LEC's network?

A Well, just to be clear, I think the first thing I said was that I recommended mutual traffic exchange, which of course does fully compensate for the TSLRIC of terminating those calls, but if you're going to a TSLRIC based rate, then yes, that's the function you're looking for. It's the cost to either carrier of terminating a call that's originated by a co-carrier.

Q Drawing your attention to Page 5 of your direct testimony, Lines 1 through 12, which appears to be identical to the testimony filed by Ms. McGrath and Mr. Engleman --

A Well, if it's not identical, I hope it's at least consistent, because this is, in a sense, a summary of the testimony that Ms. McGrath has presented.

Q And all of these functions and -- and Ms. McGrath testified extensively about some of them. All these functions would also be included as a part of any interconnection arrangement that you're seeking the Commission to order; is that correct?

A Well, these are certainly issues associated with local interconnection, and I certainly think they're all legitimate and important issues in that context.

Q And in fact, what you're asking this Commission to do is to order these functions be provided by the incumbent LEC as part of its interconnection arrangement?

A I think the answer is yes. I'll obviously have to look at the list since this really is a summary of what Ms. McGrath was presenting, rather than something that's unique to my testimony. I believe the answer is yes.

Q Were you here when Ms. McGrath testified?

A Yes, I was.

Q And I'm not going to go over all these functionalities, but I do want to raise -- go over one thing which I think is indicative of the others. Were you here when the -- when Ms. McGrath was asked by her counsel, or given a hypothetical about 100 homes being delivered with white pages?

A Having told you I was here for her testimony, I don't recall that example. I will readily confess that there were a couple of occasions that I stepped out for a few minutes and that may have been one of them.

Q I'll try to restate it. She raised a hypothetical that she assumed there would be 100 homes, all of whom are presently United/Centel customers or GTE customers, who receive a phone book from the incumbent local exchange carrier. Okay?

A Okay.

Q She then asked Ms. McGrath to assume that -- let me back up. As part of -- the incumbent customer -- incumbent LEC's customer, doesn't pay any extra for the phone book; does he?

A I'm sorry, does an existing United customer pay for the phone book distribution? I wouldn't expect that they do, no.

Q So then the cost of distribution, the cost of printing, that's all bundled into the local rates that the customer pays every month to United/Centel?

A Well, I don't know that that's the case at all. It may very well be costs that are incurred by the Sprint publishing subsidiary that -- in order to have a yellow page advertising that has value to potential advertisers. Certainly the commitment to distribute that book is what gives those ads value. So to say that those -- those costs exist, certainly. To say that they're incurred directly by the Sprint subsidiary that is United/Centel, the local exchange company, and that they're bundled into local rates, I don't think that necessarily follows.

Q Are you saying that that's not true or that you don't know?

A I'm saying that I would have no way to know.

Q How long -- you were a U.S. West employee?

A No, I was a BellSouth employee.

Q Did the BellSouth affiliate pay for the white pages?

A I don't believe they did.

Q So at least with your experience with

BellSouth, the end user customers, in effect, paid for the distribution and printing of the white pages through their local rates?

A Well, certainly the local exchange company incurred those costs. To say that those costs were or were not recovered through the existing local rate structure is a different conclusion, and I don't want to quibble with you, but I'm certainly comfortable agreeing with you on the first point. The second one I'm not sure we've discussed any basis for that conclusion.

Q Under your experience with BellSouth, were they or were they not, or don't you know, were those costs recovered under the local rates of the customer?

A I think in some areas they probably were. In some geographic areas they probably were not.

Q Well, let's assume then that we are in an area where the costs of printing and distribution are recovered by the local rates of the local exchange customer.

A All right.

Q Okay? And Ms. McGrath was given the further hypothetical that ten of these customers, former Sprint customers, would go to Time Warner, ten would go to MFS, ten to MCI. And the point that Mrs. McGrath made was that -- or the question that was asked was whether the costs for distributing the same 100 books -- 70 to Sprint-United and 30 to these other companies' customers -- would the costs increase? Would you agree with Ms. McGrath that the costs wouldn't necessarily increase?

A Under your hypothetical, which as I understand it assume the same customers, we're not talking about new customers, moving customers, anything like that.

Q Same customers.

A It would be the same distribution of the same material, and I would not expect costs to change.

Q But in this example, now, the difference is -- even though the costs maybe haven't changed -- that those costs are now being recovered from 70 customers instead of 100 customers.

A Well, no, and that's why I disagreed with you before. I don't think we've established that that cost recovery either is or properly should be recovered through basic exchange rates. Those costs are incurred directly as a result of the publishing affiliate's desire to offer yellow pages advertising. If those costs are currently being recovered through basic local rates, I would certainly argue that there ought to be a transaction between Sprint-United, the local exchange company, and Sprint's publishing affiliate to compensate the local exchange carrier, and through that process, the customers for that distribution. The benefit certainly is clearly there to the publishing subsidiary. I guess it's -- it harkens back to the days where we used to impute some yellow pages revenue. Some of the same philosophy, I think, would apply here.

Q Mr. Wood, I'm talking only about the white pages?

A I understand. But those are, as I understand it, glued together, so in a sense it's hard -- both symbolically and literally, hard to separate.

Q And didn't you testify to me that based upon your experience with BellSouth, that in certain areas, the costs of publishing and distribution of the books were recovered under the local exchange rates?

A No, sir. What I agreed is that there were some areas, geographic areas where those costs -- where existing local exchange rates would have recovered not only direct costs of local exchange service, but perhaps additional costs as well, which may or may not have included the distribution of the white pages, and in some areas it would not have. To say that those costs explicitly were part of that rate or part of the process that made up that rate, I believe is incorrect.

Q In printing and distributing telephone books, does that require the utilization of the local exchange carrier's common plant and common overhead?

A If it's the local exchange affiliate that's conducting the distribution and not the publishing affiliate, then by definition there would be some costs that would be shared with the local exchange affiliate. I don't agree -- if you're suggesting that that's where those costs should be borne, rather than by the publishing affiliate, then I disagree.

Q Drawing your attention to -- let me ask you this, is Time Warner intending to provide telephone service in areas in which Time Warner presently provides cable service?

A Your -- I can -- I -- let me back up. I'm not sure I have any basis to answer that. I'm not a Time Warner employee. I'm certain that they wouldn't share those business plans with me even if I asked. I really don't know what information I can possibly provide to you in that regard.

Q Okay. Drawing your attention to Page 6 of your direct testimony.

A Yes.

Q Where you talk about Sprint-United's ubiquitous network and brand identity and loyalty, Line 22 and 23?

A Yes.

Q Assuming that Time Warner offers telephone service within the same area they offer cable service, wouldn't Time Warner also enjoy the advantages of having brand identity and loyalty with customers?

A The answer is clearly yes, there are going to be customers that will identify Time Warner as their cable provider, and perhaps as a provider of other services.

If the question is does Time Warner provide ubiquitous cable service throughout the territory in which United provides ubiquitous telephone service, I think the answer is no, that the Time Warner coverage would be much smaller.

Q That wasn't my question.

A Okay.

Q And I think you answered it. On Page 12, Lines 8 to 11.

A Yes.

Q Where you state that bill and keep meets the statutory requirement?

A Yes.

Q What's your understanding of the statutory requirement?

A I had it in front of me at the time. I don't have it in front of me now. That there is a -- and I will speak in generalizations. I can find the specific language. But it's that there be a recovery of the relevant costs associated with providing local interconnection. If we need to get more specific, I'll have to get the statute.

Q No. In making this statement, did you assume that the exchange of traffic under a bill and keep arrangement would be equal?

A I don't think the assumption is necessary to make the statement. I do agree that over time I think the assumption is valid, that over time traffic will be equal. I find it difficult to envision, really, any other scenario. Over shorter time periods I would fully expect to see traffic imbalances in favor of one carrier over another, and, from month to month, changes in that balance. Long term, I fully expect it to be equal.

Q In the short term, who will the imbalance favor?

A I don't think there's any way to predict that.

Q Why wouldn't it be equal in the short term?

A Why would it not?

Q Why do you expect for an imbalance to be in the short term and not in the long term?

A Well, let me be clear, because I think we've miscommunicated on terms. When I say long term -- well long term, I guess, is clear. When I say short term, I don't mean for an intermediate startup period of time until the time in which long term kicks in, if you will. I mean if you look at over a year or a two-year span, you are very likely to see traffic very nearly in balance. If you pick a single month or a single day out of that two-year span, I think purely by random calling patterns, you're very likely to see a traffic imbalance. So when I say short term and long term, I'm referring to not -- the short term is not the immediate few months that are going to occur in 1996. I'm talking about any specific shorter increment of time that you might want to sample.

Q Well, would you consider eight months to be a long enough period to fit in your definition of long term?

A I think you would start to see a trend in eight months. I'm not sure that it's long enough period of time to fully capture that effect, but I would start to see -- I would expect to see some trend in eight months. I would be much more comfortable with a longer period of time.

Q What period of time do you feel you would be comfortable with?

A I would much rather see a full year or full two years.

Q And what studies, if any, or data or statistics have you looked at that you -- upon which you rely to support your assumption that over a one- or two-year period that the balance will be equal?

A Well, I'm not sure that we're really at a position in this industry where we're going to see a satisfactory collection of data on traffic exchange among competing local exchange carriers because there simply hasn't been much experience in that regard. We certainly have studies for various EAS routes that are either within a LEC or that may include provision of service by two different LECs. I think there are very good reasons to expect that traffic not to be representative of the type of situation that we're referring to here.

Q That type of traffic would not be representative?

A That's right.

Q And isn't that the only sort of data that presently exists, is EAS traffic?

A Well, I think it's the only sort of data that's being provided in this type of proceeding. I think there were various reasons to expect EAS traffic not to be representative of competing local exchange traffic. In fact, studies around the country that I've looked at, nearly all EAS traffic is, in a sense, out of balance because the reason that EAS areas get created in the first place are groups of customers wanting to call another location. And the vast majority of those are going to be situations where it's not two towns of roughly equal size where customers want to call the other town, although those happen occasionally. It's very likely to be a larger metropolitan area in which customers in an outlying area want to call the inner city, but you don't have nearly as many people in the inner city wishing to call the outlying area.

So just because of the way they're created, nearly all the time you're going to see traffic imbalances on EAS. But I don't think there's anything there to suggest that that type of pattern would -- there would be any reason for that to be representative of the type of calling patterns created by a new entrant entering the market, marketing across the board to customers and signing up who they could.

Q Given the fact that you don't consider EAS data representative, what data have you relied upon in supporting your conclusion that traffic would be in balance?

A Well, it's nothing more -- and I make no bones about it. It's nothing more than a common sense approach. There are customers that are going to originate calls on the new entrant's network that are going to be calling numbers that are customers of the incumbent, and vice versa.

Certainly -- and there are different explanations and different parties' testimony of the percentages. If you have a very large percentage of the customers as customers of the incumbent LEC, and a few of the new entrant, most of the calls that a new entrant customer is going to make are going to be to the customers of the incumbent, because that's where most of the numbers they could possibly call would be. But since there are few customers of the new entrant, the number of calls is likely to be small. Conversely, customers of the incumbent are going to rarely call customers of the new entrant simply because those numbers don't represent very much of the total universe of numbers. But there are lots of customers of the incumbent that could make a call.

So when you -- anytime you look at that, you have to reach the conclusion, certainly in my mind, that over time, it is statistically extremely likely to have balance of traffic. Again, in any given month, it could go either way.

Q The answer to my question, then, is that given the fact that EAS routes is not representative, that you're not relying on any specific data from other areas supporting your conclusion that traffic is going to be balanced over a one- or two-year period?

A No. As I said, it's purely a common sense approach. It's well too early in the process to have any experience that's likely to be representative to study.

Q You're aware, are you not, that other parties have not shared this common sense view? Do you agree with that?

A Which parties did you have in mind?

Q Are you aware of any that have not agreed with you?

A I understand United disagrees, and if I understand Mr. Poag correctly, it's based on his review of EAS traffic. And, again, I've just -- I see no reason why that would be representative. In fact, I see very good reasons why it would not.

Q Now, assuming that traffic is not in balance. I understand that you think it will be over time.

A Yes.

Q If the incumbent LEC terminates more calls on behalf of Time Warner's customer, than Time Warner does, then is your opinion still the same, that the incumbent LEC will recover its cost of terminating those calls under a bill and keep arrangement?

A Let me make sure I understand your question. You're referring to a scenario, not in which in any given month, or what I've characterized as a short term period of time, that out of balance occurs, but if we look at data over a year, over two years, and see that despite, at least my expectations, we are systematically seeing traffic imbalances of what, ten percent, 20 percent, netting out as 20 percent more terminations on the incumbent side. If that's --

Q Or any percentage, that it's out of balance. Yes, I think that's a valid -- that's what I asked you, over the long term.

A Okay. If the second of those is in fact your question, then the answer is possibly not, and I would certainly not oppose every view after a year, after two years. If a party wants to come to the Commission with the traffic studies and say, here they are, traffic is not in balance; it's systematically not in balance over the long term; there needs to be some sort of capping structure, a 105, a 110, whatever it is, I don't have a problem with that. I don't have a problem very largely because I would be very surprised if that type scenario ultimately plays out.

Q Now you said that the -- possibly not. So that it's possible that under an imbalanced traffic scenario, that the incumbent LEC would recover its costs under a bill and keep mechanism?

A Well, yes. And the reason that I qualified that is that costs are not a static concept; they're a dynamic concept, and we're dealing with time periods here. And to peg a cost at today's levels is probably misleading. Costs do change over time. In the current environment, with the technologies that are available to anyone wishing to offer service in the local exchange market, either a new entrant or an incumbent, I would expect to see substantial decreases over time in those reported costs. So the answer may be yes, but the reason is the dynamic effect of the existing cost structure.

Q The cost would never decrease below zero, would it?

A No, it wouldn't.

Q No, it would not?

A No, it would not. But I don't think that's required.

Q So it's your testimony that under a bill and keep mechanism, assuming a long term imbalance in favor of the competitor, that there may be situations where the LEC, incumbent LEC, would not recover its total cost of providing interconnection through the interconnection charge?

A Well --

Q Or through the bill and keep?

A Well, through that mutual traffic exchange arrangement, the answer is yes. Under that -- if you were able to demonstrate that type scenario, then I agree that a capping mechanism would be in order.

Q Why a capping mechanism as opposed to a reciprocal charging of rates?

A Well, I guess one may be perhaps administratively somewhat less expensive to put in place than the other. I would prefer a capping arrangement clearly because it would provide exactly the same protection with the exchange of fewer dollars, fewer bills, requiring fewer audits, and the like. So in the interest of administrative economy, I would propose a capping mechanism over a situation which you wanted to put a cash payment associated with every minute that was exchanged. You wouldn't be any better protected -- you, the incumbent, wouldn't be any better protected if you charged for every minute than if you put in place the right capping mechanism.

COMMISSIONER DEASON: I'm having difficulty understanding that. Why is it that a capping system would be more efficient and provide the protections with which you are concerned?

WITNESS WOOD: Well, the protections are not my concern specifically. I think they were GTE's, because I'm expecting more traffic balance than apparently they are. But if you put a capping mechanism in place, as I understand that process, you would exchange the traffic on essentially a bill and keep basis until there was a demonstration that the cap had been exceeded. If the cap has been exceeded, then you would apply a rate to those excessive minutes. The incumbent would bill those accordingly, and you're dealing with the measurement of a smaller set of minutes to possibly be in dispute, if you will.

COMMISSIONER DEASON: So you're speaking of a cap arranged before there would be any payment in cash, as opposed to a limit on the cap in terms of a limit on the amount of cash that would exchange hands?

WITNESS WOOD: That's right. That's right.

COMMISSIONER DEASON: You agree there are two different types of caps?

WITNESS WOOD: Absolutely.

COMMISSIONER DEASON: One would be a threshold, basically, and the other one would be a maximum amount that would be billable under some type of a cash billing mechanism?

WITNESS WOOD: Right. And if I wasn't clear, let me be clear. I would certainly recommend the former rather than the latter, because if you follow the first structure, if traffic in fact turns out to be in balance over time, you will gain from -- and when I say you, I mean ultimately the end user, because they're the ones paying the administrative costs -- you'll have gained from the efficiency gained from a bill and keep arrangement. At the same time you will be protecting the incumbent from the possibility that they're somehow going to be harmed if traffic is imbalanced not in their favor. So you've accomplished the primary two objectives that I think you would put it in place for.

With the latter situation you don't gain those efficiencies up until the cap is reached, and I'm not sure that you gain anything in terms of additional protection for the incumbent. So to me that would clearly be the inferior choice, if you had the choice of the two.

COMMISSIONER DEASON: So you prefer the threshold type arrangement where there would be no exchange of money until there is a certain degree of imbalance?

WITNESS WOOD: That's right.

Q (By Mr. Gillman) Mr. Wood, would it be fair to say that what you're talking about is similar to what was adopted in the Michigan plan?

A I will have to pull the Michigan order to give you a definitive answer. It's my understanding that that's how Michigan works. It's a threshold cap.

Q So if the traffic -- subject to check, if the traffic or the Michigan order says that if the traffic is out of balance by over five percent, then you will go to a reciprocal payment of interconnection charges, correct?

A Let me -- if you give me one minute, I think I can give you a definite answer. (Pause) A number of these are minor variations on a theme. Yes, that's correct. There's a five percent threshold. If the traffic imbalance exceeds that five percent, then the compensation would -- the compensation in cash arrangement would then apply. Up until the 105, the compensation in kind would apply.

Q And that -- in considering whether the five percent threshold has been met, you need to look at all the traffic; is that the way the order reads?

A Yes.

Q If it goes over the five percent cap, then there's reciprocal compensation for all the traffic, not just the amount over five percent?

A That's right. And that's the one element of the Michigan order that I would certainly take some issue with in terms of efficiency. If you bill just for the traffic that's in excess of the cap, you're gaining the protection for the incumbent that I think you would be seeking. If you then go back and bill for all the minutes up until that point, you're exchanging money one for one up until the cap is reached. So in a sense you're -- there's a lot of money changing hands that need not change hands, and of course, as you know, there are costs associated with money changing hands. And in this case I would say costs that could be avoided while still meeting the objective, costs that ultimately would be borne by end users. So I disagree with that particular element of Michigan. That's not consistent with what I would be advocating.

Q In any event, that's what the Michigan Commission ordered?

A As I understand it, yes.

CHAIRMAN CLARK: Mr. Wood, can I ask you a question? What difference does it make how much you write the check for? I mean it seems to me if you have to write a check because it exceeds five percent, you know, you're writing me a check for $105 and I write you for 100, or you write a check for $5 and I guess I don't write any for you, is that the difference?

WITNESS WOOD: That's clearly the difference.

CHAIRMAN CLARK: Doesn't seem like that much of an administrative cost.

WITNESS WOOD: Well, I guess it doesn't until you have some experience with the CABS billing process that is involved with interexchange carriers paying local carriers. And with the -- since I'm employed by neither, I guess I can speak more directly than I would have otherwise. With the opportunity that both of those entities have found to increase the costs of administering that process, there have certainly been a lot of dollars expended on -- by IXCs to -- that have ultimately reduced the total amount of those bills. Is that money well spent by an IXC? Sure it is. But is it money that in an ideal world wouldn't be spent? The answer is also yes.

CHAIRMAN CLARK: I don't see how if you -- if it kicks in that where it's the five percent you're terminating -- I guess it's terminating -- more than five percent of the traffic.

WITNESS WOOD: That's correct.

CHAIRMAN CLARK: Five percent over, then you have an exchange in cash. I don't see where -- it seems to me that's what causes you to incur the costs, when you exceed that five percent. And the fact that you may then make mutual payments instead of mutual exchange of traffic, I don't see how that increases the cost.

WITNESS WOOD: And I don't want to suggest a bigger differential than it is, because clearly, the real differential kicks in the day there becomes a payment in cash at all.

CHAIRMAN CLARK: Correct.

WITNESS WOOD: But certainly the costs of handling, auditing and otherwise processing a bill of 105, or 105,000, or whatever it turns out to be, versus five or 5,000, tends to be higher. If nothing else, bills of that magnitude generate much more attention internally. I guess, really, that's the best answer I can give you, is that there are certainly -- there are higher costs with the check for 105 than there would be for five, but clearly, the big jump in costs occurs when you have the jump from no checks at all to any checks.

CHAIRMAN CLARK: Go ahead, Mr. Gillman.

COMMISSIONER JOHNSON: Let me ask one follow-up question on that. You seem to be somewhat familiar with the Michigan decision. Do they provide any rationale as to why they would -- if you exceeded the five percent, that they would require the total monetary payment?

WITNESS WOOD: Well, what they're trying to do in their language is to adequately account for any skewed traffic balances between AmeriTec and City Signal, who is the ALEC that's petitioning here, while at the same time reducing billing costs when traffic is imbalanced. So in a sense their objective and their rationale, as I understand, it is essentially a safety net mechanism. While they're not expecting traffic to be out of balance, they certainly have heard the argument by AmeriTec that it might be, and they review that to some degree in the order. And they put in this mechanism to say, if it's up to 105, we believe the process is working efficiently, no one is being harmed and the costs are being avoided to the extent they can, but a safety net should kick in if the traffic further becomes out of balance, and that's when the cash payments kick in. And so as I understand it, it's purely a safety net, that while they don't necessarily expect it to kick in, they certainly were more comfortable with it being there so it would kick in if it were needed. I have no objection to that. I would be -- again, I would be relatively surprised if these things kick in if you measure traffic over a relatively long period of time.

COMMISSIONER JOHNSON: What was the period of time within which they would be measuring traffic?

WITNESS WOOD: This was either a one-year or two-year, I believe. And I'll have to look because I've got a case full of them. And it may be more efficient for me to look that up and provide it to you, and I'll be happy to do that.

COMMISSIONER JOHNSON: That's fine.

WITNESS WOOD: Most of these orders look in terms of a year or two years measurement in order to put these mechanisms into play.

COMMISSIONER JOHNSON: That's fine. I just -- if it was readily available. If not, it's in the record. So we can look it up.

Q (By Mr. Gillman) You would not have an objection to this type of cap that it was introduced in Michigan?

A I would not -- no, I'm distinguishing my recommendation slightly, from the Michigan recommendation as we've discussed.

Q With that modification, you would support the Michigan plan here in Florida?

A Well, I don't want to say I would support the Michigan plan because the Michigan plan clearly covers things other than what we've talked about.

Q With respect to --

A At least 90 pages of other topics.

Q With that slight modification with respect to the bill and keep issue, or whether traffic should be compensated on a per-minute-use basis, would you support the Michigan's five percent cap plan?

A I would rather state it in the affirmative, and I don't want to beat it to death, but I would rather state affirmatively, if over a one-year or two-year period United/Centel comes in and demonstrates that traffic is out of balance, to the tune of five percent, ten percent, whatever the Commission feels is the appropriate safety net level, then I would not oppose traffic beyond that cap being billed on a cash basis. Now, certainly those rates ought to be set properly, that will be billed, and those rates should be at TSLRIC, but I would have no opposition to that type safety net if it gave the Commission comfort.

Q But you would only agree with that after a two-year period had passed and United comes in and shows that the traffic is out of balance?

A Well, a year --

Q Is that what you're saying?

A A year or two years. I don't think it would be appropriate to come in on a month-by-month basis and try to make this type of demonstration, because I think then it's very likely that you're going to have companies writing checks to each other, whether it be the incumbent to the new entrant or the new entrant to the incumbent, and that would wipe out certainly the better part of the efficiencies of a bill and keep type proposal.

Q If Sprint-United, or GTE, came in in one or two years and showed that over that one- or two-year period that traffic was out of balance, and it was in favor of the -- it hurt the incumbent LEC, should the ALECs then pay for the amount of underrecovery that Sprint-United or GTE incurred over that two-year period, if underrecovery existed?

A Retroactively?

Q Yes.

A That's not what I am proposing. I am proposing a going-forward adjustment.

COMMISSIONER JOHNSON: Is that what Michigan was proposing? For some reason I was just assuming that they were proposing a retroactive recovery.

WITNESS WOOD: They have -- and I misspoke, and let me clarify because I -- I would propose, actually, to agree with the statement that you made, as I understood it, and that is that the cap -- the trafficking in excess of the cap should be billed at TSLRIC for the overage above the cap that was demonstrated for the relevant period. In other words, if United comes in, end of year 1, demonstrates that traffic is 107, 110, whatever it is, the differential above the cap should be billed at TSLRIC.

Q (By Mr. Gillman) For the two-year period that they underrecovered?

A That's correct. That's correct.

Q What was the rate that was approved in Michigan?

A Good question. I'll have to look.

Q Subject to check, would you accept a five cent per call rate, which was translated by the Commission to be --

A To be a one and a half cent per minute.

Q -- one and a half cents per minute?

A That's right. And I disagree that that rate is appropriately set.

Q But that's what the Commission ordered?

A That's what the Commission ordered. That level is clearly well in excess of the TSLRIC of providing that function. And if the purpose of a cap, as a safety net, is to ensure that the incumbent recovers its relevant costs if traffic is out of balance, then what needs to be billed after the cap is reached are rates that represent those costs that, for whatever reason, would not have otherwise have been recovered. So you would need rates set at TSLRIC, but in order to provide the protection that you're asking for, as I understand it, you would not need rates any higher than TSLRIC.

Q Did you participate in the Michigan proceeding?

A No, I didn't.

Q So you didn't review the costs of AmeriTec, did you?

A AmeriTec is one of the LECs that I have not reviewed costs for. I described the others to Mr. Melson that I have, and those costs are what I would have to characterize as remarkably consistent across the country. So if AmeriTec's were different, I would be quite surprised.

Q On Page 9 of your testimony, direct testimony, Lines 14 to 18.

A Yes.

Q You state there that interconnection

arrangements should encourage companies to invest in plant and drive facilities-based competition where facilities-based competition is efficient.

A Yes.

Q Are you saying that the Commission should order arrangements that encourage the building of facilities by competitors?

A No. It says where is efficient. And as I described in my summary, there are two problems that can occur if the rates or rate structure is set inappropriate. As I discuss in my testimony at least a couple times, if the differential between tandem and end office interconnection, if there is a rate structure that's adopted that exaggerates the cost differential between interconnection of those two locations, you may artificially create the incentive for new entrants to build facilities to an end office where it may or may not be efficient for them to do so.

Ultimately, you have new entrants coming into the market. If they're going to offer service, they've got to do one of two things. They've either got to build their own facilities or they've got to buy facilities from the incumbent LEC, or some combination of those. If the rates and rate structure of the incumbent LEC distort the underlying costs, then you're going to send a very -- the incorrect signals to that new entrant as to whether they ought to build or ought to buy. And I'm certainly encouraging a rate structure, whether it be mutual traffic exchange, or TSLRIC-based structure, that encourages new entrants to build facilities where it's efficient, but does not encourage them to build facilities where it would not be efficient.

Q Under that scenario, in a situation where it would be efficient for a carrier to build facilities, wouldn't that carrier have a disincentive to build those facilities if the interconnection rate was zero under a bill and keep arrangement, where they didn't have to pay anything?

A No, I disagree. Under bill and keep the cost is not zero.

Q Under bill and keep, the cost is not zero assuming a balance in the traffic; isn't that true?

A That's right, which is a topic I had at least hoped that we had either agreed on or agreed that there were safety net proposals that would assure that over time.

Q So assuming an imbalance, which we've talked about under a bill and keep arrangement, wouldn't that provide a disincentive against building facilities when under a normal situation it would be efficient for the competitor to build such facilities?

A Well, I guess if your question is assuming that we undo the last 20 minutes of discussion and set aside any capping, I can agree that it would mitigate, to some extent, the incentive. I think that's very different than creating a disincentive.

MR. GILLMAN: Nothing further, thank you.

CHAIRMAN CLARK: Mr. Wahlen?

MR. WAHLEN: Thank you.

CROSS-EXAMINATION

BY MR. WAHLEN:

Q Good afternoon, Mr. Wood.

A Good afternoon.

Q I'm Jeff Wahlen, and I'm going to ask you some questions for Sprint-United and Centel. In your summary, did you testify that you thought that mutual traffic exchange was consistent with the statutory arrangement for interconnection -- local interconnection in Florida. Did I hear that?

A I don't believe it was in my summary. I think there's been a subsequent discussion.

Q But you did discuss that in perhaps some questions along the way; is that correct?

A I think we discussed that topic. To be clear, what I said in my summary was that whatever the arrangement that's adopted might be, it should compensate each carrier for the TSLRIC incurred when terminating the call originated by a co-carrier, and mutual traffic exchange would certainly accomplish that objective.

Q Do you have an opinion on whether -- and I'm not asking for a legal opinion, but do you have an opinion on whether mutual traffic exchange is consistent with the statute in Florida?

A Well, I don't know how I would answer it other than to give you a legal opinion. I can certainly tell you that mutual traffic exchange would, in fact, under the -- any -- essentially any fundamental principle of economics you would like to apply, would result in the recovery of the TSLRIC of providing that function, by one carrier to another.

Q Okay. Mr. Fons is going to give you a copy of the statute, and I'm not handing this out so I can ask for more legal conclusions. I'm just -- would like to ask a few questions about how mutual traffic exchange works. There in Section 364.162, subsection 4, it says that, "In setting the local interconnection charge, the Commission shall determine that the charge is sufficient to cover the cost of furnishing interconnection." Now under mutual traffic exchange, what is the charge for local interconnection?

A Well, I guess the charge is the co-carrier is charged with terminating calls that are originated on your network.

Q So is that an explicit charge?

A Is there a cash exchange? No. Is there an explicit change of value? Yes, absolutely.

Q Now, if you would look in subsection 3 there, I've highlighted a little section. But basically it allows the Commission to set non-discriminatory rates, terms and conditions for local interconnection, except that rates shall not be below cost. And my question is this: Under mutual traffic exchange, what is the rate for local interconnection?

A Well, the effective rate is the value that's given up by the co-carrier when they perform the task that they are charged with performing, which is terminating a call that's originated on your network. That value has associated with it, if you need to put a number figure, the TSLRIC associated with performing that function.

Q Okay, now, under mutual traffic exchange, am I correct in understanding that you don't think it's necessary to perform any cost study to make sure that each of the parties are recovering their cost of local interconnection?

A Oh, I hadn't said that up until now, but I see no reason to disagree with it.

Q So really what you do under mutual traffic exchange is make an assumption that each party is recovering its local interconnection cost; is that correct?

A Well, no, I don't think you quite need to make that assumption.

Q Okay, well let's compare mutual traffic exchange to a minute-of-use interconnection arrangement. Under a minute-of-use interconnection arrangement, you can prepare a cost study which shows the TSLRIC cost of interconnection; is that correct?

A Yes, it can be done. I disagree that your company has to date done so, but yes, it could be done.

Q That's right, and that's based on your review of the cost study today, right?

A Yes, that's right.

Q Now, it's also possible under a minute-of-use interconnection scenario to compare the rate for local interconnection to the cost of local interconnection to make sure that the rate covers cost; is that correct?

A Well, in that environment you would have an explicit rate to compare to your reported cost that would facilitate that analysis, yes.

Q And you could be sure that the charge for local interconnection covers the cost of local interconnection using a minute-of-use charge for interconnection; is that correct?

A Absolutely.

Q And that's versus making an assumption under the mutual traffic exchange that each party is recovering its costs; is that correct?

A Subject to a traffic imbalance -- which hopefully we've established two things, and that is, long term I don't think there will be one, and if there is, it can be capped -- no, I disagree with your assumption.

Q Well, at the risk of replowing old ground, and I will only be brief, you have no studies whatsoever which show that traffic is expected to be in balance; is that correct?

A That's right, we're much too early in the process to have any hard data from experience.

Q That's right, and I think you've said that after two years if the incumbent LEC could come in and show that traffic is out of balance, then you might be in a position to recommend a minute-of-use interconnection arrangement; is that correct?

A Well, what I said was not that I might be in a position. I said very explicitly, I hope that if the incumbent LEC were to demonstrate that type of imbalance, that a minute of use -- a payment equal to the TSLRIC per minute of use for the traffic in excess of that cap should be made.

Q Okay, let's just talk about that for a minute. Implicit in that recommendation, wouldn't you agree that the charge is necessary so that the incumbent LEC could recover its cost of local interconnection? I mean that's why you would have the rate; isn't that correct?

A That is the purpose. If I understood the hypothetical that -- in the example and from the GTE attorney that led to that discussion, it was, in essence, exactly that, a situation in which costs would not be fully recovered because of the traffic imbalance, and therefore there would be an explicit billing mechanism to recover those costs.

Q And so under that scenario, the incumbent local exchange company would have gone for two years without recovering its full cost of local interconnection; is that correct?

A Yes, by definition. If you were able to demonstrate that by definition, your statement is true.

Q Okay, now, if the statute in Florida requires that the charge or rate for local interconnection cover cost, wouldn't you agree with me that letting the incumbent local exchange company go for two years without recovering its local interconnection charges might be inconsistent with the statute?

A If there was then a trueup once that demonstration was made, you're down to a legal opinion, but certainly from a layperson's opinion, I don't see the problem.

Q Okay. But didn't you tell Mr. Gillman that you didn't think very much of the idea of a retroactive charge?

A No. I initially misstated that a retroactive charge was not appropriate. Let me clarify my position one more time because I did misstate it the first time. I would agree to a demonstration, after a year or two years, by the incumbent LEC that traffic was out of balance in excess of a cap, five percent, ten percent, whatever the Commission feels is appropriate to establish a safety net. If that traffic is out of balance by that amount, those minutes in excess of the cap should be billed at a rate equal to TSLRIC for that time period over which they've demonstrated the imbalance, which would be, by definition, retroactive.

Q Okay. And so you would be in favor of a retroactive, make-whole type charge to protect either party if traffic is out of balance?

A Absolutely, positively not. I do not agree to a make-whole charge under any circumstances.

Q Well, when I say make-whole, I mean sufficient to allow either party to recover the costs of local interconnection which it did not recover during the two-year period of mutual traffic exchange in which traffic was out of balance.

A That's right, and if those relevant costs in your statement are total service long run incremental costs, as I've defined them, I agree with your statement. That's very different from what I understood Mr. Poag to argue in terms of a make-whole type of arrangement. That's quite different.

Q Okay. Well, maybe I used the term incorrectly, but you would allow the Company to come back in and get cost recovery to cover the cost of local interconnection?

A For the traffic in excess of the cap at TSLRIC, yes.

Q Okay, now, in order to do that, in order for the local telephone company to be in a position to do that, isn't it going to have to measure the amount of local traffic terminating through its switches?

A You're going to have to measure total traffic terminating through your switch. It's my understanding, although Mr. Poag's testimony has changed somewhat, I understood his original testimony to be that there were additional systems that needed to be implemented in order to do the measuring of local traffic. That's in his prefiled testimony. Now as I understand --

Q I understand. I'm not sure I'm asking you about Mr. Poag's testimony. I think I'm asking you about yours. Is it your testimony, and wouldn't you agree with me that a local exchange company would need to measure the amount of traffic, local traffic, terminating on its network so that it could make this showing in two years?

A I can't really respond to what your capabilities would have to be without responding to what your witness has said your capabilities are.

Q Well, let's just talk about it in general. Whether it's capable or not, let's just talk about it in general. In order to make the showing, you would have to measure, wouldn't you?

A No, I disagree that you will have to -- as you stated your question, without providing any further explanation based on Mr. Poag's testimony, the answer is no.

Q Okay, well let's back up then, because I'm confused. Your testimony is that if a local exchange company can come in and show that traffic has been out of balance by, say, ten percent for two years, then it should be allowed some sort of mechanism which would allow it to recover its incremental cost of local interconnection for that two-year period and going forward; is that correct?

A No, sir. Now you've added another element, for that two-year period for which you demonstrate that the out of balance has occurred.

Q So you can only do it if you demonstrate that in the past its been out of balance? You can never make any assumptions about the future?

A Well, I'm making an assumption about the future. So is your company. And our assumptions are not identical. It would seem to me the only way to resolve then that bypass is to -- I'm sorry, impasse, bypass is definitely the wrong word -- to resolve that impasse, would be to have the Company that feels it has been wronged to make the demonstration. I don't know how else you would resolve, in any equitable sense, that situation.

Q I guess I'm just asking a very simple question. In order to make that showing, don't you have to measure the amount of traffic? Doesn't the LEC need to measure the amount of traffic?

A I would like to give you a responsive answer other than no, which is what your question requires. In order to respond to your question, I'm going to have to describe to you my understanding of what's in Mr. Poag's testimony. There's no other way I can do it.

Q Let me ask this question. Assuming the Company has the ability to make the measurement, wouldn't it need to make the measurement to make the showing that you're talking about?

A If we agree that your question is purely hypothetical, the answer is yes.

Q Okay, now, and an ALEC, if it wanted to come in in two years and prove that traffic has been out of balance by more than ten percent or five percent, and that means that there's been more terminating on its network than on the incumbent LEC's network, it would need to be in a position so that it had measured the traffic; isn't that correct?

A It would certainly have to measure the total traffic. Whether it was measuring in a way that would distinguish between toll and local is a separate issue.

Q I guess what I'm getting at is this: Wouldn't you agree that both the ALEC and the LEC are going to have to measure the amount of local traffic terminating on their respective networks so that in two years we can have a meaningful discussion about whether traffic was in or out of balance?

A I can't tell you at this point how much I would like to be responsive, but since you've told me I can't discuss what Mr. Poag has told me, I don't know how to do that other than to keep saying no. The way you've phrased your question, the answer is no.

COMMISSIONER DEASON: How would they do it if they didn't measure it?

WITNESS WOOD: Well, there is a discussion of the measurement capability in Mr. Poag's testimony and that's what I don't have a clear understanding of.

COMMISSIONER DEASON: I'm not talking about what they're capable of doing or not capable. If they're going to make the showing, aren't they going to have to present hard data that this was the number of minutes that were terminated on our network, and isn't that going to have to be measured in some way?

WITNESS WOOD: Clearly the total traffic is going to have to be measured, but the traffic that's terminating is going to be both local and toll, and there may or may not be the capability of distinguishing that traffic without some reporting mechanism from other carriers being involved. And again, I'm trying to be as responsive as I can, but the capability is a function of what Mr. Poag has told us it is or is not.

CHAIRMAN CLARK: Well, certainly you have to be able to measure the total traffic being terminated.

WITNESS WOOD: Absolutely.

CHAIRMAN CLARK: Then you have to be able to subtract from that the toll traffic.

WITNESS WOOD: The problem is --

CHAIRMAN CLARK: Just in general. I don't care what Mr. Poag's testimony says. If you wanted to come before the Commission and show that you're terminating more traffic on your system than the LEC, you're going to have to show that by determining how much was terminated on your system and how much was terminated on their system. How can you do that?

WITNESS WOOD: That's right. There's certainly no dispute about that. The only question is whether that's a direct measurement or whether it's based -- it's a direct measurement of local versus toll or whether it's a direct measurement of total traffic with some reporting by other carriers as to what the breakout between local and toll is. So it's a reporting versus direct measurement issue. But certainly conceptually --

CHAIRMAN CLARK: So you would measure the total traffic terminating?

WITNESS WOOD: That's right.

CHAIRMAN CLARK: And then you would get from the IXC how much of that was toll?

WITNESS WOOD: Or from the other co-carriers, the mix of their traffic. Or you may be able to measure it directly. That's a capability that United may or may not have.

CHAIRMAN CLARK: Certainly you have to have the measurement of the total picture first. So you have to measure.

WITNESS WOOD: That's right. No dispute about that.

CHAIRMAN CLARK: Mr. Wahlen.

Q (By Mr. Wahlen) Were you here -- I can't remember if it was this morning or this afternoon -- when Mr. Engleman indicated that Time Warner switches had the capability to perform this type of measurement?

A Well, I think what his testimony was is that the capability is inherent in a digital switch, whether it be Time Warner's switch or whether it be United/Centel's switch for traffic measurement. There is some additional processing that has to be occur in order for this data to be captured and utilized in the way that we're talking about using it, which is not inherent.

Q Okay.

A And which may or may not be what Mr. Poag has described.

Q Okay. (Pause)

MR. WAHLEN: I think that's all the questions I have. Thank you.

CHAIRMAN CLARK: Staff.

CROSS-EXAMINATION

BY MR. EDMONDS:

Q First off, Mr. Wood, do you have a copy of two exhibits that have been marked by Staff as DJW-2 and DJW-3?

A Yes, I do.

Q DJW-2 is certain responses to Staff's discovery?

A Yes, that's right.

Q Were those responses prepared by you or under your direction?

A Yes, they were.

Q Have you had a chance to review those?

A Yes.

Q Do you have any corrections to make?
A No, I believe these are correct.
Q And same with DJW-3, excuse me, does that look like your deposition transcript?
A Yes, it does. I have not prepared an errata sheet, but this is clearly the transcript of that deposition.
MR. EDMONDS: Commissioners, at this time I would like to have these documents marked for identification as exhibits.
CHAIRMAN CLARK: DJW-2, which consists of some responses to interrogatories, will be marked as Exhibit 14, and DJW-3, the deposition, will be marked as Exhibit 15.
(Exhibit Nos. 14 and 15 marked for identification.)
Q (By Mr. Edmonds) Mr. Wood, Staff just has a few questions. Have you reviewed United/Centel's supporting long run incremental cost information, their LRIC information for terminating a call for local interconnection purposes?
A I'm sorry. The follow-up data that was provided this morning, is that what you're referring to?
Q Yes.

A Yes, I have.

Q In your opinion, do you believe that their LRIC costs are reasonable?

A No. As I described before, what's being provided in response to Staff Interrogatory 1, in a sense, it's at best elusive as to what's being reported here. It's not in a format that I've ever seen in terms of providing the functions associated with local termination and the corresponding incremental costs associated with those functions. That's not present here. That's present, to some extent, in the response to Interrogatory 64-B, and at least in terms of the ones that are -- I'm able to identify here, the reported costs are not consistent, but are in fact significantly higher than costs that I've seen in other jurisdictions. And I would add that the costs that I've seen in other jurisdictions have tended to be quite consistent.

Q Is it your understanding that that LRIC cost includes contribution built into it?

A Well, I guess it depends on what you mean, once again, by contribution.

Q Well, for example, return on capital or contribution towards shared or joint and common costs?

A Yes, to the former; no, to the latter. A properly conducted TSLRIC study -- and as I understand Mr. Poag's testimony, at least his deposition, at least in this regard I agree with him, and that is that a normal return on capital is included, but contribution to costs that are not caused by what's being studied, a function of the service, such as shared and common costs, would not be included.

Q And as to the amount that is included, do you believe that that amount is sufficient for setting an interconnection rate at LRIC costs?

A If the cost is done correctly at TSLRIC costs, then yes, that is not only sufficient to recover the relevant costs, but that is exactly what the rates should be. No more and no less, in a sense. But again, I don't have much confidence that what's been reported here as the cost is in fact accurate, at least in terms of how I would advocate doing a TSLRIC study, purely because the results are so far out of line with the other studies that I've seen.

COMMISSIONER JOHNSON: You did state that -- I just didn't hear you after that. You did state that TSLRIC, under your calculation, would include a normal return on capital? You said that that was in --

WITNESS WOOD: Yes, it is.

COMMISSIONER JOHNSON: But not the shared and common costs?

WITNESS WOOD: That's right. What TSLRIC tries to get at is exactly what costs are caused by the function or the service being studied, or to turn it around the other way, what costs would be avoided if the Company didn't offer the function or the service that's being studied. So if you've got a situation where somebody says, well, not only TSLRIC, but some portion of these shared and common costs are, quote, unquote, "caused by" what we're studying, then that's simply a confusion on their part and an incorrect study. If the costs are caused by, they would be in the TSLRIC, they wouldn't be shared and common. So if you do it properly, TSLRIC captures everything that needs to be captured to fully compensate a company for the use of its facilities.

COMMISSIONER JOHNSON: Thank you.

Q (By Mr. Edmonds) I would like to ask you a couple questions. Mr. Gillman and Mr. Wahlen were asking you generally about the Michigan order and the price cap or safety net, if you will. And I believe you had stated that if the traffic were out of balance beyond a certain point that you would not disagree with going to a -- either a per-minute-of-use charge or something along that nature to compensate; is that correct?

A Yes. It should be a per-minute-of-use charge set at TSLRIC.

Q At TSLRIC, right.

A Yes, specifically it should be that.

Q And you said at whatever point the Commission would feel it was appropriate, whatever percentage rate, be it five percent or ten percent. What I'm interested in is, do you have an opinion on what percentage the cap should be placed at, if the Commission were to go that route?

A Well, I guess I don't because I'm quite convinced -- and I say this independently of whatever party I'm testifying for here today -- I'm fully convinced that there's going to be long term traffic balance. If the type of capping mechanism that's being discussed is going to be put in place, it's going to be put in place because there's a concern by the Commission that some level of imbalance is going to lead to a failure of a carrier to recover relevant costs. So in that sense, it's purely -- it should be -- it's purely a level that the Commission feels appropriate as a safety net. Whatever level they feel, plus or minus perfect balance of traffic, is necessary for this to kick in, that's what it should be.

Q Okay. Let me just ask you a couple questions with regard to local versus toll traffic. Would you agree that termination on the LEC's network of local or toll traffic is completed in technologically the same manner?

A Yes, it is.

Q In that case, could you offer an explanation as to why there should be a different rate for local traffic termination than for toll?

A Well, the most direct answer I can give you is that because one is at issue in this proceeding and the other isn't. I certainly think there are very good reasons why any interconnection arrangement -- and access is ultimately only that, it's a form of interconnection -- should reflect TSLRIC costs but no costs above that, because those costs are the ones, in a sense, that are going to be institutionalized, that may or may not be efficient, but by that process they're going to be shielded from competitive market forces. So I guess, ultimately, in a very fundamental sense, I'm not advocating a different rate be appropriate for those same functions. It's just my understanding that we're addressing one of those types of interconnection in this proceeding and only one of them.

Q All right. I'm going to now ask you a couple questions with regard to intermediary interconnection. Some parties now have advocated that the appropriate rate for intermediary handling of a local call is TSLRIC of the tandem switching function. And if the Commission elects not to go with a bill and keep arrangement, would you agree that the use of a TSLRIC-based rate is appropriate?

A Yes, in general, and in the circumstances that you're describing, it's my understanding that when you talk about intermediary carriers, that that's really what you're talking about, is someone providing that tandem switching function. So in that regard, yes, absolutely, the TSLRIC of that function is the appropriate rate.

Q Okay. Also, AT&T's witness, Mr. Guedel, raised the point that it might be appropriate to eliminate billing of the RIC all together, since there's no underlying costs associated with it. Are you familiar with his point on that?

A I am familiar with his testimony, yes.

Q Do you agree with his statement that the RIC should be eliminated?

A Well, I certainly agree with his statement that there is no underlying cost basis for the RIC. It has no direct cost basis and therefore, as a rate element, it is, in a sense, one of those make-whole elements that I do not believe leads to good public policy. So in that regard, if it's at issue in this proceeding and could be eliminated, I would certainly advocate that that be done.

Q Let me -- I've got one more question. I would like to back up to when we were talking about TSLRIC. If a LEC were unable to estimate a true TSLRIC for interconnection, could you provide some sort of guidance as to what would be a reasonable substitute?

A I have followed a similar process in the interconnection proceeding in Maryland in which Bell Atlantic Maryland provided studies that really were truly not representative of the TSLRIC, of terminating the local call. The process that I then followed, and which I certainly think is conceptually valid, is I went back to the documentation of existing cost studies provided by the Company for other services, but services which included those basic functional components that are part of terminating a local call.

For example -- ultimately what you're going to need is a reasonably accurate cost of local switching, of local transport and of tandem switching. Those costs, while they may not be available within the package that's been labeled "cost of local interconnection," they may very well be available in other packages that are labeled as other services but for which the functions would be the same. At least in the case of Bell Atlantic, there was a local service study that specifically identified local switching costs associated with an intraoffice local call and an interoffice local call. And those costs, of course, would be reflective of the local switching and transport pieces that you would need to get your hands on. Tandem switching is typically available in some contexts. So if you don't have a study that's labeled "incremental cost of local interconnection," that you're satisfied with, I guess to the extent you have other studies at your disposal, the functions that you need a cost for may very well be present in those other studies, and those other studies may not have had the same incentives for the Company to gain the process one way or the other. So you may be able to use those as functionally equivalent substitutes.

MR. EDMONDS: Thank you. Staff has no further questions.

CHAIRMAN CLARK: Commissioners? Redirect?

REDIRECT EXAMINATION

BY MS. WEISKE:

Q Mr. Wood, you got asked a series of questions earlier this afternoon about the Michigan order?

A Yes.

Q And the five percent cap in that order. Do you believe there are any specific costs associated with the proposed cap in the Michigan order?

A Well, certainly there are administrative costs, and as I discussed with the chairman, it's the point at which you start writing checks and move away from a scenario in which you were not writing checks that you really take the administrative cost hit for all parties.

Q When you say administrative, does that include the costs of measurement, billing and auditing?

A Yes.

Q Are those costs also present if you just go with a recommendation of bill and keep?

A Certainly the billing and auditing costs would not be there.

Q Do you know if the other decisions you cited on Page 15 of your testimony include a cap?

A Some do, some don't. I'll have to -- I think I refer in some of those when a cap is present.

Q Well you cite to California, for example, at the top of Page 15.

A That's right.

Q Does that include a cap?

A I don't recall a cap for California. What some of these orders do is implement a bill and keep mechanism for what I've characterized as an interim period of time, which is bill and keep until true number portability is made available, or bill and keep until satisfactory costs have been presented, at which time the Commission will make a subsequent decision. Other times it's bill and keep for a longer period of time without that definite end point, which I guess would properly characterize the California decision.

The Michigan decision, I guess, is in some way unique because it does not have that interim type arrangement until number portability. It's intended to be a longer term proposal. And in that regard it may be more appropriate to put that kind of safety net associated with it, where you wouldn't need one if you're putting in bill and keep, say, until number portability or until adequate cost studies are made available.

Q Are either of those latter two factors associated with the recommendation you're making here on bill and keep?

A No.

Q So you're not linking it to anything in terms of your time frame?

A No, absolutely not. It is the most effective way to ensure that companies are fully compensated while imposing as few costs as possible on the end users of the services provided by those companies. It's absolutely the best public policy.

COMMISSIONER JOHNSON: Could we back up a question or two? I missed the answer on the question regarding the additional costs associated with the -- with the usage-based formula that were not -- would not be present in a mutual traffic exchange circumstance.

WITNESS WOOD: Right.

COMMISSIONER JOHNSON: What were those costs?

WITNESS WOOD: Well, billing and auditing, certainly, associated with rendering those bills.

COMMISSIONER JOHNSON: The actual physical billing and auditing?

WITNESS WOOD: That's right.

COMMISSIONER JOHNSON: Because I was wondering when you just went through that last discussion, there was some suggestion that with the -- even with mutual traffic exchange, if there is some concern about whether or not traffic is balanced, then they're going to have to have some sort of a usage mechanism in place so that they can determine whether or not the traffic is in balance. So that's something the parties are going to have to do irregardless of whether we adopt the mutual traffic exchange or a usage-based system.

WITNESS WOOD: Some form of measuring and determining whether that's local or toll traffic is going to need to be done for the resolution of the payment of access charges between carriers. So, yes, that type of measurement, in either distinguishing the traffic or reporting among co-carriers what the percentage of traffic is, is a part of the process no matter what recommendation that you pick. It's not part of a compare and contrast of the merits of one type compensation arrangement over another.

COMMISSIONER JOHNSON: But the costs that you've just mentioned are the above and beyond, the auditing and the billing?

WITNESS WOOD: Absolutely would be above and beyond a bill and keep.

COMMISSIONER JOHNSON: Thank you.

Q (By Ms. Weiske) Staff asked you a question about an AT&T recommendation to eliminate the RIC?

A Yes.

Q And I thought you indicated that the RIC should be eliminated for ALECs.

A Well, I thought his question was more general than that, regarding whether -- number one, whether the RIC represented underlying costs; and then, two, if there were no underlying costs, is it an appropriate charge? And the answer is no, there are no underlying costs and no it would not be appropriate as a charge.

Q When you say it wouldn't be appropriate as a charge, do you mean a charge to anyone, whether it be an ALEC or an IXC, or were you limiting your answer to ALECs?

A No, I was -- non-cost-based charges, which are developed to implement a, quote, unquote, "make-whole system" for the incumbent LEC are not appropriate, regardless of who is paying the charge.

MS. WEISKE: That's all I have. Thank you.

CHAIRMAN CLARK: Exhibits?

MR. WAHLEN: Could I ask --

CHAIRMAN CLARK: Sure, Mr. Wahlen. You want to ask one more question?

MR. WAHLEN: One line of questions.

CHAIRMAN CLARK: No one question, not one line of questions. Go ahead.

MR. WAHLEN: I'll have to make it a real long one, so maybe I better cut it up into the small pieces.

CHAIRMAN CLARK: Go ahead.

RECROSS-EXAMINATION

BY MR. WAHLEN:

Q Did I hear you testify on redirect that an audit will be required under a minute-of-use interconnection scenario, but not required in a mutual traffic exchange situation?

A A billing audit would not be required if no bill is rendered.

Q But there still would be an auditing process under both?

A I don't know.

Q Well, could I refer you, please, sir, to your deposition transcript, Page 44, and specifically I would like to refer you to Lines 18 through 25, and then going all the way over on to Page 45, Lines 1, 2, 3, 4 and 5.

A Yes, that's right.

Q And so I would like to ask you the question again, is it your testimony that there won't be an audit required under mutual traffic exchange, but there will be one required under a minute-of-use interconnection arrangement?

A No, let me be perfectly clear. There would be reporting, as I indicated to Commissioner Johnson, under either scenario. If your company feels that that reporting compels an audit, then certainly there would be auditing costs under either scenario, and that's not an over and above for either way. That could be there under either scenario. As I described here in the deposition, that's kind of a -- if we're comparing merits of a minute-of-use rate versus bill and keep, that's not a cost that enters into the calculation one way or the other.

Q Because it exists under both scenarios?

A It may very well exist under both scenarios.

MR. WAHLEN: Thank you very much.

CHAIRMAN CLARK: Ms. Weiske?

MS. WEISKE: No questions. I'd like to move exhibits.

CHAIRMAN CLARK: You have no further redirect?

MS. WEISKE: That's correct.

CHAIRMAN CLARK: Exhibits?

MS. WEISKE: Time Warner would ask to admit Exhibit 13.

CHAIRMAN CLARK: Exhibit 13 will be admitted in the record without objection. Staff.

MR. EDMONDS: Staff moves Exhibits 14 and 15.

CHAIRMAN CLARK: They will be admitted in the record without objection. We will readjourn this hearing at this time and reconvene at 8:30 tomorrow morning.

(Exhibit Nos. 13, 14 and 15 marked for identification.)

(Witness Wood excused.)

* * *

(Hearing adjourned at 6:00 p.m., to reconvene Tuesday, March 12, 1996, at 8:30 a.m.)

(Transcript continues in sequence in Volume 4.)