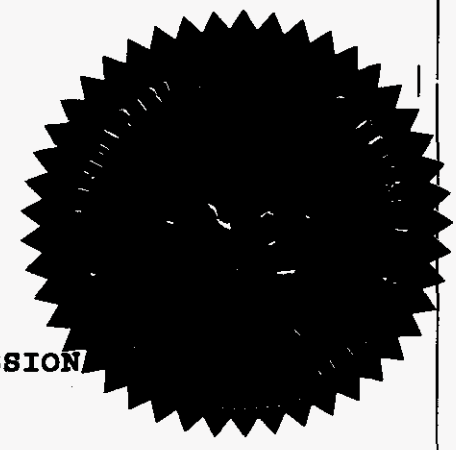
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of: 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, F.S.	**DOCKET NO. 950985-TP**



SECOND DAY - EARLY AFTERNOON SESSION

VOLUME 7

Pages 727 through 875

PROCEEDINGS: **HEARING**

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

DATE: **Tuesday, March 12, 1996**

TIME: Commenced at 8:30 a.m.

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

REPORTED BY: SYDNEY C. SILVA, CSR, RPR
Official Commission Reporter
(904) 413-6732

APPEARANCES:

(As heretofore noted.)

I N D E X

WITNESSES - VOLUME 7

EXHIBITS - VOLUME 7

NUMBER		ID.	ADMTD.
16			730
17			730
18			730
19			730
20			730
21	(Price) DGP-1	791	816
22	(Cornell) NWC-1	820	

PROCEEDINGS

(Hearing reconvened at 12:40 p.m.)

(Transcript follows in sequence from Volume 6.)

CHAIRMAN CLARK: Call the hearing back to order. Mr. Rindler?

MR. RINDLER: Yes, Madam Chairman. In the spirit of the afternoon, I have no redirect.

CHAIRMAN CLARK: Thank you very much. Exhibits?

MR. RINDLER: I would move the entry of exhibits I believe it's Nos. 16 and 17?

CHAIRMAN CLARK: I believe yours are 16, 17, 18 and 19.

MR. RINDLER: Thank you.

CHAIRMAN CLARK: And Staff moves Exhibit 20?

MR. EDMONDS: Yes, we do.

CHAIRMAN CLARK: Without objection, Exhibits 16 through 20 will be admitted in the record.

Thank you, Mr. Devine.

(Exhibit Nos. 16 through 20 received in evidence.)

(Witness Devine excused.)

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CHAIRMAN CLARK: Mr. Guedel?

MIKE GUEDEL

was called as a witness on behalf of AT&T of the Southern States, Inc. and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. DUNSON:

Q Mr. Guedel, would you please state your name and business address for the record, please.

A Yes. My name is Mike Guedel. My business address 1200 Peachtree Street Northeast, Atlanta, Georgia 30309.

Q By whom are you employed and in what capacity?

A I am employed by AT&T as a Manager in the Network Services Division.

Q Did you cause to be prepared for this proceeding 18 pages of direct testimony which was prefiled on January 5, 1996?

A Yes, I did.

Q Did you also cause to be prepared direct testimony of four pages which was prefiled on February 6th, 1996?

A Yes, I did.

Q And did you also cause to be prepared 20 pages of direct testimony filed on February 6, 1996?

A Yes, I did.

Q Do you have any changes or corrections to your testimony?

A No, I do not.

Q If I asked you the same questions today as are contained in your written testimony, would your answers be the same?

A Yes, they would.

Q Did you prepare a summary of your testimony?

A I did.

Q Would you please give it for the record?

CHAIRMAN CLARK: Ms. Dunson, let me make sure I have the right testimony and let's go ahead and enter it into the record.

MS. DUNSON: Okay.

CHAIRMAN CLARK: I have to say while you were asking him questions I was scrambling to find my testimony. Tell me again the testimony you want us to enter in the record.

MS. DUNSON: He has three sets of testimony.

CHAIRMAN CLARK: Okay.

MS. DUNSON: The first one dated January 5 --

CHAIRMAN CLARK: All direct testimony?

MS. DUNSON: All direct.

CHAIRMAN CLARK: I think I have it then.

The prefiled direct testimony of Mike Guedel dated January 5, 1995, regarding Time Warner/United, will be entered in the record as though read. The prefiled direct testimony of Mike Guedel dated February 6 relating to MFS/United portion will be inserted into the record as though read. And finally the direct testimony of Mr. Mike Guedel also dated February 6, 1995, referring to MFS/GTE portion will be inserted into the record as though read.

Thank you.

Q. WILL YOU PLEASE IDENTIFY YOURSELF?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCES.

A. I received a Master of Business Administration with a concentration in Finance from Kennesaw State College, Marietta, GA in 1994. I received a Bachelor of Science degree in Business Administration from Miami University, Oxford, Ohio. Over the past years, I have attended numerous industry schools and seminars covering a variety of technical and regulatory issues. I joined the Rates and Economics Department of South Central Bell in February of 1980. My initial assignments included cost analysis of terminal equipment and special assembly offerings. In 1982, I began working on access charge design and development. From

May of 1983 through September of 1983, as part of an AT&T task force, I developed local transport rates for the initial NECA interstate filing. Post divestiture, I remained with South Central Bell with specific responsibility for cost analysis, design, and development relating to switched access services and intraLATA toll. In June of 1985, I joined AT&T, assuming responsibility for cost analysis of network services including access charge impacts for the five South Central States (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee).

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. My current responsibilities include directing analytical support activities necessary for intrastate communications service in Florida and other southern states. This includes detailed analysis of access charges and other LEC filings to assess their impact on AT&T and its customers. In this capacity, I have represented AT&T through formal testimony

before the Florida Public Service Commission, as well as regulatory commissions in the states of South Carolina and Georgia.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is twofold:

First, I will describe in a generic sense the characteristics of interconnection and collocation arrangements that are necessary to provide inter-carrier connections that are both technically efficient and economically sensible, and thus competitively effective.

Second, I will specifically address the issue of mutual compensation associated with call completion as described in the testimony of Time Warner AxS of Florida, L.P. and Digital Media Partners (collectively "Time Warner/DMP") and I will recommend a compensation arrangement that is consistent with the generic principles discussed above.

Q. WHAT IS MEANT BY THE TERM INTERCONNECTION?

A. Interconnection refers to the act of linking two networks together such that calls or messages that originate on one of the networks may transit or terminate on the other network. Traditionally, in the switched environment, interconnection has taken place on either the line-side or the trunk-side of a local exchange company's switch. Typical interconnection arrangements have included switched access, cellular interconnection, Enhanced Service Provider(ESP) interconnection, and the interconnection of end user Customer Provided Equipment (CPE) through local service arrangements.

In the implementation of local competition, these traditional types of interconnection will still be useful, but may not be sufficient to meet the all of the needs of all potential interconnectors. A more open or "unbundled" set of interconnection options and

interconnection architectures will need to be made available.

Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY "UNBUNDLED" INTERCONNECTION ARRANGEMENTS?

A. Unbundling is the identification and disaggregation of useful components of the local exchange network into a set of elements, or Basic Network Functions (BNFs) which can be individually provided, costed, priced, and interconnected in such a manner as to provide other telecommunications service offerings. For example, local exchange service can be "unbundled" into loops, local switching, and transport.

AT&T has identified 11 components or BNFs associated with local exchange services which may be effectively and usefully unbundled. These include: loop distribution, loop concentration, loop feeder, switching, operator systems, dedicated transport links, common transport links, tandem switching, signaling

links, signal transfer points, and signal control points.

Further, it must be noted that the list of BNFs described above must not be considered static or necessarily complete. Additional functional elements may continue to be identified as telecommunications technology evolves.

Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY *INTERCONNECTION ARCHITECTURES?*

A. The two basic architectures for implementing interconnection are physical and virtual collocation.

Physical collocation is an arrangement whereby an interconnector leases floor space (and access to floor space) within a LEC central office for purposes of installing, maintaining and managing telecommunications equipment used in the provision of the interconnector's service(s). Under this arrangement, the interconnector can gain entry to its designated

space within the LEC central office (generally with security escort) to install, maintain, and/or repair its own equipment.

Virtual collocation is an arrangement whereby the local exchange company installs, maintains, and repairs the interconnector's designated telecommunications equipment. Under this arrangement, there is no segregated space rented by the interconnector. Rather, there would be equipment designated to the interconnector in the central office, but the actual location would be determined by the LEC. The interconnector could maintain monitoring and control ability, but would not be able to physically access the equipment within the central office.

Q. ARE THERE OTHER TYPES OF INTERCONNECTION ARRANGEMENTS?

A. Yes, there are other types of interconnection where the actual point of interconnection is not in a central office. These are generally called "mid-span meets." In a mid-span meet

arrangement, each carrier builds and is responsible for operating trunk facilities out to some agreed upon point between central offices. Another way of thinking about this arrangement is that each carrier provides one half of the circuit. Under such an arrangement the carriers are jointly responsible for the traffic traversing the circuit.

In addition, there may be other interconnection arrangements that LECs have used or that may be useful to potential interconnectors.

Q. WHAT ARE THE NECESSARY CHARACTERISTICS OF INTERCONNECTION NEEDED TO OFFER AN EFFECTIVE AND EFFICIENT WAY OF PROMOTING LOCAL EXCHANGE COMPETITION?

A. First, interconnection must be available at all technically and logically possible unbundled interfaces to the LEC network.

Second, interconnection must be made available to new carriers under the same rates, terms and conditions as apply to the LECs own service.

Third, it is important that no restrictions be placed on interconnection standards and offerings that would limit these requirements to just the existing inventory of LEC network functions. In order for interconnection to encourage the growth of competition over time, it must apply to all new LEC network services as they are developed.

Fourth, LECs must not be permitted to discriminate in any respect against new entrants. Any discrimination in the interconnection of new entrants to LEC network components vis-à-vis interconnection of the LEC's own services - be it in the form of delays in the offering of new arrangements, inferior provisioning, installation or maintenance of these arrangements, or uneconomic pricing of these arrangements, will thwart new competition.

Furthermore, the compensation arrangements for interconnection must also allow for the maximum feasible development of local exchange competition. To do so, carrier compensation arrangements should be nondiscriminatory and tariffed at rates that accurately reflect underlying costs.

Q. HAS TIME WARNER/DMP RAISED THESE GENERIC ISSUES OF UNBUNDLING AND INTERCONNECTION ARCHITECTURES IN ITS PETITION?

A. Yes. Time Warner/DMP is seeking specific interconnection arrangements which fall within these generic guidelines. Presumably, the requested arrangements will compliment Time Warner/DMP's existing or anticipated network and its business plan. It must be noted, however, that other arrangements may be required by other ALECs that choose to organize their businesses in a different manner.

The purpose of this initial section of testimony is to demonstrate the complexity of

the issues surrounding interconnection and the need for incumbent LECs to make available an extensive variety of interconnection arrangements if the development of competition is to have any chance at all.

While it is imperative that Sprint/United make available to all potential entrants the same interconnection arrangements that it is offering to Time Warner/DMP, it must be recognized that these arrangements may not be sufficient. In other words, the Time Warner/DMP arrangement must not be considered the generic solution to interconnection.

Q. TIME WARNER/DMP IS SEEKING SPECIFIC RELIEF FROM THE PROPOSED CHARGES OF SPRINT/UNITED ASSOCIATED WITH CALL TERMINATION. WOULD YOU DEFINE CALL TERMINATION IN THE CONTEXT OF ALEC/LEC LOCAL INTERCONNECTION?

A. Yes. Call termination is the function of receiving a call from an interconnecting company at the terminating company's switch and

delivering the call to an end user customer (a customer of the terminating company).

For example, assume that two companies are offering competitive local telephone service in a given geographic territory. One company is the incumbent local exchange company (LEC) and the other is an alternative local exchange company (ALEC). Further assume that these companies have established interconnecting facilities linking their respective switches. When a customer of the ALEC places a call to a customer of the LEC, the call is transmitted over the interconnecting facility to the LEC switch. Likewise when a customer of the LEC places a call to a customer of the ALEC, the call can be transmitted over the same interconnecting facility to the ALEC switch. The function of call completion, in either case, includes the reception of the call at the terminating company switch and the delivery of the call to the end user customer.

Q WHY ARE THE CHARGES ASSOCIATED WITH THIS TYPE OF CALL COMPLETION REFERRED TO AS "MUTUAL COMPENSATION" ARRANGEMENTS?

A. If competition develops, each of the competing local service providers in a given territory will serve a certain number of customers. In order for each of these companies to offer ubiquitous local service to their respective customers, each will have to rely on the other(s) to complete calls, and each will expect some form of compensation for completing other companies' calls. "Mutual Compensation" refers to this interdependent need for call completions.

Q. WHAT ARE THE APPROPRIATE TERMS AND PRICES FOR MUTUAL COMPENSATION ARRANGEMENTS?

A. Initially, the best solution may be the "bill and keep" arrangement. Under this arrangement no dollars change hands. The compensation that one company offers to another for the completion of its calls is the agreement to

complete the other companies' calls in a like manner.

The beauty of this arrangement is its simplicity. There is no bill preparation or bill rendering involved, nor is there the need to review bills for accuracy. Further, this arrangement can be implemented without the development of cost studies that would be required to establish and justify specific prices.

This arrangement could be implemented very quickly, and because the initial volumes of interconnected traffic will be very small, it should not burden any of the interconnecting companies.

Q. IS "BILL AND KEEP" A VIABLE LONG RUN SOLUTION?

A. It may be. If traffic deliveries are determined to be relatively balanced and the costs are similar among LECs and ALECs, then a

bill and keep arrangement could work indefinitely.

However, if effective competition for local service does develop, and some of the complications of billing and costing are sorted out, then a more likely long term scenario would include actual billing at prices based upon the total service long run incremental cost incurred in providing call termination.

This latter method would more likely ensure that each company is accurately compensated for the particular services that it provides.

Q. IF THE COMMISSION DETERMINES THAT A RATE FOR CALL COMPLETION IS APPROPRIATE, AT WHAT LEVEL SHOULD THE COMMISSION SET THE RATE?

A. The rates charged for call termination should be set at the Total Service Long Run Incremental Cost (TSLRIC) that the LEC incurs in providing the service. No additional mark-up should be allowed. A LEC should be

permitted to recover the costs that it incurs in providing call termination arrangements, but it should not be allowed to exact any additional mark-up from potential competitors simply for the right to do business in its territory.

Q. WHY IS IT NECESSARY TO ESTABLISH THE RATE AT COST?

A. In the current environment, the incumbent LECs have an overwhelming market advantage. The incumbent LECs have essentially all of the existing customers in the local exchange telephone market.

If alternative providers are to have a competitive chance, barriers to competition, if not completely eliminated, must be minimized. Barriers should not be enhanced by allowing the incumbent LECs to exact additional mark-up through the rates charged for providing call termination.

Q. ARE CURRENT SWITCHED ACCESS CHARGES THE APPROPRIATE RATES FOR INTERCONNECTION COMPENSATION?

A. No. In fact, current switched access charges are not even appropriate for switched access. The rates are simply too high. Sprint/United currently charges about 12 and one half cents for two ends of access. Sprint/United has previously testified before this Commission that its cost of providing switched access is in the range of 1 cent. Thus, current switched access rates include a mark-up above cost in the range of 1100%.

By pricing interconnection services at these exorbitant levels, Sprint/United could effectively foreclose local competition before it every has a chance to develop.

Q. ARE THERE NOT ADVANTAGES TO PRICING LOCAL INTERCONNECTION AT THE SAME RATES AS SWITCHED ACCESS?

A. Yes, there are advantages. Pricing these services at equal levels would greatly simplify the reporting and billing processes. Further, from an economic standpoint, recognizing that the cost of providing these respective services is essentially the same, it would make sense to price them the same.

But the appropriate reconciliation is not to begin pricing local interconnection arrangements at the inflated prices of switched access. Rather, local interconnection should be priced at the appropriate TSLRIC rate and switched access should be reduced to that level.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Q. WILL YOU PLEASE IDENTIFY YOURSELF?

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

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes. I filed testimony in this docket on January 5, 1996.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to ensure that the positions of AT&T are fully represented in this portion of the docket regardless of how its procedural course unfolds.

Q. WHAT ARE YOUR POSITIONS ON THE ISSUES THAT HAVE BEEN RAISED BY METROPOLITAN FIBER SYSTEMS OF FLORIDA (MFS) IN ITS PETITION AND TESTIMONY?

A. Essentially MFS has offered testimony addressing many of the issues previously identified through the testimony of another petitioner (i.e., Time Warner) in an earlier portion of this docket. AT&T's positions on these issues, particularly with respect to "Bill and Keep" and mutual compensation arrangements, are the same as expressed in previously filed AT&T testimony. Therefore, in the interests of avoiding repetition, and of potentially saving some trees, I would like to adopt the testimony that I had filed on January 5, 1996 in an earlier portion of this docket.

Q. ARE THERE ANY ADDITIONAL ISSUES DIRECTLY RAISED THROUGH THE PETITION AND/OR TESTIMONY OF MFS THAT AT&T DID NOT HAVE THE OPPORTUNITY TO ADDRESS IN THE EARLIER PORTION OF THIS DOCKET?

A. Yes. MFS Specifically discusses the appropriate billing of the residual interconnection charge (RIC) in an access situation where an incumbent LEC provides tandem switching and MFS (or other ALEC) provides the end office switching. This issue was not specifically raised in the earlier portion of this docket.

Q. SPRINT/UNITED HAS APPARENTLY TAKEN THE POSITION THAT IF IT PROVIDES THE TANDEM SWITCHING IN A MEET-POINT SWITCHED ACCESS ARRANGEMENT (I.E., A SITUATION WHERE MFS SUBTENDS A SPRINT/UNITED TANDEM) THAT IT (SPRINT/UNITED) SHOULD BILL AND KEEP ITS RESIDUAL INTERCONNECTION CHARGE (RIC). DO YOU SUPPORT THAT POSITION?

A. No. The RIC has been purposefully dissociated from the local transport function and associated with end office switching in the Local Transport Restructure (LTR) environment. Sprint/United has traditionally supported this arrangement. In a situation where a company

(CAP, LEC, etc.) provides local transport and Sprint/United provides the end office switching, it would likely be Sprint/United's position that it (Sprint/United) should be entitled to bill the RIC. The same rules should apply to ALECs. In a meet point arrangement where an ALEC provides the end office switching, Sprint/United should not be entitled to RIC revenue.

Of course the optimal solution would be to eliminate the billing of the RIC altogether. There is no underlying direct cost associated with the RIC and even with its elimination, Sprint/United's switched access charges would still be many hundred percent above cost.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Q. WILL YOU PLEASE IDENTIFY YOURSELF?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCES.

A. I received a Master of Business Administration with a concentration in Finance from Kennesaw State College, Marietta, GA in 1994. I received a Bachelor of Science degree in Business Administration from Miami University, Oxford, Ohio. Over the past years, I have attended numerous industry schools and seminars covering a variety of technical and regulatory issues. I joined the Rates and Economics Department of South Central Bell in February of 1980. My initial assignments included cost analysis of terminal equipment and special assembly offerings. In 1982, I began working on access charge design and development. From

May of 1983 through September of 1983, as part of an AT&T task force, I developed local transport rates for the initial NECA interstate filing. Post divestiture, I remained with South Central Bell with specific responsibility for cost analysis, design, and development relating to switched access services and intraLATA toll. In June of 1985, I joined AT&T, assuming responsibility for cost analysis of network services including access charge impacts for the five South Central States (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee).

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. My current responsibilities include directing analytical support activities necessary for intrastate communications service in Florida and other southern states. This includes detailed analysis of access charges and other LEC filings to assess their impact on AT&T and its customers. In this capacity, I have represented AT&T through formal testimony

before the Florida Public Service Commission, as well as regulatory commissions in the states of South Carolina and Georgia.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is twofold:

First, I will describe in a generic sense the characteristics of interconnection and collocation arrangements that are necessary to provide inter-carrier connections that are both technically efficient and economically sensible, and thus competitively effective.

Second, I will specifically address the issue of mutual compensation associated with call completion as described in the petition and testimony of Metropolitan Fiber Systems of Florida, Inc., ("MFS-FL") and I will recommend a compensation arrangement that is consistent with the generic principles discussed above.

Q. WHAT IS MEANT BY THE TERM INTERCONNECTION?

A. Interconnection refers to the act of linking two networks together such that calls or messages that originate on one of the networks may transit or terminate on the other network. Traditionally, in the switched environment, interconnection has taken place on either the line-side or the trunk-side of a local exchange company's switch. Typical interconnection arrangements have included switched access, cellular interconnection, Enhanced Service Provider(ESP) interconnection, and the interconnection of end user Customer Provided Equipment (CPE) through local service arrangements.

In the implementation of local competition, these traditional types of interconnection will still be useful, but may not be sufficient to meet all of the needs of all potential interconnectors. A more open or "unbundled" set of interconnection options and interconnection architectures will need to be made available.

Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY "UNBUNDLED" INTERCONNECTION ARRANGEMENTS?

A. Unbundling is the identification and disaggregation of useful components of the local exchange network into a set of elements, or Basic Network Functions (BNFs) which can be individually provided, costed, priced, and interconnected in such a manner as to provide other telecommunications service offerings. For example, local exchange service can be "unbundled" into loops, local switching, and transport.

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Further, it must be noted that the list of BNFs described above must not be considered static or necessarily complete. Additional functional elements may continue to be identified as telecommunications technology evolves.

Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY INTERCONNECTION ARCHITECTURES?

A. The two basic architectures for implementing interconnection are physical and virtual collocation.

Physical collocation is an arrangement whereby an interconnector leases floor space (and access to floor space) within a LEC central office for purposes of installing, maintaining and managing telecommunications equipment used in the provision of the interconnector's service(s). Under this arrangement, the interconnector can gain entry to its designated space within the LEC central office (generally with security escort) to install, maintain, and/or repair its own equipment.

Virtual collocation is an arrangement whereby the local exchange company installs, maintains, and repairs the interconnector's designated telecommunications equipment. Under this arrangement, there is no segregated space rented by the interconnector. Rather, there would be equipment designated to the interconnector in the central office, but the actual location would be determined by the LEC. The interconnector could maintain monitoring and control ability, but would not be able to physically access the equipment within the central office.

Q. ARE THERE OTHER TYPES OF INTERCONNECTION ARRANGEMENTS?

A. Yes, there are other types of interconnection where the actual point of interconnection is not in a central office. These are generally called "mid-span meets." In a mid-span meet arrangement, each carrier builds and is responsible for operating trunk facilities out to some agreed upon point between central

offices. Another way of thinking about this arrangement is that each carrier provides one half of the circuit. Under such an arrangement the carriers are jointly responsible for the traffic traversing the circuit.

In addition, there may be other interconnection arrangements that LECs have used or that may be useful to potential interconnectors.

Q. WHAT ARE THE NECESSARY CHARACTERISTICS OF INTERCONNECTION NEEDED TO OFFER AN EFFECTIVE AND EFFICIENT WAY OF PROMOTING LOCAL EXCHANGE COMPETITION?

A. First, interconnection must be available at all technically and logically possible unbundled interfaces to the LEC network.

Second, interconnection must be made available to new carriers under the same rates, terms and conditions as apply to the LECs' own service.

Third, it is important that no restrictions be placed on interconnection standards and offerings that would limit these requirements to just the existing inventory of LEC network functions. In order for interconnection to encourage the growth of competition over time, it must apply to all new LEC network services as they are developed.

Fourth, LECs must not be permitted to discriminate in any respect against new entrants. Any discrimination in the interconnection of new entrants to LEC network components vis-à-vis interconnection of the LEC's own services - be it in the form of delays in the offering of new arrangements, inferior provisioning, installation or maintenance of these arrangements, or uneconomic pricing of these arrangements, will thwart new competition.

Furthermore, the compensation arrangements for interconnection must also allow for the maximum feasible development of local exchange competition. To do so, carrier compensation

arrangements should be nondiscriminatory and tariffed at rates that accurately reflect underlying costs.

Q. HAS MFS-FL RAISED THESE GENERIC ISSUES OF UNBUNDLING AND INTERCONNECTION ARCHITECTURES IN ITS PETITION?

A. Yes. MFS-FL is seeking specific interconnection arrangements which fall within these generic guidelines. Presumably, the requested arrangements will compliment MFS's existing or anticipated network and its business plan. It must be noted, however, that other arrangements may be required by other ALECs that chose to organize their businesses in a different manner.

The purpose of this initial section of testimony is to demonstrate the complexity of the issues surrounding interconnection and the need for incumbent LECs to make available an extensive variety of interconnection

arrangements if the development of competition is to have any chance at all.

While it is imperative that GTE make available to all potential entrants the same interconnection arrangements that it is offering to MFS-FL, it must be recognized that these arrangements may not be sufficient. In other words, the MFS-FL arrangement must not be considered the generic solution to interconnection.

Q. MFS-FL IS SEEKING SPECIFIC RELIEF FROM THE PROPOSED CHARGES OF GTE ASSOCIATED WITH CALL TERMINATION. WOULD YOU DEFINE CALL TERMINATION IN THE CONTEXT OF ALEC/LEC LOCAL INTERCONNECTION?

A. Yes. Call termination is the function of receiving a call from an interconnecting company at the terminating company's switch and delivering the call to an end user customer (a customer of the terminating company).

For example, assume that two companies are offering competitive local telephone service in a given geographic territory. One company is the incumbent local exchange company (LEC) and the other is an alternative local exchange company (ALEC). Further assume that these companies have established interconnecting facilities linking their respective switches. When a customer of the ALEC places a call to a customer of the LEC, the call is transmitted over the interconnecting facility to the LEC switch. Likewise when a customer of the LEC places a call to a customer of the ALEC, the call can be transmitted over the same interconnecting facility to the ALEC switch. The function of call completion, in either case, includes the reception of the call at the terminating company switch and the delivery of the call to the end user customer.

Q WHY ARE THE CHARGES ASSOCIATED WITH THIS TYPE OF CALL COMPLETION REFERRED TO AS "MUTUAL COMPENSATION" ARRANGEMENTS?

A. If competition develops, each of the competing local service providers in a given territory will serve a certain number of customers. In order for each of these companies to offer ubiquitous local service to their respective customers, each will have to rely on the other(s) to complete calls, and each will expect some form of compensation for completing other companies' calls. "Mutual Compensation" refers to this interdependent need for call completions.

Q. WHAT ARE THE APPROPRIATE TERMS AND PRICES FOR MUTUAL COMPENSATION ARRANGEMENTS?

A. Initially, the best solution may be the "bill and keep" arrangement. Under this arrangement no dollars change hands. The compensation that one company offers to another for the completion of its calls is the agreement to complete the other companies' calls in a like manner.

The beauty of this arrangement is its simplicity. There is no bill preparation or bill rendering involved, nor is there the need to review bills for accuracy. Further, this arrangement can be implemented without the development of cost studies that would be required to establish and justify specific prices.

This arrangement could be implemented very quickly, and because the initial volumes of interconnected traffic will be very small, it should not burden any of the interconnecting companies.

Q. IS "BILL AND KEEP" A VIABLE LONG RUN SOLUTION?

A. It may be. If traffic deliveries are determined to be relatively balanced and the costs are similar among LECs and ALECs, then a bill and keep arrangement could work indefinitely.

However, if effective competition for local service does develop, and some of the complications of billing and costing are sorted out, then a more likely long term scenario would include actual billing at prices based upon the total service long run incremental cost incurred in providing call termination.

This latter method would more likely ensure that each company is accurately compensated for the particular services that it provides.

Q. IF THE COMMISSION DETERMINES THAT A RATE FOR CALL COMPLETION IS APPROPRIATE, AT WHAT LEVEL SHOULD THE COMMISSION SET THE RATE?

A. The rates charged for call termination should be set at the Total Service Long Run Incremental Cost (TSLRIC) that the LEC incurs in providing the service. No additional mark-up should be allowed. A LEC should be permitted to recover the costs that it incurs in providing call termination arrangements, but it should not be allowed to exact any

additional mark-up from potential competitors simply for the right to do business in its territory.

Q. WHY IS IT NECESSARY TO ESTABLISH THE RATE AT COST?

A. In the current environment, the incumbent LECs have an overwhelming market advantage. The incumbent LECs have essentially all of the existing customers in the local exchange telephone market.

If alternative providers are to have a competitive chance, barriers to competition, if not completely eliminated, must be minimized. Barriers should not be enhanced by allowing the incumbent LECs to exact additional mark-up through the rates charged for providing call termination.

Q. ARE CURRENT TERMINATING SWITCHED ACCESS CHARGES THE APPROPRIATE RATES FOR INTERCONNECTION COMPENSATION?

A. No. In fact, current terminating switched access charges are not even appropriate for switched access. The rates are simply too high. Assuming that GTE's cost of providing switched access is similar to that of BellSouth and United (i.e., stated to be around 5 tenths of a cent per access minute of use), GTE's current terminating rates (approximately 6.8 cents) include a mark-up above cost in excess of 1200%.

By pricing interconnection services at these exorbitant levels, GTE could effectively foreclose local competition before it ever has a chance to develop.

Q. ARE THERE NOT ADVANTAGES TO PRICING LOCAL INTERCONNECTION AT THE SAME RATES AS SWITCHED ACCESS?

A. Yes, there are advantages. Pricing these services at equal levels would greatly simplify the reporting and billing processes. Further, from an economic standpoint, recognizing that the cost of providing these respective services is essentially the same, it would make sense to price them the same.

But the appropriate reconciliation is not to begin pricing local interconnection arrangements at the inflated prices of switched access. Rather, local interconnection should be priced at the appropriate TSLRIC rate and switched access should be reduced to that level.

Q. GTE HAS APPARENTLY TAKEN THE POSITION THAT IF IT PROVIDES THE TANDEM SWITCHING IN A MEET-POINT SWITCHED ACCESS ARRANGEMENT (I.E., A SITUATION WHERE MFS-FL SUBTENDS A GTE TANDEM) THAT IT (GTE) SHOULD BILL AND KEEP ITS RESIDUAL INTERCONNECTION CHARGE (RIC). DO YOU SUPPORT THAT POSITION?

A. No. The RIC has been purposefully dissociated from the local transport function and associated with end office switching in the Local Transport Restructure (LTR) environment. GTE has traditionally supported this arrangement. In a situation where a company (CAP, LEC, etc.) provides local transport and GTE provides the end office switching, it would be GTE's position that it (GTE) should be entitled to bill the RIC. The same rules should apply to ALECs. In a meet point arrangement where an ALEC provides the end office switching, GTE should not be entitled to RIC revenue.

Of course the optimal solution would be to eliminate the billing of the RIC altogether. There is no underlying direct cost associated with the RIC and even with its elimination, GTE's switched access charges would still be many hundred percent above cost.

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

A. Yes.

Q (By Ms. Dunson) Would you please summarize your testimony.

A Yes. The purpose of this phase of Docket 950985 is to determine the appropriate interconnection arrangements between the petitioners and GTE of Florida and United Telephone of Florida.

The testimony that AT&T is presenting in this phase of the docket is essentially the same testimony that we presented in an earlier phase of the docket that dealt with BellSouth. Our positions here likewise the same.

Basically, for interconnection arrangements to be useful they must, one, be made available at all technically and logically feasible points. Two, be made available to new carriers under the same rates, terms, and conditions as apply to the LEC's own services. Three, the interconnection arrangements must not be limited to existing services. Four, the incumbent LECs must not be permitted to discriminate in any way against the new entrants. Five, the compensation arrangements must allow for the maximum feasible development of local competition.

With respect to mutual compensation, AT&T recommends that the Commission initially adopt a bill and keep standard. Under this arrangement, no dollars

change hands. The compensation that one company offers to another for the completion of calls is the agreement to complete the other company's calls in a like manner.

As competition develops and cost information become more available the pricing of this service could evolve into a TSLRIC standard.

Finally, there has been discussion of the residual interconnection charge and the applicability of the residual interconnenction charge in a meet point billing arrangement where the incumbent LEC provides tandem switching and an ALEC provides the end office switching.

AT&T believes that this meet point billing arrangement should be handled exactly the same way as it is currently handled between incumbent LECs of the same arrangement. In other words, the company that bills the end office switching is the company that should be entitled to bill the RIC.

Thank you.

MS. DUNSON: The witness is available for cross examination.

CHAIRMAN CLARK: Thank you. Ms. Wilson?

MS. WILSON: I have no cross.

CHAIRMAN CLARK: Mr. Crosby?

MR. CROSBY: No questions, thank you.

CHAIRMAN CLARK: Mr. Melson?

MR. MELSON: No questions.

MR. HORTON: No questions,

MR. RINDLER: No questions.

CHAIRMAN CLARK: Mr. Gillman.

MR. GILLMAN: Yes. Thank you, Madam Chairman.

CROSS EXAMINATION

BY MR. GILLMAN:

Q Could you turn to Page 14 of your testimony, Mr. Guedel. Of the direct?

A The January 5 version or --

Q January 5 version, yes.

A Yes.

CHAIRMAN CLARK: Mr. Gillman, what page was that?

MR. GILLMAN: Page 14.

Q (By Mr. Gillman) And Line 20, the question was asked, "Is bill and keep a viable long run solution?" And your answer was, "It may be." Is it true then -- then you talk it may be viable if it is relatively balanced.

So are you stating then that a bill and keep arrangement would not be a viable situation when

traffic is out of balance?

A I believe there were two points. Number one, if the traffic was determined to be relatively balanced and the costs were determined to be similar, that it may be viable in the long run. If those factors turn out not to be the case, then it may not be viable, again, in the long run.

Q In the short run, do you expect the traffic to be balanced?

A Yes, I do. I expect it to be reasonably in balance.

Q So in the next year you expect it to be reasonably in balance?

A Yes. My view is that it is probably going to remain in balance for quite some time or probably forever.

Q What studies have you looked at that support that statement?

A I have no studies that support that statement.

MR. GILLMAN: I have nothing further, thank you.

CHAIRMAN CLARK: Mr. Fons.

MR. FONS: I have a few questions.

CROSS EXAMINATION

BY MR. FONS:

Q Good afternoon, Mr. Guedel.

A Good afternoon.

Q How are you?

A Fine, thank you.

Q Good. Were you present yesterday when your attorney, Mr. Tye, testified that AT&T is in this proceeding strictly as an IXC to protect AT&T's IXC interests?

MS. DUNSON: I don't think Mr. Tye testified yesterday.

CHAIRMAN CLARK: We'll let the record reflect that Mr. Fons has been guilty of testifying himself on occasion. (Laughter)

MR. FONS: It takes one to call one.

CHAIRMAN CLARK: That's right.

A Yes, I was present.

Q (By Mr. Fons) And do you agree with what he stated?

A Yes. At the time the testimony was filed, we were certificated as an interexchange carrier in this state, we were not certificated as an ALEC.

Q The positions you have taken in your testimony are basically positions that would also

benefit an ALEC?

A I think they are positions that would tend to stimulate competition in the local exchange market. I think that's also consistent with the development of the interexchange market and probably good for the interexchange markets.

Q That wasn't my question. My question was, aren't the positions you are taking in your testimony beneficial to an ALEC?

A No, not in the sense that they are prejudiced towards the ALEC. I think my positions are fair; they're not in favor of an ALEC or in favor of a LEC, I wouldn't believe.

Q But wouldn't you agree that if the Commission were to adopt your position as stated in your testimony they would be positions that would be consistent with the positions that are being advocated by the ALECs in this proceeding?

A In a general sense, that's true.

Q At the time you filed your testimony, had AT&T made any decision as to whether or not there was going to be an ALEC?

A Not to my knowledge.

Q Do you remember when you filed your testimony what date it was?

A Well, we filed one copy of the testimony on January 5th; we filed two subsequent testimonies on February 6th.

Q And you filed direct testimony on February 6, 1995?

A Yes.

Q Didn't you?

A Yes, we did.

Q Do you know whether Congress had acted on the bill by February 6th?

A No, sir, I don't.

Q Would you accept subject to check that the vote was on February 1, 1996?

A The vote may have been, I'm not sure when.

Q So the bill passed on February 1st, 1996, and you submitted testimony on February 6th, 1996?

A I believe, again, subject to check, Congress may have passed the bill on February 1st. I don't believe it had a Presidential signature at that time but I agree with your dates.

Q Was there any doubt about the signature?

A Sure.

Q There was at that time?

A Sure.

Q Okay. Your memory is different from mine,

Mr. Guedel. But on February 9, the President signed the bill; would you accept that subject to check?

A I'll accept that.

Q And immediately following his signature of signing that bill, didn't AT&T announce its entry into the local exchange business?

CHAIRMAN CLARK: What was the date he signed it?

MR. FONS: February 9.

A Sir, I'm not exactly sure of the dates. I agree with you that it was shortly after the President signed the bill that AT&T expressed a stronger interest in becoming involved in local exchange markets.

Q Would you accept the statement, "Just hours after the signing, AT&T Corporation Chairman Robert Allen described plans to expand into the local exchange telephone market as early as this summer"?

A Again I can't speak to the hours. I don't disagree with the substance of the statement.

Q And if your testimony was filed on February 6th and the President signed the bill on February 9th and the Chairman of AT&T made his statement on February 9th, do you think February 9th was the first time that AT&T thought about entering

the local exchange market?

A No, I don't think so. I'm sure it has been thought about before.

Q Is AT&T entering the local exchange market on any other name other than AT&T?

A I don't know.

Q It is your position in this testimony that the Commission ought to adopt bill and keep; isn't that correct?

A Yes.

Q And you believe that bill and keep is possibly good for the long term but it might not be; is that correct?

A I think that's a correct statement, yes.

Q Why wouldn't it be appropriate for the long term?

A Again, as I point out in my testimony, there's a couple factors. One, you have to look at the relative balance of traffic over the longer term; and secondly, you may want to look at the relevant costs.

If the costs are basically similar over the long term and the demand is basically similar or the balance, if you will, is basically similar, then again bill and keep may be an effective solution. On the

other hand, once you get information on costs and are a little more proficient with that, then you may want to move to a TSLRIC standard.

Q Has AT&T to your knowledge entered into any agreements with any LECs in any state for the exchange of local exchange traffic?

A Not to my knowledge.

MR. FONS: I have no further questions.

CHAIRMAN CLARK: Staff?

CROSS EXAMINATION

BY MS. CANZANO:

Q Good afternoon. We just have a few questions. Are you familiar with Mr. Devine's testimony?

A Yes, to an extent.

Q He proposed that the RIC, the residual interconnection charge, rate element be charged and that it be collected by the ALEC performing the terminating access similar to the way that it is currently being handled between the LECs for terminating access associated with the intraLATA LEC toll. Are you familiar with that?

A Yes.

Q You have stated it may be appropriate to eliminate the billing of the RIC altogether since

there is no underlying costs associated with it and that the LEC access charge rate levels would still be substantially above cost without it; is that correct?

A Yes. I believe I said optimally that would be the answer.

Q Do you believe that it would be appropriate for no one to collect the RIC for the intermediate traffic in this proceeding?

A The change in the RIC charge or the elimination of a RIC charge is probably beyond the scope of this proceeding.

I believe optimally when you have a cost element -- excuse me -- a rate element that has zero underlying cost here your goal is to get rid of that charge in the long term.

My concern with what my understanding was of some of the LEC positions was they were -- the incumbent LEC was taking the position, or at least it was argued they were taking the position that the RIC should be billed in conjunction with the tandem. What that could set up is a case where two RICs were billed, once at the tandem and then once at the end office. I think that would certainly be inappropriate under any circumstance. I don't want to pay it twice.

So you have to fall back on, "Okay, who gets

it? Who bills it?" The customary billing of the residual interconnection charge and the general meet point billing arrangements that the LECs have in place today is he who provides end office switching is entitled to bill the RIC.

Now, if the companies don't want -- I'm not encouraging ALECs to bill the RIC. Let me put that up front, too. If they don't want to bill it, that's fine. I'm simply saying if the incumbent provides tandem switching and an ALEC provides end office switching, the incumbent doesn't even have the right to even think about billing the RIC.

Q Your position is that for intermediary handling of local traffic the LEC should receive the TSLRIC of the tandem switching function; is that correct?

A Yes.

Q If a LEC has not been able to develop an actual TSLRIC for that rate element, what in your opinion would be a reasonable substitute?

A Well, I'm not sure. The tandem switching is somewhat unique. There is a cost of providing tandem switching. I would assume that the local exchange companies, particularly GTE and United, have at least a long-run incremental cost of providing that service.

If they have no cost of providing that service then they are going to have to develop one.

Q So would the long-run incremental cost be an appropriate substitute then if they don't already have a TSLRIC developed, or would it be better to wait until they develop the TSLRIC?

A Ultimately the TSLRIC is probably the better floor because it guarantees that there won't be any cross-subsidization. But if you have a LRIC cost and you want to use that, that would be okay.

Q Do you think there should be a different rate for intermediary handling of interLATA versus intraLATA toll traffic?

A For the intermediate function?

Q Intermediary handling.

A I think when you talk about toll traffic the intermediary function becomes the tandem transport function. So I think tandem transport access charges should apply. If you provide toll services and you interconnect you should pay access. If you provide local services and you interconnect there should be some kind of local compensation. And unfortunately they are going to have to be different for a little while because the access charges are just too high.

Q Does that mean at some point in the future

you could imagine that they would be the same?

A Yes. I think at some point in the future they could be the same because I believe the functionality is the same, I believe the cost functions are essentially the same. The problem is the price with the current switched access. We need to price both switched access and local interconnection at the total service long-run incremental cost.

Q Isn't it true that switched access is above total service long-run incremental cost?

A Yes, it is significantly above. In fact, in my testimony with respect to United, I pointed out that it is at least 1100% above total service or long-run incremental cost.

MS. CANZANO: Thank you. Staff has no further questions.

CHAIRMAN CLARK: Commissioners? Ms. Dunson?

MS. DUNSON: I don't have any redirect.

CHAIRMAN CLARK: Thank you. Thank you very much, Mr. Guedel.

WITNESS GUEDEL: Thank you.

(Witness Guedel excused.)

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CHAIRMAN CLARK: Mr. Price.

MR. MELSON: MCI Metro calls Mr. Price.

DON PRICE

was called as a witness on behalf of MCI Metro Access Transmission Services, Inc. and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MELSON:

Q Please state your name and business address.

A Yes. My name is Don Price. My business address is 701 Brazos, B-R-A-Z-O-S, Suite 600, Austin, Texas 78701.

Q By whom are you employed and in what capacity?

A MCI Telecommunications Corporation is my employer and my title is Regional Manager, Local Competition Policies, Southern Region State Regulatory and Governmental Affairs.

Q Have you prefiled direct testimony in this docket consisting of eight pages?

A Yes, I have.

Q Do you have any changes or corrections to that testimony?

A There is -- yes. At Page 3, Line 7, it is simply an update. The number 13 at Line 7 should be changed to 15 to reflect the number of additional

states in which MCI Metro has received regulatory authority to operate as a local service provider since this was prefiled. That's the only change.

Q With that update if I were to ask you the same questions today would your answers be the same?

A Yes, they would.

MR. MELSON: Chairman Clark, I would ask that Mr. Price's direct testimony be inserted into the record as though read.

CHAIRMAN CLARK: The prefiled direct testimony of Mr. Don Price submitted February 6, 1996, will be inserted into the record as though read.

Q (By Mr. Melson) And, Mr. Price, did you have one exhibit to your testimony labeled DGP-1 and consisting of your professional qualifications?

A Yes, I did.

MR. MELSON: Madam Chairman, I would ask that exhibit be marked as I believe it's No. 21?

CHAIRMAN CLARK: It is, Mr. Melson, and it will be marked as Exhibit 21.

(Exhibit No. 21 marked for identification.)

DOCKET NO. 950985-TP

(MFS INTERCONNECTION PETITIONS RE SPRINT/GTEFL)

DIRECT TESTIMONY OF DON PRICE

ON BEHALF OF

MCI METRO ACCESS TRANSMISSION SERVICES, INC.

February 6, 1996

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Price, and my business address is 701 Brazos, Suite 600, Austin, Texas, 78701.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by MCI Telecommunications Corporation as Regional Manager, Local Competition Policy, Southern Region State Regulatory and Governmental Affairs.

Q. WHAT ARE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE?

A. I have provided as Exhibit 21 (DGP-1) to this testimony a listing of my professional qualifications and experience.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS COMMISSION?

A. Yes. Also, I have testified in a number of regulatory proceedings in various states in the BellSouth and Southwestern Bell regions.

Included in Exhibit 21 (DGP-1) is a list of proceedings in which I have presented testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will describe MCImetro's position on a few of the key technical, financial and operational arrangements that are necessary for the provision of ALEC service by MCImetro. These items have been discussed in the preliminary negotiations between MCImetro and Sprint-United, Sprint-Centel, and GTE Florida Incorporated. Those negotiations are still on-going, and have not reached an impasse, so MCImetro has not been required to file its own interconnection petition with the Commission. Nevertheless, the Commission's decision on the petitions filed in this docket by MFS and others may well set a precedent, and MCImetro has an interest in seeing that any decision addresses the technical and operational items that are of particular concern to it.

Q. WHO IS MCIMETRO ACCESS TRANSMISSION SERVICES, INC.?

A. MCImetro Access Transmission Services, Inc. ("MCImetro") is a wholly owned indirect subsidiary of MCI Telecommunications Corporation, the certificated long distance provider. The creation of MCImetro was announced by MCI on January 4, 1994. That announcement stated that MCImetro was expected to invest $2 billion in fiber rings and local switching infrastructure in major U.S.

metropolitan markets, and was the MCI subsidiary that will operate as a local telecommunications service provider.

The 1994 annual report to shareholders of MCI Communications Corporation stated that the planned capital expenditures for MCImetro for 1995 were $500 million. Since its formation, MCImetro has obtained regulatory approval to provide competitive local exchange services in ~~13~~ 15 states, and has pending applications for such authority in another 5 states.

On June 30, 1995, pursuant to s.364.337(6)(b), Florida Statutes, MCImetro provided notice to this Commission of its intent to provide alternative local exchange telecommunications services. On October 11, 1995, this Commission issued its Order No. PSC-95-1256-FOF-TX acknowledging MCImetro's intent to provide alternative local exchange services effective January 1, 1996.

Q. WHAT ARE THE APPROPRIATE ARRANGEMENTS FOR PAYMENT OF ACCESS CHARGES ON INTEREXCHANGE CALLS TERMINATED TO A NUMBER THAT HAS BEEN "PORTED" TO AN ALEC?

A. The ALEC should receive access charges on interexchange calls terminated to a number that has been "ported" to the ALEC. As I noted in my testimony in the recent docket on temporary number portability mechanisms, "the use of RCF as a temporary number portability mechanism introduces administrative problems in

ensuring that the ALEC receives the appropriate terminating access charges for toll calls placed to a "ported" customer."

As I described in that testimony, an interexchange call placed to a "ported" customer of an ALEC will first go to Sprint or GTEFL, who would "terminate" the call to the central office that previously served the customer. Then, using the RCF temporary number portability mechanism, the incumbent LEC would "re-originate" the call to the telephone number assigned to the customer by the ALEC. This example demonstrates that the ALEC, and ***not*** Sprint or GTEFL, would be performing the function of terminating the call to the called party. The incumbent LEC's billing systems would, however, have concluded that the call was "terminated" by Sprint or GTEFL at the point where it was forwarded to the ALEC's network using RCF, and the incumbent LEC would seek to assess terminating switched access charges on the carrier who had delivered the call to its network.

The only reason Sprint or GTEFL is in the call path for the call -- and thus has the potential to assess terminating access charges -- is because of the RCF mechanism which it chose to recommend for providing temporary number portability. A true database solution for number portability would have routed the call directly to the ALEC, recognizing that the call was to be terminated to the ALEC rather than to a customer of the incumbent LEC. Under a true number portability solution the ALEC would be able to appropriately bill the carrier without the type of administrative

complexities raised by the use of RCF as a temporary number portability mechanism.

The Commission should also recognize that its order in the temporary number portability proceeding established rates that were above Sprint's and GTEFL's economic costs of providing RCF. Because these companies cannot claim that they have unrecovered costs associated with the provision of RCF, they have no basis to claim a right to any terminating access revenues to a number that has been "ported" to ALEC. If either Sprint or GTEFL collects any access revenues for such calls, it should be required to remit all such revenues to ALEC.

Q. WHAT ARE THE APPROPRIATE ORDER PROCESSING ARRANGEMENTS BETWEEN ALECs AND SPRINT/GTEFL?

A. Intercompany procedures must be developed to support the ordering of unbundled loops, interoffice facilities (including point of interconnection ["POI"] arrangements and trunks), interim number portability mechanisms (such as Remote Call Forwarding), and customer listing databases which support the white pages directory and directory assistance databases. These procedures must support ordering in a "network of networks" environment.

The "back office systems" used by a company are almost always automated. There are obvious reasons for such automation such as operating efficiency, the need for automated interfaces with billing systems, and the need to track the various work

processes at each step in turning up (or taking down) service. It is easy to imagine the administrative nightmare that would result if thousands of transactions each day were handled on a paper basis. There would be no way to determine whether any progress had been made in fulfilling a request for service, or if so, at what stage of fulfillment that order was. And billing system errors would be rampant because of the need to manually enter each and every transaction separately from the taking of the order. Therefore, Sprint and GTEFL should be required to develop as soon as possible, but in any event within one year, mechanized systems for the ordering of unbundled loops, interoffice facilities, interim number portability mechanisms, customer listing databases, and any other service or function necessary for the interoperability of their networks with those of the ALECs. Such mechanized interfaces are used in the day-to-day interactions between LECs and IXCs. Anything short of automated or mechanized intercompany procedures would be unworkable.

Q. WHAT ARE THE APPROPRIATE ARRANGEMENTS FOR THE ENTRY OF ALEC CUSTOMER INFORMATION INTO SPRINT'S AND GTEFL'S 911 DATABASES?

A. Sprint and GTEFL should be required to cooperate with ALECs to ensure that ALECs' customer data is in the proper format for inclusion in the 911 Automatic Location Identification (ALI) database. Customer data -- and specifically the street addresses -

- are edited against a database referred to as the master street address guide ("MSAG") to ensure that the uniform listing of street addresses. This is so that emergency personnel will have a consistent reference for every address to which they may be called to render service. Thus, the public safety and welfare requires that Sprint and GTEFL either make the MSAG available to the ALECs, or cooperate in the editing of ALECs' customer data against the MSAG for inclusion in the ALI database(s). For the same reasons noted above with respect to ordering systems, Sprint and GTEFL should be required to permit ALEC access to the same mechanized systems they use to edit customer data against the MSAG. That access should be via a mechanized interface, and should be provided as soon as possible. A reasonable time frame for Sprint and GTEFL to be able to furnish ALI data entry capability would be the date of the final order in this proceeding for paper copy. Then, within 30 days from that date, Sprint and GTEFL should furnish ALECs with automated entry capability.

Q. WHAT ARE THE APPROPRIATE ARRANGEMENTS FOR THE SUPPORT OF REPAIR SERVICE?

A. Intercompany procedures must be developed to support repair services in a "network of networks" environment. As noted above, the "back office systems" used by a company are almost always automated, for obvious reasons of operating efficiency and the need to track progress in isolating and clearing customer trouble.

It would be an administrative nightmare if repair services were to be handled on a paper basis. Neither company would be able to determine whether any progress had been made in isolating or clearing an incidence of trouble, or even whether someone had been dispatched to work on a particular incidence. Anything short of automated or mechanized intercompany procedures would be virtually unworkable. Therefore Sprint and GTEFL should be required to develop mechanized systems for processes such as referral of trouble tickets, and to implement those systems as soon as possible.

Sprint and GTEFL must also develop procedures that will permit ALECs to isolate trouble both on trunking facilities to the POI and on unbundled network facilities -- such as loop facilities -- leased from Sprint and GTEFL. Otherwise, efforts to clear incidences of customer trouble will be constrained by the lack of appropriate intercompany procedures for testing of various network elements. The absence of such procedures could create an undeserved impression that the ALEC is not capable of providing high quality service. Customers should be won or lost on the basis of fair competition, and not as a result of the incumbent's failure to implement appropriate procedures for handling of repair issues.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Q (By Mr. Melson) Mr. Price, would you please summarize your testimony.

A Yes. Good afternoon, Commissioners. My testimony in this proceeding touches on several issues of a somewhat operational or administrative nature but issues that are important, nonetheless.

With respect to access charges on interexchange calls to a customer who has forwarded the old telephone number using remote call forwarding, I'm urging the Commission to determine that GTE and Sprint have no claim on those interexchange access revenues. Such a conclusion is consistent with the decision of other commissions as well as with this Commission's recent decision in the MFS and MCI Metro complaints against BellSouth.

In addition, my testimony notes the importance of intercompany arrangements and mechanized interfaces for order entry, service provisioning, repair services, and the update of customer listings for directory assistance, published directories and listing information in support of 911 service.

Seamless intercompany arrangements and interfaces to the back office systems of the incumbent telephone companies for these functions are crucial to the provision of high quality services to end users,

and the absence of such arrangements can have significant negative competitive implications.

As I state in my testimony, customers should be won or lost on the basis of fair competition, not as a result of incomplete or inefficient intercompany arrangements. Therefore, in conclusion, my testimony is such arrangements and interfaces should be made available to ALECs as soon as possible.

This concludes my summary, thank you.

MR. MELSON: Mr. Price is tendered for cross.

CHAIRMAN CLARK: Ms. Wilson.

MR. CROSBY: Ms. Wilson asked me to tell you she had no questions, Madam Chairman.

CHAIRMAN CLARK: Mr. Crosby.

MR. CROSBY: No questions.

CHAIRMAN CLARK: Mr. Logan.

MR. LOGAN: Yes.

CROSS EXAMINATION

BY MR. LOGAN:

Q Mr. Price, I have one quick question. I believe you indicated in your summary that LECs should provide mechanized access to these various LEC systems and databases. Is that correct?

A Yes.

Q Who should pay the cost that the LEC incurs in providing those mechanized interfaces?

A I think it's important to note first of all that the systems themselves are mechanized. The order entry systems that the telephone companies utilize are directly linked electronically into things like service provisioning systems, billing systems, so that they have a seamless, if you will, set of connections between all the various systems that are necessary to set up a service order, prepare the billing system, actually provision the service, et cetera.

So we're not talking about changes to these systems; all we're talking about is the addition of an interface so the ALECs can have visibility to, for example, the service ordering process.

If MCI Metro were to initiate a new service order on behalf of one of its customers that required, for example, the use of remote call forwarding by GTE or by Sprint, we would certainly want to be able to watch that service order as it flows through the system so that we would know, for example, what work was planned at a particular day.

If we had promised the customer that we were going to turn up the service within 48 hours, then we would want the visibility to those order entry and

provisioning systems to make sure that that 48 hours was something that wouldn't be jeopardized by the loss of the service order.

Now the reason that I go into all that detail is because we're not talking about the systems themselves, all we're talking about is simply a mechanized access to the system so that we can see that, so we'll have visibility to the systems.

The payment of any changes that would need to be made to provide that mechanized interface should be absorbed by GTE or by Sprint. There's several reasons for that. First of all, if you grant them the authority or the ability to recover whatever costs, I'm afraid they would have significant incentives to overstate that cost and to claim that perhaps maybe changes that they wanted to make to their systems as opposed to the interface was somehow the cost that we should pay. They would have that kind of incentive to shift costs to their competitives, it seems to me.

Secondly, they will need access to our systems in the same way. So we will also have to have mechanized interfaces that they will have visibility into our ordering systems because the day will come the when a customer of an ALEC, we don't relish this thought, but it's a reality that we have to be

prepared for the day when an ALEC customer will want to change to GTE or Sprint; and at that time they will want that same visibility into our systems as well.

MR. LOGAN: No further questions.

CHAIRMAN CLARK: Mr. Horton?

MR. HORTON: No questions.

CHAIRMAN CLARK: Mr. Rindler?

MR. RINDLER: No questions.

CHAIRMAN CLARK: Ms. Weiske.

MS. WEISKE: No questions.

CHAIRMAN CLARK: Mr. Edgington.

MR. EDGINGTON: GTE has no questions.

CHAIRMAN CLARK: Thank you. Mr. Fons?

CROSS EXAMINATION

BY MR. FONS:

Q I have a couple questions. Mr. Price, I'm a bit mystified. You were asked a question by Mr. Logan on behalf of AT&T about the development of some mechanized systems for ordering, et cetera. Could you turn to Page 6 of your testimony, please? Your testimony dated February 6, 1996.

I believe you answered Mr. Logan by saying that these systems are already in existence, and yet your testimony says "Therefore, Sprint and GTE Florida should be required to develop as soon as possible and

in any event within one year mechanized systems for the ordering of unbundled loops, et cetera."

Are you changing your testimony now?

A No, I'm not.

Q So these systems aren't in existence today?

A Well, to some extent they are. And I do need to clarify that to try to eliminate any confusion that I might have inadvertently created.

There are systems that today are used internally to each of the telcos as end-user customers place orders for retail services. To some extent, those systems may need to be modified in order to take into account the ordering of services that today are not provided on a retail basis but will be in the future provided to other providers of service, other ALECs.

And that's why I cited here unbundled loops. There will need to be slight modifications to the existing ordering systems, and all I'm saying is that that also needs to be done.

I heard the question that I was asked earlier to be with respect to the interfaces and that was really what I was touching on.

Q Your testimony doesn't say that we should be required to modify existing systems, it says, "should

be required to develop" these systems. So are you changing your testimony?

A No, I'm not.

Q So if these systems are not in existence today, they would have to be developed?

A No. I believe I answered earlier that those systems do exist for retail services and there would need to be some modifications such that a mechanized system for the types of things that I refer to at Lines 11 and 12 are made possible in the existing systems.

Q I'm not trying to trick you, I'm just asking you, do you want to change your testimony to read they shall "modify these systems"? Because as it reads today it sounds like the systems do not exist.

A My answer to you is I don't wish to change my testimony, I want to clarify exactly what my intent was.

Q Whether they're developed or modified, will Sprint and GTE Florida incur costs in either developing or modifying these systems?

A I would think some costs, yes.

Q And who should bear those costs?

A GTE and Sprint.

Q You don't believe the ALECs should bear any

of the costs of the development or modification of these systems?

A That's correct, for the reasons I previously stated.

Q The reasons you stated is because you need them and we have them?

A I don't recall having said that, sir.

Q Well, what was, tell me again what the reasons were why the ALECs should not compensate the LECs for the development or modifications of these systems.

A I believe my answer was really two-fold. One, that there would obviously be an incentive to overstate the cost and to perhaps misclassify costs that are really not related to this and claim that those costs should be recovered from the new competitors of GTE and Sprint. Because any cost that could be shifted to your competitor would certainly be a -- it would provide a competitive advantage, at least in the short run, for GTE and Sprint. I should say, an additional competitive advantage.

The second point of my answer previously was that those interfaces will be needed in both directions; and at least as to the interface, those things will benefit not only the new entrant but will

also benefit GTE and Sprint to the extent that they need visibility into the systems of the ALECs.

Q Will the ALECs be required to develop similar systems?

A Absolutely.

Q And where will you recover the cost of the development of those systems?

A From the same source that I would recommend that GTE and Sprint recover those costs when they incur them, and that is from their end users. That's a cost of doing business.

Q So your local prices will reflect the cost of the development of these systems?

A Yes.

Q Now if the LECs have already elected price regulation and therefore cannot increase their rates to recover these costs, their local exchange prices, who then will bear the costs of the development of these systems?

A If your question is which class of customer will have to bear that cost, I think the answer is it can't be known.

Q Well, shouldn't the class of customers that caused the cost pay for them?

A I have not, I have not admitted that there

is a class of customer that causes that cost, so you're asking me to presume something I think in that question.

Q Indeed, no LEC customer has caused these costs to be incurred, isn't that correct? These costs have been incurred because they have been caused by the introduction of competition and shouldn't the competitors therefore bear these costs?

A I think the answer is an emphatic no that the new entrants should bear those costs. I think perhaps you touched on the right answer in your question, which is, it's not the existence of the competitor that caused those costs to be incurred, it is the existence of competition.

If you have this model, as I suggested earlier, where anything that the incumbents have to do that they can remotely claim is related to something that is needed in a new network of networks kind of environment, if they can claim that those costs need to be shifted to the new entrants, what you will have is you will have a situation where competition does not develop because you will have a recipe to disadvantage at the go-down all of those who could potentially bring the benefits of competition to the Florida marketplace.

Q So you are suggesting the main reason why the ALECs shouldn't bear these costs is because the LECs have an incentive to improperly shift costs?

A To some extent. As I have already explained, there's a couple of reasons why I'm saying that. One very good example of exactly what I'm talking about was recently seen in the situation in Illinois with respect to MSA1 --

MR. FONS: I'm going to object to this answer, it is not responsive to my question.

CHAIRMAN CLARK: I'm sorry, Mr. Fons, what was your question?

MR. FONS: My question was, in other words, the main reason why you are saying that the ALECs should not bear these costs is because the LECs have an incentive to shift, improperly shift, the cost to the ALECs?

MR. MELSON: And the witness was giving an example of why that was one of the bases for his recommendations.

MR. FONS: He's reaching outside of the state of Florida and any of the LECs that are present here in this particular proceeding.

If he wants to indicate where these LECs have improperly shifted costs to this particular ALEC,

that's fine. But for him to suggest what happened in Illinois is going to happen here is outside the scope of the question I asked.

CHAIRMAN CLARK: Mr. Fons, if that's the basis on which he is recommending it, I think he can make that answer.

MR. FONS: All right.

CHAIRMAN CLARK: Go ahead, Mr. Price.

A In the context of the Illinois proceeding on local number portability for the Chicago MSA, what we saw was GTE come in with a proposal that said that number portability would require them to upgrade a number of their end offices.

They wanted to take their old equipment that they had in their end offices, trash it, put in brand-new digital equipment which we believed they should already be providing to their end users anyway, and then claim that the cost of replacing that end office was the cost that was due to number portability, and to try to shift those costs to the new entrants and claim that it was as a result of the new entrant's desire to have the number portability that those costs were incurred.

The number of dollars that we were looking at in that instance was something on the order of $100

million. It was not small change and it was a huge misallocation, in my view, of costs that really had nothing to do with implementing number portability.

Yes, it is true that perhaps number portability can't be made available in the types of end offices that they had. But the fact that they had obsolete end office equipment was a problem that they created of their own choosing.

So in my view that's a wonderful example. Because, really, the cost of number portability is probably in the range of a few millions of dollars to GTE as opposed to $100 million, which is what they claimed in the Illinois proceeding.

Q The regulatory process worked in that situation, didn't it, Mr. Price?

A Well, actually all of those costs were in an informal process where Staff was sort of acting as mediator. What happened was I think there was a bit of embarrassment when the other parties at the table pointed out that those costs were not at all brought into question by the decision to offer end users the ability to retain their number when they chose a new provider.

Q So in other words the process worked. You had an opportunity to challenge those costs, didn't

you?

A Yes. But again my concern that I stated earlier was that an incentive exists. And I think my example points out that not only does the incentive exist but there are those who would act on that incentive.

Q And the opportunity always exists, doesn't it, Mr. Price, for accidents to happen, unintentional things to take place, and that's what the regulatory process is all about is so that the parties can try to work out their differences, and if not able to work them out, to come to the Commission to be mediated? Isn't that what the process is all about?

A And I believe in that spirit was the context of my answer that because of that incentive to misallocate, overstate costs, that it was appropriate for both sides to recover whatever costs they incur in the development of their systems and the mechanized interfaces so that the end user can benefit in a new environment where we have more than one provider of service.

Q Mr. Price, again, if you were -- if we have a complaint process that can take care of those problems, then you don't have a reason why the ALEC should not bear some of the cost of the development of

these systems. Would you agree with that?

A No, sir, I would not.

Q Well, it seems to me that if you are causing a cost to be incurred and your only reason why you don't want to pay that cost is the potential for someone to misallocate the cost, then you really haven't given a reason why you should not bear those costs, have you?

A I would disagree with that, sir.

Q Let's put it another way. Are you saying that Sprint-United/Centel in Florida will misallocate their costs?

A I'm saying the potential exists.

Q And if the potential exists, you do under the statute have a complaint process with the Commission, don't you?

A Yes.

Q And if the complaint process is there and you can solve the misallocation problem, then there isn't any misallocation, is there?

A Well, I would answer slightly differently and state that if the appropriate policy were enacted by the Commission at the outset then there would also not be any misallocation problem nor would there be a need later on to hear a complaint brought about by the

lack of an appropriate policy at the outset.

Q And I would agree with you, Mr. Price. Wouldn't it be proper for this Commission to state that the ALECs are to bear the costs of any of these systems and that the LECs will submit to the Commission and to the ALECs their cost support for such prices?

A No, for the reasons that I have already stated.

Q You just don't want to pay the costs, do you?

A Nor do I think that GTE and Sprint would want to pay the cost of my developing billing systems and my developing order entry systems and my developing all the various pieces of my back office systems that will be necessary for me to provide services to end users and that will also have to provide visibility in an unbundled network to unbundle network elements that GTE or Sprint or someone else might want to order from me in the future.

Q Have you asked them whether they were willing to do that?

A I don't know.

MR. FONS: I have no further questions.

CHAIRMAN CLARK: Staff?

MR. EDMONDS: Staff has no questions.

CHAIRMAN CLARK: Commissioners? Mr. Melson.

MR. MELSON: No redirect. And I would move Exhibit 21.

CHAIRMAN CLARK: Exhibit 21 will be admitted in the record without objection.

Thank you, Mr. Price.

(Exhibit No. 21 received in evidence.)

(Witness Price excused.)

- - - - -

MR. MELSON: I would call Dr. Cornell.

NINA W. CORNELL

was called as a witness on behalf of MCI Metro Access Transmission Services, Inc. and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MELSON:

Q Would you state your name and address, please, Dr. Cornell?

A My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse, M-E-E-T-E-E-T-S-E, Wyoming 82433.

Q And what is your occupation or profession?

A I'm an economist.

Q And you're giving testimony in this

proceeding in support of MCI Metro; is that correct?

A That's my belief, yes.

MR. MELSON: We've got three pieces of testimony, Chairman Clark.

CHAIRMAN CLARK: I think I have them.

MR. MELSON: Okay. We're going to put in only a piece of one of them in an effort to reduce the length of the record here.

CHAIRMAN CLARK: Okay.

Q Dr. Cornell, have you prefiled direct testimony in this docket dated February 6, 1996, consisting of 37 pages?

A I'm checking the pages. Yes.

Q And have you also prefiled rebuttal testimony in this docket dated February 20, 1996, and consisting of 14 pages?

A Yes.

Q Do you have any changes or corrections to those two pieces of testimony?

A Not to my knowledge.

Q And if I were to ask you the same questions that are in those two pieces of testimony today, would your answers be the same?

A Yes.

MR. MELSON: Madam Chairman, I would ask

that the direct testimony dated February 6 and rebuttal testimony dated February 20th be inserted into the record as though read.

CHAIRMAN CLARK: The direct testimony filed on February 6th and the rebuttal testimony filed on February 20th will be inserted into the record as though read.

Q (By Mr. Melson) Dr. Cornell, did you also prefile another piece of testimony in this docket on January 26, 1996, consisting of 40 pages?

A Yes.

MR. MELSON: Madam Chairman, depending on whether you read the cover sheet or the bottom of the page, in one place it is labeled as direct, in another place it is labeled as rebuttal. It is in fact rebuttal testimony.

Q (By Mr. Melson) Dr. Cornell, do you have any changes or corrections to that testimony?

A Well, we have a huge deletion, as I understand it.

Q Would you do that now -- let me ask it this way. We intend to offer Page 1 of that testimony, Lines 1 through 4. We then intend to delete everything up until Page 38; and then offer Page 38, Line 12, to Page 40, Line 3, which is the conclusion

of testimony.

What we would leave in is the first four lines on Page 1. We would then delete everything until you get to Page 38, Line 11. Beginning on 38, Line 12 to the end, we would include that.

And Dr. Cornell, is the testimony in the part we're going to seek to have admitted still true and correct?

A Yes.

MR. MELSON: We'd ask that those portions of that prefiled testimony be inserted into the record as though read.

CHAIRMAN CLARK: Those portions identified today in the rebuttal testimony of Dr. Cornell filed on January 26 will be inserted into the record as though read.

Q (By Mr. Melson) Dr. Cornell, attached to your direct testimony dated February 6, did you have one exhibit, consisting of your biography?

A That's correct.

Q Do you have any changes or corrections to that exhibit?

A Other than noting that it probably is by now missing an appearance or two, it is correct.

MR. MELSON: I'd ask that that be marked as

Exhibit 22.

CHAIRMAN CLARK: That will be marked as Exhibit 22.

(Exhibit No. 22 marked for identification.)

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse, Wyoming 82433.

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

A. I am an economist in private practice, specializing in microeconomic analysis of regulatory and antitrust issues. Until late 1988, I was with the firm of Cornell, Pelcovits & Brenner Economists Inc., of which I was president.

Before entering private practice, I was Chief of the Office of Plans and Policy, Federal Communications Commission (FCC). As Chief of the Office of Plans and Policy, I served as chief economist to the Commission and participated in virtually all FCC agenda meetings.

Prior to being associated with the FCC, I was the Senior Staff Economist for regulatory, transportation, environmental, and health and safety issues for the Council of Economic Advisers (CEA). In this position I reported directly to Charles L. Schultze, Chairman of the Council.

Prior to being with the CEA, I was employed as an economist with the Council on Wage and Price Stability, where I served on the Task Force on Reform of Federal Energy Administration Regulations. Before joining the Federal Government, I spent four years at the Brookings Institution as a Research Associate. I am a graduate of Swarthmore College, and received my Ph.D. in Economics from the University of Illinois in 1972.

Q. HAVE YOU PUBLISHED ANY PAPERS ON TELECOMMUNICATIONS?

A. Yes. I have published a number of papers on the regulation of telecommunications as well as on other regulatory and natural resource issues. A list of my publications is contained in my resume -- Exhibit ____ (NWC-1).

Q. HAVE YOU TESTIFIED BEFORE?

A. Yes. I have served as an expert witness in several court and a number of regulatory proceedings, particularly proceedings involving telecommunications issues. I have also testified before various committees of the US Congress. A list of my testimonies is also contained in my resume.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses 1) what are the appropriate rate structure, interconnection rates, or other arrangements for the exchange of local traffic between ALECs on the one hand and Sprint-United and Sprint-Centel (Sprint) and GTE Florida Incorporated (GTEFL) on the other hand; 2) what are the appropriate rate structure, interconnection rates, or other arrangements for the exchange of toll traffic between ALECs and Sprint/GTEFL; 3) what are the appropriate arrangements for physical interconnection between ALECs and Sprint/GTEFL; and 4) what are the appropriate arrangements for the delivery by Sprint/GTEFL of calls originated by and/or terminated to ALECs from other carriers (IXCs, other ALECs, other LECs, wireless

carriers) that are not directly connected to the ALEC.

In particular, I recommend that the Commission order Sprint/GTEFL to treat ALECs as co-carriers, and terminate local traffic that originates on the networks of ALECs using Mutual Traffic Exchange. I also recommend that toll traffic be exchanged with the payment of switched access charges. ALECs should be allowed to file their own switched access tariffs, with a requirement only that the ALEC's total price to originate or terminate a call not exceed the total price that would have been charged by the incumbent LEC for the same call. I recommend that the physical arrangements for the physical interconnection of the two networks allow the ALEC to designate one point of interconnection in each local calling area, and that the point of interconnection could be at either its switch, at a switch of Sprint/GTEFL, or at a meet point someplace between the two networks. Finally, I recommend that the Commission require Sprint/GTEFL to deliver calls originated by and/or terminated to an ALEC from other carriers that are not directly connected to the ALEC on exactly the same terms and conditions that Sprint/GTEFL performs that same function for independent local exchange carriers.

1. What Are the Appropriate Rate Structure, Interconnection Rates, or Other Arrangements for the Exchange of Local Traffic between ALECs and Sprint/GTEFL?

Q. WHAT POLICY GOAL SHOULD COMPENSATION ARRANGEMENTS ESTABLISHED FOR TERMINATING LOCAL TRAFFIC BETWEEN COMPETING LOCAL EXCHANGE NETWORKS BE DESIGNED TO SERVE?

A. Whatever compensation arrangements are adopted should foster the ultimate development of effective competition in local exchange markets.

Q. WHAT IS EFFECTIVE COMPETITION?

A. Effective competition exists when a firm cannot raise its prices significantly above its costs without losing customers to other suppliers in sufficient quantity that it is forced to bring its prices back in line with costs.

Q. IS ENTRY THE SAME AS EFFECTIVE COMPETITION?

A. No. Entry is a necessary first step towards the development of effective competition, but it is not the same as effective competition. Effective competition requires that there are enough alternatives available to and adopted by a sufficient number of consumers that the choices consumers actually make in the market force all of the firms in that market to bring their prices in line with costs and keep them there.

Q. WHAT ARE THE OBSTACLES THAT MIGHT PREVENT ENTRY FROM BECOMING EFFECTIVE COMPETITION IN LOCAL EXCHANGE MARKETS IN FLORIDA?

A. Local exchange markets are characterized by significant barriers to entry based on the nature of current technology and the long period during which consumers have faced only a monopoly supplier for local exchange service. In addition, the policy determinations that need to be made could raise equal or even greater artificial

barriers to entry. Some of the conditions being proposed for entry, including some that are being proposed here in Florida and around the country, could limit entry sufficiently that effective competition could never develop, if any entry ever occurred at all.

Q. WHAT DO YOU MEAN BY BARRIERS TO ENTRY?

A. Barriers to entry occur whenever a firm that is not already in the market faces conditions that would make it have to expect to earn more than the normal return on investment before it would be a wise business decision to put shareholders' funds at risk in the market. The main types of barriers to entry arise when 1) a potential entrant knows that some or all of its investments in that market, once made, cannot easily be recovered should the entry be unsuccessful; or 2) the entrant knows it will face costs upon entering that the incumbent firm does not face. In the first case, the greater the level of investments that would be unrecoverable if entry were unsuccessful, the higher the barrier to entry, in that the greater the expected return on those investments would have to be to make the entry a reasonable business risk. Similarly, the greater the costs the potential entrant would face that the incumbent does not, the higher the barrier to entry and therefore the greater the expected return on investment would have to be to make entry a reasonable business risk. Both of these types of barriers to entry exist today in local exchange markets because of the nature of the existing technology and consumers' habits. Both of these types of barriers to entry could be increased artificially by inappropriate policy choices in this docket.

Q. WHAT ARE THE NATURAL BARRIERS TO ENTRY INTO LOCAL EXCHANGE MARKETS?

A. Local exchange telephone markets have several important characteristics that naturally create barriers to entry. First, entry will take very large capital outlays, many of which may well be unrecoverable if the firm fails in the market. Second, the construction financed with those capital outlays will take quite some time to be able to reach beyond a small area. Third, consumers are totally unused to the idea of multiple firms supplying local exchange services, so very large marketing costs can be anticipated. Marketing costs are costs that are unrecoverable if the firm is unsuccessful and has to exit the market. Fourth, firms in telecommunications markets, unlike almost any other markets, cannot operate completely independently of each other, affected only by the interaction of what each offers to the public and how the public responds to those offerings. Instead, all firms in the market must interconnect and agree to terminate traffic for each other. There are also several other areas in which cooperation is required for competition to be possible.

The first three facts cited above by themselves mean that there are barriers to entry into local exchange markets that are greater than in many other markets. The capital and marketing outlays that are unrecoverable if the firm must exit are barriers to entry caused by the fact that these costs would be sunk once incurred. Thus, before a firm actually enters a market, it must believe that the expected revenues from entry are greater than would be the case if there were no large sunk costs from entry.

Given just the first three characteristics of local exchange telecommunications markets, most entrants are likely to begin small and grow slowly. Entrants must be

able to take advantage of any synergies they have with other services they may provide, in order to start earning revenues as soon as possible to justify the very large capital outlays needed to expand their networks. In this process, entrants will be eager to serve any and all customers that they can serve for more than the marginal costs of adding the customer. Once a firm has installed network facilities, particularly outside plant, any customer that pays more than the marginal cost of adding it to the entrant's network will help to pay for the initial investment in that network.

The entrants also need to be able to concentrate their marketing efforts where they can get the most exposure for the amount spent, in order to overcome the entrenched position of the former monopoly firm. This again is best done where the entrants can take advantage of any synergies they have with other services they provide.

Q. WHAT ARE THE SPECIFIC PRINCIPLES THAT SHOULD GOVERN COMPENSATION ARRANGEMENTS FOR TERMINATING LOCAL TRAFFIC IN ORDER TO PREVENT THOSE ARRANGEMENTS FROM RAISING ARTIFICIAL BARRIERS TO ENTRY IN LOCAL EXCHANGE MARKETS IN FLORIDA?

A. There are at least three principles that should govern compensation arrangements for terminating local traffic. First, competing local exchange carriers must be treated as co-carriers, not customers, in recognition of the fact that the need for interconnection becomes mutual as soon as an entrant signs up its first customer. Once an entrant gains that first customer, each has a mutual need for services from the other if each

is to offer its customers the ability to reach all other telephone subscribers in the local exchange. Thus, compensation arrangements for terminating local exchange traffic must be reciprocal. If the compensation arrangements are not reciprocal, the firm that must pay more faces a barrier to entry. This is different from the situation with interexchange carriers, who are customers of the incumbent local exchange carriers.

Second, it is very important that the compensation arrangements for terminating local exchange traffic foster efficiency rather than inefficiency. The fact that each carrier will need the other should not be used as a reason to create an upward spiral in either local exchange costs or rates, or to try to impose anticompetitive terms and conditions on entrants by incumbents. Firms that are just as efficient as incumbent firms should not be discouraged from entering the market because of the type of compensation arrangements for terminating local exchange traffic that are adopted.

Third, the compensation arrangements for terminating local traffic should not force entrants to select one technology over another or one network architecture over another. One of the major benefits from opening local exchange markets to entry and the development of effective local exchange competition is that the residents of the state can benefit from competition between different technologies and involving different architectures of service. If the compensation arrangements for terminating traffic skew the technology or architecture choices of entrants, however, this benefit from entry will be reduced or eliminated. This would not be in the public interest.

Q. WHAT DO YOU MEAN BY ARCHITECTURE IN YOUR LAST ANSWER?

A. By architecture, I mean such elements of service as the decision about how many

switches to place and where to place them in terms of the overall networks of the entrants. The decisions made about these issues by the incumbent local exchange carriers have been influenced by a large number of factors, including their own historical practices. The current relationship of total customers to numbers of switches may no longer be efficient. Entrants should not be forced by the arrangements for terminating local exchange traffic to duplicate the choices made by the incumbents.

Q. YOU CALL FOR EQUALLY EFFICIENT FIRMS TO BE ABLE TO ENTER THE MARKET. ISN'T THE WHOLE PURPOSE OF ALLOWING COMPETITION TO HAVE MORE EFFICIENT FIRMS ENTER THE MARKET?

A. Not entirely. Competitive entry benefits consumers when equally efficient firms enter, because they force the incumbent to reflect fully its efficiency in prices and to become more efficient than it currently is. Currently, whatever is the efficiency level of the incumbent measured in terms of its total service long run incremental costs, the prices it is charging are far higher. Entry, if the market is properly structured, can drive those prices down. If, however, the requirement is that the firm must be more efficient than the incumbent, there are fewer and fewer firms that can even enter.

Q. YOU PREVIOUSLY SAID THAT COMPENSATION ARRANGEMENTS MUST BE RECIPROCAL. WHAT DO YOU MEAN BY RECIPROCITY?

A. By reciprocity, I mean that the entrant can charge the same exact price as the

incumbent charges for performing the same task, namely terminating a local call.

Q. WHY WOULD A LACK OF RECIPROCITY CREATE A BARRIER TO ENTRY?

A. A lack of reciprocity, with the entrant receiving less than the incumbent, creates a barrier to entry because it prevents a potential entrant that is just as efficient as the incumbent from receiving the same payments as the incumbent. In this respect, it is similar to a price squeeze.

To be able to sign up any customers at all, an entrant must price below the incumbent or offer a better service for the same price. Certainly, an entrant cannot offer the same service for a higher price. If the incumbent is allowed to charge a higher interconnection price than the entrant, the entrant must be more efficient than the incumbent in order to be able even to meet the price of the incumbent, let alone price below the incumbent's price.

Suppose that the incumbent is allowed to set the rate for terminating traffic for the entrant at the incumbent's cost plus 1¢, but the entrant is only allowed to charge the cost to it of termination. Assume further that traffic is in balance, and that every call originated by a customer of the entrant terminates on the incumbent's network. If the entrant is just as efficient as the incumbent, all of its costs are the same -- except for the cost of termination. Here, because of the lack of reciprocity, the entrant faces a cost 1¢ higher than the cost to the incumbent. For the entrant to be able to even charge the same price for a local call that the incumbent charges, it must be able to provide local calls at a cost to it, before taking into account interconnection charges, of 1¢ less than providing a local call costs the incumbent. The entrant, however, is just as efficient as the incumbent. This means that

providing local calls costs it the same as it costs the incumbent. As a result, because its costs of termination have been made 1¢ higher than the cost to the incumbent, the entrant cannot enter and even match the price of the incumbent. The result is it is prevented from entering.

If instead of all calls terminating on the opposite network, only some do, the amount by which the entrant must be more efficient is somewhat less, but the effect does not go away. The effect of not requiring reciprocity in interconnection rates is to create a barrier to entry.

Q. WHAT COMPENSATION ARRANGEMENT FOR TERMINATING LOCAL EXCHANGE TRAFFIC BEST SERVES THE THREE GOALS YOU OUTLINED ABOVE?

A. The best compensation arrangement for terminating local exchange traffic that passes between the networks of two competing local exchange providers is payment for the terminating function in kind, through mutual traffic exchange, rather than in cash.

Q. WHY DO YOU RECOMMEND THE USE OF PAYMENT IN KIND, THROUGH THE USE OF MUTUAL TRAFFIC EXCHANGE, RATHER THAN PAYMENT IN CASH?

A. There are at least five reasons why I recommend the use of payment in kind, or mutual traffic exchange, rather than payment in cash. First, mutual traffic exchange is obviously reciprocal, thus respecting that all participants are co-carriers. Second, mutual traffic exchange is by far the least cost means of compensating for terminating

traffic, and therefore is the method most likely to help drive local exchange rates as low as possible. Third, mutual traffic exchange offers the least ability for Sprint/GTEFL to use the compensation mechanism to try to impose both unnecessary and anticompetitive costs upon the entrants, thereby making it the method least likely to result in new unnecessary barriers to entry. Fourth, mutual traffic exchange is neutral in terms of both the technology and architecture that entrants might choose to adopt. In this regard, therefore, it is the method most likely to enhance dynamic efficiency in telecommunications. Fifth, mutual traffic exchange is the only compensation mechanism that may create some incentive for Sprint/GTEFL to want to cooperate in developing true number portability, rather than helping Sprint/GTEFL to benefit further from its absence.

Q. MUTUAL TRAFFIC EXCHANGE IS OBVIOUSLY RECIPROCAL. WHY DO YOU SAY IT IS THE MOST EFFICIENT MEANS OF COMPENSATING FOR TERMINATING LOCAL EXCHANGE TRAFFIC?

A. Mutual traffic exchange is the most efficient means of compensating for the termination of local exchange traffic, for at least two reasons. First, because the termination of traffic will be paid for "in kind" by each carrier, rather than with money, each carrier has the incentive to minimize the cost of those terminations, an incentive it does not have under any other form of compensation. Second, mutual traffic exchange does not impose costs on the system that could only be justified at most for a transition period.

It is very instructive to note that mutual traffic exchange is the dominant practice that has long been in use between non-competing adjacent local exchange

carriers around the country -- and in Florida -- for terminating local (Extended Area Service) traffic between adjacent territories. Where there is no gain from anticompetitive or inefficient behavior, carriers seek the most efficient approach. The dominance of mutual traffic exchange in these relationships suggests strongly the efficiency of this approach.

Q. WHY DOES MUTUAL TRAFFIC EXCHANGE CREATE THE BEST INCENTIVES AVAILABLE TO MINIMIZE THE COST OF TERMINATING TRAFFIC?

A. Because of the inherent nature of payments in kind, rather than in cash, the payer actually has the ability to affect the cost to itself of the "in kind" payment. This means that each carrier will try to terminate traffic at least cost, thus promoting efficiency. The result will be to seek out more efficient ways to terminate traffic, and, if effective competition can develop, these cost savings will be passed on in reduced local exchange service rates. The likelihood of reduced local exchange service rates is enhanced under mutual traffic exchange relative to almost all other forms of compensation because termination in kind means that the cost for termination is no higher than its total service long run incremental cost, rather than also including some "contribution."

If termination of traffic is paid for with money, as is proposed by Sprint/GTEFL, one effect is to give the incumbent the incentive to make the cost inefficiently high and pass that inflated cost on to its competitors. If termination of traffic is paid for in kind, however, any such cost-raising activities fall on the traffic terminator, not the traffic originator. Thus, if the incumbents tried to terminate

traffic in an inefficient manner, the costs would fall on them, not the entrants. The result is to encourage the incumbents to terminate traffic in the most efficient manner possible.

Q. WHY DOES MUTUAL TRAFFIC EXCHANGE NOT IMPOSE COSTS THAT ARE JUSTIFIED AT MOST ONLY FOR A TRANSITION PERIOD?

A. Once all the conditions for effective competition have been established, it is virtually certain that the amount of compensation that would be due to one network would be exactly offset by the amount due to the other. Unless there are significant distortions between networks, the traffic between networks tends to be in balance over time. This means that it is inefficient for firms to develop measurement and billing arrangements that can significantly increase the costs of doing business when the amounts to be paid are going to cancel out over relatively short periods of time. In earlier testimony in this docket, Mr. Poag states that the recording of usage for purposes of applying a per minute of use charge requires special software which Sprint has not deployed in its switches. In fact, Mr. Poag states that because of the high cost of the software, Sprint does not currently plan to deploy the software in any switches other than its access tandems. Presumably GTEFL will face similar high costs for developing and deploying comparable software. 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. This is a significant -- and totally unnecessary -- cost burden to add to local exchange service, when it can only be justified at best for a relatively brief period of time. It also

imposes other costs on local exchange service, costs that fall more heavily on the entrants than on Sprint/GTEFL. Mutual traffic exchange is much more efficient, as it prevents the addition of these costs and reflects the likely outcome in a world where all of the necessary conditions have been met for effective competition, particularly true number portability.

Q. WHY DO YOU SAY THAT MUTUAL TRAFFIC EXCHANGE OFFERS THE LEAST ABILITY FOR SPRINT/GTEFL TO USE THE COMPENSATION MECHANISM TO TRY TO IMPOSE UNNECESSARY BARRIERS TO ENTRY?

A. Under mutual traffic exchange, Sprint/GTEFL cannot impose costs on their rivals through how they provide or bill for compensation. Under any proposal in which local traffic must be measured, however, Sprint or GTEFL could deploy a measurement mechanism which is unnecessarily costly, and seek to pass that cost along to its rivals.

Moreover, based on the experiences to date with the billing for carrier access charges, the fact of billing will pose additional unnecessary costs in the form of auditing and verification costs. Carrier access bills have been sufficiently in error that it has been cost effective for interexchange carriers to hire people full time to audit and try to get corrections made in these bills. These auditing costs have not been one-time costs, but continue to be incurred today. The costs to the interexchange carriers are less than the savings from what they otherwise would have been required to pay, but these expenditures bring with them no social benefits whatsoever. In other words, these costs are a total dead weight loss to society.

Local exchange users will gain no benefits from duplicating this experience

in the local exchange arena. Doing so, moreover, would deny consumers the ability to have local exchange rates fall as far as they might otherwise fall. These auditing costs would become another irreducible part of the cost floor for local exchange service. Because the rates for basic local exchange service are central to the provision of universal service, it would be bad public policy to insist on arrangements that raise costs, rather than lowering them.

Q. EARLIER, IN LISTING THE ADVANTAGES OF MUTUAL TRAFFIC EXCHANGE, YOU SAID THAT MUTUAL TRAFFIC EXCHANGE IS NEUTRAL IN TERMS OF BOTH TECHNOLOGY AND ARCHITECTURE. WHY?

A. Mutual traffic exchange is totally neutral in terms of both technology and network architecture because the amount paid to each participant does not depend upon the choices of technology or architecture. Each carrier can select the technology and network architecture that it wants, without having to factor in possible penalties that could arise under other arrangements for terminating local traffic. This is very important for the dynamic efficiency of telecommunications. The greatest benefits to consumers from entry over time will come from the efficient search for and deployment of new and better technologies for sending and receiving information.

Q. WHY MAY MUTUAL TRAFFIC EXCHANGE CREATE AT LEAST SOME INCENTIVE FOR THE INCUMBENT LOCAL EXCHANGE CARRIERS TO COOPERATE IN THE DEVELOPMENT OF TRUE NUMBER PORTABILITY?

A. Mutual traffic exchange is the only arrangement that has been discussed that may

create some incentives -- even if slight -- for the incumbent carriers to cooperate in the development of true number portability, because the lack of true number portability may make the costs to the incumbents higher than if true number portability were present. To the extent that traffic might not be in balance at the outset, it is likely to be because a significant number of customers do not want to change their telephone numbers. Some customers, particularly business customers who are more likely to have more than one line, might respond by splitting their subscriptions, retaining some lines from the incumbent and along with them their old telephone numbers, while using the entrant for outgoing traffic. Under mutual traffic exchange, this would make the incumbent's terminating costs higher than if the customer moved all of its lines to the entrant.

Creating incentives for the incumbent local exchange carriers to cooperate with the development of true number portability is important, because they benefit from the lack of true number portability. Thus, they have every incentive to try to resist its development and deployment, and to try to insist that only entrants should pay any costs to achieve it. This is not good for the public.

Q. DO YOU BELIEVE TRAFFIC WILL BE IN BALANCE?

A. Yes. Networks tend normally to have roughly equal amounts of incoming and outgoing traffic. Unless very strong incentives exist to try to select customers on the basis of their incoming or outgoing traffic patterns, the way entrants will build their networks should produce the same outcome. Entrants will put facilities in certain locations, and then try to get as many customers as possible in that general location to subscribe to service using those facilities. Once an entrant has facilities in one

neighborhood, the entrant will want to serve as many customers who are there as can be induced to switch to the entrant, regardless of their particular usage patterns, because a number of the costs of the facilities do not vary with the number of customers served. This will be true, moreover, whether the entrant is using fiber or radio systems. Even radio-based systems have equipment that is geographically specific and that can be used in common by a number of subscribers, so long as they live in the relevant geographical area. An entrant, with no customers from whom it can cross subsidize its services, would be willing to serve any customer who pays more than the direct costs it imposes, unless again there is both a strong incentive and the ability to do otherwise.

Such an incentive would exist only if serving customers with one pattern of usage was made prohibitively expensive. This could occur if the rate to entrants for terminating traffic on the network of the incumbent were made higher than the rate the entrants could charge the incumbent, or if the compensation for terminating traffic on the network of the incumbent is very high relative to the price for local calling. If there were any entry at all under either of these conditions, the entrant would have a strong incentive to serve customers who had little outgoing local exchange traffic, but who had a large amount of incoming traffic. Such customers would leave the entrants paying for many fewer calls to the incumbent while receiving payment for many more calls from the incumbent.

If such an incentive were created, the entrants would also have to know the ratios of customers' incoming and outgoing traffic. This is not necessarily known or easy to know by either the customer or the entrant. Most customers do not get reports of incoming (non-800) traffic. Thus, entrants may not have the ability to make a distinction among customers based on whether they have mostly incoming or

outgoing traffic.

In the absence of both an incentive and the ability to distinguish between customers based on their relative proportions of incoming and outgoing traffic, it seems much more likely that traffic will be in balance between networks. The aggregation of the traffic patterns of a number of customers would suggest this outcome.

Q. WOULDN'T THE UNEQUAL SIZES OF THE RELATIVE NETWORKS SUGGEST TRAFFIC WOULD NOT BE IN BALANCE?

A. No. The relative size of networks does not determine how much traffic will flow in each direction. The easiest way to see that this is the case is to imagine a small carrier with only a few customers, but those customers spend their entire waking hours calling customers of the big network. Because of the number of customers of the small network, if all of them were to do nothing but call customers of the big network, they still would not generate a large number of calls. Meanwhile, it only takes a few calls each from customers of the big network calling customers of the small network to equal the number of calls that could go from the customers of the small network to the customers of the big network.

For example, if a new entrant were to gain a 2 percent market share in Tampa, then on average its customers would be likely to make 2 percent of their local Tampa calls to other customers of the new entrant, and 98 percent of their local Tampa calls to customers of GTEFL. At the same time, on average GTEFL's customers would make 98 percent of their local Tampa calls to other GTEFL customers and 2 percent of their local Tampa calls to customers of the new entrant.

But 98 percent of the calls originating on the network of a provider with 2 percent of the market is the same number of calls as 2 percent of the calls originating on the network of a provider with 98 percent of the market, leaving the total number of calls terminated by each provider on the other provider's network in balance.

Q. YOU RECOMMEND THE USE OF MUTUAL TRAFFIC EXCHANGE TO COMPENSATE FOR TERMINATING TRAFFIC ORIGINATED ON ANOTHER LOCAL EXCHANGE NETWORK. IS MUTUAL TRAFFIC EXCHANGE REQUIRING SPRINT/GTEFL TO TERMINATE THEIR RIVALS' LOCAL EXCHANGE TRAFFIC "FOR FREE?"

A. No. It is important to remember that rival local exchange carriers are not customers, but co-carriers. That means, whenever the rival has acquired a single customer, traffic will flow both ways. Mutual traffic exchange simply involves each carrier "paying" for the other to terminate local calls originated by its subscribers by mutually terminating local calls originated by the customers of the other carrier. That is why I referred to it as payment "in kind" rather than "in cash."

Q. DO SPRINT AND GTEFL AGREE THAT INTERCONNECTION COMPENSATION SHOULD BE BASED ON MUTUAL TRAFFIC EXCHANGE?

A. No. Sprint and GTEFL have proposed to charge local exchange entrants switched access charges other than the Carrier Common Line Charge and the Residual Interconnection Charge. Sprint has also proposed a flat-rated port charge option. The use of any part of switched access charges is inappropriate.

Q. WHY WOULD SWITCHED ACCESS CHARGES BE INAPPROPRIATE FOR COMPENSATION FOR TERMINATING LOCAL EXCHANGE TRAFFIC?

A. The use of switched access charges for compensation for terminating local exchange traffic would totally bar entry, because the current regulation of Sprint and GTEFL would prevent them from imputing these rates into their own local exchange rates. If Sprint and GTEFL were able to reset their local exchange rates in order to pass an imputation test, it would make entry at least possible, although it would create a significant and unnecessary upward spiral in local exchange rates. In short, use of switched access charges for compensation for terminating local exchange traffic under Sprint/GTEFL's current regulatory restrictions would deny the public all of the benefits that could come from local exchange competition. Use of switched access charges for compensation for terminating local exchange traffic if Sprint/GTEFL's current regulatory restrictions were relaxed to allow imputation would deny the public one of the two major potential benefits from competition, namely reduced costs and prices.

Even if Sprint and GTEFL were willing to pay the entrant's switched access charges, however, if they also insist that the entrant must mirror the switched access rate structure of Sprint/GTEFL, reciprocity in that part of the interconnection charge could occur only if the entrant mirrored the architecture, at least, of the incumbent, rather than picking the architecture that would otherwise be efficient, as discussed below. This would deny the public the other major potential benefit from entry, namely the promotion of more rapid deployment of new and better technologies.

Q. IN YOUR INITIAL DISCUSSION OF THE PRINCIPLES THAT SHOULD BE SERVED BY THE METHOD OF COMPENSATING FOR TERMINATING LOCAL EXCHANGE TRAFFIC BETWEEN COMPETING LOCAL EXCHANGE CARRIERS, YOU NOTED THAT IT WAS IMPORTANT THAT THE METHOD OF COMPENSATION NOT BE USED TO CREATE AN UPWARD SPIRAL OF LOCAL EXCHANGE COSTS OR RATES. YOU ALSO SAID THE USE OF SWITCHED ACCESS CHARGES FOR COMPENSATION WOULD EITHER BAR ENTRY OR CREATE SUCH AN UPWARD SPIRAL, ASSUMING A CHANGE IN HOW SPRINT/GTEFL IS REGULATED. HOW?

A. The use of switched access rates create an intolerable price squeeze. The only way for the Commission to allow these rates to go into effect and not kill any possibility whatsoever for competition would be to require Sprint/GTEFL to impute the same rates into all of their local exchange rates. Imputing switched access rates into local exchange rates, however, would mean raising basic local exchange rates for reasons other than an increase in the economic cost of providing local exchange service.

A far better approach would be to adopt mutual traffic exchange. Mutual traffic exchange does not create a conflict between Sprint/GTEFL's current regulation and the possibility of gaining any benefits of entry. This is in addition to all of the other benefits I have listed above that arise from the use of mutual traffic exchange.

Q. WHAT DO YOU MEAN BY A PRICE SQUEEZE?

A. By the term "price squeeze" I am referring to a particular relationship between two prices (or two sets of prices). This relationship can arise whenever a monopoly

supplier of inputs to other firms also competes to sell the end user service. If that monopoly supplier sets the price or prices of the bottleneck monopoly inputs at a level such that its end user price does not recover both the price(s) for the monopoly input(s) and the rest of the costs of producing the end user service(s), a price squeeze exists. Under a price squeeze, a dependent competitor that is just as efficient as the monopolist cannot cover all of its costs at the price for the end user product charged by the monopolist. There is absolutely no way that an unregulated, competitive firm can lose a penny on every sale and make it up in volume. Thus, when a firm sees that it is going to be subject to a price squeeze, what it sees is a barrier to entry.

Q. IF SWITCHED ACCESS CHARGES ARE USED FOR COMPENSATION, WHY WOULD RECIPROCITY ONLY BE POSSIBLE, IF AT ALL, IF THE ENTRANT MIRRORED THE ARCHITECTURE OF THE INCUMBENT?

A. Switched access charges are composed of a series of rate elements charged for the use of different piece parts of the incumbent's network to terminate a call. Except for the rate elements designed to pay "contribution," if the piece part is not used, then the rate element is not charged. The proposals to use switched access charges for compensation mostly include the same requirement. Thus, the entrant would only be allowed to charge for the same categories of costs that the incumbent claims are the costs of providing service.

Suppose an entrant placed only a single switch, using much more "loop" plant than the incumbent. The total cost to it to terminate a local call for the incumbent may or may not be less than the incumbent's costs, but those costs may be in different categories from those used by the incumbent. If the only costs the entrant

can recover in its local interconnection tariff are switching and transport costs, however, it will be handicapped relative to the incumbent, and may be prevented from recovering all of its costs regardless of whether they are less than or equal to the incumbent's costs. Particularly in the early years of its existence, an entrant will mostly be terminating calls from customers of the incumbent rather than from its own customers. Because of the inability to recover its costs using its preferred architecture, it will face an incentive to try to mirror the architecture of the incumbent, even if it were not the most efficient architecture. This would be very bad for the public, because it would reduce the dynamic efficiency benefits from entry.

Q. WOULD A COMPENSATION PROPOSAL SIMILAR IN STRUCTURE TO SWITCHED ACCESS CHARGES BUT WITH THE ACTUAL RATES SET JUST AT COST BE THE SAME AS MUTUAL TRAFFIC EXCHANGE IN TERMS OF ITS BENEFITS?

A. No. Although setting the rates at cost instead of above cost would clearly be preferable, such a compensation arrangement still would lead to significantly higher costs for local exchange service than a system of mutual traffic exchange, for the reasons discussed above. It would also still create uneconomic incentives for the entrants to adopt an architecture or technology that is less efficient, solely in order not to be penalized by the compensation mechanism, as discussed above.

Q. IN ADDITION TO DETERRING ENTRY, ARE THERE ANY OTHER PROBLEMS CREATED IF COMPENSATION IS NOT RECIPROCAL?

A. Yes. There is a second problem caused if compensation is not reciprocal, and that is that even if a more efficient firm enters the market, that firm is required to transfer its efficiencies to the incumbent, rather than being able to use its greater efficiency to gain market share. This also reduces the likelihood of a potential entrant actually entering the market.

This problem can be seen by an example. Suppose there are two firms in the market, and each terminates on the other network half of the local calls that originate on its network. Suppose it costs the incumbent 3¢ per call to terminate local calls, but it only costs the entrant 2¢. Suppose further that it also costs the incumbent 3¢ per call for origination, but it only costs the entrant 2¢ per call. If the entrant has to charge the incumbent only 2¢ per call terminating into the entrant's network, the incumbent could offer its own customers calling at 5 and 1/2¢ per call, which is less than the 6¢ per call that it currently costs the incumbent to originate and terminate using only its own network. The entrant, meanwhile, will have to charge 4 and 1/2¢ per call in order to recover the interconnection charges that it has to pay the incumbent. If, however, the entrant were allowed to charge the incumbent 3¢ per call for termination, equal to the charge of the incumbent, it could charge 4¢ per call to its own customers, passing on to them the full benefits of its greater efficiency. The incumbent would have to charge the full 6¢ per call until it became as efficient as the entrant. In this example, the market would send the right information to consumers about which firm is more efficient, and the right signals to the incumbent to become more efficient.

Q. SOME LOCAL EXCHANGE COMPANIES HAVE STATED THAT "BILL AND

KEEP" DOES NOT MEET THE STATUTORY REQUIREMENT THAT THE INTERCONNECTION CHARGE COVER ITS COSTS. IN YOUR OPINION, DOES MUTUAL TRAFFIC EXCHANGE MEET THIS STATUTORY REQUIREMENT?

A. Yes. The price ultimately charged by Sprint/GTEFL for local interconnection will set the appropriate market price that Sprint/GTEFL would be required to pay for terminating traffic on the network of a new entrant. If traffic is in balance, as would be expected once there is a true database solution to local service-provider number portability, then under Mutual Traffic Exchange, Sprint and GTEFL will each receive a service for which they would have had to pay that same amount of money.

Q. IF THE COMMISSION BELIEVES THAT COMPENSATION SHOULD BE IN CASH, RATHER THAN IN KIND, WHAT RATE LEVEL WOULD BE APPROPRIATE FOR COMPENSATION FOR TERMINATING LOCAL CALLS?

A. The rate should be set at the direct economic costs of supplying the termination by the incumbent, and no higher. Only if this is the rule for the rates for compensation for terminating local calls can the price for local exchange services have any chance of falling to the social cost of providing them.

Q. YOU USED THE TERM "SOCIAL COST" IN YOUR LAST ANSWER. WHAT IS SOCIAL COST AND HOW DOES IT RELATE TO ECONOMIC COSTS?

A. The social cost of providing a good or service is equal to the cost of the resources

that society must give up to produce that good or service. The economic cost of providing a good or service is equal to the least cost firms in the given market would face when operating efficiently. Both concepts of cost include a competitive level of profit, but not any higher level of profit. If all goods and services are sold at their social cost, then the economic costs of services will be equal to their social costs.

If, however, some intermediate goods or services -- that is, goods or services used as inputs in the production of other goods or services -- are priced above their social costs, the economic costs of the goods or services that use them will be higher than their social costs. This is in fact the case today for interexchange services. Because switched access is priced far above its social cost, the economic cost of interexchange services is also far above the social cost of interexchange services. The same thing could happen to local exchange services if the rates for interconnection and other essential monopoly input functions needed to supply local exchange services are allowed to be set in excess of their social cost.

Q. WHY WOULD RATES FOR COMPENSATING FOR TERMINATING LOCAL EXCHANGE TRAFFIC HIGHER THAN THE DIRECT COST OF THE TERMINATIONS RESULT IN PRICES FOR RETAIL SERVICES BEING UNABLE TO FALL TO THE SOCIAL COSTS OF SUPPLYING THEM?

A. If the Commission wants effective competition to be able to drive retail service prices down to the social cost of providing them, it needs to set interconnection service prices at the direct cost of supplying them, and look only to retail services for collection of all of the costs of the incumbent local exchange carriers other than the direct cost of providing interconnection services. Telecommunications is unlike

almost any other market in the fact that carriers cannot be in business without interconnecting to competitors. Carriers, however, do not go into business for the purpose of supplying interconnection, but for the purpose of serving end users. Therefore, carriers should look to end users for the recovery of all of the indirect costs of the firm.

It is very important to understand that whatever prices are set for interconnection services become part of the economic costs of the companies that must pay them. Connecting carriers cannot compete down the prices for interconnection services, and will be denied service if they do not pay the asking price. Thus, these prices are real costs to the connecting carriers, and are part of the economic costs of providing retail services, even if those prices are above the social costs to provide interconnection services. If interconnection service prices are any higher than the direct cost of supplying them, effective competition may develop in terms of driving prices down to the economic costs of supplying retail services, but those costs will be higher than the social costs of supplying those retail services.

If there is to be any competition at all for the retail services that the incumbent local exchange companies provide at the same time that they provide these necessary interconnection services for their rivals, the prices the incumbents charge their rivals for the interconnection services must be part of the retail price floor facing the incumbent carriers as well. Otherwise, the incumbent local exchange carriers can charge their rivals more for interconnection services than they recover for those same services, which would allow the incumbents to underprice equally efficient rivals in the retail market. This is anticompetitive, and prevents the development of competition for the retail services affected. Thus, if any competition is to be possible, the incumbent local exchange carriers must recover at least the

same prices for interconnection services as they charge their rivals. As a result, whatever those prices are become part of the economic costs of the retail services.

The interconnecting carriers do not only have costs for interconnection. They also have direct costs for other inputs into their retail services. Further, they also have indirect costs that they must recover through markups over direct cost in their retail service rates. These are costs of doing business that do not vary with the output of the retail service, such as overhead costs. If the interconnection rates that the interconnecting carriers must pay include some of the recovery of the indirect costs of the incumbent local exchange carriers, two bad effects occur. First, the basic level of prices in the retail market is higher than it would be otherwise, as new entrants will have to price to recover their own indirect costs, and to help recover the indirect costs of the incumbent. Second, the amount of recovery of the incumbent's indirect costs in interconnection rates will be shielded completely from competitive pressure, since those indirect costs will be imposed on the competitors, and cannot be competed out.

If interconnection prices are set at cost, but no higher, all firms will have to look to their retail customers for recovery of all of their indirect costs, as well as for recovery of their direct costs of providing the retail services. A firm that is inefficient at supplying the functions that do not vary with the volume of service will discover that it has to set its retail prices higher than its more efficient competitors. This will cause it to lose market share, and so force it to become more efficient at performing those functions. This is to the benefit of consumers.

If, however, interconnection prices include a markup over cost, this same market pressure cannot develop for the amount of the markup contained in interconnection rates. Basically, it is very important to remember that

interconnection rates cannot be competed down. Under those circumstances, the costs recovered in those prices cannot face a market test for efficiency.

If the Commission wants competition to bring retail prices down to the social cost of providing them (or as close to that level as is possible), it will have to set the prices for the necessary interconnection services to recover just the economic cost of providing them and no more. This means pricing these services to recover the total service long run incremental cost (TSLRIC) of supplying them, but not including any markup over that cost level in interconnection prices.

Q. DO THE SPRINT/GTEFL PROPOSALS TO OFFER LOCAL INTERCONNECTION AT SWITCHED ACCESS RATES, EXCLUDING THE CCL AND THE RIC, RESULT IN A PRICE THAT IS ABOVE THE TSLRIC COST OF PROVIDING THE INTERCONNECTION?

A. Although I have not reviewed Sprint's and GTEFL's cost data, the price for switched access almost certainly includes a *contribution above direct economic costs*. In the recent hearing involving BellSouth's local interconnection arrangements, for example, BellSouth's switched access charge, excluding the CCL and RIC, was 1.052 cents per minute, while the cost of those functions was much less, and could be expressed in tenths of a cent per minute.

Q. IS SPRINT'S PROPOSAL FOR A FLAT-RATED INTERCONNECTION CHARGE ON A PER PORT BASIS AN APPROPRIATE ALTERNATIVE TO MUTUAL TRAFFIC EXCHANGE?

A. No. Mr. Poag's testimony in response to the Continental and Times-Warner petitions makes clear that the per port charge is above cost. Moreover, it suffers from the same defects as a charge per minute of use in that it imposes unnecessary transactions costs of billing, auditing, and the like. Even if these defects were cured, it still should not be offered as the exclusive option.

Q. MR. POAG'S DISCUSSION OF SPRINT'S FLAT-RATED PORT PROPOSAL MAKES CLEAR THAT SPRINT PROPOSES TO CHARGE MORE FOR TANDEM INTERCONNECTION THAN FOR END OFFICE INTERCONNECTION, BUT THAT IT INTENDS TO COMPENSATE ENTRANTS ONLY FOR END OFFICE INTERCONNECTION. IS THIS APPROPRIATE?

A. No. Mr. Poag's discussion of the tandem functions at page 16, line 14, to page 17, line 6 of his testimony in response to the Continental and Times-Warner petitions makes clear that the tandem is an essential facility that can only be provided by Sprint. Sprint will not rehome all of its central offices on a switch provided by an entrant for all functions served by a tandem, and there are large economies of scope in the tandem function. Given these two facts, only Sprint can provide the tandem function. Requiring entrants to pay more for tandem interconnections than for end office interconnections is simply an abuse of Sprint's monopoly over tandem functions. Entrants cannot duplicate this function, and so cannot avoid paying more for interconnections than does Sprint.

Q. MR. POAG CLAIMS THE DIFFERENTIAL IS NECESSARY TO REFLECT

DIFFERENCES IN COST, AND THAT ENTRANTS CAN BUILD TO EACH END OFFICE TO AVOID THE EXTRA TANDEM CHARGES. DO YOU AGREE?

A. This would only be the case for entrants that wanted to use Mr. Poag's flat-rate ports, not the per minute of use charge. Sprint is only going to install the special, high-cost software in the access tandem, apparently forcing all entrants to choose between using only tandem interconnections and being able to pay a charge per minute of use, or having to pay for a port to avoid paying for tandem functions. Sprint should not be allowed to force these choices on entrants. Instead, if the Commission rejects the best solution of Mutual Traffic Exchange, it should require the rate paid, whether per port or per minute, to be the same whether the interconnection is at the tandem or the end office, and that it be reciprocal.

Q. MR. POAG DEFENDS SPRINT'S PROPOSAL TO CHARGE MORE FOR INTERCONNECTION USING A TANDEM BY CLAIMING THAT THE COSTS TO SPRINT OF USING A TANDEM "OFFSET" THE CHARGES TO ENTRANTS. IS HE CORRECT?

A. No. First of all, not all of Sprint's local traffic uses a tandem. Second, the charge to entrants is higher than Sprint's cost, which is all that Sprint incurs for its own traffic.

2. What Are the Appropriate Rate Structure, Interconnection Rates, or Other Arrangements for the Exchange of Toll Traffic Between ALEC

and Sprint/GTEFL?

Q. WHAT SHOULD BE THE CHARGES FOR TOLL TRAFFIC EXCHANGED BETWEEN ALECS AND SPRINT/GTEFL?

A. Toll traffic should be exchanged using each carrier's switched access charges. Sprint and GTEFL already have access charge tariffs. Each ALEC should be allowed to file an access charge tariff of its own, with the only requirement being that the total charge for originating and terminating toll calls by the ALEC not exceed the total rate that would have been paid to Sprint/GTEFL.

3. How Should Competing Local Exchange Networks be Physically Interconnected?

Q. HOW SHOULD THE NETWORKS OF ENTRANTS AND OF INCUMBENTS BE INTERCONNECTED PHYSICALLY?

A. The major requirement for physical interconnection is that it should be done in the most efficient manner possible. This means that interconnection should be allowed at any feasible point of interconnection, rather than being arbitrarily limited to only certain points, and that the facilities -- trunks -- that actually join the two networks also be as efficient as possible. Additionally, signaling networks need to be interconnected and need to pass sufficient signaling information so that all of the services possible with today's technology can be offered to all customers.

Q. WHAT DO YOU MEAN BY ALLOWING INTERCONNECTION AT ANY FEASIBLE POINT OF INTERCONNECTION?

A. Based on the arrangements already in use today, interconnection clearly can occur at a number of points. Interexchange carriers interconnect with local exchange carriers either at their own Points of Presence, or, thanks to recent Federal regulatory changes, at the switch of a local exchange provider. The incumbent local exchange providers often interconnect with each other at a "meet point," which is just a division of ownership of a trunk connecting two switches owned by different companies. The "meet point" is usually the boundary between two adjacent exchanges.

All of these are feasible points of interconnection between Sprint/GTEFL and competitive local exchange entrants. The point of interconnection for a trunk connecting the networks could be at either end -- at the switch of either the entrant or Sprint/GTEFL -- or it could be in the middle, defining a "meet point" between the two networks. The entrant should get to select which of these it wishes, as its choice will be dictated solely by the desire to minimize costs. That choice should allow the entrant to select only one point of interconnection per local calling area.

Q. WHY WOULD THE ENTRANT, BUT NOT SPRINT/GTEFL, WANT TO MINIMIZE COSTS?

A. In order to attract customers, an entrant must offer either lower prices or improved services over what customers can get from Sprint/GTEFL. In order to do either of these, the entrant needs to keep its costs as low as possible. Moreover, an entrant

will be likely initially to have a higher percentage of its traffic going to Sprint/GTEFL's network than the percentage of its total local traffic Sprint/GTEFL has that will terminate on the network of the entrant, although the actual quantities should be in balance. Thus, interconnection costs will be a higher percentage of its costs of providing local calling. This increases the incentive of the entrant to keep those costs as low as possible.

Sprint/GTEFL, on the other hand, can use interconnection costs as one of a number of opportunities to try to handicap the entrant, by making the entrant's costs higher than Sprint/GTEFL's, thus blocking or impeding entry. One way to do this is to insist upon unnecessarily costly methods of interconnection. Thus, allowing the entrant to select which of the points of interconnection it wants to use is the method most likely to minimize these costs.

Q. SHOULD SPRINT/GTEFL BE ALLOWED TO REQUIRE COLOCATION IF THE ENTRANT WANTS TO PROVIDE SOME OF THE TRUNKS USED FOR INTERCONNECTION?

A. No. The Commission should require Sprint/GTEFL to allow entrants to specify a "meet point" as an additional option. Only if the entrant is allowed to specify that it wants a meet point can it have the actual trunks that provide interconnection supplied only at direct economic cost. If it has this right, it may be able to negotiate with Sprint/GTEFL for other configurations that also result in the payment only of direct economic cost. If it does not have this right, it has no bargaining power, and Sprint/GTEFL can force it to pay more for interconnections than Sprint/GTEFL pays, adding to the anticompetitive nature of the proposed interconnection arrangements.

Q. WHAT DO YOU MEAN BY THE USE OF THE MOST EFFICIENT TRUNKS?

A. Trunks can be either one-way trunks or two-way trunks. The former carry traffic in only one direction, the latter in both. Often, two-way trunks are more efficient, as they allow more traffic to be carried on a given number of circuits. Each entrant should be allowed to select the form of trunking that is most efficient for it, including being able to put both local exchange and intraLATA traffic on the same trunks, in order to minimize costs.

4. What Are the Appropriate Arrangements for the Delivery of Calls Originated by and/or Terminated to ALEC an From Other Carriers That Are Not Directly Connected to the ALEC?

Q. WHAT ARE THE APPROPRIATE ARRANGEMENTS FOR THE DELIVERY OF CALLS ORIGINATED BY AND/OR TERMINATED TO AN ALEC FROM OTHER CARRIERS THAT ARE NOT DIRECTLY CONNECTED TO THE ALEC?

A. The answer depends on what kind of traffic is involved. If the traffic is local traffic, Sprint/GTEFL should charge only the direct economic costs (TSLRIC) of the transit function. Further, Sprint and GTEFL should be required to handle toll transit traffic exactly as they do for independent local exchange carriers.

Sprint/GTEFL should be required to do this because they hold a monopoly over the transit function. Because of their status as former monopoly companies, all

carriers are connected to Sprint/GTEFL. Sprint/GTEFL should not be allowed to refuse to serve as the transit carrier, given that this would be the most efficient way to get the traffic to its destination. Nor should they be allowed to use their position to force entrants to pay a discriminatory price for this service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse, Wyoming 82433.

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

A. I am an economist in private practice, specializing in microeconomic analysis of regulatory and antitrust issues. Until late 1988, I was with the firm of Cornell, Pelcovits & Brenner Economists Inc., of which I was president.

Before entering private practice, I was Chief of the Office of Plans and Policy, Federal Communications Commission (FCC). As Chief of the Office of Plans and Policy, I served as chief economist to the Commission and participated in virtually all FCC agenda meetings.

Prior to being associated with the FCC, I was the Senior Staff Economist for regulatory, transportation, environmental, and health and safety issues for the Council of Economic Advisers (CEA). In this position I reported directly to Charles L. Schultze, Chairman of the Council.

Prior to being with the CEA, I was employed as an economist with the Council on Wage and Price Stability, where I served on the Task Force on Reform of Federal Energy Administration Regulations. Before joining the Federal Government, I spent four years at the Brookings Institution as a Research Associate. I am a graduate of Swarthmore College, and received my Ph.D. in Economics from the University of Illinois in 1972.

REPORTER'S NOTE: PAGES 2 THROUGH 37 REMOVED AT REQUEST OF COUNSEL.

tandem switching and transport functions for local traffic was set equal to the direct economic costs (TSLRIC) of providing those functions, rather than set at Sprint's switched access charge rates. Further, Sprint should be required to handle toll transit traffic exactly as it does for independent local exchange carriers.

Sprint should be required to do this because it holds a monopoly over the transit function. Because of its status as the former monopoly company, all carriers are connected to Sprint. Sprint should not be allowed to refuse to serve as the transit carrier, given that this would be the most efficient way to get the traffic to its destination. Nor should it be allowed to use its position to force entrants to pay a discriminatory price for this service.

5. What is the Appropriate Rate for Unbundled Local Loops?

Q. MR. POAG STATES THAT SPRINT WILL OFFER UNBUNDLED LOCAL LOOPS AT THE PRICE SET FORTH IN SPRINT'S SPECIAL ACCESS TARIFFS. (POAG DIRECT AT PAGE 32) ASSUMING THAT THE ISSUE OF THE PRICE FOR UNBUNDLED LOCAL LOOPS IS PROPERLY BEFORE THE COMMISSION IN THIS DOCKET, IS THE PRICE PROPOSED BY MR. POAG APPROPRIATE?

A. No. The price for unbundled local loops (and loop concentration and loop transport, which are not mentioned in Mr. Poag's testimony but should be offered as part of the initial set of unbundled elements) should be set at direct economic cost (TSLRIC). Any other level of price above cost would have no ability to permit Sprint to pass an imputation test, enabling Sprint to create a price squeeze. As discussed earlier, a

price squeeze exists whenever a firm that supplies essential inputs to a competitor recovers less in its end user rates for those essential inputs than it charges its competitors. Given the flat rates charged for local exchange service, and particularly residential local exchange service, a price for loops that was greater than TSLRIC would create a price squeeze for entrants.

6. Miscellaneous Issues.

Q. MR. POAG STATES THAT SPRINT WILL ALLOW CONNECTIONS BETWEEN ALECS THROUGH ITS TARIFFED COLOCATION FACILITIES WITHOUT BEING ROUTED THROUGH THE TANDEM, BUT THAT SPRINT WILL NOT PERMIT ALECS TO DIRECTLY CONNECT TO EACH OTHER ACROSS SPRINT'S FLOOR SPACE WITHOUT GOING THROUGH SPRINT'S COLOCATION FACILITIES. (POAG DIRECT AT PAGE 35) IS THIS AN APPROPRIATE RESTRICTION?

A. The only restriction that Sprint should be permitted to impose is a requirement that ALECs desiring direct ALEC-to-ALEC interconnection be colocated at the same Sprint central office and/or tandem. Permitting Sprint to impose other restrictions would simply permit it to impose additional costs on its competitors. For a direct ALEC-to-ALEC interconnection between colocation facilities, Sprint should be permitted to charge a rate equal to its direct economic cost (which includes a return on investment) of furnishing the in-house cabling used to accomplish the connection. All other costs incurred by Sprint are already covered in its colocation charges.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Q. WHAT IS YOUR NAME AND ADDRESS?

A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse, Wyoming 82433.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to the testimonies of Dr. Beauvais on behalf of GTE Florida Incorporated (GTEFL) and Mr. Poag on behalf of Sprint-United/Centel.

Q. WHAT DOES DR. BEAUVAIS RECOMMEND THE COMMISSION DO ABOUT INTERCONNECTION IN THE SHORT RUN?

A. Dr. Beauvais wants the Commission to order the use of switched access charges without the application of the Carrier Common Line Charge or the Residual Interconnection Charge as the rate to use for compensation for terminating local exchange traffic.

Q. DO YOU AGREE WITH THAT RECOMMENDATION?

A. No. The rates Dr. Beauvais wants to use are far above cost, and would create a barrier to entry. This would slow or prevent the development of local exchange competition. The Commission should order Mutual Traffic Exchange, as I discussed in my direct testimony.

Q. WHY WOULD USE OF SWITCHED ACCESS CHARGES, BUT WITHOUT THE CARRIER COMMON LINE CHARGE AND THE RESIDUAL INTERCONNECTION CHARGE, CREATE A BARRIER TO ENTRY?

A. Any rate charged for terminating calls that is higher than the total service long run incremental cost per unit of providing that service would create a barrier to entry.

As I noted in my direct testimony (page 5, lines 13-14), any time an entrant faces costs that are higher than the costs faced by the incumbent for an input, it creates a barrier to entry. The charge that Dr. Beauvais wants to impose for terminating local exchange traffic is a cost that the entrant cannot avoid. If Dr. Beauvais' recommendation were adopted, the cost to an entrant to terminate a call to a customer of GTEFL would be equal to the switched access charge minus the Carrier Common Line Charge and the Residual Interconnection Charge, but the cost to GTEFL to terminate the same call would only be the unit TSLRIC of termination. When the cost of an input that an entrant can get nowhere but from GTEFL is higher to the new entrant than to GTEFL, the result is an artificial barrier to entry.

Q. DR. BEAUVAIS SAYS THAT IT IS INCONSISTENT TO ARGUE THAT HIGH INTERCONNECTION CHARGES ARE A BARRIER TO ENTRY AND AT THE SAME TIME ARGUE THAT TRAFFIC IS LIKELY TO BE IN BALANCE. DO YOU AGREE?

A. No. The claim that traffic will be in balance is a statement about what conditions are likely to be over some period of time. That period is likely to be longer than a normal telephone company billing period of a month. Moreover, the market

conditions for traffic balance to be more certain, namely true service provider number portability, have not yet been put into place. Under these conditions, even if traffic is in balance over a year, for example, the inability to predict with certainty for any given month means that the entrant will have to ensure that it has sufficient cash flow each month to meet the bill of the incumbent. Even if traffic is in balance in terms of the number of minutes of use, because the *percentage* of calls originated on the network of the entrant that terminate on the network of the incumbent is likely to be much higher than is the percentage of calls that originate on the network of the incumbent and terminate on the network of the entrant, the need to ensure a sufficient cash flow to be able to pay whatever might be the monthly bill for local termination will fall much more heavily on the entrant than on the incumbent. The only way the entrant can ensure it has sufficient cash flow to meet these bills each month is if the entrant recovers the possible interconnection charge in the rates it charges for local calling.

Q. DR. BEAUVAIS ALSO CLAIMS THAT THE COST OF MEASUREMENT AND BILLING IS VERY LOW, AND THAT ENTRANTS MUST CREATE BILLING SYSTEMS FOR SWITCHED ACCESS IN ANY EVENT. THUS, HE CLAIMS THERE ARE NO REAL SAVINGS IN TRANSACTIONS COSTS IF MUTUAL TRAFFIC EXCHANGE IS THE METHOD OF COMPENSATION. DO YOU AGREE?

A. No. Dr. Beauvais has relied on data for measurement and billing costs that do not apply to the measurement and billing for the method of interconnection he proposes to use. Moreover, in order to make his proposed system work, he proposes to

require entrants to use separate trunks to bring local exchange traffic to GTEFL, and he proposes also to audit the traffic that is on those trunks to ensure that the entrants are not cheating. All of these proposals add costs to entrants disproportionately to the costs imposed on GTEFL, creating additional barriers to entry. The costs Dr. Beauvais would add are unnecessary.

The fact that the entrants have to create switched access measurement and billing systems is not relevant to the costs that would be incurred to create measurement and billing systems for local exchange traffic.

Q. WHAT IS THE PROBLEM WITH THE DATA DR. BEAUVAIS HAS USED TO CLAIM THAT THE COSTS OF MEASUREMENT AND BILLING ARE LOW?

A. Dr. Beauvais used cost figures for measured local exchange traffic to claim that the costs of measurement and billing are low. The problem is that a call terminated for an entrant is not the same as a measured local exchange call, contrary to Dr. Beauvais' claim. Measured local exchange service has the originating switch measure and record the information needed to bill measured local exchange calls. For a local termination of a call that originates on another network, the incumbent local exchange carriers will not be the originating switch. Instead, they will be the terminating switch. As a result, the measurement and billing will not use the same measurement equipment or billing systems as measured local exchange service.

Given Dr. Beauvais' proposal to use switched access charges, it is likely that GTEFL will use its switched access billing system. In the cases where I have seen data on those costs, the measurement and billing costs for a switched access call are much higher than for a measured local service call.

Q. WHAT ARE THE ADDITIONAL COSTS THAT DR. BEAUVAIS WOULD IMPOSE ON ENTRANTS IN ORDER TO IMPLEMENT HIS COMPENSATION PROPOSAL?

A. Dr. Beauvais would impose additional costs by requiring entrants to use separate trunks for local and EAS traffic, rather than being able to terminate both local/EAS and toll traffic over the same trunks.

Today, when an incumbent local exchange carrier terminates a call other than a switched access call, its terminating switch cannot determine whether that call is local or toll. The terminating switch can count the minutes that the trunk is in use, but except for switched access that comes on separate trunks either from the incumbent's tandem or from the interexchange carrier directly, it does not record this information for billing purposes. In order to get around the inability to determine whether calls coming from an entrant are toll or local, Dr. Beauvais would require the entrants to use inefficient trunking in order to help implement his already inefficient compensation proposal. Dr. Beauvais would impose on entrants additional costs due to his requirement that they use separate trunks for different kinds of calls. This would reduce the economies of trunking that would be available to entrants, and increase their costs.

Q. WHY IS IT IRRELEVANT THAT THE ENTRANTS WILL HAVE TO CONSTRUCT MEASUREMENT AND BILLING SYSTEMS FOR SWITCHED ACCESS?

A. It is irrelevant that entrants would have to construct measurement and billing systems for switched access charges because that traffic is not the same as local exchange termination. Technically, the specifications of the trunks used for switched access are different, meaning that switched access traffic will go over segregated trunks. These can be measured in the same way that the incumbents do today. Terminating local calls would not use the kind of trunks that carry switched access calls.

Q. DR. BEAUVAIS ALSO DISAGREES THAT USE OF SWITCHED ACCESS CHARGES WOULD CREATE A PRICE SQUEEZE. DID HE CORRECTLY ADDRESS THIS ISSUE?

A. No. A price squeeze exists whenever an equally efficient firm cannot provide an end user service at the same rate as the incumbent due to the price the incumbent charges the competitor for an essential input. To prove that his compensation proposal would not create a price squeeze, Dr. Beauvais would have had to show that each of GTEFL's local exchange services recovered revenue equal to or greater than the sum of the price he proposes GTEFL charge for local terminations plus all of the costs of the remainder of the inputs into that particular GTEFL local exchange service. He has not made such a showing.

Instead, Dr. Beauvais discusses the prices MFS can choose to charge. According to Dr. Beauvais:

> If MFS cares to offer customers measured options, it is at liberty to establish the prices for its services at whatever levels it chooses. Likewise, if MFS wants to offer customers flat-rated local exchange service, it

> is free to do so. The price of such service only needs to be at a level sufficiently high to cover MFS' costs of providing service. (Beauvais Direct, page 32, line 25, to page 33, line 5)

Nowhere in this passage does Dr. Beauvais recognize two central facts: (1) MFS cannot set its rates for local exchange service at "whatever level it chooses" without regard to the rates GTEFL charges for local exchange service; and (2) a major part of MFS' costs for providing local exchange service are directly under the control of GTEFL, and will be determined by what GTEFL is allowed to establish as the price for local call termination.

Q. WHAT IS THE RELATIONSHIP BETWEEN THE PRICES MFS CAN CHARGE FOR LOCAL EXCHANGE SERVICE AND GTEFL'S PRICES FOR LOCAL EXCHANGE SERVICE?

A. Except for any premium for superior quality that it might be able to charge, GTEFL's prices set the price ceiling for what any entrant can charge if it hopes to win customers. No matter what P. T. Barnum may have once said about people, they do not long agree to switch to new and relatively untried local exchange carriers for the privilege of paying more for their local exchange service. In fact, it is likely that entrants will have to charge less than the incumbent for service of equal quality in order to induce customers to switch. Thus, MFS is not free to set its prices at any level. If GTEFL succeeds in persuading the Commission to allow it to set compensation for terminating calls at a level that creates a price squeeze, MFS may

not have any level of local exchange price below the price ceiling set by GTEFL that also allows MFS to cover its costs.

Q. YOU SAID THAT GTEFL IS CONTROLLING A COST OF THE ENTRANTS BY THE LEVEL AT WHICH IT IS ALLOWED TO SET COMPENSATION RATES FOR TERMINATING LOCAL CALLS. DR. BEAUVAIS SAYS THAT GTEFL IS NOT REQUIRED TO MAKE ENTRANTS "FINANCIALLY VIABLE." (BEAUVAIS DIRECT, PAGE 33, LINES 20-21) HE ALSO SAYS "THAT THE PRICE FOR COMPENSATION IS, AFTER ALL, JUST ANOTHER PRICE." (BEAUVAIS DIRECT, PAGE 34, LINES 22-23) DO YOU AGREE?

A. Not entirely. I agree that GTEFL is not required to make entrants financially viable, but it is not permissible that it be allowed to erect artificial barriers to entry either. What Dr. Beauvais has done is to ignore that interconnection is one of a small number of essential monopoly input functions that entrants can only get from the incumbent local exchange company. This makes local exchange markets not like normal markets. Dr. Beauvais is actually asking the Commission to allow GTEFL to take advantage of this almost unique circumstance -- the control over essential monopoly input functions -- to create an artificial barrier to entry that it could not in a normal market, namely the barrier to entry created by making entrants incur higher costs for traffic termination than GTEFL experiences.

Q. WHAT DO YOU MEAN BY A "NORMAL MARKET?"

A. Normal markets generally are markets with essentially no barriers to entry, and in which no firm controls essential monopoly input functions. Such markets would tend over time to be effectively competitive. In such markets, with no one firm being able to control the destiny of another firm directly, each firm has to compete independently and this causes prices to fall as close as possible to cost.

Q. DR. BEAUVAIS ALSO PROPOSES THAT, IN THE LONGER RUN, THE COMMISSION MOVE TOWARDS HIS PROPOSED ORIGINATING RESPONSIBILITY PLAN, WHICH HE CLAIMS WOULD BE MORE EFFICIENT. DO YOU AGREE?

A. No. Dr. Beauvais' proposal is a plan designed to insure it a monopoly, not to create an efficient local exchange market. First, he erroneously claims that a number of kinds of calls are the same, when they are not. This would lead to prices for local call termination that included a higher markup over cost than would be contained in the prices for end to end local calls.

He also wants to price all usage on a declining block basis, a proposal that has two very powerful anticompetitive effects. The first is that such a tariff guarantees that no matter what the rate, the tariff will not be able to pass the proper imputation test. As a result, entrants will always face a price squeeze. The second very powerful anticompetitive effect is that a declining block pricing structure that aggregates the usage over more than one line forces consumers to pay a huge financial penalty if they want to split their usage between two or more carriers. This raises the difficulty an entrant has in getting customers to try its service. The entering interexchange carriers began by taking some, but not all, of the

interexchange traffic of large users. Local exchange entrants would be denied this ability under Dr. Beauvais' proposal. The Commission should reject in its entirety Dr. Beauvais' request that it endorse now the ultimate adoption of Dr. Beauvais' longer run proposal.

Q. MR. POAG CLAIMS THAT INCREMENTAL COSTING METHODS ARE NOT USED FOR SETTING PRICES, BUT ONLY FOR TESTING FOR CROSS SUBSIDIES. DO YOU AGREE?

A. No. Indeed, in every docket in which I have been involved around the country since 1981, local exchange carriers have been asking to set their rates, particularly their rates for services subject to competition, on the basis of incremental costs.

Q. MR. POAG CLAIMS THAT IT IS "INAPPROPRIATE" FOR THE INTERCONNECTION RATE OF A LOWER COST COMPANY TO BE SET EQUAL TO THE INTERCONNECTION RATE OF A HIGHER COST COMPANY. DO YOU AGREE WITH MR. POAG'S ANALYSIS?

A. No. Mr. Poag is addressing a belief that in the real world costs between two interconnectors will not be the same. According to Mr. Poag:

> When this occurs and prices are set at the higher incremental cost of the two interconnectors, the competitor having the higher cost will have no recovery of its shared and overhead costs while the competing interconnector will recover more than its

> incremental cost and thus receive a contribution toward its shared and common costs. For the higher cost company, its shared and common costs, if recovered, will have to be recovered, in part, through charges to its end users. The problem is compounded when the higher-cost company is also terminating more traffic from the ALEC than it terminates to the ALEC. (Poag Direct, page 9, line 21, to page 10, line 7)

There are at least three problems with Mr. Poag's argument. Moreover, it is ironic that the outcome that Mr. Poag appears to want, namely different costs to the two companies for terminating calls if their costs differ, would occur under the one termination arrangement he rejects, namely Mutual Traffic Exchange.

Q. WHAT IS THE FIRST PROBLEM WITH MR. POAG'S ARGUMENT?

A. Mr. Poag demonstrates a lack of understanding of how markets work. In normal markets, the market price is set at the cost of supplying the last unit demanded. If one firm is more efficient than another firm in that market, it receives higher markups over its costs at that market price than the higher cost firm receives. There is no mechanism in a competitive market to ensure that the higher cost firm can continue to be higher cost and still recover all of its costs. One of the major benefits to consumers from competitive markets is that when the situation described by Mr.

Poag arises, the higher cost firm is forced to become more efficient -- to become a lower cost firm. Mr. Poag wants to prevent consumers from getting this benefit.

Q. WHAT IS THE SECOND PROBLEM WITH MR. POAG'S ARGUMENT?

A. The second problem with Mr. Poag's argument is that he assumes that it is proper for the incumbent local exchange company to charge a rate for interconnection that helps to recover some of its shared and common costs. In fact, the most efficient way to structure the market is to require all interconnectors to recover their shared and common costs from end users, not from each other. The reason for this is precisely to force higher cost firms to become lower cost firms. Any markup in the interconnection charge cannot be competed away, so it is protected, whereas markups in end user rates are subject to market pressures for greater efficiency.

Q. WHAT IS THE THIRD PROBLEM WITH MR. POAG'S ARGUMENT?

A. Mr. Poag is simply wrong that it makes things worse if the higher cost company terminates more calls than the lower cost company. The amount of shared and common costs that a company has to recover is unaffected by the volume of calls that it terminates for the other company.

Q. MR. POAG CLAIMS THAT IT IS TOTALLY "ILLOGICAL" TO CLAIM THAT CHARGING FOR INTERCONNECTION AT A RATE THAT IS HIGHER THAN COST SHIELDS THE COSTS RECOVERED FROM THE MARKUP FROM MARKET PRESSURES. IS HE CORRECT?

A. No. Mr. Poag genuinely does not understand what market pressure means. The price for interconnection cannot be pushed down by market forces because there is no alternative for terminating traffic to subscribers who remain with the incumbent other than use of the incumbent's local termination. What this means is that, even if in fact the incumbent became more efficient, no market force exists to force the incumbent to reflect that greater efficiency in a lower interconnection charge. Therefore that efficiency also would not be reflected in the end user prices charged by the entrant, which in turn protects the end user prices that the incumbent will charge in the future. The fact that the incumbent might become more efficient in a cost-cutting sense is of virtually no benefit to consumers unless they get the benefits in lower prices.

Q. MR. POAG ALSO CLAIMS THAT A PRICE SQUEEZE IS MEASURED ONLY BY LOOKING AT TOTAL COSTS TO THE NEW ENTRANT RELATIVE TO TOTAL REVENUES, TAKING ALL SERVICES INTO ACCOUNT. IS HE CORRECT?

A. No. He has misunderstood what a price squeeze is and why it matters. The question is not whether some particular entrant, having surmounted all the natural barriers to entry and the artificial barriers created by Mr. Poag's interconnection pricing proposal, actually is profitable. A price squeeze is bad for the public because it prevents a firm that is just as efficient as the incumbent from entering and surviving in the market. A price squeeze exists if the incumbent's rate for an end user service for which the incumbent supplies an essential monopoly input function is set higher

than the sum of the rate charged for that essential monopoly input function plus the cost of all of the other inputs used by the incumbent to provide the end user service.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

(Transcript follows in sequence in Volume 8.)