

1 FLORIDA PUBLIC SERVICE COMMISSION

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3 In the Matter of : Docket No. 921074-TP

4 Expanded Interconnection : Docket No. 930955-TP

5 Phase II and Local : Docket No. 940014-TP

6 Transport Restructure. : Docket No. 940020-TP

7 ----- : Docket No. 931196-TP

8 : Docket No. 940190-TP

9 FIRST DAY - MID-MORNING SESSION

10 VOLUME 2

11 Pages 170 through 290

12 PROCEEDINGS:

13 HEARING

14 BEFORE:

15 CHAIRMAN J. TERRY DEASON

16 COMMISSIONER SUSAN F. CLARK

17 COMMISSIONER JULIA L. JOHNSON

18 DATE:

19 Monday, August 22, 1994

20 TIME:

21 Convened at 1:30 p.m.

22 PLACE:

23 FPSC Hearing Room 106

24 101 East Gaines Street

25 Tallahassee, Florida

REPORTED BY:

JOY KELLY, CSR, RPR

Chief, Bureau of Reporting

SYDNEY C. SILVA, CSR, RPR

Official Commission Reporter

and

LISA GIROD JONES, RPR, CM

APPEARANCES:

(As heretofore noted.)

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FPSC-RECORDS/REPORTING

## I N D E X

## WITNESSES - VOLUME 2

1	Name:	Page No.
2		
3		
4	<b>MIKE GUEDEL (Resumed stand)</b>	
5	Continued Cross Examination By Mr. Adams	173
6	Cross Examination By Ms. Caswell	177
7	Cross Examination By Mr. Wiggins	179
8	Cross Examination By Mr. Billmeier	181
9	Redirect Examination By Mr. Tye	184
10	<b>EDWARD C. BEAUVAIS</b>	
11	Direct Examination By Ms. Caswell	187
12	Prefiled Direct Testimony Inserted	189
13	Prefiled Supplemental Direct	242
14	Testimony Inserted	
15	Cross Examination By Ms. Peed	248
16	Cross Examination By Mr. Wiggins	250
17	Cross Examination By Mr. Poucher	253
18	Cross Examination By Ms. Canzano	256
19	Cross Examination By Mr. Wiggins	281
20	Redirect Examination By Ms. Caswell	289
21		
22		
23		
24		
25		

## 1 INDEX (CONTINUED):

## 2 EXHIBITS - VOLUME 2

3	Number:	Identified	Admitted
4	7		187
5	8	(Guedel) Responses to Staff Interrogatories 1-9, 12-18 and Responses to Southern Bell's Interrogatories 1-4, 6 & 7	184 187
6			
7	9	(Beauvais) ECB-1	248 290
8			
9	10	(Beauvais) ECB-2	248 290
10			
11	11	(Staff) Response to Staff POD No. 2	273 290
12			
13	12	(Staff) Late-Filed Deposition Exhibit No. 1	273 290
14			
15	13	(Staff) Deposition Transcripts	273 290
16			
17	14	(Staff) Response to Staff Interrogatories 40 through 49, and 50 through 62, FPSC Annual Reports, 1990-'93, Schedule I-1	273 290
18			
19	15	(Staff) T-94-195, T-94-305 T-94-306	273 290
20			
21	16	(Staff) GTEFL Illustrative Intrastate Switch Access Expanded Interconnection Tariff, Illustrative Switched Access Zone Density Pricing Tariff, and Response to Staff POD No. 14, GTEFL Interstate Switched Access Expanded Interconnection Tariff	273 290
22			
23			
24			
25			

**P R O C E E D I N G S**

(Hearing convened at 1:30 p.m.)

(Transcript continues in sequence from Volume  
1.)

**CHAIRMAN DEASON:** Call the hearing back to  
order. Ms. Kaufman, Mr. Adams?

**MR. ADAMS:** Thank you.

**MIKE GUEDEL**

resumed the stand as a witness on behalf of AT&T  
Communications of the Southern States, Inc. and, having  
been previously sworn, testified as follows:

**CONTINUED CROSS EXAMINATION**

**BY MR. ADAMS:**

**Q** Mr. Guedel, I just have a few questions for  
you.

Mr. Guedel, in your direct testimony, and I  
believe again here today in your summary, you criticize  
the equal charge rule. And am I correct you criticize  
it for not being cost based; is that right?

**A** Yeah, it was an exception to cost relevant,  
cost-related pricing prescription of the MFJ and it's  
outlived its time.

**Q** So is it AT&T's position that LEC access  
charges and access transport should be cost based?

**A** Yes. We consistently supported cost-based

1 prices.

2 Q So do you believe then that BellSouth should  
3 be able to engage in market-based pricing so long as the  
4 direct costs are covered?

5 A I'm trying to think through the possibilities  
6 here. The rate should cover their incremental costs for sure  
7 if they have a markup -- and I think all of their services  
8 probably have some markup over incremental cost. They're  
9 going to have that. You can't price everything at incremental  
10 cost so, yeah, I guess I agree they should be able to mark  
11 their services up above cost.

12 Q So let me just make sure I understand. As  
13 long as they cover their incremental cost then would you say  
14 they should be allowed, if the market suggests it, to give MCI  
15 a discount below what AT&T pays for access transport?

16 A No, I think they should charge equal -- charge  
17 carriers equal for equal services rendered.

18 Q Based on cost.

19 A You should not discriminate with respect to  
20 carriers.

21 Q Okay. Do you believe -- do you view access  
22 transport service as competitive today?

23 A Transport service?

24 Q Yes?

25 A No.

1 Q And do you think with switched interconnection  
2 it will become competitive immediately?

3 A Immediately, no. I think there's a  
4 possibility that interconnection for switched will at  
5 least promote competition, promote potential  
6 competitors, but it will not make it competitive.

7 Q Okay. Were you involved with the FCC  
8 proceeding that has been proposed to dictate the way  
9 this proceeding comes out on access transport?

10 A I'm familiar with several FCC proceedings.  
11 I'm not sure your word "dictate."

12 Q The one we're proposing to mirror here, that  
13 BellSouth is proposing to mirror. The access transport,  
14 you're familiar with that?

15 A I'm familiar with that.

16 Q And to your knowledge, did the FCC hold  
17 evidentiary hearings like we're having today on that where  
18 there are witnesses presented, testimony presented?

19 A The FCC generally does not have witnesses,  
20 they usually have written testimony, written comments  
21 and replies.

22 Q Do you know how many cost studies BellSouth or  
23 the other Bell companies submitted to the FCC in that  
24 proceeding?

25 A No, I don't.

1 Q Do you know of any that were submitted?

2 A I'm not aware of any.

3 Q Were you involved in developing AT&T's  
4 position on access transport, particularly with regard  
5 to BellSouth?

6 A Well, I'm presenting the opinion, I won't say  
7 I was the crafter of the position. I had input.

8 Q To your knowledge, were there meetings held  
9 between BellSouth and AT&T prior to the final proposal  
10 by BellSouth?

11 A In this jurisdiction or in the FCC  
12 jurisdiction?

13 Q Well, for BellSouth in general since it's  
14 proposing the same thing in all its states?

15 A I'm sure we discussed it.

16 Q Were you present at any of those meetings?

17 A I believe I spoke to Jerry Hendrix at one  
18 point in time, yes.

19 Q So you were only present at one meeting or one  
20 discussion?

21 A To my knowledge, yes.

22 Q Okay. What did AT&T hope to get from  
23 BellSouth; what was AT&T's position with BellSouth when  
24 BellSouth was preparing its filing?

25 A In that particular meeting, I was simply

1 asking BellSouth what they were going to do and they  
2 told me.

3 Q You didn't present an AT&T position?

4 A No, I did not.

5 MR. ADAMS: Okay. No more questions.

6 CHAIRMAN DEASON: Mr. Hoffman.

7 MR. HOFFMAN: No questions.

8 MS. CASWELL: I have some questions.

9 CROSS EXAMINATION

10 BY MS. CASWELL:

11 Q Good afternoon, Mr. Guedel, I'm Kim Caswell  
12 with GTE.

13 A Good afternoon.

14 Q Mr. Guedel, has AT&T begun to reconfigure its  
15 network to reduce its access expense under the  
16 restructured interstate transport rates?

17 A I'm sure we're working on that. Whether or  
18 not we've submitted any actual reconfiguration orders, I  
19 do not know. I know we're looking at it.

20 Q But isn't it fairly certain that any rational  
21 IXC would reconfigure its network to reduce its cost.  
22 Do you agree with that?

23 A We're certainly looking at it for those  
24 reasons; we're going to try to reduce our access  
25 expense.

1 Q As I understand your testimony, you criticize  
2 the use of a reconfigured network to develop transport  
3 prices because you believe it will inflate the level of  
4 the RIC; is that true?

5 A Yes, it will.

6 Q Okay. But doesn't GTE's use of a reconfigured  
7 network produce a lower RIC than would use of the  
8 existing network?

9 A That was the response we received from the  
10 interrogatory, and I really don't understand that  
11 response.

12 You would almost have to assume that carriers  
13 would reconfigure into a less efficient network, and I'm  
14 not sure -- you know, GTE claims they didn't do that.  
15 Now we're going to pursue that to try to find out why  
16 those numbers are different, but I don't understand them  
17 as they exist today.

18 Q Assuming that the RIC is lower with the  
19 reconfigured network, would you still oppose GTE's use  
20 of a reconfigured network?

21 A No offense, I don't understand how it could be  
22 lower. I would have to understand that before I could  
23 give a position. But at this point, we are satisfied;  
24 our position is if you use a historical network, we  
25 won't oppose it.

1 Q Okay. But assuming the use of a reconfigured  
2 network came out with a lower RIC, and assuming you want  
3 to reduce your access costs, which I believe you  
4 testified to earlier, would you then support GTE's use  
5 of a reconfigured network?

6 A I guess I would support about anything that  
7 would lower RICs, but I can't see how that particular  
8 thing would work.

9 Q Okay. Mr. Guedel, are you aware that in South  
10 Carolina AT&T testified that the RIC should be  
11 eliminated?

12 A Yes. I testified to that.

13 Q Okay.

14 MS. CASWELL: That's all I've got. Thank you,  
15 Mr. Guedel.

16 WITNESS GUEDEL: Thank you.

17 CHAIRMAN DEASON: Ms. Bryant.

18 MS. BRYANT: No questions.

19 CHAIRMAN DEASON: Mr. Wiggins.

20 CROSS EXAMINATION

21 BY MR. WIGGINS:

22 Q Mr. Guedel, on Page 12 of your testimony,  
23 beginning at Line 15, you say that "With expanded  
24 interconnection customers can utilize the loop  
25 facilities of the local exchange companies for

1 connection to the LEC central office and then select  
2 among available access providers switched transport  
3 services connecting the local exchange office to the  
4 desired interexchange point of presence." Did I get  
5 that right?

6 A Yes, that's correct. Assuming there's other  
7 competitors that have facilities in place to do that and  
8 that's what we're assuming will happen.

9 Q Now, the customers here on Line 15, that's the  
10 IXC? The interexchange carrier is a customer purchasing  
11 the transport service?

12 A Yes, we would be purchasing the switched  
13 access service.

14 Q Okay. Now, this transport service begins at  
15 the central office or the collocation point and takes  
16 the IXC's traffic to the IXC's POP; is that correct?

17 A Yes.

18 Q Okay. And that's a dedicated path, correct?

19 A Yes.

20 Q Okay. Point-to-point, correct?

21 A Yes.

22 Q Okay. And it's dedicated to the exclusive use  
23 of the customer IXC?

24 A That's my understanding.

25 Q And the IXC is the customer using -- the user

1 of this service, correct?

2 A I think that's the standard arrangement we  
3 would buy, customer provided access is always a  
4 possibility, the standard arrangement if we were the  
5 customer.

6 MR. WIGGINS: Thank you. I have no further  
7 questions.

8 CHAIRMAN DEASON: Staff.

9 CROSS EXAMINATION

10 BY MR. BILLMEIER:

11 Q Mr. Guedel, my name is Michael Billmeier, with  
12 the Commission Staff.

13 Assume the Commission mirrors the FCC's July  
14 25th, 1994, order requiring mandatory virtual  
15 collocation with the LEC option of providing physical  
16 collocation. If that happens, should the LEC still be  
17 required to tariff floor space for physical collocation?

18 A Let me think about that. (Pause)

19 I'm with you, I'm trying to think exactly how  
20 that would work. I would think they would still need to  
21 have space. Certainly whatever would be required,  
22 whatever would be billed to a customer for purposes of  
23 collocation under virtual arrangement should be tariffed  
24 by the LEC. And I would assume floor space would be a  
25 component.

1           Q     Should any elements of a physical collocation  
2 be tariffed if the Commission mirrors the FCC's order?

3           A     I believe if the Commission orders mandatory  
4 collocation, and the LECs are willing to -- you know,  
5 put that out in tariff, then any other negotiated  
6 situation between the LEC and an end user, or a LEC and  
7 some other customer, that they may find more mutually  
8 beneficial, I think they can work out among themselves.  
9 But I think there has to be one tariff standard from  
10 which to work. So the answer is yes, go ahead and work  
11 out physical arrangements on your own.

12          Q     Okay. Assume that the Commission allows LECs  
13 and AAVs to negotiate the type of collocation  
14 arrangement. In that case, should the LEC still be  
15 required to tariff floor space for physical collocation?

16          A     I didn't hear that question. Could you repeat  
17 that?

18          Q     Assume that the Commission allows the LECs and  
19 at AAVs to negotiate the type of collocation  
20 arrangement. In that situation should the LECs still be  
21 required to tariff floor space for physical collocation?

22          A     I guess, you know, my position is I hope that  
23 doesn't happen. My position is that there ought to be  
24 mandatory collocation.

25                   Originally, the Commission approved mandatory

1 physical collocation. Now, that has been upset a bit by  
2 the courts so we are now recommending mandatory virtual  
3 collocation, but some form of collocation must be  
4 mandatory.

5 Q If the LECs and the AAVs negotiate this  
6 collocation arrangement, in that situation should they  
7 be required to tariff the floor space?

8 A Well, I think to be consistent with the FCC's  
9 rules, I think if the companies work out special  
10 arrangements outside of the standardized tariff format,  
11 they have to make similar arrangements available to  
12 everybody. And that information has got to be filed  
13 also, so I would say yes.

14 Q Mr. Guedel, have you received a copy of the  
15 Staff's exhibit, Responses to Staff Interrogatories 1  
16 through 9, and 12 through 18, and Responses to Southern  
17 Bell's Interrogatories, 1 through 4, and 6 and 7?

18 A Yes, I have.

19 Q Have you had a chance to review it?

20 A I've flipped through it. I assume it's the  
21 responses that we gave. I will look at them  
22 individually if you would like.

23 Q Are they accurate to the best of your  
24 knowledge and belief?

25 A Yes.

1 MR. BILLMEIER: Chairman, Staff asks that this  
2 exhibit be numbered for identification.

3 CHAIRMAN DEASON: It will be identified as  
4 Exhibit No. 8.

5 (Exhibit No. 8 marked for identification.)

6 MR. BILLMEIER: I have no other questions.

7 CHAIRMAN DEASON: Commissioners? Redirect?

8 MR. TYE: Just a few, Mr. Chairman.

9 REDIRECT EXAMINATION

10 BY MR. TYE:

11 Q Mr. Guedel, when you were being cross examined  
12 by Mr. Carver of Southern Bell, you were asked a number  
13 of questions about a situation where collocation was  
14 sought by a customer with an AT&T office. Do you recall  
15 those questions?

16 A Yes, I do.

17 Q Is your understanding that AT&T was first  
18 approached by Southern Bell with respect to that  
19 arrangement?

20 A Yes, that's my understanding.

21 Q And was AT&T able to work out any agreement  
22 with Southern Bell?

23 A No, we were not.

24 Q Okay. Now, did the FCC in its order on  
25 expanded interconnection mandate reciprocal collocation?

1           A     No, they did not.

2           Q     Now, with respect to the situation that we  
3 were talking about -- that you were talking about with  
4 Mr. Carver or Southern Bell with a specific customer,  
5 was what being sought there, was that physical  
6 collocation?

7           A     Yes, it was.

8           Q     And is it your understanding that Southern  
9 Bell has raised constitutional problems with mandates  
10 for physical collocation?

11          A     Yes, sir, I know they oppose it.

12          Q     Okay. Now, Mr. Fons asked you some questions  
13 about the RIC and the fact that there is an incentive  
14 for IXCs to try to avoid the RIC through different  
15 network configurations. Do you remember those  
16 questions?

17          A     Yes, I do.

18          Q     Okay. Mr. Guedel, is the RIC based on cost?

19          A     No. The RIC is a -- pretty much a  
20 contribution element; it has no underlying cost.

21          Q     Is there another element in switched access  
22 charges that is somewhat similar -- well, that is in the  
23 same nature of the RIC in that it's not cost based?

24          A     Yes, the carrier common line charge has  
25 similar attributes.

1           Q     Now, Mr. Fons asked you some questions about  
2 if the RIC does go away, whether or not the local  
3 exchange carrier should make up those revenues. Do you  
4 remember those questions?

5           A     Yes, I do.

6           Q     Okay. In your opinion, would there be other  
7 factors to be considered if, in fact, the RIC revenues  
8 went away?

9           A     Yes, there would. I think if the company  
10 began to lose revenue from the RIC and they wanted to  
11 come before this Commission, or at least lost revenues  
12 to the extent that it inhibited their earnings, then  
13 they should come before this Commission and it could be  
14 entertained. But it should not be an automatic increase  
15 without a full earnings investigation.

16           MR. TYE: Thank you, Mr. Guedel. I have no  
17 further redirect, Mr. Chairman.

18           CHAIRMAN DEASON: Exhibits.

19           MR. TYE: AT&T moves the admission of Exhibit 7,  
20 Mr. Chairman.

21           MR. BILLMEIER: Staff moves admission Exhibit 8.

22           CHAIRMAN DEASON: Without objection, Exhibit 7  
23 and Exhibit 8 are admitted.

24           Thank you, Mr. Guedel.

25           (Exhibit No. 7 & 8 received into evidence.)

1 (Witness Guedel excused.)

2 - - - - -

3 CHAIRMAN DEASON: Ms. Caswell.

4 MS. CASWELL: GTE calls Mr. Beauvais to the  
5 stand.

6 EDWARD C. BEAUVAIS

7 was called as a witness on behalf of GTE Florida  
8 Incorporated and, having been duly sworn, testified as  
9 follows:

10 DIRECT EXAMINATION

11 BY MS. CASWELL:

12 Q Please state your name and business address.

13 A My name is Edward C. Beauvais. Business  
14 address is GTE Telephone Operations, 600 Hidden Ridge,  
15 Irving, Texas 75038.

16 Q By whom are you employed and in what capacity?

17 A I'm employed by GTE Telephone Operations as a  
18 Senior Economist.

19 Q Did you file direct testimony in this  
20 proceeding?

21 A Yes, ma'am, I did.

22 Q Did that testimony contain two exhibits?

23 A That's correct.

24 Q Do you have any additions or corrections to  
25 the testimony or exhibits?

1           A     No, ma'am.

2           Q     If I asked you the same questions today, would  
3 your answers remain the same?

4           A     They would.

5           MS. CASWELL: Mr. Chairman, I would ask that  
6 Mr. Beauvais' direct testimony be inserted into the record  
7 as though read.

8           CHAIRMAN DEASON: Without objection, it will be  
9 so inserted.

10          Q     (By Ms. Caswell) Mr. Beauvais, did you also  
11 file supplemental direct testimony?

12          A     I did.

13          Q     And did that supplemental direct testimony  
14 contain any exhibits?

15          A     I believe it contained one exhibit.

16          Q     Do you have any additions or corrections to  
17 that supplemental direct testimony?

18          A     No, I don't.

19          Q     If I were to ask you the same questions today,  
20 would your answers remain the same?

21          A     That's correct.

22          MS. CASWELL: Mr. Chairman, I would ask that Mr.  
23 supplemental direct testimony be inserted into the record.

24          CHAIRMAN DEASON: Without objection, it will be  
25 so inserted.

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Edward C. Beauvais; my business address  
3 is 600 Hidden Ridge, Irving, TX 75038. I am em-  
4 ployed by GTE Telephone Operations as Senior Econo-  
5 mist in the Regulatory Planning and Policy Depart-  
6 ment.

7

8 Q. WILL YOU PLEASE STATE YOUR EDUCATION AND BUSINESS  
9 EXPERIENCE?

10 A. My professional resume with a partial listing of my  
11 professional publications and appearances is con-  
12 tained in Beauvais Exhibit No. 1.

13

14 Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION  
15 OR OTHER REGULATORY BODIES?

16 A. Yes. I have appeared before this Commission in  
17 Docket numbers 900633-TL, 910757-TP, and 921074-TP,  
18 as well as in numerous workshops held by the Com-  
19 mission. Other state and federal commissions  
20 before which I have appeared are listed in Beauvais  
21 Exhibit No. 1.

22

23 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

24 A. My testimony today addresses the public policy  
25 issues associated with expanded interconnection

1 with the local exchange network. I will concen-  
2 trate on the public policy issues while Mr. Kirk  
3 Lee will address the issues associated with the  
4 proposed local transport restructure.

5  
6 As I testified in the earlier phase of this docket,  
7 even more so than the case of expanded interconnec-  
8 tion for special access, expanded interconnection  
9 for switched access is likely to place a very  
10 significant strain on the overall support flows in  
11 the local exchange carrier industry, due to the  
12 current pricing mechanisms. Current pricing ar-  
13 rangements rely on the continued flow of contribu-  
14 tion from switched access services and intraLATA  
15 toll services to allow GTEFL and other LECs to  
16 retain a low average basic residential (R1) service  
17 price. As other service providers attempt to  
18 capture a larger share of the transport market for  
19 switched services (perhaps including the provision  
20 of loops), the contribution contained in the prices  
21 will be eroded. Expanded interconnection for  
22 switched access accelerates the competitive ero-  
23 sion.

24  
25 The reason this matter should be considered in this

1 docket is that once a party has obtained floor  
2 space under a physical collocation order for either  
3 switched or special access transport, that party  
4 will no doubt argue (and correctly so) that it is  
5 absolutely inefficient to not be allowed to use  
6 that space for both switched and special transport  
7 services. I would point out, however, that there  
8 may be objectives other than efficiency which the  
9 FPSC may want to pursue. Nevertheless, in estab-  
10 lishing its policy for physical collocation, virtu-  
11 al collocation, or LEC-choice for access transport  
12 facilities, the Commission should bear in mind that  
13 the policy decisions it already reached in Phase I  
14 of this docket have definite implications for the  
15 decisions to be reached in this switched access  
16 transport phase of the process.

17

18 Q. WHAT CIRCUMSTANCES RESULTED IN TODAY'S HEARINGS?

19 A. The petition brought by Intermedia Communications  
20 of Florida, Inc. (ICI) is a direct consequence of  
21 the FCC's Expanded Interconnection Order released  
22 on October 19, 1992. Expanded Interconnection with  
23 Local Telephone Company Facilities, CC Docket No.  
24 91-141, Amendment of the Part 69 Allocation of  
25 General Support Facilities, CC Docket No. 92-222,

1           Report and Order and Notice of Proposed Rulemaking  
2           (FCC Expanded Interconnection Order). That Order  
3           mandates that Tier 1 local exchange companies,  
4           including GTE, permit interested parties to collo-  
5           cate and interconnect their special access trans-  
6           mission facilities within the LEC's central offic-  
7           es. There are only two potential exceptions to  
8           this directive:

9           (1) A formal state regulatory or legislative  
10          policy decision in favor of virtual collocation for  
11          expanded interconnection, or allowing LECs to  
12          choose which form of collocation to use for such  
13          interconnection; or

14          (2) A demonstration by the LEC that a particular  
15          central office lacks sufficient space to permit  
16          physical collocation.

17          FCC Expanded Interconnection Order at para. 41.

18  
19          In its decision in Phase I of this proceeding for  
20          expanded interconnection of special access trans-  
21          port, the Florida Public Service Commission essen-  
22          tially agreed with the decisions of the FCC. The  
23          Commission then set hearings to proceed on the  
24          topic of expanded interconnection for switched  
25          access transport within the state of Florida.

- 1 Q. HOW DOES THE FCC DEFINE PHYSICAL COLLOCATION AND  
2 WHAT IS THE DIFFERENCE BETWEEN IT AND VIRTUAL  
3 COLLOCATION?
- 4 A. The term physical collocation is defined by the FCC  
5 as a situation where the "interconnecting party  
6 pays for LEC central office space in which to  
7 locate the equipment necessary to terminate its  
8 transmission links, and has physical access to the  
9 LEC central office to install, maintain, and repair  
10 this equipment." (FCC Expanded Interconnection  
11 Order at para. 39.) Under the FCC's virtual collo-  
12 cation guidelines, interconnectors would designate  
13 the central office equipment dedicated to their use  
14 and monitor and control their circuits terminating  
15 in the LEC's facilities. (FCC Expanded Interconnec-  
16 tion Order at para. 44.) The interconnector's  
17 equipment would thus be located in the LEC's cen-  
18 tral office under either a physical or virtual  
19 collocation scenario. The FCC's virtual colloca-  
20 tion scheme requires technical interconnection  
21 arrangements comparable to those anticipated with  
22 physical collocation. The only real distinction is  
23 that, with virtual collocation, the demarcation  
24 between LEC and interconnector networks is neatly  
25 defined at a demarcation point very close to the

1 central office. In a physical collocation situa-  
2 tion, "the interconnection point would not indicate  
3 a change in ownership of cable facilities." (See  
4 FCC Expanded Interconnection Order at para. 848 n.  
5 201.)

6

7 Q. WAS THE FCC EXPANDED INTERCONNECTION ORDER SUBJECT  
8 TO ANY DISSENT WITHIN THE FCC?

9 A. Yes. The FCC Expanded Interconnection Order was  
10 issued notwithstanding separate statements from  
11 Chairman Sikes and Commissioner Quello, both indi-  
12 cating serious reservations about mandatory physi-  
13 cal collocation. In his dissent, Chairman Sikes  
14 expressed both legal and policy objections to  
15 mandatory physical collocation. He noted that  
16 mandatory physical collocation raises serious  
17 questions about a "taking" or confiscation of local  
18 exchange carrier property in violation of the Fifth  
19 Amendment and leaves unclear what problems the FCC  
20 is attempting to resolve by forcing LECs to offer  
21 physical collocation, especially when the Order  
22 itself acknowledges that some parties might prefer  
23 virtual interconnection arrangements. Similarly,  
24 Commissioner Quello in his separate statement noted  
25 that "the only real difference between physical

1 collocation and virtual collocation is whether the  
2 local exchange carrier or the interconnector in-  
3 stalls, maintains, and repairs the interconnector's  
4 equipment."

5

6 Q. HOW DOES THE FCC'S ORDER ON EXPANDED INTERCONNEC-  
7 TION AFFECT THE FLORIDA COMMISSION'S ABILITY TO  
8 IMPOSE FORMS AND CONDITIONS OF EXPANDED INTERCON-  
9 NECTION THAT ARE DIFFERENT FROM THOSE IMPOSED BY  
10 THE FCC'S ORDER?

11 A. The FCC's Order did not preempt the states. This  
12 Commission may retain some significant latitude to  
13 develop its own interconnection policies in accor-  
14 dance with state-specific conditions and concerns.  
15 This independent effort is essential since the  
16 implementation of switched access interconnection  
17 greatly accelerates competition for local exchange  
18 services. The FCC has already announced the same  
19 type of rules apply for switched access transport  
20 interconnection as apply for special. The long-run  
21 impacts at the local and state level are likely to  
22 be much larger than the impacts at the federal  
23 level.

24

25 The FCC Expanded Interconnection Order stated the

1 FCC's intention to exempt LECs from its physical  
2 collocation requirements based on a formal state  
3 policy favoring virtual over physical collocation,  
4 or allowing LECs to choose the form of interconnec-  
5 tion to use for intrastate expanded interconnec-  
6 tion. The FCC's subsequent June 8th order in the  
7 expanded interconnection docket, however, shows  
8 that the FCC intends to very narrowly define what  
9 constitutes a state's right in establishing its own  
10 policy for expanded interconnection, even on an  
11 intrastate basis. Absent any further developments,  
12 as a practical matter, I believe that the FCC has  
13 effectively, if not legally, preempted the Florida  
14 PSC.

15

16 Q. DR. BEAUVAIS, IN RESPONSE TO MY PREVIOUS QUESTIONS  
17 YOU INDICATED THAT "ABSENT ANY FURTHER DEVELOP-  
18 MENTS" THE FCC WOULD HAVE ESSENTIALLY DETERMINED  
19 THE INTERCONNECTION POLICY FOR FLORIDA. ARE THERE  
20 ANY OTHER SUCH ACTIONS CURRENTLY BEING TAKEN?

21 A. Yes. GTE and numerous other parties have ap-  
22 pealed the FCC's physical collocation mandate to  
23 the United States Court of Appeals for the District  
24 of Columbia Circuit. (The Bell Atlantic Tel.  
25 Companies et al. v. FCC, et al., No. 92-1619 (D.C.

1           Cir. filed Nov. 25, 1982). Oral arguments in that  
2           appeal occurred on February 22, 1994, and a deci-  
3           sion is pending. I am advised that it appears most  
4           likely that the petitioners' position will be  
5           sustained by the courts and that the mandatory  
6           physical collocation aspects of the FCC's decision  
7           will be found unconstitutional.

8  
9           In Phase I of this docket, GTE advanced comprehen-  
10          sive arguments as to why mandatory physical collo-  
11          cation is an unlawful taking of LEC property under  
12          both the federal and Florida Constitutions. I will  
13          not repeat those arguments here, but instead refer  
14          the Commission and the parties to GTEFL's brief on  
15          the constitutional question, attached as Beauvais  
16          Exhibit No. 2. GTEFL's arguments with regard to  
17          mandatory special access collocation apply with  
18          equal force to a switched access collocation deci-  
19          sion.

20  
21          Because of the unsettled status of the FCC's physi-  
22          cal collocation mandate, GTEFL asked this Commis-  
23          sion for a stay of the analogous state mandate in a  
24          petition filed on March 25. The Commission has not  
25          yet ruled on that Petition. If granted, it would

1           ensure consistency between the federal and Florida  
2 regimes, which GTEFL believes was a key Commission  
3 objective in ordering physical collocation in the  
4 first place.

5

6       Q.   WHAT ARE THE POSSIBLE BENEFITS ASSOCIATED WITH  
7           EXPANDED INTERCONNECTION?

8       A.   The costs and benefits associated with expanded  
9 interconnection cannot simply be stated in terms  
10 ascribing the theoretical benefits usually associ-  
11 ated with more competitive marketplaces, for the  
12 type of competition being introduced has atypical  
13 characteristics. Consider for a moment that under  
14 current legislative and regulatory authorizations  
15 in Florida, an AAV can construct facilities to any  
16 location for which right of way can be obtained.  
17 Furthermore, with certain constraints, the AAV can  
18 provide a variety of services over those facilities  
19 to any customer it might secure. AAVs or other  
20 providers of telecommunications services can build,  
21 purchase, lease, or rent real estate assets to  
22 house their terminating network equipment or any  
23 other facilities they might desire, subject only to  
24 zoning restrictions and market conditions. At any  
25 time, the AAV can purchase interconnection to the

1           LEC network on the basis of filed access tariffs of  
2           Florida LECs. Expanded interconnection changes  
3           none of this, save that under the terms of the  
4           FCC's Order, the LEC is now compelled to enter the  
5           real estate business and make space available in  
6           its central offices to any party desiring such  
7           space. This action, of course, requires both a  
8           degree of unbundling and repricing of LEC services.  
9           A more accurate term might simply be "cheaper  
10          interconnection to the LEC network by non-LEC  
11          providers."

12  
13          Aside from the unique circumstances attendant the  
14          FCC decision, however, expanded interconnection  
15          increases the scope of competition in the local ex-  
16          change market. As a professional economist, I  
17          support competition. However, it is important to  
18          examine the distribution of the costs and benefits  
19          of expanding competition. After all, competition  
20          brings with it costs as well as benefits.

- 21  
22          Q.    WHO WILL BE THE PRIMARY BENEFICIARIES OF EXPANDED  
23          INTERCONNECTION?  
24          A.    Interconnectors, such as ICI and Metropolitan Fiber  
25          Systems (MFS), will stand to benefit the most from

1           expanded interconnection.     Depending upon the  
2           relative price elasticities in the market for  
3           switched and special access services, firms such as  
4           AAVs taking expanded interconnection may pass a  
5           portion of the savings along to their customers.  
6           Those customers are today typically large business  
7           customers located in the larger metropolitan areas,  
8           such as Tampa.     However, AAVs, as well as other  
9           types of LEC rivals, are increasingly reaching out  
10          to smaller cities.     To be more accurate, such  
11          competitors are targeting areas of traffic concen-  
12          tration, no matter where it is found geographical-  
13          ly.     The impact upon LECs, small business customers  
14          and residential customers will depend on the manner  
15          in which specific interconnection arrangements are  
16          structured and the degree to which LECs are allowed  
17          by this Commission to respond to increasing compe-  
18          tition by interconnectors.     However, interconnec-  
19          tion, especially with the mandate of physical  
20          collocation, may serve to harm LECs and their rural  
21          and residential customers on a relative basis.

22

23         Q.     DR. BEAUVAIS, DO YOU HAVE ANY EVIDENCE THAT THE  
24                 DEMAND FOR EXPANDED INTERCONNECTION WILL MATERIAL-  
25                 IZE PRIMARILY IN THOSE AREAS WHERE CONCENTRATIONS

1 OF TRAFFIC CAN BE LOCATED?

2 A. Yes. There is certainly evidence available in the  
3 form of market plans and actual operations of AAVs,  
4 not only in Florida, but in other states as well.  
5 For example, MFS has recently filed with the Illi-  
6 nois Commission to operate as MFS Intelenet in MSA  
7 1 as a "co-carrier". MSA 1 is the area around and  
8 including the city of Chicago. In their plans,  
9 they announced their intention to target the medi-  
10 um-sized business customers only, leaving the  
11 larger business customer to MFS's other subsidiar-  
12 ies. MFS did not ask for approval to serve other  
13 areas within the state of Illinois. Likewise, in  
14 New York, Teleport operates in New York City serv-  
15 ing business customers, not the mass market of  
16 residential customers.

17  
18 In Florida, GTEFL has received inquiries about  
19 collocation in only five (5) central offices out of  
20 the ninety-one (91) GTEFL operates. These offices  
21 are all located in Hillsborough County, Florida,  
22 and in the City of Tampa. The offices are Beach  
23 Park, Sweetwater, Westside, Tampa East, and Tampa  
24 Main. While these are only 5.5% of GTEFL central  
25 offices, they account for 51.6% of the DS-1s in

1           service provided by GTEFL. That is quite an indi-  
2           cation of the concentrated nature of the market-  
3           place initially being addressed by the new market  
4           entrants.

5  
6           Assuming the company involved in the inquiry would  
7           order the same quantities from GTEFL that it has  
8           done elsewhere when ordering expanded interconnec-  
9           tion and collocation from other GTE telephone  
10          companies, this means that the one (1) intercon-  
11          necting firm would be placing fifty-six DS-1 cir-  
12          cuits into each of the five GTEFL central offices  
13          plus one (1) DS-3 per office. By itself, based on  
14          year-end 1993 measurements, this one firm would  
15          then have the capacity equal to about 7.85% of the  
16          total DS-1 market, excluding the DS-3s. Yet, this  
17          capacity will be concentrated into central offices  
18          accounting for over 50% of the current GTEFL DS-1  
19          demand! This is one reason why market share type  
20          information in the telecommunications industry can  
21          be very misleading as to the relative market power  
22          of firms and the type of regulatory and pricing  
23          treatment which is appropriate for the incumbent  
24          carrier.  
25

1 Q. WHAT BENEFITS ARE CREATED FOR CONSUMERS BY THE  
2 MANDATE OF PHYSICAL COLLOCATION?

3 A. Although expanded interconnection may offer some  
4 benefits by encouraging greater competition, there  
5 are no additional benefits created by the physical  
6 collocation mandate. In fact, it is difficult to  
7 construct any rational or logical argument that  
8 physical collocation provides additional benefits  
9 to competition that are not already available under  
10 virtual collocation. On the contrary, given the  
11 highly prescriptive nature of the FCC's Expanded  
12 Interconnection Order as well as the order by this  
13 Commission in Phase I of this docket, any antici-  
14 pated benefits to consumers as a result of expanded  
15 interconnection have been substantially diminished  
16 by restricting parties' ability to negotiate effec-  
17 tively.

18  
19 Indeed, the real economic consumer welfare benefit  
20 of a competitive market for a service is that  
21 mutually advantageous voluntary trades among par-  
22 ties are maximized. By mandating physical colloca-  
23 tion, at least one of the parties may be forced to  
24 enter into a trade it would not elect to enter on a  
25 voluntary basis. Such compulsion violates the very

1 spirit of competition the FCC and this Commission  
2 were attempting to create through expanded inter-  
3 connection. This aspect was recognized by Chairman  
4 Sikes, who stated:

5 The highly regulatory and inflexible  
6 approach the Commission has adopted seems  
7 likely to create more concrete problems  
8 than the illusory ones it seeks to re-  
9 solve.

10 (FCC Expanded Interconnection Order, Sikes Separate  
11 Statement, emphasis added.)

12 This lack of flexibility engendered by a physical  
13 collocation requirement severely thwarts one party,  
14 the LEC, from adequately representing its own  
15 interest, negotiating effectively and fulfilling  
16 its other service obligations.

17

18 Q. Please describe some of the drawbacks of mandatory  
19 physical collocation.

20 A. Mandatory physical collocation will subject LEC  
21 operations to several levels of ongoing disruptions  
22 that will compromise its ability to improve and  
23 expand service in the most efficient way. Space  
24 allocation and exhaustion problems are perhaps an  
25 inevitable consequence of a physical collocation

1           mandate, although that is an empirical issue which  
2           has yet to be borne out by the market. The FCC's  
3           scheme requires the LEC to provide space to inter-  
4           connectors until space is "exhausted." (FCC Ex-  
5           anded Interconnection Order at para. 80 and Appen-  
6           dix B, rule 64.1401(b).) The Order fails to make  
7           any explicit allowance for a LEC to deny physical  
8           collocation when space remains in the central of-  
9           fice. If central office space is allocated to  
10          interconnectors, the LEC may be forced to acquire  
11          additional space for equipment to meet the state's  
12          telecommunications needs. The result may well be  
13          increased rates for the average telephone subscrib-  
14          er.

15  
16          Moreover, the FCC's physical collocation scheme  
17          imposes upon LECs the burden of considering possi-  
18          ble interconnector demands for space when remodel-  
19          ing or building central offices. This expectation  
20          is wholly unfair and inefficient. The LEC's capi-  
21          tal planning process continues to become increas-  
22          ingly more difficult as the critical need for cost-  
23          cutting measures has grown along with competition  
24          in LEC business sectors. The FCC directive to  
25          anticipate physical collocation demands introduces

1           an additional and unreasonable element of uncer-  
2           tainty into its capital planning efforts. Ulti-  
3           mately, ratepayers may be forced to bear the in-  
4           creased expense flowing from this unwarranted  
5           competitive disadvantage for the LEC.

6  
7           Space constraints which may also lead to future  
8           unnecessary conflicts. If, for example, mandatory  
9           physical collocation within the central office is  
10          believed to confer some advantage, and not all  
11          parties can be accommodated, then some will feel  
12          that the LEC conferred an advantage to those par-  
13          ties obtaining physical collocation over those who  
14          did not.

15  
16          Mandatory physical collocation may also lead to  
17          service arrangements which create an inefficient  
18          use of LEC central office space for any given level  
19          of demand. The measures necessary to accommodate  
20          interconnectors will directly affect LEC costs and  
21          productivity. LECs will need to set aside separate  
22          space within the central office and then provide  
23          secure access to that space. Significant new  
24          construction may be required, depending on the  
25          existing central office configurations. LECs will

1           also be required to arrange for interconnectors'  
2           heat, air conditioning, electricity and other such  
3           services. Further, the LEC, who must accommodate  
4           each interconnector with separate transmission  
5           cable, will be unable to promote efficiency by  
6           sharing cables and equipment among customers.

7  
8           In addition to the LEC's direct costs of accommo-  
9           dating interconnectors in its facilities, a phys-  
10          ical collocation rule will force the LEC to bear  
11          increased administrative expenses. Employees will  
12          need to develop charges and file tariffs and main-  
13          tain such tariffs to cover space rental and associ-  
14          ated services (heating, power, etc.). As I noted  
15          earlier, LECs will be required to undertake the  
16          likely futile effort to incorporate potential  
17          future space demands in their long-range expansion  
18          and remodeling plans. Forecasts will thus need to  
19          be revised--and additional costs incurred--as  
20          interconnectors' plans become known.

21  
22          All of the costs flowing from a physical colloca-  
23          tion mandate can never be recovered. Many of the  
24          most substantial, ongoing costs will remain unquan-  
25          tifiable because they derive from injection of

1 inefficiencies into the day-to-day operations of  
2 the LEC. Among other things, LEC employees must  
3 suffer construction intrusions every time the  
4 office needs to be reconfigured to accommodate  
5 interconnectors. LEC personnel will lose immediate  
6 unrestricted access to all parts of their facilities,  
7 as well as the ability to freely exchange  
8 information about LEC plans and operations.

9  
10 Although the interconnectors may argue that increased  
11 inefficiencies on the part of the LEC is a  
12 price to be paid for competition, the number of  
13 disruptions and degree of inefficiency can be  
14 decreased with virtual collocation arrangements  
15 without an appreciable negative impact upon inter-  
16 connectors.

17  
18 Additionally, mandatory physical collocation will  
19 remove the LEC's ability to insure network security  
20 and reliability, as Chairman Sikes recognized in  
21 his dissent from the FCC's physical collocation  
22 rule. Today, one of the LEC's chief means of  
23 guarding against harm to the network is its complete  
24 discretion to control entry to its central  
25 offices. Without this authority, the potential for

1           both inadvertent and intentional interference with  
2           LEC operations increases dramatically.

3  
4           Finally, safety hazards in collocators' spaces  
5           could affect the entire central office. The LEC  
6           will have little authority over the intercon-  
7           nectors' activities, equipment and installation  
8           methods. Because interconnectors' areas will be  
9           locked, the ability of LEC employees to quickly and  
10          effectively respond to emergencies will be substan-  
11          tially diminished.

12  
13          Q.    GIVEN THE COSTS ASSOCIATED WITH MANDATORY PHYSICAL  
14          COLLOCATION, DOES GTEFL SEEK TO HAVE THE FLORIDA  
15          COMMISSION ORDER EXPANDED COLLOCATION IMPLEMENTED  
16          ON A VIRTUAL BASIS INSTEAD?

17          A.    No. Although some parties may contend that virtual  
18          collocation arrangements are the most efficient,  
19          GTEFL is not advocating a virtual collocation man-  
20          date any more than it is advocating one for physi-  
21          cal collocation. Rather, GTEFL is only asking for  
22          an equal right to negotiate an expanded intercon-  
23          nection arrangement with its customers/competitors.  
24          GTEFL desires to maintain its property rights in  
25          its structural assets as well as to manage its

1           **businesses and fulfill its obligations to customers**  
2           **and stockholders, without being compelled by regu-**  
3           **latory authority to accommodate architectural and**  
4           **rate design imperatives which impose inefficiencies**  
5           **in network design, provisioning and administration.**  
6           **With a physical collocation mandate, the LEC has no**  
7           **choice; it must provide physical collocation re-**  
8           **gardless of the inefficiencies or disruptions**  
9           **created.**

10

11           **As I noted earlier, it is far from clear that any**  
12           **benefits will accrue to consumers on the whole**  
13           **because of physical collocation. Any benefits**  
14           **ascribed to expanded interconnection will accrue**  
15           **directly to requesting interconnectors who, unlike**  
16           **LECs, can customize service offerings and price**  
17           **beneath the LECs' tariffed rate umbrella. And any**  
18           **benefits realized by large customers will be at the**  
19           **expense of the smaller ones, the rural and residen-**  
20           **tial customers, under the current form of rate of**  
21           **return/rate base regulation to which GTEFL is**  
22           **subject. If the large urban business customers**  
23           **discontinue LEC tariffed services and substitute**  
24           **interconnectors' services, inherent contribu-**  
25           **tions/subsidies which benefit rural and residential**

1 customers will be lost. These subsidies are inher-  
2 ent in the requirement that the LECs charge state-  
3 wide averaged tariffed rates for their services  
4 despite the fact that service costs vary as a  
5 function of terrain, traffic and household density.  
6 These contributions generally support residential  
7 and rural customers, who are charged prices for  
8 service provisioning that are lower than related  
9 costs, using revenues obtained from business and  
10 urban customers, who are charged prices higher than  
11 their causally related costs.

12  
13 Any potential benefit to the rural customer is  
14 likely to be deferred to the indefinite future, due  
15 to the alternative provider's complete discretion  
16 regarding its customer selection. By contrast, the  
17 loss of the contribution and the resulting increase  
18 in rates is a very real possibility. Any proceed-  
19 ing which fails to fully consider the impact upon  
20 all contribution and support mechanisms could  
21 seriously deteriorate the quality and availability  
22 of service presently enjoyed by the more rural  
23 citizens of Florida.

24  
25

1 Q. DR. BEAUVAIS, CAN YOU QUANTIFY THE IMPACTS OF THIS  
2 LOSS OF CONTRIBUTION ARISING FROM EXPANDED INTER-  
3 CONNECTION?

4 A. Certainly I can make a relatively crude approxima-  
5 tion at such a quantification. Just as in the case  
6 of special access transport expanded interconnec-  
7 tion, it is not the expanded interconnection of  
8 switched access transport facilities per se which  
9 leads to a potential loss of contribution. Rather,  
10 it is the competitive rivalry subsequent to and  
11 flowing from expanded interconnection which gener-  
12 ates the loss of contribution from many services,  
13 especially toll, business services and switched  
14 access.

15  
16 The GTE network is characterized by economies of  
17 scale and scope. This is reflected in the fact  
18 that the incremental costs of operation are quite  
19 low, especially at quantities demanded and supplied  
20 around the designed capacity of the network. GTEFL  
21 estimates that the weighted incremental cost of a  
22 minute of use of transport facilities is approxi-  
23 mately \$0.002 per minute. That is, given the  
24 facilities are in place, the ongoing cost of pro-  
25 viding an additional minute of use over the

1 switched transport facilities is approximately  
2 \$0.002 per minute of use. The price in the current  
3 GTEFL tariff is \$0.0073 per minute of use for each  
4 termination of intrastate traffic. This provides  
5 for a gross margin of \$0.0053 per minute of use.  
6 Thus for each minute of use that is removed from  
7 GTEFL's transport facilities and placed over a  
8 competing system, GTEFL loses \$0.0073 of revenue  
9 and \$0.0053 of contribution, ceteris paribus. This  
10 may not sound like a great financial impact, but  
11 when the per minute impact is expanded to literally  
12 millions of minutes, the numbers can become quite  
13 large.

14  
15 Consider the case for each of the five (5) central  
16 offices where GTEFL has received an inquiry rela-  
17 tive to expanded interconnection. In this example,  
18 the one (1) interconnecting firm would be placing  
19 fifty-six DS-1 circuits into each of the five GTEFL  
20 central offices plus one (1) DS-3 per office. This  
21 provides a theoretical capacity of 2,016 voice  
22 grade channels into/out of each of the five central  
23 offices provided earlier. Each of these 2,016  
24 lines could, in principle, carry 43,200 minutes of  
25 use per month, or a total capacity of 87,091,200

1           minutes of use per month per office. If such  
2           facilities were used solely for transport of  
3           switched access at their capacity limit, GTEFL  
4           would see its contribution flows decrease by  
5           \$5,539,000 per year per office or \$27,695,000.

6

7           Q. DO YOU MEAN THAT GTEFL ACTUALLY EXPECTS TO SEE ITS  
8           CONTRIBUTIONS DECREASE BY OVER \$27 MILLION PER  
9           YEAR?

10          A. Not at all. Keep in mind that the numbers I just  
11          developed were based on theoretical capacity lim-  
12          its. It would be very unlikely that any company  
13          could load its transport facilities to anything  
14          approaching what would be a 100% load factor.  
15          Indeed, that would be a quantity greater than the  
16          total transport traffic today originating and  
17          terminating from the three major interexchange  
18          carriers from those five offices. So in that  
19          sense, the \$27 million figure is very unrealistic.  
20          However, offsetting that is the fact that I have  
21          only assumed one company collocating and intercon-  
22          necting in only five GTEFL central offices. Judg-  
23          ing from the interest evidenced in this proceeding  
24          by the many parties, that will prove to be a very  
25          conservative number of interconnection arrange-

1           ments.

2

3           My point in making the foregoing calculations is  
4           simply to illustrate to the Commission that even  
5           relatively small amounts of contributions on a per-  
6           minute basis translate to multimillion dollar flows  
7           when the financial leverage of the network is  
8           considered. I further want to point out that the  
9           entrance of these competitors is not trivial. That  
10          is, if that new entrant were to place such facili-  
11          ties in such quantities as it has done in other GTE  
12          operating areas, the supply potential is more than  
13          enough to serve the entire demand associated with  
14          that office. The market share numbers are even  
15          more meaningless than I indicated above.

16

17          Q.    COULD YOU PLEASE ADJUST YOUR QUANTIFICATION OF THE  
18                IMPACTS OF ADOPTING EXPANDED INTERCONNECTION FOR  
19                SWITCHED ACCESS TRANSPORT IN LIGHT OF THE QUALI-  
20                FICATIONS YOU NOTED?

21          A.    Certainly. The most questionable assumption made  
22                in the foregoing is that of a 100% load factor on  
23                the transport facilities. Clearly this is not the  
24                case in practice. A much more reasonable assump-  
25                tion would be a load factor of between 20% and 40%

1 or between 8,640 minutes per voice grade circuit  
2 per month and 17,280 minutes per month. The former  
3 would be more or less equivalent to a loading over  
4 a Feature Group A type transport arrangement; the  
5 latter for a more densely populated center. To be  
6 very conservative, however, I will utilize only a  
7 10% load factor of each voice grade equivalent  
8 circuit, even though this is a very inefficient  
9 loading of the facilities. With a 10% load factor,  
10 the annual loss of contribution, assuming that the  
11 traffic would otherwise have been carried by GTEFL,  
12 amounts to \$553,900 per office per year. With five  
13 (5) central offices in my calculation, the total  
14 loss of contribution amounts to \$2,769,500 per  
15 year, again on a ceteris paribus assumption.

16

17 Q. THAT APPEARS TO STILL BE A RELATIVELY LARGE POTEN-  
18 TIAL LOSS OF CONTRIBUTION. IS IT REALLY POSSIBLE  
19 TO LOSE ALMOST \$3 MILLION IN THE WAY OF CONTRIBU-  
20 TION FLOWS FROM ONLY FIVE CENTRAL OFFICES BY ONLY  
21 ONE COMPANY INTERCONNECTING?

22 A. Yes, indeed it is possible. And keep in mind that  
23 I am only basing these calculations on the trans-  
24 port function narrowly defined. I am not incorpo-  
25 rating toll and the switching function associated

1 with switched access. Such calculations would make  
2 the loss of contribution increase significantly.  
3 The total number of minutes of use flowing through  
4 a large LEC's network is staggering. Consider for  
5 a moment that in the five offices cited above, even  
6 excluding local and EAS minutes of use, that just  
7 among the three major carriers, GTE is originating  
8 and terminating over 656,000,000 minutes as of year  
9 end 1993 and passing them over GTEFL transport  
10 facilities. If the single company under consider-  
11 ation were to provision the facilities I have  
12 assumed above, it would have more than enough  
13 capacity to serve the entire switched access trans-  
14 port demand from those offices. So the answer is,  
15 the loss of such levels of contribution is indeed  
16 possible, ceteris paribus. However, in the short  
17 run, the transport restructure effort means that  
18 the sources of contribution are moved from the  
19 transport function to the switching function and  
20 that such a rate design is revenue neutral.

21

22 Q. SINCE THE PROPOSED RATE DESIGN IS REVENUE NEUTRAL  
23 FOR THE SWITCHED TRANSPORT FUNCTION, DOESN'T THIS  
24 ASSURE THE COMMISSION THAT THE PUBLIC WILL BE  
25 PROTECTED AND THAT NO ADVERSE IMPACTS CAN BE EX-

1           PECTED IF THE COMMISSION WERE TO ADOPT EXPANDED  
2           INTERCONNECTION FOR SWITCHED ACCESS TRANSPORT?

3       A.   That is at best a static view of the market dynam-  
4           ics. As I have tried to make clear in the above  
5           examples and in other cases before this Commission,  
6           it is the contribution margins which attract com-  
7           petitive entry in a particular market segment. The  
8           restructure of transport prices described by Mr.  
9           Lee including the adoption of a Residual Intercon-  
10          nection Charge is not a stable long term solution;  
11          it is a step in the right direction, however. The  
12          placing of the responsibility of the contribution  
13          generation onto the switching function from the  
14          transport function simply means it is that much  
15          more desirable for rivals to enter the switched  
16          access business on a broader scale than just trans-  
17          port, or at least to bypass the LEC's switch. And  
18          it is here that the real effects from the adoption  
19          of expanded interconnection and transport competi-  
20          tion begin to show up. As rivals enter the switch-  
21          ing market, not only can they avoid GTE's prices  
22          which contain the contribution formally generated  
23          from switched transport, but such rivals are now  
24          positioned to avoid the contribution once generated  
25          by the LEC from toll services, switched access

1 services, vertical services such as Call Waiting,  
2 and business services. I believe it is beyond the  
3 scope of my testimony today to calculate and show  
4 what those contribution flows are, especially since  
5 it becomes very sensitive proprietary information,  
6 but they are far larger than that which I have  
7 shown for switched transport based on the current  
8 prices. As this erosion of contribution to both  
9 GTEFL's profits and to holding down the price of  
10 basic residential service continues, certainly  
11 GTEFL will need to rebalance rates. As I testified  
12 in the cross-subsidy docket, I would recommend a  
13 non-linear multipart tariff which takes into ac-  
14 count not only the cost conditions, but also recog-  
15 nizes market demand as well. In determining the  
16 prices for all services, the common costs would be  
17 recovered from the array of services roughly in  
18 inverse proportion to the elasticity of demand for  
19 each service. That is, all services would make a  
20 contribution to the shared and common costs of  
21 production; the degree of contribution would be  
22 determined by the demand characteristics of consum-  
23 ers for each service. This, of course, has some  
24 elements of a "Catch-22" dilemma. Those services  
25 in which customers exhibit the least price respon-

1           siveness would generally be those where the fewest  
2           options are available. For those "competitive  
3           services," by definition, customers have more  
4           choices and, thus, an increased price elasticity of  
5           demand. Therefore, while all services would be  
6           making a contribution toward the common costs of  
7           the firm, those services with the least elastic  
8           demand would be making more of a contribution.

9

10        Q.    WOULD YOU PLEASE EXPLAIN THE "CATCH-22" ASPECT OF  
11           THIS PROBLEM?

12        A.    The "Catch-22" aspect is that if the Commission  
13           attempts to limit the price increases on the lesser  
14           elastic services, it limits the market forces which  
15           would tend to increase the elasticity over time.  
16           Since entry into an industry or market is deter-  
17           mined in large part by the profitability of the  
18           market, by holding down the price for those servic-  
19           es, the Commission is limiting the incentive of new  
20           firms to enter the market. Further, since one of  
21           the principle determinants of the price elasticity  
22           of demand is the number of firms offering similar  
23           products, this restriction on entry places downward  
24           pressure on the elasticities. One is led to the  
25           conclusion, therefore, that following the precepts

1 of optimal departures from marginal cost pricing,  
2 will lead to (1) a case of increasing competition  
3 in those services where demand is currently more  
4 inelastic as the price rises and (2) that the level  
5 of contribution obtained from the mix of "competi-  
6 tive" and "monopoly" services will tend to equality  
7 at the margin over time. In working through the  
8 dynamics, it would be expected that the percentage  
9 of contribution coming from "monopoly services"  
10 would decrease over time while the percentage of  
11 contribution from "competitive services" would  
12 increase. In any event, in virtually no case would  
13 "monopoly services" be assigned the burden of all  
14 shared costs or vice versa.

15

16 Q. DR. BEAUVAIS, YOU JUST STATED THAT IN VIRTUALLY NO  
17 CASE WOULD MONOPOLY SERVICES BE ASSIGNED THE BURDEN  
18 OF ALL COMMON COSTS. ARE THERE ANY CASES WHERE  
19 THIS WOULD OCCUR?

20 A. The only case where this would happen is that if  
21 all "competitive services" were characterized by  
22 completely elastic demands--a most unlikely situa-  
23 tion. Yet even in the case of completely elastic  
24 demand, it cannot be argued that cross-subsidiza-  
25 tion is taking place so long as all services are

1           **priced to at least recover their respective margin-**  
2           **al cost.**

3

4           **Q. DO YOU RECOMMEND THAT THE PRICES BE BASED ON THESE**  
5           **INVERSE ELASTICITY RULES AS WELL AS USING THESE**  
6           **RULES TO AVOID CROSS SUBSIDIZATION?**

7           **A. No, I don't. While it is true that the use of the**  
8           **inverse elasticity rules can be gainfully employed**  
9           **to avoid cross-subsidization among products and**  
10          **groups of products, I would recommend that non-**  
11          **linear multipart price structures be employed as**  
12          **the primary pricing mechanisms, rather than strict**  
13          **reliance on the inverse elasticity approach. In**  
14          **such a rate structure, the price of the marginal**  
15          **unit would be set at or very close to the incremen-**  
16          **tal operating costs while the inframarginal prices**  
17          **would be priced higher to cover the other costs of**  
18          **the service. Such a price structure improves the**  
19          **economic welfare gains derivable from uniform**  
20          **inverse-elasticity (Ramsey) pricing, since the**  
21          **marginal price is set much closer to the marginal**  
22          **cost of a service. Even in the non-linear multi-**  
23          **part rate structure, however, the price elasticiti-**  
24          **ties of demand must be taken into account when**  
25          **pricing a service subject to economies of scope or**

1           scale. The important fact in this proceeding,  
2           however, is that both approaches avoid internal  
3           cross-subsidization and lead to much more stable  
4           rate structures and price levels.

5

6           Q.    WHAT LECS IN FLORIDA SHOULD BE REQUIRED TO PROVIDE  
7           EXPANDED INTERCONNECTION?

8           A.    In principle, if expanded interconnection provides  
9           such significant benefits as are claimed by its  
10           proponents, then all LECs should be required to  
11           provide the service, no matter what their size or  
12           where they are located. However, the FCC's order  
13           limits tariffing requirements to expanded intercon-  
14           nection for access services of Tier 1 LECs only.  
15           GTEFL believes that this limitation is a reflection  
16           of the facts I described above--that the benefits  
17           of expanded interconnection are quite concentrated  
18           and the costs are diffused over a wide base.  
19           Further, in many non-urban areas, the costs associ-  
20           ated with expanded interconnection will not be  
21           recoverable due to insufficient demand for such a  
22           service by potential interconnectors. Thus GTEFL  
23           supports a limitation to Tier 1 LECs in Florida as  
24           well. Many small LECs concur in tariffs developed  
25           and maintained by the National Exchange Carrier

1           **Association (NECA), which has not been required to**  
2           **file expanded interconnection tariffs on behalf of**  
3           **its member companies.**

4  
5           **Even though expanded interconnection requirements**  
6           **apply only to larger LECs, the impact of such**  
7           **interconnection is not, however, limited to such**  
8           **LECs. Expanded interconnection for intraLATA**  
9           **services will affect smaller LECs through the**  
10           **compensation arrangements that exist between large**  
11           **and small LECs. These arrangements specify how**  
12           **LECs involved in jointly providing services will be**  
13           **compensated for the portion of the service they**  
14           **have provided. Expanded interconnection allows for**  
15           **non-LEC interconnectors to provide portions of**  
16           **these services. Current arrangements do not re-**  
17           **fect this possibility or its impact. The conse-**  
18           **quences of expanded interconnection to smaller LECs**  
19           **cannot be limited or controlled by applying the**  
20           **interconnection requirement to only the larger**  
21           **LECs.**

22  
23           **Q. UNDER WHAT CIRCUMSTANCES SHOULD THE COMMISSION**  
24           **IMPOSE THE SAME OR DIFFERENT FORMS AND CONDITIONS**  
25           **OF EXPANDED INTERCONNECTION THAN THE FCC?**

1       A.   As I have already testified, the FCC's Order does  
2       not compel this Commission to adopt the same re-  
3       quirements for intrastate interconnection as those  
4       at the interstate level. After all, today we treat  
5       interstate and intrastate services as different for  
6       pricing purposes. This could be continued for the  
7       case of expanded interconnection as well. As a  
8       practical matter, however, separate intrastate and  
9       interstate interconnection regimes would prove  
10      unworkable. For the most part, GTEFL believes that  
11      interconnection for intrastate access services  
12      should follow interconnection for interstate access  
13      services. Having a unified plan would certainly  
14      limit the administrative costs of the expanded  
15      interconnection service and remove some of the  
16      incentive for misreporting the jurisdictional  
17      nature of the traffic.

18

19      Q.   DOES THIS UNIFIED TREATMENT EXTEND TO ALL ASPECTS  
20      OF THE ISSUES ASSOCIATED WITH EXPANDED INTERCONNEC-  
21      TION?

22      A.   No. With regard to collocation, GTEFL strongly  
23      believes that the Commission should decide for  
24      itself whether it is in the public interest of all  
25      Florida consumers to force physical collocation on

1           LECs. As I noted earlier, a decision is expected  
 2           soon in the federal appeal of the FCC's physical  
 3           collocation rule. Given the uncertain status of  
 4           this requirement, GTEFL urges the Commission to  
 5           develop and be prepared to implement its own collo-  
 6           cation policy. Only in this way can the Commission  
 7           actively ensure protection of state-specific inter-  
 8           ests. Obviously GTEFL disagrees with the Commis-  
 9           sion decision in Phase I of this docket with re-  
 10          spect to interconnection and would certainly urge  
 11          the Commission to rethink that policy in light of  
 12          the potential impacts flowing from the mandate of  
 13          physical collocation for switched access transport.

14  
 15          Q.    SHOULD THE COMMISSION MANDATE EXPANDED INTERCONNEC-  
 16          TION FOR NON-FIBER OPTIC TECHNOLOGY?

17          A.    No. In principle, the technology involved in  
 18          expanded interconnection should be irrelevant.  
 19          However, practical considerations with regard to  
 20          space constraints, particularly in vault space and  
 21          entrance facilities to LEC central offices, imply  
 22          strongly that expanded interconnection should be  
 23          limited to only fiber optic technology. Tradition-  
 24          al cable facilities are far larger than those  
 25          associated with fiber and therefore could lead to

1 far greater demands on limited space. However, if  
2 the Commission were to allow the parties seeking  
3 interconnection to negotiate their own agreement as  
4 to virtual or physical collocation, there is no  
5 inherent reason why an acceptable agreement as to  
6 the technology to be employed in expanded intercon-  
7 nection could not be agreed upon. But the final  
8 decision would have to be deferred to the owner of  
9 the property rights--the LEC. Otherwise, a party  
10 seeking interconnection via non-fiber technology  
11 could result in an immediate exhaustion and excess  
12 demand for LEC structural space. Under such condi-  
13 tions, the LEC must have the right to refuse ex-  
14 panded interconnection.

15  
16 Q. IF THE COMMISSION REQUIRES LECS TO OFFER EXPANDED  
17 INTERCONNECTION, SHOULD THE COMMISSION ALLOW LECS  
18 AND OTHER PARTIES TO INTERCONNECT WITH THE COLLO-  
19 CATING PARTY?

20 A. Yes. First, it is consistent with the symmetrical  
21 treatment of all parties in the marketplace.  
22 Second, if the AAVs truly have a "better mousetrap"  
23 to offer the marketplace than do the LECs in terms  
24 of transport facilities, then there is no reason it  
25 should be denied to any entity in the marketplace.

1           Likewise, if AAV costs are lower than those of the  
2           LEC, there is no reason that LECs should be pre-  
3           cluded from purchasing inputs from the AAVs in  
4           order to provide the services to its remaining  
5           customers. Clearly, the AAVs are no longer simply  
6           interested in providing just a "redundant" or  
7           "network reliability" type of offering to their  
8           established customer base. After all, once they  
9           are interconnected with the LEC, the end-to-end  
10          service is no more reliable than the weakest link.  
11          Part of the AAV service would be an input provided  
12          by a LEC. If LEC service is unreliable, then a  
13          more efficient market solution would be to allow  
14          the LEC to purchase services from the AAV and  
15          utilize them in providing its own output. One of  
16          those inputs which might be utilized by a LEC, or  
17          another party, is AAV floor space.

18  
19          Q.    A CLOSELY RELATED ISSUE, THEN, IS WHO SHOULD BE  
20                ALLOWED TO INTERCONNECT?

21          A.    In its Order, the FCC proposes that expanded inter-  
22                connection for switched access transport be made  
23                available to all parties, regardless of their  
24                possible regulatory classification as Interexchange  
25                Carrier (IXC), end user, Competitive Access Provid-

1 er (CAP), Enhanced Service Provider (ESP), or any  
2 other label. GTE supports this line of reasoning  
3 and believes that limiting this service to a given  
4 classification of customers is unworkable.

5  
6 Any attempt to enforce some arbitrary classifica-  
7 tion scheme is simply a waste of LEC resources.  
8 This points out the problems associated with many  
9 existing tariff applications in an increasingly  
10 competitive marketplace. Since this policy confu-  
11 sion crosses both special and switched access  
12 services in the Florida jurisdiction and also  
13 clearly exists at the federal level, a comprehen-  
14 sive reexamination of FCC as well as Florida rules  
15 will be required if the potential benefits of  
16 expanded interconnection are truly to be realized.

17

18 Q. DOES THE COURSE OF ACTION WHICH YOU JUST DESCRIBED  
19 WITH RESPECT TO RECIPROCAL COLLOCATION REQUIREMENTS  
20 AND WHO IS ALLOWED TO INTERCONNECT HAVE ANY OTHER  
21 REGULATORY IMPLICATIONS?

22 A. Yes, some rather serious ones. Essentially, what  
23 is being suggested for expanded interconnection is  
24 the elimination of resale and use and user restric-  
25 tions. As currently filed, interstate access

1 tariffs do not contain resale or sharing restric-  
2 tions and therefore, these matters need not be  
3 addressed solely with respect to these tariffs.  
4 However, local tariffs do contain resale and shar-  
5 ing prohibitions. These restrictions exist because  
6 the local tariffs contain rate structures and rate  
7 levels which are, to a large degree, dependent on  
8 customer identity, rather than the volume of ser-  
9 vice purchased by customers. The use of resale  
10 and sharing restrictions has allowed social and  
11 public policy goals to be introduced into the rate  
12 design for LEC services. The elimination of these  
13 restrictions, while desirable as a long term policy  
14 goal, must be preceded by a comprehensive review  
15 and potential restructure of all affected services.

16

17 Q. IF THE LONG TERM EFFECTS INCLUDE A POTENTIAL RE-  
18 STRUCTURE OF ALL AFFECTED SERVICES, THEN DOES  
19 EXPANDED INTERCONNECTION HAVE POTENTIALLY SIGNIFI-  
20 CANT EFFECTS ON THE JURISDICTIONAL SEPARATION OF  
21 LEC COSTS?

22 A. Yes, expanded interconnection could have potential-  
23 ly significant effects on the jurisdictional sepa-  
24 ration of LEC costs. More accurately, it is the  
25 increased competition induced by technological

1 changes and enhanced by expanded interconnection  
2 which will affect the jurisdictional separations.  
3 Switching equipment at LEC end offices and tandem  
4 offices is used jointly for local, extended area  
5 service (EAS), intraLATA toll, and interLATA  
6 switched access services. The total cost (or  
7 revenue requirement) of this equipment is allocated  
8 to the various services, based upon their relative  
9 minutes of use.

10  
11 LEC costs associated with interoffice trunking  
12 facilities are likewise allocated to the above  
13 services, plus private line and special access,  
14 based upon relative use, expressed in terms of  
15 trunks, circuits, and miles. The costs allocated  
16 to each service drive the jurisdictional allocation  
17 of LEC costs.

18  
19 As interexchange carriers begin to interconnect at  
20 the LECs' central offices and abandon existing LEC  
21 access connection facilities, the total LEC invest-  
22 ment in these joint facilities will not disappear;  
23 rather, this investment will be reallocated among  
24 the services and jurisdictions which remain, based  
25 on the usage that remains on these facilities. As

1 the interLATA access usage declines, more of the  
2 interoffice transport facility costs will be allo-  
3 cated to the remaining EAS and intraLATA toll  
4 services.

5  
6 When switched interconnection is adopted, jointly  
7 used facilities will see a decrease in switched  
8 access minutes, both state and interstate, and a  
9 corresponding increase in costs allocated to all  
10 other services, including EAS and local. The  
11 jurisdictional impact of switched interconnection  
12 will be much greater than the impact of special  
13 interconnection, both because of the sheer volume,  
14 and because switched interconnection will likely  
15 result in carriers interconnecting at each end  
16 office, bypassing the tandem altogether. As the  
17 interLATA switched access minutes decline because  
18 IXCs bypass LEC tandem switches, more of the joint-  
19 ly used switching and exchange trunking facility  
20 costs will be allocated to intraLATA toll, EAS, and  
21 local services.

22

23 Q. SHOULD ALL SWITCHED ACCESS TRANSPORT PROVIDERS BE  
24 REQUIRED TO FILE TARIFFS?

25 A. I believe that all participants in the market

1           should be allowed the same freedom to compete,  
2           under the same terms and conditions. Therefore, if  
3           the Commission finds it appropriate that the LECs  
4           should operate subject to tariffs, then all parties  
5           providing switched access transport should be  
6           subject to the same condition. If the competitive  
7           rivals are not required to file tariffs, then the  
8           LECs should be afforded the same degree of regula-  
9           tory latitude. A strong case can be made that the  
10          unilateral requirement imposed on LECs to file  
11          tariffs actually weakens the price competition  
12          between the LEC and other parties, lessening the  
13          benefits to the ultimate consumers.

- 14
- 15          Q.    IF THE COMMISSION PERMITS COLLOCATION, WHAT RATES,  
16               TERMS, AND CONDITIONS SHOULD BE TARIFFED BY THE  
17               LEC?
- 18          A.    As I have just testified, the answer to this ques-  
19               tion depends upon whether or not the Commission  
20               requires LECs to file tariffs in the first place.  
21               If firms such as ICI are not required to file  
22               tariffs, then GTEFL and other LECs should also not  
23               have to meet such requirements. If the latter is  
24               the case, then it is not necessary to tariff any  
25               rates, terms and conditions for expanded intercon-

1 nection, as they would be reached by negotiation.  
2 If tariffs are required, however, in terms of  
3 collocation, a legitimate argument can be made by  
4 LEC rivals that GTEFL and other LECs have market  
5 power in the provision of loops, including special  
6 access lines to end users, but not monopoly power;  
7 there are very legitimate and cost-effective loop  
8 substitutes available today and even more will be  
9 available in the future. However, whatever degree  
10 of market power that a LEC has in the provision of  
11 loops, it certainly does not have any market power  
12 in the provision of real estate or commercial/industrial floor space for collocation. Ac-  
13 cordingly, the market can be allowed to work very  
14 efficiently in the pricing of floor space, should  
15 the Commission be interested in pursuing such a  
16 policy.  
17

18  
19 To the extent that a LEC has space available in its  
20 central offices and wishes to make that space  
21 available to third parties, rental rates can be  
22 established based on market conditions in the area  
23 for equivalent kinds of space. To the extent that  
24 central office space is differentiated from other  
25 floor space, some premium can potentially be ex-

1           tracted. Consider the consequences if the Commis-  
2           sion pursues this course of action. First, the LEC  
3           would be effectively replacing the Cost Allocation  
4           Manual (CAM) with a market-based transaction price.  
5           If there is no effective demand for the rental  
6           space made available, then the price will be quite  
7           low, approximating the marginal cost of the floor  
8           space. If the demand exists, then the price which  
9           would be charged, both to the LEC itself and to any  
10          other party seeking to rent the space is the same  
11          market-based price.

12  
13          Suppose a market price is established, even for the  
14          sake of argument including pure economic rent, and  
15          the demand for the space exceeds the quantity of  
16          space available. The first market action in re-  
17          sponse to this excess demand is to raise the price  
18          of the floor space until the quantity demanded is  
19          in balance with the quantity available. Of course,  
20          competitors will utilize the regulatory process to  
21          complain that the price is too high. If a firm  
22          making the allegation of "price gouging" is not  
23          happy with the LEC price for floor space, the firm  
24          can simply locate elsewhere and face no competitive  
25          harm in the terms of collocation pricing, since

1           GTEFL is maintaining its pricing policy of virtual  
2           collocation. Any appeals to the regulatory process  
3           for relief from the pricing of floor space should  
4           immediately be dismissed by the Commission as an  
5           arbitrary attempt to use the process to force delay  
6           on the LEC. Thus, in principle, the price of floor  
7           space should not be a tariffed service.

8

9           Q.   HAVEN'T THE FCC AND THIS COMMISSION ALREADY RE-  
10           REQUIRED THE TARIFFING OF FLOOR SPACE PRICING FOR  
11           SPECIAL ACCESS EXPANDED INTERCONNECTION?

12           A.   Indeed, they have; that is why my answer to the  
13           previous question was that in principle the price  
14           of floor space should not be subject to tariffing  
15           requirements. As I also stated earlier, a number  
16           of issues have been taken out of this Commission's  
17           hands by the FCC's actions. Likewise, the Commis-  
18           sion has already answered a number of these ques-  
19           tions in Phase I of this proceeding. Since a price  
20           already exists for floor space, power, etc. in the  
21           interstate tariffs, GTEFL suggests that as a prac-  
22           tical matter, the prices, terms and conditions in  
23           the federal tariffs should be mirrored in the state  
24           tariffs. Further GTEFL recommends that no distinc-  
25           tion between the price of floor space for special

1           access transport and switched access transport be  
2           attempted.

3

4           Q.   WHAT STANDARDS SHOULD BE ESTABLISHED FOR THE LECS  
5           TO ALLOCATE FLOOR SPACE FOR COLLOCATORS?

6           A.   As I testified above, the market, if allowed to  
7           operate, will take care of this matter without any  
8           standards being established. The FCC and this  
9           Commission have already established a first-  
10          come/first-served policy for the allocation of  
11          floor space in a LEC central office. Again, as a  
12          practical matter, the standards already established  
13          for obtaining space in the LEC central offices for  
14          interstate expanded collocation should be mirrored  
15          in the Florida intrastate arrangements. Again no  
16          distinction should be made between switched and  
17          special access space.

18

19          No federal or Florida requirement for reciprocity  
20          has been placed on those parties seeking collocation  
21          from the LECS. As GTEFL has stated, we believe  
22          that reciprocal agreements are desirable, so  
23          that those parties seeking collocation with LECS  
24          should have the same standards imposed on them to  
25          allocate floor space as are imposed on the LECS.

1           **This may call for an increased level of regulation**  
2           **to be imposed on the AAVs in Florida than has been**  
3           **exercised in the past.**

4  
5           **Q.    BASED ON YOUR TESTIMONY, WOULD YOU SAY THAT EXPAND-**  
6           **ED INTERCONNECTION FOR SWITCHED ACCESS TRANSPORT IS**  
7           **IN THE PUBLIC INTEREST?**

8           **A.    GTEFL agrees that expanded interconnection can be a**  
9           **desirable offering and can promote expanded choices**  
10           **to customers. Despite this conditional endorsement**  
11           **of the concept of expanded interconnection, GTEFL**  
12           **remains firmly convinced that the current policies**  
13           **associated with tariff rules and applications**  
14           **hinder the ability of the LEC to compete with its**  
15           **non-regulated or lightly regulated competitors.**  
16           **GTEFL strongly believes that access rules and rate**  
17           **structure changes are necessary either concurrently**  
18           **or preferably prior to the availability of expanded**  
19           **interconnection. Such pricing and regulatory**  
20           **reforms must include:**

- 21           **a)    geographic deaveraging of access services**  
22           **pricing;**  
23           **b)    increased flexibility in the timing of making**  
24           **price adjustments;**  
25           **c)    the ability to put together service packages**

- 1 as end-to-end offers to customers, including  
2 the resale of AAV facilities, with the ability  
3 to go "off-tariff" to satisfy unique customer  
4 demands and service arrangements.
- 5 d) increased flexibility in the range of allow-  
6 able prices to LECs;
- 7 e) consistent treatment for all competitors in  
8 the marketplace by regulatory bodies with  
9 recognition that AAVs, ESPs, IXCs, cellular  
10 carriers, etc. are potential and actual LEC  
11 competitors as well as valued customers;
- 12 f) recognition that a firm can simultaneously be  
13 an ESP and an AAV, or an AAV and an IXC. Any  
14 rules established by the Commission should be  
15 blind to the identity of the party. The LEC  
16 does not have the ability, nor does it want  
17 to, perform the duties of the telephone po-  
18 lice.
- 19
- 20 Q. DOES CHAPTER 364, FLORIDA STATUTES, ALLOW THE  
21 COMMISSION TO REQUIRE EXPANDED INTERCONNECTION FOR  
22 SWITCHED ACCESS?
- 23 A. Having gone through all the rationale as to why and  
24 how switched access transport should be implemented  
25 if the Commission decides to do so, I must say that

1           it is not at all clear to me that current Florida  
2           law allows the Commission to proceed. I am not a  
3           lawyer and as an economist, I prefer to see compe-  
4           tition prevail in the marketplace for the benefit  
5           of consumers. However, under Chapter 364 of the  
6           Florida Statutes and this Commission's rulings in  
7           its AAV investigation (Docket No. 890183-TL), it is  
8           clear that AAVs in Florida can only provide private  
9           line services between affiliated entities and  
10          dedicated service between an end user and an inter-  
11          exchange carrier. The provision of switched access  
12          transport violates both of these allowances;  
13          switched transport is not a private line service by  
14          historical definition and it is certainly not being  
15          provided between affiliated entities. Neither is  
16          switched access transport a dedicated service  
17          between an end user and an IXC. Rather, it is, by  
18          definition, a switched service provided between a  
19          local exchange company and an IXC.

20  
21          As a general rule, current Florida law does not  
22          allow for AAVs to take advantage of expanded inter-  
23          connection for switched access. This certainly  
24          gives rise to inefficiencies in the marketplace so  
25          far as AAVs are concerned, but is similar in nature

1           to the prohibition placed on both GTEFL and on  
2           Southern Bell against competing in the interLATA  
3           business.

4

5           Q.    DOES THIS COMPLETE YOUR TESTIMONY?

6           A.    Yes, it does.

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1       **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2       **A.   My name is Edward C. Beauvais; my business address**  
3       **is 600 Hidden Ridge, Irving, TX 75038. I am em-**  
4       **ployed by GTE Telephone Operations as Senior Econo-**  
5       **mist in the Regulatory Planning and Policy Depart-**  
6       **ment.**

7       **Q.   DID YOU PREVIOUSLY PRESENT TESTIMONY AND EXHIBITS**  
8       **TO THIS COMMISSION IN THIS DOCKET?**

9       **A.   Yes, I presented direct testimony and exhibits**  
10      **previously in this docket, both in Phase I, dealing**  
11      **with Expanded Interconnection for Special Access**  
12      **Transport, and in Phase II in which the Commission**  
13      **is considering similar issues associated with**  
14      **Switched Access Transport.**

15      **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

16      **A.   The United States Court of Appeals for the District**  
17      **of Columbia on June 10, 1994, vacated the mandatory**  
18      **physical collocation portion of the FCC's expanded**  
19      **interconnection decision and remanded the decision**  
20      **to the FCC in all other respects, including the**  
21      **"fresh look" requirement. As a result of the**  
22      **Court's Order, this Commission gave parties the**  
23      **opportunity to file supplemental direct testimony.**  
24      **My testimony will discuss the effects of the**  
25      **Court's decision on this Commission's collocation**

1 policy.

2 Q. DOES THIS ACTION HAVE ANY IMPLICATIONS FOR THE  
3 DECISIONS OF THE FLORIDA PUBLIC SERVICE COMMISSION  
4 IN THIS DOCKET?

5 A. Yes, I believe it does. Both in Phase I and in my  
6 direct testimony in Phase II, I urged the Commis-  
7 sion not to compel a mandatory physical colocation  
8 approach for LECs or any other party. At that  
9 time, I advanced the argument that the correct  
10 approach both from a legal and economic perspective  
11 was to simply adopt the notion of expanded inter-  
12 connection and leave it to the property owners'  
13 discretion as to how such expanded interconnection  
14 was to be achieved--on a virtual or physical basis.  
15 This was also the argument put forth in the GTE  
16 Florida Incorporated (GTEFL) special brief address-  
17 ing constitutional issues in Phase I of the docket  
18 and which I submitted as an exhibit to my Direct  
19 Testimony in Phase II. The Court of Appeals has  
20 now found against the actions of the FCC. I am not  
21 a lawyer, but because the Florida PSC adopted the  
22 same rules as the FCC, it seems reasonable to  
23 expect that this Commission's mandatory physical  
24 colocation and fresh look provisions would be  
25 overturned as well. A copy of the opinion of the

1 U.S. Court of Appeals is included as Beauvais  
2 Supplemental Direct Testimony Exhibit No. 1.

3 **Q. WHAT SHOULD THE COMMISSION'S COLOCATION POLICY BE**  
4 **GIVEN THIS DECISION BY THE COURT OF APPEALS?**

5 **A.** In both Phase I and Phase II of this docket, I  
6 argued that expanded interconnection is in the  
7 public interest under certain, specific conditions.  
8 These included additional pricing flexibility for  
9 the LECs and the ability of private property owners  
10 to use their property as they best see fit, so that  
11 only mutually beneficial trades occur without  
12 compulsion. If this Commission adopts a policy of  
13 expanded interconnection, it should leave to the  
14 property owner, in this case the LEC, to determine  
15 how expanded interconnection is to be implemented.  
16 As I have previously testified, GTEFL is not op-  
17 posed to physical colocation for either special or  
18 switched access transport. Rather, GTEFL simply  
19 wants to retain its rights to determine how its  
20 private property is to be used.

21 **Q. DOES THE COURT'S RULING AFFECT THE LOCAL TRANSPORT**  
22 **RESTRUCTURING PROCESS?**

23 **A.** No. The decision addressed only the colocation  
24 policy, which is independent of the transport  
25 restructure. As GTEFL witness Kirk Lee explained

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in his Direct Testimony, local transport is subject to substantial competitive pressure with or without expanded interconnection. Local transport restructure and expanded pricing flexibility are thus critical to the LECs' ability to fairly compete with companies that are not restricted in their ability to offer innovative pricing and service arrangements.

**Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

**A. Yes, it does.**

1 Q (By Ms. Caswell) Mr. Beauvais, do you have a  
2 summary of your testimony today?

3 A Yes, I do.

4 Q Would you please give that to us?

5 A Certainly. The thrust of my testimony today  
6 is quite simple and direct. Expanded interconnection  
7 can be a desirable offering which has the potential of  
8 promoting expanded choices and lower prices to  
9 customers. With respect to the issues directly  
10 associated with expanded interconnection, such as  
11 collocation, the Commission should simply adopt the same  
12 policy prescription as did the FCC in response to the  
13 court order, and adopt virtual collocation as the form  
14 of interconnection required.

15 All parties should be free to negotiate the  
16 terms and conditions of expanded interconnection, such  
17 as physical collocation, if all parties can agree. Such  
18 an approach would certainly minimize the network  
19 inefficiencies inherent in attempting to maintain  
20 disparate state and interstate policies.

21 To turn these potential benefits of expanded  
22 interconnection into the maximum possible for consumers  
23 I believe the Commission should also adopt both rate  
24 structure changes and public policy changes. These  
25 include the geographic deaveraging of access service

1 pricing, increased flexibility of the timing of making  
2 price adjustments, the ability to put together service  
3 packages for consumers including the resale of AAV  
4 facilities for the ability to go off tariff to satisfy  
5 unique customer demands, and the consistent treatment of  
6 all competitors in the marketplace.

7           The purpose of the price reforms is to convey  
8 to both carriers and consumers the economies of scale  
9 and scope available from GTE of Florida, the cost basis  
10 for pricing which other parties seek and upon which  
11 sound economic policies should be based -- but, however,  
12 only when combined with consumer demand can the  
13 resulting price increases be translated into the gains  
14 of trade available among all parties.

15           MS. CASWELL: Mr. Beauvais is available for  
16 cross examination.

17           CHAIRMAN DEASON: Do you wish to have his  
18 exhibits identified?

19           MS. CASWELL: I'm sorry. Yes. Exhibits from  
20 direct testimony and then supplemental direct testimony.  
21 I think those will be Exhibit 8 and Exhibit 9?

22           CHAIRMAN DEASON: No, I believe it would be --

23           MS. CASWELL: Or 9 and 10, I'm sorry.

24           CHAIRMAN DEASON: They will be identified as  
25 Exhibits 9 and 10.

1 (Exhibit Nos. 9 and 10 marked for  
2 identification.)

3 CHAIRMAN DEASON: Mr. Carver.

4 MS. PEED: Yes, Southern Bell has some  
5 questions.

6 CROSS EXAMINATION

7 BY MS. PEED:

8 Q Dr. Beauvais, Mary Jo Peed, representing  
9 Southern Bell.

10 A Good afternoon.

11 Q I understand from reading your extensive  
12 resume that you're an economist with an extensive  
13 background in telecommunications; is that correct?

14 A Seems to have worked out that way, yes.

15 Q And you've written and presented a number of  
16 articles and papers concerning access services  
17 competition, and expanded interconnection; is that correct?

18 A Yes, ma'am.

19 Q And drawing on your educational background and  
20 experience as an economist in telecommunications, have  
21 you formulated opinions as to the appropriate pricing  
22 and regulatory treatment of local exchange companies'  
23 switched access services?

24 A Yes, ma'am.

25 Q As you're aware, Mr. Gillan, representing the

1 Interexchange Access Coalition, is advocating a pricing  
2 scheme for local transport services that would require  
3 the local exchange companies to price their services, as  
4 he testifies, on a cost basis where they would start  
5 with a DS3 price and divide that by 28 and add  
6 multiplexing costs to establish a DS1 rate and then add  
7 a tandem switching cost to come up with the tandem  
8 switching rate. He asserts that this methodology is  
9 cost-based and ensures that the contribution to the  
10 local exchange companies' operations are the same, no  
11 matter what the service ordered by the small, medium and  
12 large interexchange carrier.

13 As an economist, would you endorse his pricing  
14 scheme?

15 A I think I got --

16 MS. KAUFMAN: Excuse me, Commissioners. I think  
17 I'm going to object. I may be mistaken, but I don't  
18 believe that Dr. Beauvais addresses Mr. Gillan's  
19 suggestions in his testimony. I think this is outside the  
20 scope of his direct.

21 MS. PEED: Dr. Beauvais is an economist and has  
22 experience in the telecommunication industry; and I  
23 believe that based upon that experience he can provide a  
24 professional -- an expert opinion as to testimony.

25 CHAIRMAN DEASON: Ms. Caswell, do you have

1 anything to add?

2 MS. CASWELL: No. I concur with Ms. Peed's  
3 remarks and I would think that any additional information  
4 we have on the subject might be useful.

5 CHAIRMAN DEASON: I'm going to sustain the  
6 objection. I believe this is a classic example of what I  
7 would term as "friendly cross examination." If he does  
8 not address the testimony of Mr. Gillan in his testimony,  
9 I would agree that it is not appropriate.

10 You may proceed to another line of  
11 questioning.

12 MS. PEED: That's all the questions I had.

13 CHAIRMAN DEASON: Very well. Mr. Fons.

14 MR. FONS: No questions.

15 CHAIRMAN DEASON: Questions? Mr. Wiggins.

16 WITNESS BEAUVAIS: Don't you just love it when  
17 things zip along?

18 MR. WIGGINS: I can't remember what you wrote,  
19 so now how do I know whether it's within the scope?

20 CROSS EXAMINATION

21 BY MR. WIGGINS:

22 Q Good afternoon, Dr. Beauvais.

23 A Good afternoon.

24 Q You advocate zone density pricing flexibility  
25 for your Company?

1 A Yes, among other forms of flexibility as well.

2 Q If it is within the scope of your direct, are  
3 you aware of whether the tariffs at the FCC for your  
4 plans have been approved yet or not?

5 MS. CASWELL: Can I just cut in here a second?  
6 I think that Kirk Lee testifies to its own density pricing  
7 more so than Ed. So if you want to ask him your questions  
8 -- I don't know, Ed, if you have any thoughts --

9 MR. WIGGINS: That would be great and that would  
10 give me a chance to actually frame them. (Laughter) Let  
11 me withdraw that question and move on.

12 Q (By Mr. Wiggins) In your discussions about  
13 the potential revenue impact of expanded  
14 interconnection, is it correct to say that the potential  
15 negative revenue impact or effect on your Company from  
16 allowing competition in the transport segment of the  
17 switched access product for intrastate purposes is  
18 really pretty small?

19 A Based on my analysis and the requests that we  
20 have received so far -- thus far, then I would state  
21 that the revenues, the potential revenue loss from  
22 expanded interconnection directly is relatively minor.  
23 Now, I mean, that may be a technical point, but I think  
24 it's kind of important to separate what's flowing from  
25 expanded interconnection, per se, versus other forms of

1 competitive entry.

2 Q Thank you. As I recall, somewhere in your  
3 testimony you raised a concern about -- the term is  
4 "cross-elasticities between switched access and special  
5 access," did I say that right?

6 A Correct.

7 Q Are there really many customers of General  
8 Telephone that are potential users of special access for  
9 long distance that haven't already moved from switched  
10 access to special access?

11 A I suppose it's possible. In one sense you  
12 would have to survey the customers to find out in terms  
13 of the number of customers and where they are. But  
14 currently a great number of customers, especially on the  
15 interstate side, have already moved to special access  
16 services from the switched alternative.

17 Q Thank you. In one of the -- let me reframe  
18 that. In your written testimony on the potential  
19 revenue effects of both the transport of the switched  
20 access component and also the potential move into the  
21 minutes-of-use problems, did you take into account or  
22 address the expanding pie aspect of communications?

23 A No, sir, I did not. I took the case that  
24 here's what it is today versus what it would be in  
25 another scenario. I didn't try to build in

1 minutes-of-use growth, line growth, customer growth,  
2 because once again that starts to compound the effects.

3 Q So it would be possible for a local exchange  
4 company to actually lose market share but not lose any  
5 revenues or contribution at all?

6 A Well, if you lose revenues and market share,  
7 chances are you are losing contribution relative to what  
8 you would have gotten after the growth.

9 Q But not relative to where you are at the  
10 moment?

11 A In absolute sense, the total may go up.

12 MR. WIGGINS: Okay. Thank you. I have no  
13 further questions.

14 CHAIRMAN DEASON: Mr. Poucher?

15 CROSS EXAMINATION

16 BY MR. POUCHER:

17 Q Dr. Beauvais, I'm Earl Poucher from Public  
18 Counsel's office.

19 As an economist, Dr. Beauvais, should you be  
20 pricing the various services offered by GTE on a  
21 going-forward basis or on a historical basis?

22 A Currently the relevant cost to look at on  
23 pricing as well as the relevant demands are current and  
24 projected demand for services.

25 Q Well, why is that, could you briefly explain

1 why you look at forward-looking costs?

2 A Sure. Because people make decisions about  
3 what to buy both in the present and the future, not  
4 necessarily -- once you have made your decision, you  
5 know, four years ago to buy your car there's not a whole  
6 lot you can do about it. What you can do about it is  
7 trade your car today.

8 Q And is it true that your costs are also  
9 changing, historical costs versus future costs?

10 A Certainly the technology that the telephone  
11 companies and everybody else uses has changed rapidly  
12 and there is associated cost changes with those.

13 Q So you would like to reflect those changes in  
14 your pricing?

15 A Certainly.

16 Q Are you familiar with the processes your  
17 company uses to deploy new technology?

18 A I'm familiar with them in general.

19 Q Well, in general, would you say that the  
20 deployment of fiber technology is based on cost  
21 justification?

22 A I -- certainly.

23 Q And would that be true also of switching  
24 technology?

25 A Of course.

1           Q     So on a going-forward basis, due to the  
2 changes in costs that are reflected by your choice of  
3 technology, is this the basis for your testimony that says  
4 that you are enjoying economies of both scale and scope?

5           A     The going-forward nature? The testimony of  
6 economies of scale and scope I think has been fairly  
7 well documented in the literature in economics for many  
8 years. It's in one sense the basis of all regulation of  
9 local exchange companies historically that we had  
10 natural monopoly or declining average cost  
11 characteristics which made it more efficient to have a  
12 single provider of services rather than multiple  
13 provider of services on a historical basis. That's  
14 largely true whether the technology you're talking about  
15 is fiber and digital switching or the former  
16 step-by-step in plain old copper services.

17                     The new technology tends to lower the overall  
18 incremental costs. In some cases, it makes the economies  
19 of scale, it's gotten more pronounced than they were  
20 before but they've always been there.

21                     MR. POUCHER: Okay. Thank you very much.  
22 That's all the questions I have.

23                     CHAIRMAN DEASON: Staff?  
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## CROSS EXAMINATION

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BY MS. CANZANO:

Q Good afternoon. Dr. Beauvais, your position is that expanded interconnection is in the public interest if the Commission allows LECs to negotiate expanding interconnection arrangements and permits LECs pricing flexibility; is that correct?

A That would be a brief summary.

Q Would you argue that expanded interconnection is not in the public interest if the Commission orders LECs to tariff physical and virtual collocation arrangements but does grant LECs pricing flexibility?

MS. CASWELL: Can we get a clarification on what pricing flexibility would mean?

Q (By Ms. Canzano) The proposed pricing flexibility that you have in the tariffs.

A My response would be -- and maybe some other people would disagree with this one. But it has never been GTE's or my contentions that it was the form of expanded interconnection, whether virtual versus physical, that was imposing large costs. Rather, it was the consequences of expanded interconnection. Therefore, I couldn't say I object -- and I forgot what the question was -- I couldn't object to physical and virtual being tariffed if other conditions were met

1 along with it. However, in light of the FCC's order, I  
2 think you may have all kinds of problems if you have  
3 different policies between the state level and the  
4 interstate level.

5 Q On Page 3 of your direct testimony, Lines 7  
6 through 9, you state, "I would point out, however, that  
7 there are many objectives other than efficiency which  
8 the FPSC may want to pursue." What are the objectives  
9 that you are referring to?

10 A Well, clearly one historical objective of this  
11 an lots of other Commissions have been the policy of  
12 holding down local service prices, especially residence  
13 prices, below what they otherwise would have been. To  
14 the extent that that led to pricing below costs and  
15 potentially even below incremental costs -- and clearly  
16 our objectives are something other than pure economic  
17 deficiencies narrowly defined.

18 Q Are you familiar with the testimony of  
19 Intermedia's witness, Mr. Metcalf?

20 A I have read through it, yes.

21 Q Do you agree with his statement on Page 3,  
22 Lines 6 through 10, of his direct testimony, that  
23 "Expanded competition will discourage large users from  
24 purchasing private networks and facilities such as VSAT  
25 and microwave"?

1 A I'm familiar with it, I didn't memorize it.

2 Q If you did --

3 A I was busy that day.

4 MS. CASWELL: I can give him a copy.

5 A Do you have a copy of that I can look at?

6 (Witness provided document.)

7 I'm sorry, Page 3?

8 Q (By Ms. Canzano) On Page 3, Lines 6 through  
9 10.

10 A Okay, I'm sorry, now what was the question  
11 again?

12 Q Do you agree with his statement that,  
13 "Expanded competition will discourage large users from  
14 purchasing private networks and facilities such as VSAT  
15 and microwave"?

16 A I believe to the extent that these large  
17 volume customers have more options available to them  
18 perhaps from, you know, services offered by a LEC or an  
19 AAV, then there will be relatively less movement to the  
20 private networks and VSAT type arrangements than there  
21 otherwise would be. But VSAT, these other networks, at  
22 least from a LEC perspective, simply look like  
23 competitive alternatives to us anyway.

24 So I guess his statement is probably true on a  
25 relative basis, that relatively fewer of them will move

1 to VSAT but they very well may move elsewhere.

2 Q Are you aware of any large end users leaving  
3 the LEC network and purchasing private networks?

4 A Sure.

5 Q Why do you believe these large users left the  
6 network?

7 A There's probably several reasons, price being  
8 one of them. The policies that have been pursued  
9 historically was to keep the price of switched access  
10 toll services relatively high compared to the  
11 incremental costs to provide them in order to provide  
12 the contributions. Since it's those large volume users  
13 who have historically bought those, they find it cheaper  
14 to go elsewhere.

15 There may be arrangements where it's simply  
16 more efficient for those companies to go on to a private  
17 network, for their own security or whatever reasons they  
18 have. States are building private networks as a way to  
19 hold down the costs.

20 Q Regulations have restricted the LECs ability  
21 to meet the needs of these users; is that correct?

22 A Yes, that's correct.

23 Q Competition by AAVs in the Tampa area has  
24 resulted in GTE Florida's offering new and more  
25 services; is that correct?

1           A     I can't say that it's directly a result of  
2 competition. The fact that ICI has been a relevantly  
3 successful company and the marketing out there certainly  
4 has not hindered the deployment of services, at least  
5 sooner, or perhaps sooner, than they otherwise would  
6 have been offered.

7           Q     Is it correct to say that the benefits of  
8 expanded interconnection are limited to medium to large  
9 users in urban areas?

10          A     I think so far as we have seen, nobody is  
11 going out to the rural areas and very sparsely populated  
12 areas to provide expanded interconnection services in  
13 those areas. So, yes, they've been offered to large  
14 businesses -- medium to large businesses in urban areas.

15          Q     And why is that?

16          A     Because that's where the minutes of use and  
17 the customers are that are likely to buy the services.

18          Q     Dr. Beauvais, do you believe that extending  
19 expanded interconnection to the DSO level has the  
20 potential to extend competition to small business users?

21          A     If DSO end user customers are allowed to  
22 interconnect to other providers? Was that the question?  
23 I'm sorry, I didn't hear it.

24                   (Pause)

25                   MS. CANZANO: Just a minute, please.

1           Q     (By Ms. Canzano) This next series of  
2 questions regards reciprocal interconnection.

3           A     Okay.

4           Q     Switching gears. In Phase I the commissioners  
5 encouraged, rather than mandated, collocators to allow  
6 LECs and other parties to interconnect with their  
7 networks. Do you believe the commissioners should  
8 change this decision?

9           A     As we head into the future, I think the  
10 direction is clear, this is becoming a network of  
11 networks. To the extent that other parties might find  
12 it desirable to use expanded interconnection to  
13 interconnect with the LEC networks, the LECs may find it  
14 desirable to interconnect with their networks. It  
15 strikes me as the same market forces are at work in both  
16 directions.

17                     If the Commission believes it is probably  
18 necessary to somehow mandate that we accept expanded  
19 interconnections, it may be necessary for the Commission  
20 to mandate that expanded interconnection be imposed upon  
21 these other -- these new common carriers, or commercial  
22 providers of services. I don't think it should be  
23 imposed on everybody, clearly. There may be private  
24 networks operating out there that have no desire to be  
25 commercial, selling things to the public. They're

1 operated on a private basis. Clearly no  
2 interconnections should be mandated there. For others,  
3 I would just as soon see the whole thing done on a  
4 voluntary rate -- you have to have these things fitted.  
5 ordering the teeth through the mail just doesn't work.  
6 I prefer to the see the whole thing on a mutually  
7 voluntary basis.

8 We really are negotiating contracts and  
9 arrangements among all parties, and that would probably  
10 work, but, yes, I would urge the Commission to go back  
11 and rethink what the dynamics are that would force  
12 requirements being put mandatory on the LECs and not on  
13 other parties.

14 Q In the past, the LECs have endorsed the  
15 Commission's complaint process as a means to resolve  
16 disputes among parties. Would this be an adequate way  
17 to resolve reciprocal interconnection disputes?

18 A It may very well be.

19 Q And switching gears here once again, to  
20 tariffing requirements, in a general sense, do you  
21 believe that all switched transport providers should be  
22 required to file tariffs?

23 A I believe that it is a wonderful source of  
24 information from all parties about what services are  
25 being offered at what prices under what terms and

1 conditions and where those services are being offered.  
2 Since that's to me, what a tariff is, I think it's an  
3 excellent source of information, centrally available to  
4 the public, Public Counsel and everybody else about the  
5 state of service offerings in the marketplace. So my  
6 answer would be yes, everybody should be required to  
7 file tariffs.

8 Q Why is your company proposing that collocation  
9 arrangements be negotiated instead of tariffed?

10 A Tariff -- well, today tariff means one set of  
11 things to us. And we go through these whole proceedings  
12 to file requirements and it comes up with a set of  
13 prices. I'm not suggesting that everybody has to go  
14 through the same proceedings. And once these  
15 arrangements are made among parties, there is nothing  
16 that suggests something that looks like a price list or  
17 statement of terms and conditions and agreements that  
18 have been reached among the parties can't be filed with  
19 the Commission. All I'm saying, we don't need to go  
20 through these formal processes on everything.

21 CHAIRMAN DEASON: Let me ask a question in that  
22 regard.

23 WITNESS BEAUVAIS: Yes, sir.

24 CHAIRMAN DEASON: Your basic position is that  
25 interconnection should be something that should be

1 voluntarily negotiated between the parties; is that  
2 basically it?

3 WITNESS BEAUVAIS: That would be my basic  
4 position, yes, sir.

5 CHAIRMAN DEASON: Well, does the filing of  
6 tariffs agree with that, in the sense that if you  
7 negotiate -- a tariff is something that's going to be  
8 uniformly applicable to someone whose circumstances are  
9 alike.

10 WITNESS BEAUVAIS: Who are alike. I believe  
11 that it is consistent. If I go to a toy store, for  
12 example -- I spend lots of times in those, especially if  
13 they're selling car parts -- there's price tags on  
14 everything. In a very elementary sense, that's a tariff.  
15 That's what I have to pay. However, if I go in and buy  
16 100 of them at a time, I may not end up paying that  
17 sticker price at all. There are plenty of cases where  
18 there are unique situations among parties that would say,  
19 I don't pay the sticker price, I pay some other set of  
20 prices, based on the volume I do with them or not. That's  
21 equivalent, in one sense, to going off tariff. Or one  
22 could have a price list up there that says, "If you buy  
23 one, the price is \$4.98; if you buy a thousand, the prices  
24 a dollar apiece." They're not necessarily inconsistent.

25 CHAIRMAN DEASON: Okay.

1           Q     (By Ms. Canzano) Assume the Commission  
2 mirrors the FCC's July 25th, 1994 order requiring  
3 mandatory virtual collocation with the LEC option of  
4 providing physical collocation. If the LEC chooses to  
5 provide physical collocation, should the LECs then be  
6 required to tariff floor space for physical collocation?

7           A     I believe we're now back to the Commissioner's  
8 point. If by tariff you mean I have to file a price for  
9 floor space under physical arrangement, and now can  
10 anybody come in and buy that? Then I think I have  
11 probably defeated the purpose anyway, because now I have  
12 a set of prices that anybody can buy, fund, under any  
13 terms or conditions, and we don't have a mandatory  
14 virtual, we don't have a mandatory physical, we have a  
15 set of price offerings the customers can now choose  
16 among. If a tariff means I file with the Commission a  
17 piece of paper saying this is the price I charged for  
18 this particular arrangement on floor space, you know,  
19 does that mean it's a tariff? Perhaps it's a  
20 definitional problem of what tariff means. I would  
21 argue that since the requirement is for virtual, the  
22 only thing that needs to be tariffed are the virtual  
23 tariff arrangements, not the physical ones.

24           Q     Now we're going to switch gears big time here.  
25 In your deposition on August 15th, you were asked, "What

1 types of revenues are at risk as a result of expanded  
2 interconnection?" Your response was, "The primary at  
3 risk items in the short run would be the transport, the  
4 revenues from the transport, switched access, per se,  
5 that is, the revenues we receive from hauling the  
6 traffic from point to point." Do you mean by  
7 "transport" the local transport element of switched  
8 access charges?

9 A I mean the -- yes, the local transport  
10 elements of switched access charges are the immediate  
11 consequences, the revenues at risk from expanded  
12 interconnection for switched access.

13 Q I'm sorry?

14 A I'm sorry. It didn't come through? See,  
15 that's the same problem I had earlier. By transport,  
16 the elements at risk, from going from expanded  
17 interconnection, are those switched access transport  
18 elements out of the switched access tariff.

19 Q Are you asking a question, or are you -- what  
20 do you mean by transport?

21 COMMISSIONER CLARK: Mr. Beauvais, you know, it  
22 would help me if you looked at -- I think it's the diagram  
23 attached to Mr. Guedel's testimony, and maybe you can show  
24 us what -- as I understand it, it's not the local loop,  
25 but it's between the central office and the tandem, it's

1 that --

2 WITNESS BEAUVAIS: Those are the points that are  
3 in our switched access tariff.

4 COMMISSIONER CLARK: Those are the local  
5 transport elements?

6 WITNESS BEAUVAIS: Those are the local transport  
7 elements, not what we would call the local loop today.

8 COMMISSIONER CLARK: Right. (Pause) Can you  
9 describe for me -- I guess it might be Exhibit 1.

10 WITNESS BEAUVAIS: Mr. Guedel's?

11 COMMISSIONER CLARK: Yes, if you hold it up and  
12 show it to me, that would help.

13 WITNESS BEAUVAIS: I'm not real sure how you can  
14 transcribe this. The revenues that are at risk are those  
15 revenues associated with the facilities running between  
16 these two points.

17 COMMISSIONER CLARK: Between the serving wire  
18 center --

19 WITNESS BEAUVAIS: Between the serving wire  
20 center and the end office, and also to the extent that the  
21 tandem can be bypassed, the revenues that are associated  
22 with those are part of transport as well. Between the IXC  
23 -- between the serving wire center and the tandem, and the  
24 tandem and the end office.

25 COMMISSIONER CLARK: You go too fast for me. I

1 understand the serving wire center and the end office.  
2 And then you indicate it can also be between the end  
3 office and the tandem office, and the tandem office and  
4 the serving wire center?

5 WITNESS BEAUVAIS: And the wire center. Those  
6 revenues are also part of transport revenues.

7 COMMISSIONER CLARK: And how can they be  
8 bypassed?

9 WITNESS BEAUVAIS: They can be bypassed by an  
10 IXC, an AAV or any other large volume user who can justify  
11 putting in special access facilities between his point and  
12 the IXC, for example.

13 COMMISSIONER CLARK: Okay.

14 Q (By Ms. Canzano) In your testimony on Page  
15 13, beginning on Line 24, you discuss the DS1s GTE  
16 Florida has in service. Are the revenues GTE receives  
17 for DS1s at risk due to expanded interconnection?

18 A The DS1 revenues, the special access revenues  
19 from DS1, the Commission has already ruled on the  
20 special access expanded interconnection, so, yes, a  
21 portion of those revenues are at risk from the -- a  
22 previous special order.

23 COMMISSIONER CLARK: I'm sorry, Donna, will you  
24 ask your question again?

25 Q (By Ms. Canzano) Are the revenues GTE

1 receives for DSIs at risk due to expanded  
2 interconnection?

3 A Yes, they are.

4 Q Would it be a fair characterization that the  
5 majority of the revenues at risk will be those received  
6 from DSIs rather than lost access revenues?

7 A Could you repeat the question? (Pause)

8 Q Will the majority of the lost revenues at risk  
9 be from DSIs rather than lost access revenues?

10 A If I was at the deposition I think I would  
11 have to answer, "Over what time period?" certainly in  
12 the short run, the majority of the impact is from the  
13 head-to-head competition of special access versus  
14 special access. As we go over time, more and more  
15 revenues can be lost from switched access and people  
16 substituting DS1 type of direct services for the  
17 previously switched services.

18 Q Doctor Beauvais, did you receive a stack of  
19 exhibits from Staff?

20 A Yes, ma'am.

21 Q And have you reviewed those exhibits?

22 A I have looked through them.

23 Q Are you familiar with all of this and have  
24 they been prepared by you or under your supervision?

25 MS. CASWELL: I'm sorry, Donna, I think we

1 discussed with Staff that some of the exhibits probably  
2 should have come under Kirk Lee's testimony. And it's  
3 fine that they remain here, but just so that we understand  
4 that Ed didn't testify to things like zone density and  
5 when the tariffs were filed.

6 MS. CANZANO: Would those be those two tariffs,  
7 Kim? Two tariff pages, the last two sheets, well,  
8 second --

9 MS. CASWELL: I don't have the actual exhibit,  
10 all I have is the cover page. But it's probably true.

11 MS. CANZANO: Why don't we just go through these  
12 one by one and have them marked for identification at this  
13 time.

14 MS. KAUFMAN: Excuse me, Ms. Canzano, do you  
15 have copies for the other parties?

16 MS. CANZANO: Yes. Have they been passed out?  
17 All copies are over here for parties to pick up.

18 COMMISSIONER CLARK: May I make a suggestion  
19 that we take a break and allow the parties to pick them up  
20 because I'd like to get some paper on that easel because I  
21 would like you to explain the answer to that last question  
22 with respect to the DS-1 and the access charges. I want  
23 you to draw me a picture of, you know, the customer and  
24 these different elements so I can understand that. I'll  
25 be responsible for finding the paper for the easel.



1 the first one is labeled in big letters "Confidential,"  
2 and it's labeled "Response to Staff POD No. 2."

3 MS. CANZANO: I'd like to make clear that the  
4 actual exhibit is confidential material. However, we have  
5 provided as a courtesy to all parties a redacted version  
6 of that material.

7 CHAIRMAN DEASON: Very well. The copy I have is  
8 redacted also. But the original exhibit, the confidential  
9 version, is what you want identified as Exhibit No. 11?

10 MS. CANZANO: Yes.

11 CHAIRMAN DEASON: That will be identified as  
12 Exhibit No. 11. Exhibit No. 12 will be "Late-Filed  
13 Deposition Exhibit No. 1."

14 Exhibit No. 13 is entitled "Deposition  
15 Transcripts." I assume it's selected pages or is it the  
16 entire deposition?

17 MS. CANZANO: It's the entire deposition.

18 CHAIRMAN DEASON: Entire deposition will be  
19 Exhibit No. 13.

20 Exhibit No. 14 is "Response to Staff  
21 Interrogatories 40 through 49 and 50 through 62." It  
22 also indicates that there is FPSC Annual Reports, 1990  
23 through '93, Schedule I-1 as part of that exhibit.  
24 That's No. 14.

25 Exhibit No. 15, I assume these are tariffs and

1 we don't actually have the tariffs in our handout.

2 MS. CANZANO: Right, and they are available upon  
3 request, as I mentioned earlier.

4 CHAIRMAN DEASON: Okay. It would be "T-94-195,  
5 T-94-306 and T-94-305." That will constitute Exhibit  
6 No. 15. And Exhibit No. 16, copies of this are also  
7 available upon request. Exhibit 16 will be "GTEFL  
8 Illustrative Intrastate Switched Access Expanded  
9 Interconnection Tariff. Illustrative Switched Access Zone  
10 Density Pricing Tariff, and Response to Staff POD No. 14,  
11 GTEFL's intrastate switched access expanded  
12 interconnection tariff."

13 MS. CANZANO: And that's interstate, right?  
14 Thank you.

15 CHAIRMAN DEASON: That is interstate, I'm sorry.  
16 Okay. All of the exhibits have now been identified.

17 (Exhibit Nos. 11 through 16 marked for  
18 identification.)

19 CHAIRMAN DEASON: Commissioner Clark.

20 COMMISSIONER CLARK: Mr. Beauvais, are you going  
21 to explain to me your comment with respect to losing  
22 revenues on DS1 and access charges?

23 WITNESS BEAUVAIS: I'm going to try.

24 COMMISSIONER CLARK: Okay.

25 WITNESS BEAUVAIS: The picture I've drawn -- is

1 this thing on? So the picture I've drawn up here is more  
2 or less the same picture Mr. Guedel drew, except I'm more  
3 of an upright guy than he is obviously. I go vertical as  
4 opposed to horizontal. I've also added some end users  
5 down here.

6           The situation today is we've got these end  
7 users down here, say. This guy is a big customer, with  
8 lots of traffic going to some point, maybe out of state.  
9 Now, there's options -- at least two options to serving  
10 him.

11           One is, he can use the switched network. He  
12 just dials the number, he's routed either directly to  
13 the IXC POP through the end office and maybe some  
14 intermediate switching, or through the tandem, depending  
15 on the network routing that's there today. So that's  
16 the switch solution. If he is a big customer, however,  
17 he may be able to subscribe to a service such as Megacom  
18 offered by AT&T, in which case he would buy a DS1 or a  
19 special access connection from his premises directly to  
20 the IXC point of presence. That can be provided either  
21 by GTE, it's in Tampa, or a LEC, or it can be provided  
22 by an AAV if their fiber route happens to be coming down  
23 here. In which case we've now taken the former money  
24 that was coming with switched services and has either  
25 gone to special access from the LEC, which is typically

1 cheaper for equal volumes, or he's gone away altogether  
2 so far as we're concerned and he's taken to an AAV.

3 COMMISSIONER CLARK: The DS1 is special access  
4 by you all.

5 WITNESS BEAUVAIS: Well, it can either by us --

6 COMMISSIONER CLARK: All right.

7 WITNESS BEAUVAIS: -- or by them.

8 COMMISSIONER CLARK: Okay. See you can't use  
9 terms interchangeably, you've got to use the same terms.

10 WITNESS BEAUVAIS: It's 24 voice grade channels.

11 COMMISSIONER CLARK: Okay.

12 WITNESS BEAUVAIS: That's one option for a big  
13 customer. But suppose, however, you've got a number of  
14 smaller customers, none of which by themselves could  
15 justify buying a Megacom-type of offering, what they could  
16 do, however, and what expand interconnection makes  
17 possible is some aggregation at the point of these  
18 services, either on a traffic basis or maybe it's DS1s and  
19 DS0s, from -- DS0 being a voice grade, private line  
20 circuit typically over fiber; the end office.

21 If the AAV, for example, doesn't have his loop  
22 coming through here, what this makes possible is the LEC  
23 would provide the service up to a point, it terminates  
24 there. They can then pick the tariff up and take it  
25 directly to the IXC, in which case we would lose either

1 the switched minutes here or if it's a dedicated or  
2 special access circuit, we would lose that part of the  
3 transport facilities, under that scenario.

4 Now --

5 COMMISSIONER CLARK: Say that again.

6 WITNESS BEAUVAIS: Suppose ICI were in Tampa.

7 COMMISSIONER CLARK: As I understand it, they  
8 get to the end office, and then what we're talking about  
9 is the traveling between the end office and the serving  
10 wire center and the POP.

11 WITNESS BEAUVAIS: Most private lines in LECs,  
12 for maintenance reasons, are provisioned by running it  
13 through a central office. They're connected through there  
14 and then out they go. What expanded interconnection makes  
15 possible is essentially this circuit can be broken here --

16 COMMISSIONER CLARK: And go someplace else --

17 WITNESS BEAUVAIS: -- and somebody else can now  
18 pick it up and go from there. That's what expanded  
19 interconnection does. So they can terminate right there.  
20 Rather than having to build facilities to everyone of  
21 these smaller customers out there, assuming we have  
22 facilities there, they could pick that traffic up,  
23 concentrate those circuits, and then go from there. So  
24 this may be DS0s or DS1s that they could put on their DS3.

25 COMMISSIONER CLARK: Okay.

1           WITNESS BEAUVAIS: So that's how you would lose  
2 either the switched -- now, of course, that assumes --

3           COMMISSIONER CLARK: Now, that's where you  
4 confuse me. That's where you lose either the switched or  
5 whatever. What do you mean "switched?" I thought we were  
6 talking about transport?

7           WITNESS BEAUVAIS: Well, but we transport  
8 switched access facilities today.

9           COMMISSIONER CLARK: Yes.

10          WITNESS BEAUVAIS: So with this -- if this  
11 minute were being switched, let's just assume this is a  
12 plain old ordinary B-1, and this guy, for whatever reason,  
13 generates a whole bunch of toll minutes-of-use, but not  
14 enough to get a Megacom yet. His traffic comes in here  
15 and he dials, he's routed over the switched network today  
16 and gets here.

17          COMMISSIONER CLARK: Okay. All right.

18          WITNESS BEAUVAIS: Well, a possible alternative  
19 to that would be he can't justify Megacom by himself, but  
20 by aggregating a number of these type of parties here,  
21 somebody else can justify it for him just by the act of  
22 aggregation, that's what switching is about. They pick  
23 them up at this point, put him on a high volume facility  
24 and take him to the IXC, in which case we now replace  
25 switched access with what amounts to special transport.

1                   COMMISSIONER CLARK: Now, I understand that.  
2 Now, when you were answering your question about what  
3 represents the bigger loss of revenue, what was your  
4 answer?

5           A       My answer is the short run, and historically  
6 it has been these types of arrangements. They are  
7 essentially flat out substitution of DS1 for switching.  
8 As we've moved into the first phase of interconnection,  
9 the first request we have been seen, probably because of  
10 the order it's been address in, was a request for  
11 special access. In which case we're replacing the  
12 individual DS1 circuits from us, perhaps going to  
13 somebody else.

14                   As we go on down the road, because initially  
15 we're essentially revenue neutral here, whatever  
16 revenues we've made up in the access category or  
17 transport, are being recovered through the residual  
18 interconnection charge on the end office on the  
19 switching. But that in itself gives people an incentive  
20 to find a way around that switch. Well, as you go --  
21 over time, the biggest revenue source we have is  
22 essentially switching. And that's where the money is in  
23 the network.

24                   COMMISSIONER CLARK: And that's access charges?

25                   WITNESS BEAUVAIS: Well, it's access charges,

1 it's toll, because all of this doesn't necessarily happen  
2 from just access.

3 COMMISSIONER CLARK: Okay.

4 WITNESS BEAUVAIS: It's measured EAS, it's  
5 anything that uses a switch. There's an incentive to move  
6 away and bypass that switch so that AT&T or MCI or anybody  
7 else using it doesn't have to pay it. So they get to save  
8 the money.

9 So by voting it on here, you put the incentive  
10 to go bypass the switch. Over time, people try to find  
11 ways around this because after all, there's other people  
12 out here doing switching; one person immediately comes  
13 to mind, as this guy has a switch right there, he can  
14 switch as well. There's one way to look at this as  
15 nothing but a -- this is a big local loop.

16 So over time I think the larger source of  
17 revenue loss on a going-forward basis is not from DS1,  
18 DS0 solution, it's from people avoiding these switched  
19 minutes here; that's where all the distribution comes  
20 from to keep the R-1s and things like that down. It  
21 comes from the switching, not so much from the special  
22 access. That was why I answered, over time it moves  
23 from the special side, the bigger loss, gets hit or  
24 shows up on the switching side.

25 COMMISSIONER CLARK: While I have you up there,

1 why do you use a tandem?

2 WITNESS BEAUVAIS: There's more than one end  
3 office.

4 COMMISSIONER CLARK: Goes into a tandem.

5 WITNESS BEAUVAIS: So if you've a lot of people  
6 here, it's an efficient way to serve a bunch of switches  
7 rather than having to run direct connections to everybody.

8 COMMISSIONER CLARK: Okay. Sometimes I feel I  
9 have to relearn everything; if you deal with electricians for  
10 a while you've to come back and relearn --

11 WITNESS BEAUVAIS: I know the feeling. I used  
12 to work for one, too.

13 COMMISSIONER CLARK: Okay.

14 WITNESS BEAUVAIS: The economics of this are  
15 changing. Transport has, in fact, become cheaper over  
16 time and this thing becomes less valuable than it used to  
17 be.

18 COMMISSIONER CLARK: Okay. Thank you.

19 WITNESS BEAUVAIS: Yes, ma'am.

20 CHAIRMAN DEASON: Ms. Canzano.

21 MS. CANZANO: That concludes our questions.

22 CHAIRMAN DEASON: You have no further questions?

23 MS. CANZANO: No further questions.

24 MR. WIGGINS: Mr. Chairman?

25 CHAIRMAN DEASON: Yes, Mr. Wiggins.

1           MR. WIGGINS: I have a couple real short  
2 follow-up questions which I really think will help, and if  
3 they're not, I'm assuming you will hit me with the gavel.  
4 But if you don't mind.

5           CHAIRMAN DEASON: Please proceed.

6                           CROSS EXAMINATION

7 BY MR. WIGGINS:

8           Q     Dr. Beauvais, on this example that you gave,  
9 isn't it true that the typical example of the dedicated  
10 transport being used would be where Feature Group D  
11 traffic of a carrier would be handed off to an AAV such  
12 as Intermedia?

13          A     I don't know that it's Feature Group D per se,  
14 versus A or B, but since the majority of the traffic is  
15 now D, it's probably the case.

16          Q     So here with these small users --

17                   COMMISSIONER JOHNSON: Would you repeat your  
18 question, I didn't --

19          MR. WIGGINS: Yes, ma'am.

20          Q     (By Mr. Wiggins) What I wanted to emphasize  
21 is that --

22                   COMMISSIONER CLARK: Why don't you get up and  
23 point to where you are talking to so we understand what  
24 you're talking about.

25          Q     (By Mr. Wiggins) Dr. Beauvais, would these

1 smaller users down here, at least in the short term, the  
2 more typical use -- the more typical application of the  
3 switched transport component of this would be for  
4 feature grouped traffic to enter the switch, be handled  
5 by the LEC --

6 COMMISSIONER JOHNSON: What?

7 MR. WIGGINS: Feature Grouped traffic, 1+  
8 traffic, dial-around traffic and the like, to come to the  
9 switch to the LEC, the LEC charge its minutes-of-use --

10 COMMISSIONER CLARK: Make it clear, to come to  
11 the end office.

12 MR. WIGGINS: Come To the end office, yes,  
13 ma'am, the central office.

14 COMMISSIONER CLARK: Thank you.

15 Q (By Mr. Wiggins) And at that point to be  
16 handed off to the transport provider of choice. Is that  
17 correct?

18 A That's the expectation for most of the  
19 small-volume customers initially.

20 Q Okay. And the concern you were indicating  
21 with the DS0 and DS1 end users was the problem looming  
22 on the horizon when aggregation among those occur in  
23 that message -- that message-sensitive switching  
24 component can be avoided as well?

25 A The message switching component.

1 MR. WIGGINS: Okay. Thank you.

2 COMMISSIONER JOHNSON: Let me ask a somewhat  
3 related question since you're up there. Were you here for  
4 Mr. Metcalf's testimony?

5 WITNESS BEAUVAIS: Yes, ma'am.

6 COMMISSIONER JOHNSON: I need you to clear up  
7 something for me, then, that was provided as a part of his  
8 testimony. It was during Ms. Caswell's examination of him.

9 He stated that with respect to AAVs, he was  
10 interested more so in the transport switched traffic,  
11 not the switching itself. Could you show me on here  
12 what that actually means and how that works? And I  
13 thought Ms. Caswell was kind of grouping the concepts  
14 together, and he kept trying to pull them apart.

15 WITNESS BEAUVAIS: I think what Mr. Metcalf was  
16 saying here was what he thinks the AAVs are really  
17 interested in here, is he wants alternatives --  
18 (indicating)

19 COMMISSIONER JOHNSON: That's what I needed to  
20 see, okay.

21 WITNESS BEAUVAIS: -- to these pieces and he's  
22 going to let the LEC --

23 COMMISSIONER JOHNSON: That's what I thought.

24 WITNESS BEAUVAIS: -- do the switching in here.  
25 He's doing what ICI just said. That was my interpretation

1 of what he said.

2 COMMISSIONER JOHNSON: That was my understanding  
3 of what he said. I hope that's what he said.

4 And in doing that, then where do you see the  
5 revenue loss? What's the problem with that?

6 WITNESS BEAUVAIS: In the short run for the LEC  
7 there is no revenue loss. Let me be real clear about  
8 that.

9 COMMISSIONER JOHNSON: In the short run.

10 WITNESS BEAUVAIS: In the very short run,  
11 whatever revenues -- assuming you adopt the RIC and that  
12 we're talking intrastate. Now, if you adopt an intrastate  
13 RIC, then whatever revenues we used to get from these  
14 sources are now going to be taken over from explicit charges  
15 for transport, plus this thing called a residual  
16 interconnection charge. Over time, that's going to go down or  
17 go away as people try to avoid it one way or the other.

18 COMMISSIONER JOHNSON: Okay.

19 WITNESS BEAUVAIS: As my testimony tried to pull  
20 out -- just kind of on an example basis, it doesn't take a  
21 lot, but there's huge amounts of money here even though  
22 the price per minute can be very small. Likewise, there's  
23 large amounts of contribution here. And when you start  
24 losing that revenue, you know, it puts pressure on other  
25 prices.

1 COMMISSIONER JOHNSON: Okay. Thank you.

2 CHAIRMAN DEASON: What has to happen before we  
3 lose the substantial contributions from the switched  
4 portion of the service provided in that end office? You  
5 say that's where the real concern is. The question --  
6 what has to happen -- first of all, is it even statutorily  
7 available within the state of Florida; and then even  
8 ignoring that question for a while, what has to happen  
9 from an economic sense?

10 WITNESS BEAUVAIS: I guess -- you know, my  
11 argument here is I put down in parenthesis here just in  
12 case -- if an AA provides this, to me it assumes there's a  
13 legal change required to FS 364. Because this -- well,  
14 clearly we would call this switched transport today. And my  
15 interpretation is the Florida Statutes prohibit AAVs, but not  
16 necessarily anybody else, from doing that today. We can argue  
17 whether it's right or wrong, but it's my interpretation. So  
18 that's the first thing that would have to happen.

19 COMMISSIONER JOHNSON: Not to stop but I just  
20 wanted to clarify that.

21 So it would be your interpretation the  
22 transport itself, not the switching, but to transport  
23 that switched information is statutorily forbidden.

24 WITNESS BEAUVAIS: That's how I read it.  
25 Obviously we're dealing with a legal question.

1           **COMMISSIONER JOHNSON:** Yeah.

2           **CHAIRMAN DEASON:** Even though it's the LEC doing  
3 the switching.

4           **WITNESS BEAUVAIS:** Even though it's the LEC  
5 doing the switching. Again, that's how I read the statute.

6           **COMMISSIONER CLARK:** And what precisely in the  
7 statute, what language in the statute prevents that?

8           **WITNESS BEAUVAIS:** I'd have to go back and look,  
9 Commissioner. I can't cite you the paragraph.

10           **CHAIRMAN DEASON:** Okay. Now, the second part of  
11 my question is, just ignore the statutory question. From  
12 an economic sense, when is the danger going to manifest  
13 itself that those revenues are going to be lost?

14           **COMMISSIONER JOHNSON:** That's a good question.

15           **WITNESS BEAUVAIS:** Let me just cite by way of  
16 example, it doesn't necessarily have to come from an AAV,  
17 it doesn't have to come from an IXC. The example that  
18 pops into mind immediately happens to be a cellular  
19 carrier that I'm aware of in Hawaii, who has just filed a  
20 tariff on the Island of Hawaii which says, "For \$18 a  
21 month, I will give you 600 minutes of use." That is  
22 cheaper than a land line B-1 service is today. "And if  
23 you use over 600 minutes, I'll charge you," I think the  
24 price is "6 cents a minute." All of a sudden you now have  
25 a price that is extraordinarily competitive and, for a

1 large line of traffic, already cheaper than the land line  
2 price.

3 Local competition is legal because it is  
4 called cellular, not called land line. It is a  
5 different technology applied, but, clearly, this is a  
6 competitive offering to a land line carrier.

7 As soon as these markets are opened up,  
8 markets really do have a way of working and forcing that  
9 contribution out very quickly. That statute has  
10 changed. You know, somehow we no longer have the  
11 exclusive right to do what we would call or you would  
12 call local switching. That market can erode very fast.

13 CHAIRMAN DEASON: So, basically, we're talking  
14 about a step to full competition to the local network.

15 WITNESS BEAUVAIS: My interpretation, and I've  
16 talked with your Staff before, is, you know, that's what  
17 we're talking about here is we're talking about another  
18 step. In this case, I think probably a substantial one on  
19 the road to opening up full exchange competition. I don't  
20 say it's good or bad; I mean, that's just how I interpret  
21 what the topic is all about.

22 COMMISSIONER CLARK: Let me just be clear, this  
23 is provided by AAV assuming legal change --

24 WITNESS BEAUVAIS: That's right. If you assume  
25 it is legal, they can do it today. But since I assume

1 it's not, they can't.

2 COMMISSIONER CLARK: Is that based on the fact  
3 that it's your view it is part of local exchange service  
4 or that it's not part of what the AAVs can --

5 WITNESS BEAUVAIS: My interpretation is based on  
6 364, which essentially says they cannot provide switched  
7 services today.

8 CHAIRMAN DEASON: Is GTE the only LEC to have  
9 that strict interpretation of the statute?

10 WITNESS BEAUVAIS: I don't believe so. I think  
11 they all do. Well, maybe I'm wrong.

12 CHAIRMAN DEASON: Well, I thought that, for  
13 example, Southern Bell, I think, thinks that it could be  
14 done legally. Is that correct?

15 MR. CARVER: Our interpretation is the same as  
16 what Dr. Beauvais just said.

17 CHAIRMAN DEASON: All right.

18 MR. WIGGINS: We have a different position, of  
19 course, on that, Mr. Chairman. Lest there be any --

20 CHAIRMAN DEASON: Oh, I know that. (Laughter)  
21 Okay. Thank you. Redirect.

22 MS. CASWELL: I do have a couple of redirect  
23 questions.

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## REDIRECT EXAMINATION

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BY MS. CASWELL:

Q This is further clarification on this legal issue. Those segments you have outlined in orange from the end office serving wire center and through the tandem, those segments are traditionally considered part of switched access service and, in fact, are that way in the tariff; is that correct?

A In answer to your question, yes, they are tariffed that way currently. They are part of switched access.

Q Okay. And under this Commission's interpretation of Chapter 364, AAVs cannot provide any switched services, is that -- well, I should ask you: Can they provide any switched services?

A It is my interpretation of the statutes that they cannot provide switched services the way Chapter 364 is currently written.

Q So is your interpretation of the statute consistent with this Commission's interpretation of the statute, based on their policy decision in the AAV investigation?

A I believe it is.

MS. CASWELL: Thank you.

CHAIRMAN DEASON: Exhibits?

1 MS. CASWELL: Yes, I would like to move  
2 Mr. Beauvais' Exhibits 9 and 10 into the record.

3 CHAIRMAN DEASON: Without objection, Exhibits 9  
4 and 10 are admitted.

5 (Exhibit Nos. 9 and 10 received in evidence.)

6 MS. CANZANO: Staff would like to move into the  
7 record Exhibits 11 through 16.

8 CHAIRMAN DEASON: Without objection, Exhibits 11  
9 through 16 are admitted.

10 (Exhibit Nos. 11 through 16 received in  
11 evidence.)

12 (Witness Beauvais excused.)

13 CHAIRMAN DEASON: Ms. Caswell, you may call your  
14 next witness.

15 (Transcript continues in sequence in Volume  
16 3.)

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