

1 GTE FLORIDA INCORPORATED
2 DIRECT TESTIMONY OF DENNIS B. TRIMBLE
3 DOCKET NO. 950984-TP
4

ORIGINAL
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5 Q. Please state your name, business address, and title.

6 A. My name is Dennis B. Trimble. My business address is 600 Hidden Ridge Drive,
7 Irving, Texas, 75015. I am employed by GTE Telephone Operations as Assistant
8 Vice President - Marketing Services (Acting) and am representing GTE Florida, Inc.
9 ("GTEFL" or "the Company") in this proceeding.
10

11 Q. Will you please state your educational background and work experience?

12 A. I received a B.A. in Business in 1970 and an M.B.A. in 1973, both from Washington
13 State University. In 1972, I became an Assistant Professor at the University of
14 Idaho, where I taught undergraduate courses in statistics, operations research and
15 decision theory. From 1973 through 1976, I completed course work towards a
16 Ph.D. degree in Business at the University of Washington, majoring in quantitative
17 methods with minors in computer science, research methods, and economics. I
18 began my career with GTE in 1976 as an Administrator - Pricing Research with
19 General Telephone Company of the Northwest ("GTENW"). Through 1985, I held
20 various jobs with GTENW and GTE Service Corporation, almost all related to
21 demand analysis, market research, and/or strategic planning. In 1985, I was
22 named Director - Market Planning for GTEFL and in 1987, I became GTEFL's
23 Director - Network Services Management. During most of 1988 and early 1989, I
24 was also Acting Vice President - Marketing for GTEFL. From 1989 through most
25 of 1994, I was employed by GTE Telephone Operations as Director - Demand
26 Analysis and Forecasting. In October of 1994, I became Director - Pricing and
27 Tariffs for GTE Telephone Operations and assumed the additional responsibilities
28 of the Assistant Vice President - Marketing Services position in August, 1995.
29

30 Q. Have you previously testified before this Commission?

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1 A. Yes. I presented testimony on customer demand forecasts and price elasticity
2 estimates on behalf of GTEFL in Docket No. 920188-TL. In addition, I have also
3 presented expert witness testimony before the California Public Utilities Commission
4 and the Hawaii Public Utilities Commission.

5

6 Q. **What is the purpose of your testimony in the docket?**

7 A. In response to the testimony of Timothy T. Devine, dated January 23, 1996 and a
8 Petition filed by Metropolitan Fiber Systems of Florida, Inc. ("MFS") on that same
9 date, my testimony will address the issues associated with the unbundling of
10 GTEFL's local loop for new entrants into the local exchange market; in particular
11 I will focus on: (a) what elements should be made available by GTEFL on an
12 unbundled basis, (b) what are the appropriate financial arrangements for each
13 unbundled element, and (c) further issues that should be resolved in this
14 proceeding. Dr. Gregory Duncan will also provide testimony to support the
15 methodology employed by GTEFL in the development of its proposed pricing of
16 unbundled elements. Ms. Beverly Menard will address the remainder of the issues
17 associated with unbundling services in this docket.

18

19

UNBUNDLED ELEMENTS

20 Q. **What is GTEFL's position on the issue of unbundling the local loop?**

21 A. The Company acknowledges that providing certain network services on an
22 unbundled basis will be an important component of the competitive local exchange
23 environment. Unbundled network services are useful to competitors because these
24 services give the new local exchange competitors the ability to provision parts of
25 their network themselves and to lease other parts from the Company.

26

27 While unbundled network services will be important to competitors in a competitive
28 local exchange service environment, it is necessary to note that unbundling of
29 network services by itself is not sufficient to ensure that fair and efficient
30 competition will develop. In order for efficient competition to develop, we must

1 ensure that the rates charged for unbundled network services are based on proper
2 economic principles to encourage efficient competition and network utilization.

3
4 In addition, unbundling the local network necessarily raises several important
5 concerns, such as pricing flexibility, universal service funding, evaluation of
6 stranded investment, and the eventual need for rate rebalancing. Proper
7 consideration and action on these factors will help ensure a fair and efficient
8 transition to a competitive local exchange market.

9
10 **Q. What elements should GTEFL make available on an unbundled basis?**

11 **A.** GTEFL should make available unbundled loops and any required transport,
12 unbundled ports, and channel multiplexing. These unbundled elements are
13 sufficient to allow an Alternative Local Exchange Carrier ("ALEC") to deliver
14 competitive local exchange services in a manner that is consistent with sound
15 public policy. Sub-loop unbundling or connection of unbundled loops to
16 unbundled ports is unnecessary and will not be offered by GTEFL.

17
18 **Q. Please describe how each of these services can be usefully combined with the**
19 **ALECs' self-provisioned networks and services to deliver competitive local**
20 **exchange service.**

21 **A.** I believe the following provides a reasonable summary:
22 * Unbundled Loop. The unbundled loop provides a voice-grade
23 path between an end user and a Company wire center. An ALEC
24 may obtain this loop from GTEFL and connect it to a cross-
25 connect available at the end office through a co-location
26 arrangement. The cross-connect charges appear in Section 6 of
27 GTEFL's Facilities for Intrastate Access tariff. The ALEC can then
28 provide switching through its own switch, as well as related
29 services such as local usage, custom calling services, switched
30 access service, and toll services. Today, most of these are high-

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margin services which provide the Company with significant contribution to its common costs and overheads, thus enabling GTEFL to support the level of investment infrastructure necessary to achieve the Commission's public policy objectives.

- Unbundled Port. The unbundled port provides switching services from a GTEFL switch to be used with an ALEC-provided loop. This element would apply in areas where ALECs have loop facilities but do not have a local switching center in service. In this situation, the ALEC will cross-connect its loop with GTEFL's switch through a collocation arrangement. The port service provides access to both the local switching capability of the Company's switch (i.e., local calling) and the capability to route calls from the trunk side of the switch (e.g., switched access, toll service, emergency, directory service, etc.).

- * Channel Multiplexing. This may provide a DS-1 level loop connection and allow an ALEC to receive 24 voice-grade circuits multiplexed to a DS-1 level for handoff from GTEFL to the ALEC's collocation arrangement.

Q. Does GTEFL currently offer unbundled local loops or ports on a tariffed basis?

A. Unbundled loop prices are already available today in GTEFL's Facilities for Intrastate Access tariff. GTEFL proposes to use the rates in this tariff for comparable voice-grade facilities. In addition, GTEFL's intrastate access services tariff also provides for interoffice transport facilities necessary to connect a local channel from the end user's serving wire center to the ALEC's point of interface. ALECs may purchase these unbundled elements from existing tariffs as they deem appropriate.

For the unbundled port, GTEFL intends to file a new tariff offering. This offering will provide a 2-wire voice grade exchange port that will facilitate the connection

1 of an ALEC's end user loop to GTEFL's public switched network. The local calling
2 scope, feature capability, and functionality will be the same as provided for
3 GTEFL's basic exchange customers.

4

5 **Q. Does GTEFL currently offer a channel multiplexing service which can be**
6 **purchased by ALECs?**

7 **A. Yes, multiplexing arrangements are currently offered by GTEFL in Section 7 of its**
8 **intrastate access services tariff. The current monthly rate for DS-1 to voice**
9 **multiplexing is \$156.00.**

10

11 **Q. On page 14 of MFS witness Devine's testimony, he states that, in addition to**
12 **voice-grade unbundled loops and ports, GTEFL should offer 2-wire ISDN**
13 **digital grade and 4-wire DS-1 digital grade loops, as well as the following**
14 **forms of unbundled ports: 2-wire ISDN digital line, 2-wire analog DID trunk,**
15 **4-wire DS-1 digital DID trunk, and 4-wire ISDN DS-1 digital trunk. Could you**
16 **comment on this proposal?**

17 **A. I believe MFS' request goes beyond the unbundling of essential local exchange**
18 **services required at this time. Its requested level of unbundling is not necessary**
19 **to achieve the immediate goal of promoting customer choice among local**
20 **exchange service providers. Over 99 percent of GTEFL's base of local exchange**
21 **customers is currently served by 2-wire analog voice grade local loops. As such,**
22 **GTEFL has concentrated its efforts in developing unbundling proposals,**
23 **procedures, etc. for these truly basic services.**

24

25 GTEFL does not oppose discussing and negotiating with ALECs for what it
26 considers enhanced unbundled loops and ports (e.g., ISDN, DS-1) and will
27 diligently do so. But it is reasonable and necessary to expect the unbundling
28 process to be completed in logical stages, with the terms of basic local unbundling
29 to be settled before turning to issues related to wholesale unbundling of enhanced
30 elements.

1 Q. What do you believe are MFS's major problems/issues with GTEFL's
2 unbundling proposal?

3 A. I believe the only major issue is one of price. As Mr. Devine states at page 21 of
4 his Direct Testimony: "Unfortunately, MFS-FL cannot accept GTE's
5 recommendation of special access rates in lieu of unbundled loops. Hence, MFS-
6 FL and GTE have not yet reached an agreement."
7

8 **PRICING OF UNBUNDLED ELEMENTS**

9 Q. What is the appropriate method for determining the rate levels for unbundled
10 services?

11 A. The correct procedure for developing prices for unbundled network services will
12 induce entrants and incumbents to compete on equal terms and conditions and
13 incent only efficient entry. The procedure employed by the Company along with
14 the economic (and practical) rationale supporting the procedure are the topic of
15 Company witness Dr. Gregory M. Duncan's Direct Testimony. To summarize the
16 methodology proposed by Dr. Duncan, the appropriate procedure for determining
17 the rate level of an unbundled service is a matter of computing the following:

- 18 1. The Total Service Long Run Incremental Cost ("TSLRIC") of the
19 service,
20 PLUS
21 2. The TSLRIC of wholesale marketing activities,
22 PLUS
23 3. The opportunity cost (or lost contribution to margin) of foregoing
24 self-provision of the service at retail.
25

26 This procedure results in the determination of a ceiling price. If the rate resulting
27 from this computation exceeds the stand-alone costs of an entrant to self-provide
28 the unbundled element (a relatively rare case for efficient firms with rational rates,
29 but common in regulated local exchange markets with disoriented rate structures),
30 then the resulting rate could generate inefficient or uneconomic bypass. When this

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occurs, the price for the unbundled service should be set at a level that is no higher than the stand-alone facility-based costs of providing the unbundled element.

A. UNBUNDLED LOOPS

Q. Using the methodology presented by Dr. Duncan in his direct testimony, what price would you derive for an unbundled 2-wire loop?

A. Given the Company's very disparate retail rates for residential lines versus business lines, I will provide support for both an unbundled basic business exchange loop and an unbundled basic residential exchange loop. For this exercise, I will use approximate cost and revenue per line figures (although it will become apparent that magnitude errors in these approximations will not change the Company's ultimate pricing recommendation). The numbers required for this analysis are based on GTEFL's estimates of revenue contributions derived from its current customers as presented in Table 1 (Exhibit DBT-1) for business customers and Table 2 (Exhibit DBT-2) for residential customers.

This analysis dramatically points out the fact that GTEFL's current disoriented rate structure results in a significant level of contribution (per month) being derived from business customers. Ignoring the issues of rate rebalancing, universal service support and the possibility of uneconomic bypass, the methodology employed by the company would imply that the in total average contribution from business customers should be added to the long run incremental cost of a basic business loop to yield the appropriate price for an unbundled basic business loop (since the offering of an unbundled loop will cause to Company to lose almost all of the existing contributions derived from the business customer). This loss of contribution due to the selling of unbundled loops is a very serious issue which must be addressed in the development of unbundled rate levels if GTEFL is to maintain its financial viability and impermissible confiscation of its property is to be avoided.

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Turning to GTEFL's residential customers, as presented in Table 2, we observe a dramatically different picture. The average residential customer only provides about per month in contribution to support the Company's common costs and overheads.

I don't believe the low level of monthly contributions derived by the Company from residential customers should surprise anyone. The fact that the Company and the Commission have diligently strived to support public policy objectives (e.g., universal service) and keep residential rates as low as possible is well understood.

Based on approximations of GTEFL's current estimates of costs, Table 3 (Exhibit DBT-3) describes the level of unbundled loop rates that would result using the methodology presented by Dr. Duncan.

Q. Mr. Trimble, is GTEFL proposing that the rates presented in Table 3 are the rates it deems appropriate for unbundled loops?

A. No. As Dr. Duncan explains in his testimony, the procedure that GTEFL believes is appropriate for the development of an unbundled loop rate includes a critical element of reality (a rate cap test) that states: "if the rate developed exceeds the stand-alone costs of an entrant to self provide the unbundled element, then the rate should be discounted to mitigate inefficient or uneconomic bypass." The contribution-preserving business rate of \$62.47 is, in my estimation, significantly above the costs of an entrant to self-provision that service, and thus must be reduced to a price level that is sustainable in the market (i.e., does not incent inefficient entry of facility-based providers).

It should be noted that the contribution-preserving price of \$62.47 for an unbundled business loop is the result of many decades of pricing services based on their perceived "value of service," along with the complementary outcome that excessive revenue contributions from business customers could be used to keep

1 residential rates low. In a competitive marketplace, GTEFL's historically developed
2 rate structures only provide incentives for the inefficient entry of competitors whose
3 major objective will be to capture the above-market revenue contributions (that are
4 used by the Company to support public policy objectives) to finance their entry into
5 the local market and ultimately to transition these contribution levels to their
6 shareholders.

7

8 **Q. Does GTEFL believe that unbundled residential loops and unbundled business**
9 **loops should be priced differently?**

10 **A.** No. The Company does not believe that it or the Commission has the resources
11 or inclination to effectively police the arbitrage that would occur if the Company
12 were required to offer significantly different rates (based on customer identification)
13 for basically the same unbundled element. Although the cost of unbundled
14 business and residence loops is slightly different (see Table 3), it is simply not
15 possible to retain business/residence distinctions in a competitive market.

16

17 Should the Commission, however, choose to retain some vestige of historical
18 pricing guidelines and order different rates for business and residential unbundled
19 loops, then stringent use and user restrictions will have to be implemented. The
20 Commission would also need to keep in mind that an unbundled loop for
21 residential lines would likely be below cost, in violation of Chapter 364, section
22 161(1).

23

24 **Q. Given your previous discussion of pricing development and the significant**
25 **number of concerns surrounding the pricing issue, what is GTEFL**
26 **recommending for its unbundled loop rates?**

27 **A** At this time, GTEFL believes the appropriate rate level for basic unbundled loops
28 is the current 2-wire special access line rates from its Facilities for Intrastate Access
29 tariff. The current rate is \$23.00 for a two-wire local channel. Even at this rate,
30 GTEFL expects to experience significant revenue (contribution) compression due

1 to the offering of unbundled services. The resulting deficit in revenue for the
2 recovery of common costs (e.g., costs associated with motor vehicles, land and
3 buildings, special purpose vehicles, power, testing, engineering, and many more)
4 is stranded as a result of the decision to open the local market to competition. A
5 competitively neutral recovery mechanism should be established to fund this deficit.

6
7 The overwhelming rationale for this rate is that it already exists for what is (for all
8 practical purposes) an identical type service. The pricing of an unbundled loop
9 (i.e., a 2-wire dedicated facility) at rates other than the current special access tariff
10 rates would only result in the lowest rate becoming the rate for all identical
11 services. If the Company were to propose a tariffed rate for unbundled loops that
12 is higher than its current special access rate, an ALEC would just order from
13 GTEFL's special access tariff. If the Company were to propose an unbundled
14 basic loop rate that was lower than its current special access rate, then end user
15 customers of special access will migrate to the lower special access rates (whether
16 by their own initiative or by an ALEC's initiative), which would only serve to put
17 more of the Company's contributions at risk.

18
19 Last but not least, GTEFL's intrastate special access rates do satisfy the
20 requirements of Section 364.161(1) in that the special access price is above the
21 cost of an unbundled loop and will provide a minimum level of contribution.

22
23 Ideally, implementation of GTEFL's proposed unbundled loop rate would occur in
24 conjunction with comprehensive rate rebalancing to eliminate GTEFL's current
25 disoriented retail rate structures and levels. To the extent that this is not possible,
26 however, the Commission should address GTEFL's concerns through methods
27 such as universal service funding and user restrictions.

28
29 **Q. On page 26 of his Direct Testimony, Mr. Devine states that "private lines or**
30 **special access channels are typically priced at substantial premiums today."**

1 **Do you concur with his assertion?**

2 **A.** No. This self-serving statement has no basis in fact. In fact, pursuant to this
3 Commission's Order No. PSC-92-04001-FOF-TL, dated September, 1991, GTEFL
4 filed updated private line cost studies on June 1, 1994. Based on these cost
5 studies, GTEFL's intrastate 2-wire and 4-wire local channel rates are approximately
6 12 percent above their Long Run Incremental Costs ("LRIC") but may not cover
7 their TSLRIC levels. This minimum level of contribution could hardly be
8 characterized as a substantial premium.

9

10 **Q.** On page 21 of his testimony Mr. Devine indicated that "GTE should permit any
11 customer to convert its bundled service to an unbundled service and assign
12 such service to MFS-FL, with no penalties, rollover, termination or conversion
13 charges to MFS-FL or the customer." Does GTEFL agree that there should be
14 no conversion charges to MFS associated with the ordering and provisioning of
15 unbundled services?

16 **A.** No. GTEFL will incur incremental costs associated with the ordering and provisioning
17 of unbundled services. It has been a long standing policy to recover service
18 connection and ordering costs up front in the form of non-recurring charges. GTE
19 will be filing non-recurring service order and processing charges based on the costs
20 to process Local Service Requests ("LSR"s), much in the same way GTEFL has
21 approved charges for processing Access Service Requests ("ASR"s).

22

23

B. UNBUNDLED PORTS

24 **Q.** How does GTEFL plan to price its unbundled ports?

25 **A.** GTEFL plans to rate unbundled ports which will consist of a monthly recurring rate
26 and a usage rate. The usage rate which will be applied is the same as that paid by
27 Shared Tenant Service providers contained in Section A23 of GTEFL's General
28 Subscriber Service Tariff ("GSST"). The current Shared Tenant Service tariff allows
29 for the resale of GTEFL's local exchange service. GTEFL's current rates for shared
30 tenant service are contained in Section A23 of its General Service tariff and are as

1 follows: the peak period rate is \$.015 per completed call and per minute, with off-
2 peak rates at \$.01 per completed call and per minute.

3

4 **Q. What monthly recurring port charge does GTEFL propose?**

5 **A.** GTEFL will file a monthly recurring port charge based on the monthly cost of the port
6 (e.g., line card and associated equipment) plus a reasonable contribution. The
7 absolute rate level for this element has not been finalized by the Company at this
8 time.

9

10 **Q. Does GTEFL expect to see much demand for its unbundled ports from ALECs?**

11 **A.** Not really. GTEFL believes ALECs are generally interested only in obtaining GTEFL's
12 unbundled loops; this way they can get (with minimal investment) easy access to the
13 above-market revenue contributions (from switched services) that the Company relies
14 on to support public policy objectives.

15

16

REVENUE IMPACTS

17 **Q. Assuming the Commission accepts GTEFL's proposal to use its intrastate**
18 **special access rates as the appropriate rate for an unbundled loop, has the**
19 **Company made any estimates of the financial impact these rate levels may have**
20 **on GTEFL?**

21 **A.** Yes, I can provide some ballpark estimates based on a given set of assumptions
22 (which may easily be varied). The financial impact to GTEFL, in terms of lost
23 contribution to common costs and overheads, would be the difference between any
24 contributions the Company receives from the unbundled loop and the contributions
25 the Company would have received from the end users (see Tables 1 and 2).

26

27 Let's assume that ALECs obtain 10% of GTEFL's end user customers through the
28 use of GTEFL's unbundled loop. (At a \$23 unbundled loop rate, the ALECs should
29 be highly successful in attracting GTEFL's business customers, which face B1 tariffed
30 rates of up to \$30 and PBX rates near \$52.) Under this scenario, the annual revenue

1 contributions lost to GTEFL would be approximately per year as shown
2 in Table 4 (Exhibit DBT-4).

3

4 Even under the assumption of only a 10% loss of market share, the resulting
5 annual loss in contributions will significantly affect the Company. Over time,
6 GTEFL has deployed capital in good faith to support customer needs as well as
7 public policy objectives and in return was allowed to earn a fair rate of return on its
8 invested capital. Unbundling the local network will increase the financial risks to the
9 Company and these risks must be diligently addressed during this proceeding. It is
10 unfair and unreasonable to expect GTEFL to suffer financial hardship for the sake of
11 subsidizing the development of a competitive marketplace. The general public of
12 Florida will only benefit from the entry of efficient competitors; GTEFL's current price
13 structures present significant arbitrage opportunities for inefficient entrants.

14

15

ISSUES

16 **Q. Mr. Trimble, could you please summarize the major issues that you believe the**
17 **Commission should address during this proceeding?**

18 **A.** Yes. In addition to (and in concert with) the financial issues facing the Company, the
19 Commission should address: (a) how this proceeding integrates with universal service
20 activities, (b) the potential for the Company to move toward rebalancing its retail rates
21 (both between customer sets and geographically) to correctly reflect efficient price
22 sets, while considering current Florida legislation, and (c) the recovery of one-time
23 implementation costs.

24

25 **Q. In terms of one-time implementation costs, does the Company have an estimate**
26 **of the costs for GTEFL? If so, how would the Company propose to recover**
27 **them?**

28 **A.** The Company has estimated incremental implementation costs associated with local
29 competition for GTEFL to be approximately \$2.2 million over a three-year planning
30 period beginning in 1996. This only includes one-time incremental implementation

1 costs. Given the current law, GTEFL recommends the Commission approve a
2 nonrecurring charge to ALECs per loop to recover this cost.

3

4

SUMMARY

5 **Q Mr. Trimble, would you please summarize your testimony?.**

6 **A.** GTEFL believes it has complied with its statutory obligation to negotiate to the best
7 of its capabilities. The major stumbling block in the negotiations at this time seems
8 to be price. The price that the Company has proposed for unbundled loops is its
9 tariffed intrastate special access rate. These rates satisfy Section 364.161(1) of the
10 Florida Statutes in that they are above cost, although just barely.

11

12 GTEFL's proposed special access rates also pose significant financial issues for the
13 Company in terms of substantial lost revenue contributions. This Commission must
14 address the issue of financial integrity for the Company in its determination of
15 appropriate unbundled rate levels whether through universal funding mechanisms or
16 other means.

17

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

19 **A.** Yes.

20

21

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Table 1
Average Business Customer - Contribution Analysis

	Revenue (per Line)	TSLRIC (per Line)	Contribution (per Line)
Local Exchange Line	\$35.46		
EUCL (CALC)	\$6.00		
Toll	\$4.06		
Vertical Services	\$1.12		
IS - Switched Access			
* CCLC	\$4.83		
* Other	\$5.33		
ST - Switched Access	\$8.11		
TOTAL	\$64.91		

Table 2
Average Residential Customer - Contribution Analysis

	Revenue (per Line)	TSLRIC (per Line)	Contribution (per Line)
Local Exchange Line	\$10.85		
EUCL (CALC)	\$3.50		
Toll	\$1.83		
Vertical Services	\$2.35		
IS - Switched Access			
* CCLC	\$3.37		
• Other	\$3.71		
ST - Switched Access	\$5.66		
TOTAL	\$31.27		

Table 3
Contribution Preserving Unbundled Loop Rates

	TSLRIC Unbundled Loop	TSLRIC Wholesale Costs	Lost Contribution to Margin	Total (Rate)
Business				\$62.47
Residential				\$28.93
Avg Bus + Res				\$37.58

Table 4
Revenue Impacts of Unbundling Loops

	Lost Customer Lines (10%) (a)	Retail Contribution (b)	Unbundled Loop Contribution (c)	Annual Loss (d) = (a)*(b-c)*12
Business	50,000			
Residential	144,000			
TOTAL				