

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into Pricing of)
Unbundled Network Elements)
_____)

Docket No. 990649-TP

SURREBUTTAL TESTIMONY OF

DENNIS B. TRIMBLE

ON BEHALF OF

GTE FLORIDA INCORPORATED

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1 **GTE FLORIDA INCORPORATED**

2 **SURREBUTTAL TESTIMONY OF DENNIS B. TRIMBLE**

3 **DOCKET NO. 990649-TP**

4

5 **Q. PLEASE STATE YOUR NAME.**

6 A. My name is Dennis B. Trimble. I am filing this Surrebuttal Testimony
7 on behalf of GTE Florida Incorporated. I previously filed Direct and
8 Rebuttal Testimony in this proceeding.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. I will respond to the policy aspects of the rebuttal testimony of the
12 alternative local exchange carrier (ALEC) interests in this case.
13 Among other things, I will correct some mischaracterizations of GTE's
14 recommendations and highlight the ALECs' failure to address the
15 dissonance between wholesale and retail rates.

16

17 **Q. DOES YOUR TESTIMONY DISCUSS THE FCC'S SEPTEMBER 15**
18 **DECISION IN ITS "NECESSARY AND IMPAIR" DOCKET (CC DKT.**
19 **96-98)?**

20 A. No. Because the Order in that proceeding has not yet been issued,
21 it is impossible to assess its effect on this proceeding at this time.
22 However, I understand that the parties will have an opportunity to
23 specifically address the FCC Order in supplemental testimony to be
24 filed later this month. In this regard, I would note that many of the
25 ALECs have argued that the Act requires unbundling of UNEs and/or

1 UNE combinations that weren't on the FCC's original list (and that
2 may not be on the revised list, either). (See, e.g., Gillan RT at 11;
3 Falvey RT at 2, 10; Strow RT at 6-7; Senatore RT at 6-7 (all
4 advocating "extended link" UNE combinations); Falvey RT at 3, 6-7;
5 (arguing that equipment and facilities used to provide advanced
6 services "meet the necessary and impair standards of the Act and
7 must be unbundled by the ILECs."); Strow RT at 2-3 (urging the
8 Commission to take action on the basis of her speculation about what
9 the FCC "likely" would do in its necessary and impair docket);
10 Senatore RT at 4 (advocating unbundling of advanced services).

11

12 At least some of this testimony will likely be moot in view of the FCC's
13 decision. However, because the details of that decision are not yet
14 known, I cannot effectively respond here to the ALECs' contentions
15 about the scope of the ILECs' unbundling obligations. I will do so in
16 my supplemental testimony, after I have had the opportunity to review
17 the FCC's Order.

18

19 **Q. DR. ANKUM STATES THAT GTE IS OPPOSED TO DEAVERAGING**
20 **RATES IN THIS PROCEEDING. (ANKUM RT at 17.) IS THAT**
21 **TRUE?**

22 A. No. Dr. Ankum and other ALEC witnesses claim that GTE and
23 BellSouth seek to delay deaveraging in an effort to suppress
24 competition (Ankum RT at 17-18; Murray RT at 3-4) and "preserve the
25 status quo" (Murray RT at 3). In fact, just the opposite is true. GTE

1 is emphatically opposed to maintaining the status quo. The Company
2 supports deaveraging as quickly as possible, but deaveraging must
3 extend to retail, as well as wholesale, rates. Only in this way will
4 efficient competition in all market segments ultimately emerge. As
5 such, I have recommended that the Commission set a consistent set
6 of deaveraged UNE and retail prices for each ILEC in Phase II of this
7 proceeding. (Trimble DT at 23.) I proposed a temporary waiver of the
8 FCC's deaveraging rules only as a second-best solution, if the
9 Commission believes it does not have the time or statutory authority
10 to fashion a comprehensive solution.

11
12 Dr. Ankum mistakenly believes that if the Commission adopts
13 BellSouth's and GTE's recommendations, it will be "many more years
14 before rates will be deaveraged." (Ankum RT at 17.) Even under the
15 current schedule for Phase II, deaveraged UNE rates would probably
16 not take effect, in any event, until 2001. As I noted above, the
17 Commission could deaverage both wholesale and retail rates in this
18 proceeding. In the meantime, the Legislature will have had the
19 opportunity to address explicit USF funding; any fund would likely be
20 implemented in 2001. So GTE's primary proposal of a
21 comprehensive solution could be implemented on about the same
22 timetable that the Commission has established for deaveraging UNE
23 rates.

24
25 If, for some reason, retail rate rebalancing and/or an explicit USF

1 could not be settled within this time frame, then two options are
2 available: (1) some delay in deaveraging UNEs is far better than the
3 alternative of foreclosing competition in high-cost and rural markets,
4 while allowing even inefficient competitors to thrive in lower cost,
5 urban markets; or (2) implementation of a competitively neutral
6 "deaveraging adjustment charge" (DAC), as described in my Direct
7 Testimony (Trimble DT at 24) and detailed in the Direct Testimony of
8 Mr. Doane. GTE has specifically proposed the DAC as an interim
9 mechanism that can facilitate the introduction of deaveraged UNE
10 rates while universal service and rate rebalancing issues are under
11 consideration.

12
13 **Q. THE ALECS CLAIM THAT WITHOUT IMMEDIATE UNE**
14 **DEAVERAGING, GREATER LOCAL COMPETITION WILL NOT**
15 **EMERGE. ARE THEY WRONG?**

16 A. Yes, and their own testimony proves my point. As I said in my
17 Rebuttal Testimony, no ALEC has even attempted to claim that
18 deaveraging UNEs will, in itself, bring competition to all local markets,
19 including high cost and rural areas where meaningful competition has
20 yet to emerge. Instead, they focus on "urban" markets--that is, the
21 lower cost areas where most big businesses are--and extol the virtues
22 of even more competitive alternatives for customers in these areas.
23 I agree that deaveraging UNEs alone will enhance the entry and
24 expansion opportunities for ALECs in urban markets, particularly in
25 the large business segment. Reducing UNE rates in these areas,

1 while retail rates remain significantly above their costs (due to social
2 supports) will create even more attractive arbitrage opportunities than
3 those that exist now. Even ALECs that are not as efficient as the
4 incumbent will be compelled to enter the market to skim the "cream"--
5 that is, the universal service support--in the ILEC's rates. At the same
6 time, the ALECs will not be able to compete in markets where retail
7 rates remain below their costs, because they will not be able to make
8 a profit there. This is not what I would call a competitive result. It is,
9 rather, subsidizing certain competitors in certain markets.

10

11 The Commission's options in this proceeding are very simply framed:
12 If the agency wishes to create bigger windfalls for the ALECs and
13 potentially better deals for customers (mostly larger customers) who
14 already have the most choices, then it should deaverage UNEs
15 without regard to retail rates. If, on the other hand, it wishes to create
16 conditions that will bring competitive choice to all Florida consumers,
17 then it will not even consider going ahead with UNE deaveraging in
18 the absence of retail rate deaveraging and/or explicit universal service
19 funding.

20

21 **Q. DO ANY OF THE ALECS ADDRESS THE PROBLEMS ARISING**
22 **FROM INCONSISTENT WHOLESALE AND RETAIL RATES?**

23 A. Most of the ALECs just ignore this subject, despite the fact that it
24 creates an enormous hole in their "pro-competitive" arguments.
25 Apparently, the ALECs hope the Commission won't realize that their

1 claims of competitive benefits don't extend to vast segments of
2 residential customers, and that their definition of "competition"
3 excludes efficiency considerations. But I believe the Commission
4 can't be so easily deceived.

5
6 When the ALECs do try to address my point about rationalizing both
7 wholesale and retail rates, their attempts are bewildering, at best.
8 Covad's Ms. Murray, for instance, states that deaveraged UNE prices
9 will, in themselves, help to "prevent uneconomic bypass of the
10 incumbents' local networks and thereby enhance the incumbents'
11 ability to provide universal service." (Murray RT at 13.) This is so,
12 she asserts, because averaged UNE prices may send the wrong
13 signals to entrants making "build-vs.-buy" decisions. That is, ALECs
14 will bypass the ILECs' facilities even when the cost of using those
15 facilities would be less than it would be to build duplicate facilities,
16 which purportedly "reduces [the ILEC' s] ability to support universal
17 service." (Id.)

18
19 Ms. Murray's theory makes no sense. Covad supports pricing UNEs
20 at economic cost (which Ms. Murray and other ALEC witnesses define
21 as TELRIC plus a reasonable allocation of shared and common costs;
22 see Murray RT at 4). This kind of pricing fails to recognize the
23 existing social supports in retail rates. An ALEC buying a UNE makes
24 no contribution to universal service. Universal service support resides
25 in retail, not UNE, rates. So selling UNEs at economic cost does not

1 help GTE at all with its universal service burden. On the contrary, as
2 I've repeatedly explained, deaveraging UNEs at economic cost will
3 only make a bad situation worse. If the spread between UNE prices
4 and retail rates in the ALECs' targeted urban areas gets bigger, that
5 means more cream for the ALECs to skim. That cream, of course, is
6 the universal service support that GTE and other ILECs use to
7 maintain below-cost residential rates.

8
9 **Q. DO PARTIES OTHER THAN GTE AND BELLSOUTH RECOGNIZE**
10 **THE ANTICOMPETITIVE EFFECTS OF INCONSISTENT**
11 **WHOLESALE AND RETAIL PRICES?**

12 **A.** Yes. Sprint witness Sichter "fully recognizes the need to synchronize
13 retail rates, UNE rates, and universal service, and that the failure to
14 do so will open up opportunities for uneconomic arbitrage." (Sichter
15 RT at 5.) Mr. Sichter correctly understands that the FCC's stay of its
16 deaveraging rule "was intended to give states time to sort through and
17 rationalize the relationship between retail rates, UNE rates, and
18 universal service" and he would support Commission initiatives to do
19 so. (Id.) Despite his apparent understanding of the need for an
20 integrated solution, however, Mr. Sichter nevertheless recommends
21 going ahead with just UNE deaveraging. He mistakenly believes that
22 deaveraging UNEs is a "necessary first step in developing both retail
23 rate deaveraging and universal service plans" and that only after
24 deaveraged UNE rates are established will we know the appropriate
25 level of rebalancing and USF. (Sichter RT at 6.) This conclusion is

1 puzzling. There is absolutely no reason why deaveraged UNE prices
2 must be set before calculating and addressing the implicit supports in
3 today's rates. Having recognized the potential harm associated with
4 failing to synchronize wholesale and retail rates, it makes no sense to
5 advise the Commission to forge ahead regardless of the
6 consequences.

7
8 Ms. Senatore, testifying for Florida Digital Network, Inc., also
9 understands that rebalancing and universal service issues "will have
10 effects on competition in Florida." (Senatore RT at 2.) Nevertheless,
11 she believes it is "not feasible to address all issues at once," and
12 summarily concludes that "any necessary adjustments can be made"
13 later in other proceedings. I disagree. It is, in fact, feasible to
14 address all issues at once and it would be irresponsible not to. It will
15 be impossible to correct later the anticompetitive effects and market
16 distortions wrought by deaveraging UNEs without addressing the
17 implicit support in retail rates.

18
19 Finally, as I pointed out in my Rebuttal Testimony, ALEC witnesses
20 ask the Commission to remedy retail and wholesale rate
21 inconsistencies when it's in their best interests. This time, Mr. Geis,
22 the witness for Rhythms Links, complains about BellSouth allegedly
23 reducing its retail ADSL charges without reducing wholesale rates.
24 (Geis RT at 7.) ALECs cannot plausibly make these kinds of
25 arguments without accepting across-the-board rationalization of retail

1 and wholesale rates. If the ALECs are complaining about “price
2 squeezes” on services their large business customers use, the
3 Commission should ask why they aren’t also complaining about the
4 lack of margins today in rural and high-cost areas.

5
6 **Q. DOES GTE ADVOCATE THE CREATION OF “NEW (AND
7 SUBSTANTIAL) PUBLIC SUBSIDY FUNDS,” AS MR. GILLAN
8 CLAIMS (GILLAN RT AT 15.)?**

9 A. No. This is a plain mischaracterization of GTE’s position. GTE does
10 not advocate the creation of any “new” universal service supports.
11 What GTE recommends, rather, is just what the Act requires—making
12 existing, implicit support amounts explicit. GTE is not proposing to
13 enlarge the existing fund that is now embedded in its rates; it is
14 proposing that all carriers—not just the ILECs—contribute to that fund,
15 as the Act requires.

16
17 **Q. ARE THE ALECS CORRECT IN BELIEVING THE ILECS ALREADY
18 HAVE THE MEANS TO ACHIEVE THE COMPREHENSIVE
19 SOLUTION YOU ARE RECOMMENDING (SEE, E.G., FALVEY RT
20 AT 11-12; GILLAN RT AT 19-21)?**

21 A. No. The statutes the ALECs cite are, at best, stopgap measures that
22 cannot be used to create the competitively neutral conditions that
23 GTE advocates and that will allow competition to flourish in all
24 segments of the local market. Because the ALECs appear to have
25 missed the thrust of GTE’s arguments, it is once again important to

1 emphasize that competitive neutrality is the objective of GTE's
2 recommendations here. The ALECs instead attempt to recast
3 GTE's position in narrow terms of the ILEC's ability to respond to
4 competition or its desire to preserve existing revenue streams.

5
6 GTE understands that market share and/or revenue losses are likely
7 results of competitive entry; it is not seeking to reverse market-
8 opening measures or to obtain any special advantages. On the
9 contrary, it is asking the Commission to allow all companies the same
10 opportunity to succeed and to let the market determine the winners
11 and losers. As long as all firms are on equal footing, GTE is confident
12 that it will be a winner--as will Florida consumers, who will obtain the
13 benefits that only efficient competition can generate. But GTE cannot
14 be expected to operate in an environment where even less efficient
15 rivals can thrive because of windfall profits created at GTE's expense.
16 Deaveraging UNEs without addressing support in retail rates will
17 make this anticompetitive situation even worse.

18
19 I am not a lawyer, but I believe that existing statutes are not intended
20 to, and cannot, be used to effect the kind of comprehensive, industry-
21 wide solution this problem demands. GTE cannot simply "realign [its]
22 retail price structures with cost" by exercising its statutory pricing
23 flexibility, as Ms. Murray claims. (Murray RT at 12-13.) This flexibility
24 applies only to non-basic services--not to below-cost basic local
25 service prices, which cannot be increased. For non-basic services,

1 GTE has, in fact, used the downward pricing flexibility so many of the
2 ALECs cite. But this presents a Catch-22 situation, as it eliminates
3 the very support that today is used to maintain below-cost local rates.
4 Obviously, this is not a viable, long-term approach. The only
5 permanent solution is rate rationalization, coupled with explicit
6 universal service funding, to the extent that rebalanced local rates are
7 deemed unaffordable.

8
9 This kind of integrated, permanent solution cannot be achieved
10 through the company-specific local rate increases and company-
11 specific, interim USF relief the statutes contemplate. As Mr. Gillan
12 observes, these kinds of measures are merely "safety valves."
13 (Gillan RT at 21.) GTE will certainly use them for that purpose if the
14 Commission and/or legislature fail to address the problem of implicit
15 supports in a comprehensive, industry-wide way. But these statutes
16 are not intended to and cannot correct persistent market distortions
17 or create a competitively neutral environment. Even as short-term
18 relief measures, they present some obvious drawbacks. For example,
19 if GTE makes the showing required under Florida Statutes section
20 364.051(5), basic local rates will go up without regard to whether a
21 USF is in place. To the extent that the Commission wishes to
22 maintain its universal service objectives, GTE does not believe this
23 partial solution would be any more desirable for the Commission than
24 it is for GTE or consumers.

25

1 **Q. THE ALECS CHARGE THAT THERE IS INSUFFICIENT LOCAL**
2 **COMPETITION TO JUSTIFY RATE REBALANCING OR AN**
3 **EXPLICIT USF. DO YOU AGREE?**

4 A. I don't agree with the ALECs' perceptions of the level and pace of
5 local competition. But before I discuss that matter, it is important to
6 once again remove GTE's arguments from the skewed framework the
7 ALECs attempt to create for them. GTE has not presented rate
8 rationalization and a USF as means of remedying competitive losses.
9 Its proposals do not necessarily assume, as the ALECs posit, that
10 telecommunications markets won't expand, that "overall profitability"
11 will decrease (Ankum RT at 19), or that there is "currently vibrant
12 competition in the local market." (Strow RT at 15.) While
13 deleveraging makes rebalancing and USF reform more urgent, these
14 steps must be taken, regardless of what the ILECs' competitive losses
15 have been or might be. Addressing existing social supports is an
16 absolute prerequisite to assuring fair and efficient competition in this
17 State.

18
19 The scheme Congress created does not prescribe elimination of
20 implicit support only after crippling the ILECs' ability to sustain
21 universal service, or only when the ILEC's enterprise as a whole is no
22 longer profitable. Instead, the Act establishes an integrated
23 framework, opening markets while at the same time removing
24 anachronistic implicit support mechanisms that will undermine the
25 development of true competition. Institution of explicit universal

1 service funding or rebalancing does not depend on an analysis of the
2 ILECs' competitive losses. In fact, a recent Florida Senate
3 Committee Report recommends consideration of legislation this year
4 "to set the course for a permanent universal service mechanism."
5 The Report observes that "[a] mechanism that matures in step with
6 the market will prevent 'flash-cut' market distortions." (The Florida
7 Senate, Committee on Regulated Industries, Interim Project Report
8 2000-66, at 8, Sept. 1999.)

9
10 In any event, I do not agree that competition is "extremely limited," as
11 Mr. Falvey and others charge. (Falvey RT at 11-12.) If one looks at
12 the total market, it is no surprise that there is not much competitive
13 choice for residential consumers whose rates remain below their
14 costs--and cleaveraging UNEs in itself won't do a thing to change that.
15 But the story in markets the ALECs have targeted--and, judging from
16 their testimony, will continue to target--is different. In my Direct
17 Testimony, I included data showing that new entrants have made
18 significant inroads into GTE's urban markets. (Trimble DT, Ex. DBT-4
19 at IV-4.) In addition, this Commission's 1998 Local Competition
20 Report shows that ALECs tripled their share of business lines in just
21 one year. In certain metropolitan areas, they have captured from 5 to
22 18 percent of business access lines. (1998 Local Competition Report
23 at Table 3-4.)

24
25 I believe that competition will accelerate even more rapidly once the

1 legal landscape is settled, including the ongoing review of the FCC's
2 TELRIC pricing methodology and the issuance of a final,
3 nonappealable UNE list. One need only look to the intraLATA toll
4 market to realize just how quickly market share can drop once the
5 major legal skirmishes are over. Before intraLATA equal access was
6 completed in GTE's territory in February 1997, the Company had
7 close to 100% of the intraLATA toll market. Now, less than three
8 years later, GTE's share of that market has dropped to less than 30%.
9 I would expect the experience in targeted local market segments to
10 be similar, due to a number of factors. For instance, GTE has already
11 signed over 110 resale and/or interconnection contracts; upwards of
12 70% of businesses and 60% of residential customers in the Tampa
13 Bay area can be easily reached from existing ALEC facilities (Trimble
14 DT, Ex. DBT-4 at IV-4); and the ALECs are already pulling ahead in
15 the market for advanced services, as I explained in my Rebuttal
16 Testimony.

17
18 **Q. DOES THE FCC'S RULE 315(B) REQUIRE ILECS TO PROVIDE**
19 **UNE COMBINATIONS, AS MS. STROW SUGGESTS (STROW RT**
20 **AT 7)?**

21 **A.** No. As I pointed out in my Rebuttal Testimony, Rule 51.315(b)
22 prevents carriers from disconnecting previously connected elements
23 for no good reason, as the U.S. Supreme Court has made clear. It is
24 not an affirmative requirement to do the converse--combine elements
25 the ALECs might want.

1 Q. DOES THE ACT REQUIRE USE OF A TELRIC COST STANDARD
2 TO SET UNE PRICES, AS SOME ALECS SEEM TO BELIEVE
3 (STROW RT AT 13-14; MURRAY RT AT 18; ANKUM RT AT 6-7)?

4 A. No. The Act does not require use of a TELRIC standard to determine
5 UNE prices. Rather, section 252(d)(1) requires that rates for UNEs
6 must be based on the cost of providing the element and "may include
7 a reasonable profit." There is no reference anywhere in the Act to
8 TELRIC. Although the FCC has used TELRIC as a means of
9 implementing the Act, I would note that the FCC's TELRIC pricing
10 rules are currently under review by the Eighth Circuit. I believe that
11 GTE and the other parties challenging those rules have the better
12 argument, based on the Act's language and Congress' plan for
13 promoting facilities-based competition. While the Supreme Court did
14 not review the merits of the FCC's pricing rules in its decision in *AT&T*
15 *Corporation v. Iowa Utilities Board*, 119 S. Ct. 721 (1999), Justice
16 Breyer nevertheless rejected the FCC's nonsensical rationale that it
17 could foster competition only by setting prices at the level it thought
18 might be achieved as the end result of a competitive market: "The
19 competition that the Act seeks is a process, not an end result; and a
20 regulatory system that imposes through administrative mandate a set
21 of prices that tries to mimic those that competition would have set
22 does not thereby become any the less a regulatory process, nor any
23 the more a competitive one." (*Id.* at 751.)

24
25 Moreover, whether a TELRIC methodology is ultimately deemed

1 permissible or not, at the price-setting phase, it is essential to account
2 for social supports in the ILECs' retail rates.

3
4 **Q. DO THE ALECS EFFECTIVELY CRITICIZE GTE'S AND**
5 **BELLSOUTH'S PROPOSAL TO PRICE UNES IN ACCORDANCE**
6 **WITH THEIR ACTUAL COSTS?**

7 A. No. The ALECs respond vaguely by claiming that pricing in accord
8 with actual costs would reflect the "existing inefficiencies" of the
9 ILECs' networks, thus failing to send the right signals to the market .
10 (See, e.g., Ankum RT at 5; Senatore RT at 8; Falvey RT at 9.) These
11 repeated, self-serving accusations of inefficiencies in the ILEC
12 operations are thoroughly unsupported. Not one party in this
13 proceeding has even attempted to present any real, factual data to
14 substantiate their allegations of excessive ILEC inefficiencies.

15
16 In any event, competitive markets will eliminate inefficiencies. But
17 competitive markets are based on the premise that "if you can do it
18 better, you are likely to win"--not on "give me what I want and I will
19 win," which is the precept the ALECs advocate.

20
21 **Q. MR. BARTA CHARACTERIZES GTE'S AND BELLSOUTH'S**
22 **PRICING PROPOSALS AS MAKE-WHOLE ATTEMPTS. (BARTA**
23 **RT AT 13.) IS THIS CORRECT?**

24 A. No. Again, this allegation is wholly unfounded. GTE's proposal is
25 founded on competitive neutrality, not competitive advantage. If

1 GTE's competitors are more efficient, GTE will lose market share to
2 them, as it should in a truly competitive marketplace. That is, if
3 GTE's actual costs are too high (i.e., inefficient), its rates will be too
4 high, so more efficient firms will take GTE's customers. A firm cannot
5 be "made whole" if it is losing market share to its competitors. GTE's
6 proposal allows that if it is the most efficient firm, it will have the
7 opportunity to recover its actual costs. If it is not the most efficient
8 firm for some segment of the market, then GTE's proposal will not
9 allow recovery of its actual costs.

10

11 **Q. HAS THE COMMISSION ALREADY DECIDED TO PRICE UNES AT**
12 **TELRIC FOR PURPOSES OF THIS PROCEEDING, AS MS.**
13 **SENATORE SUGGESTS (SENATORE RT AT 10)?**

14 **A.** No. The ultimate goal of this proceeding is just that--to determine
15 UNE prices. In this first phase, the Commission will establish the
16 guidelines and requirements for the cost studies to be submitted in
17 the next phase, where the Commission will set prices. There is no
18 presumption that the Commission will employ any particular pricing
19 approach.

20

21 **Q. IF PRICES SHOULD NOT BE SET AT TELRIC, THEN WHAT**
22 **VALUE DO LONG-RUN COST MODEL ESTIMATES BRING TO**
23 **THE PRICING OF VARIOUS SERVICES OR ELEMENTS?**

24 **A.** From GTE's standpoint, a correctly designed, engineering-based
25 long-run cost model brings some very useful information to the

1 development of element- or service-specific price sets. But first, it
2 must be understood that no engineering model is capable, on its own,
3 of producing compensatory price sets. A model is just an abstraction
4 of what might occur if an operating environment existed that mirrored
5 the assumptions upon which the model was developed. As witness
6 Tucek pointed out, TELRIC models are premised on a set of
7 operating assumptions that, in total, will not exist for any real-world
8 firm. These models have specific capabilities to assist in developing
9 product prices, but they should never be thought of as the end-all
10 pricing mechanism.

11
12 Within the business world (and especially for regulated utilities), the
13 challenge is to develop price sets which are rationally related to
14 underlying cost characteristics and which generate revenue streams
15 sufficient to give the company an opportunity to recover its actual
16 costs, plus a fair rate of return. TELRIC models, in and of
17 themselves, have no explicit linkage to a firm's actual costs. These
18 models are just planning tools, whose contribution to pricing consists
19 of two important inputs: (1) estimates of price floors, to safeguard
20 against predatory or irrational prices; and (2) estimates of relative cost
21 variations among customer sets, proposed rate element categories,
22 geographies, and many other schema of interest. As such, GTE uses
23 the output of its long-run cost model as an indicator of cost
24 relationships in the price development process. As witness Tucek
25 has testified, only a company-specific model is suited to developing

1 this type of information for the ILECs.

2

3 **Q. MR. DICKERSON ASSERTS THAT SWITCHING COSTS VARY**
4 **TOO MUCH TO AVOID DEAVERAGING THIS UNE. (DICKERSON**
5 **RT at 16.) IS THIS TRUE?**

6 **A.** I do not believe that it is appropriate, at this time, to deaverage
7 switching rates. Much of the variation in switching costs is not due
8 to volume, as Mr. Dickerson implies. Rather, it appears that much
9 of the variations in switching costs from wire center to wire center are
10 due to technology differences.

11

12 Vendors approach switching technology quite differently. Some, for
13 example, address service issues from a hardware perspective, while
14 others address the same issue from a software perspective.
15 Likewise, it is well known that some vendors prefer distributed
16 processing, while others prefer centralized processing. I do not
17 believe it is appropriate, from a policy perspective, to support
18 deaveraged switching rates based on the vendor technology used;
19 nor do I feel it appropriate to rely solely on how an engineering model
20 maps or partitions costs to determine deaveraged rates. Further, the
21 Commission should not deaverage switching rates until it is clear that
22 end-user customers will benefit from such a change. Additionally,
23 from my perspective, and, it appears, from the perspective of at least
24 most of the ALECs, it is most important to address loop deaveraging
25 now, then turn to other, potential deaveraging candidates at a later

1 time.

2

3 **Q. MR. DICKERSON TAKES ISSUE WITH YOUR VIEW THAT**
4 **INTEROFFICE FACILITY PRICES ARE ESSENTIALLY**
5 **DEAVERAGED ALREADY. (DICKERSON RT AT 17.) HOW DO**
6 **YOU RESPOND?**

7 **A. As BellSouth witness Caldwell has pointed out, "The rate structure of**
8 **the interoffice transport, i.e., \$/mile, already accounts for geographic**
9 **differences by eliminating the length from the equation" (Caldwell RT**
10 **at 17.) GTE's current rate structure for "UNE-interoffice transport"**
11 **accommodates not only distance considerations for common and**
12 **dedicated transport rates, but also volume considerations for**
13 **dedicated transport (i.e., 2-wire, DS-1, DS-3; see Order No. PSC-97-**
14 **0064-FOF-TP, Table 1: Commission Approved Recurring Rates for**
15 **Unbundled Network Elements). In fact, GTE offers seven transport**
16 **UNEs today that, in combination, yield deaveraged prices in terms of**
17 **volume and distance. Mr. Dickerson may mistakenly believe that GTE**
18 **offers only one of these transport UNEs.**

19

20 Differences in volume and distance are captured when an ALEC
21 selects 2-wire voice grade, 4-wire voice grade, DS1, DS3, DS1 to
22 DS3 multiplexing and DS1 to voice grade multiplexing. An ALEC with
23 "low" volume requirements may, for example, order voice grade
24 transport UNEs to handle traffic requirements. An ALEC with "very
25 high" volume requirements may order DS3 transport UNEs or even

1 DS3 transport UNEs along with DS3 to DS1 multiplexing UNEs to
2 handle traffic requirements. Further, the shared transport UNE allows
3 an ALEC to purchase transport on a per-minute and a per-minute-mile
4 basis--again, deaveraged based on volume and distance. Given
5 these facts, GTE believes that any cost differences for interoffice
6 transport can be adequately addressed through a statewide rate
7 structure.

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9 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

10 A. Yes, it does.

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