



Michael W. Tye
Senior Attorney

U.S. DISTRICT COURT
FILE COPY

Suite 1400
106 East College Avenue
Tallahassee, Florida 32301
904 425-6360

May 23, 1994

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Docket No. ~~94-104~~-TP

Dear Ms. Bayo:

Enclosed for filing in the above referenced docket are an original and fifteen (15) copies of the Direct Testimony of Mike Guedel on behalf of AT&T Communications of the Southern States, Inc. Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

ACK
AFA Davis

APP

CAF

CML Haitz

CTR

EAG

LEG Cargano

LIN

OPC

RCH

SEC

WAS

OTH

MWT:sad

Attachments

Yours truly,

Michael W. Tye
Michael W. Tye

DOCUMENT NUMBER-DATE

05013 MAY 23 1994

FPSC-RECORDS/REPORTING

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: EXPANDED INTERCONNECTION
PHASE II AND LOCAL TRANSPORT
RESTRUCTURE

DOCKET NO. 921074-TP

DIRECT TESTIMONY OF
MIKE GUEDEL
ON BEHALF OF AT&T COMMUNICATIONS
OF THE SOUTHERN STATES, INC.

MAY 23, 1994

DOCUMENT NUMBER-DATE

05013 MAY 23 8

FPSC-RECORDS/REPORTING

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

3 A. My name is Mike Guedel and my business address is AT&T,
4 1200 Peachtree Street, NE, Atlanta, Georgia, 30309. I am
5 employed by AT&T as Manager-Network Services Division.

6

7

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK
9 EXPERIENCE.

10

11 A. I received a Bachelor of Science degree in Business
12 Administration from Miami University, Oxford, Ohio. Over
13 the past years, I have attended numerous industry schools
14 and seminars covering a variety of technical and
15 regulatory issues. I joined the Rates and Economics
16 Department of South Central Bell in February of 1980. My
17 initial assignments included cost analysis of terminal
18 equipment and special assembly offerings. In 1982, I
19 worked on access charge design and development. From May
20 of 1983 through September of 1983, as part of an AT&T
21 task force, I developed local transport rates for the
22 initial NECA interstate access filing. Post divestiture,
23 I remained with South Central Bell with specific
24 responsibility for cost analysis, design, and development
25 relating to switched access services and intraLATA toll.

DOCUMENT NUMBER-DATE

05013 MAY 23 8

FPSC-RECORDS/REPORTING

1 In June of 1985, I joined AT&T, assuming responsibility
2 for cost analysis of network services including access
3 charge impacts for the five South Central States
4 (Alabama, Kentucky, Louisiana, Mississippi, and
5 Tennessee).

6
7
8 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

9
10 A. My current responsibilities include directing analytical
11 support activities necessary for intrastate
12 communications services in Florida and other southern
13 states. This includes detailed analysis of access
14 charges and other LEC filings to assess their impact on
15 AT&T and its customers. In this capacity, I have
16 represented AT&T through formal testimony before the
17 Florida Public Service Commission, as well as the
18 regulatory commissions in the states of South Carolina
19 and Georgia.

20
21
22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

23
24 A. The purpose of my testimony is Twofold:
25

1 First, I will recommend that the Commission order the
2 restructure of local transport consistent with the
3 structure recently approved by the Federal Communications
4 Commission for Interstate access service, and

5
6 Second, I will recommend that the Commission approve
7 expanded interconnection for switched access services.
8

9
10 **I. LOCAL TRANSPORT RESTRUCTURE**

11
12
13 **Q. WOULD YOU DESCRIBE THE GENESIS OF THE FEDERAL**
14 **COMMUNICATIONS COMMISSION (FCC) ORDER APPROVING THE**
15 **INTERIM RESTRUCTURE OF LOCAL TRANSPORT SERVICE?**

16
17 **A.** The FCC long recognized that the structure of local
18 transport charges (prior to restructure) was not
19 reflective of the underlying costs that the LECs incur in
20 providing the service. The original structure was based
21 upon the "equal charge" requirement of the Modification
22 of Final Judgment (MFJ) - the court decree under which
23 AT&T divested itself of the Bell Operating Companies
24 (BOCs). This rule required that the charges for local
25 transport be equal per unit of traffic. The rule,

1 however, ignored the fact that the cost of providing
2 those units might differ based upon the network
3 configuration used to serve particular IXCs. For
4 example, one form of transport (common transport)
5 requires the use of a tandem switching machine, whereas
6 another form (dedicated transport) does not require the
7 tandem switch. Clearly the cost of providing transport
8 under these unique arrangements is different, however,
9 under the "equal charge rule," the rates charged had to
10 be exactly the same.

11
12
13 **Q. WHAT WAS THE BASIS FOR THE "EQUAL CHARGE" RULE?**

14
15 **A. It is my understanding that the rule was prescribed as an**
16 **effort to encourage competition in the interexchange**
17 **market at a time when AT&T's share of that market was**
18 **exceptionally high. The rule effectively offered**
19 **competitors, or potential competitors of AT&T, an**
20 **artificial (non-cost based) advantage with respect to the**
21 **purchase of access service. The need for the rule was**
22 **clearly recognized as temporary, and the decree specified**
23 **an expiration date of September 1, 1991.**

1 Q. IN LIGHT OF THE EXPIRATION OF THE EQUAL CHARGE RULE, WHAT
2 ACTION HAS THE FCC TAKEN?
3

4 A. When the "equal charge rule" expired in September of
5 1991, the FCC sought to implement a more cost causative
6 structure for the local transport rate elements. On
7 August 31, 1991, through the issuance of an Order and
8 Notice of Proposed Rulemaking, the FCC initiated a
9 proceeding to consider alternative transport structures.
10 By November 22, 1991, over 50 companies or organizations
11 had offered comments to the FCC on these issues, and by
12 January 22, 1992, over 40 companies or organizations had
13 offered reply comments to the FCC through this
14 proceeding. Following this extensive investigation, the
15 FCC adopted its interim transport restructure balancing
16 three stated objectives:
17

18 1) encourage the efficient use of transport
19 facilities by allowing pricing that reflects cost,
20

21 2) facilitate full and fair interexchange
22 competition, and
23

24 3) avoid interference with the development of
25 interstate access competition.

1 The structure, and the associated prices, became
2 effective December 30, 1993.

3
4
5 **Q. WHY HAS THE TRANSPORT RESTRUCTURE BEEN DESCRIBED AS**
6 **"INTERIM?"**

7
8 **A.** The FCC has adopted this structure as "interim,"
9 recognizing the need for ongoing investigation of issues
10 surrounding local transport. While the plan was
11 recognized as a significant improvement over the existing
12 "equal charge" approach, the FCC sought to monitor its
13 effects through implementation, and gather additional
14 data prior to confirming a "long term" solution. For
15 instance, one thing the FCC intends to review is the
16 appropriateness and need for the RIC. The FCC has
17 anticipated that this structure will remain effective for
18 about two years, during which time the FCC will continue
19 its investigation and seek further comment from the
20 parties regarding price and structure issues.

21
22
23 **Q. PLEASE DESCRIBE THE COMPONENTS OF THE RESTRUCTURED LOCAL**
24 **TRANSPORT SERVICE?**

1 A. The restructured service includes four basic rate
2 elements: 1) a flat-rated Entrance Facility charge which
3 covers the link between the LECs serving wire center
4 (SWC) and the IXC's point of presence (POP); 2) a flat-
5 rated Dedicated Direct Truck Transport charge which
6 covers transport between (a) the LEC SWC for the IXC POP
7 and the terminating LEC end office, or (b) the LEC SWC
8 for the IXC POP and the LEC access tandem; 3) a usage-
9 based Tandem Switched Transport element for transport of
10 tandem switched traffic between the SWC for the IXC POP
11 and the terminating LEC end office (this element includes
12 both an interoffice transmission charge and a tandem
13 charge); and 4) a usage based Residual Interconnection
14 Charge (RIC), a contribution element paid by all access
15 customers that interconnect with the LEC switched
16 network. My Exhibit I provides a graphic representation
17 of the transport structure (selected from CC Docket 91-
18 213, Report and Order and Further Notice of Proposed
19 Rulemaking, Adopted September 17, 1992).

20
21

22 Q. HOW WERE THE RATES FOR THE TANDEM SWITCHED TRANSPORT
23 ELEMENT ESTABLISHED?

24

25 A. Under the interim restructure prescribed by the FCC, the

1 tandem switched transport charges were designed to
2 recover both the cost of the tandem switching and the
3 cost of the required interoffice transmission. The rate
4 for tandem switching, however, was set to recover only
5 20% of the interstate revenue requirement associated with
6 tandem switching. The intrastate proposals of BellSouth
7 and GTE "mirror" the respective rates approved in the
8 interstate arena.

9
10
11 **Q. HOW WERE THE RATES FOR THE RESIDUAL INTERCONNECTION**
12 **CHARGE (RIC) ESTABLISHED?**

13
14 **A.** The RIC was established as a "keep whole" element. The
15 rate was set to recover 80% of the revenue requirement
16 associated with tandem switching (discussed above) plus
17 all additional revenue required to make the restructure
18 "revenue neutral" to the LEC. Company specific rates
19 were developed by estimating the amount of revenue that
20 the company would receive from the proposed restructured
21 rate elements (excluding the RIC), determining the
22 difference between that amount and the revenue amount
23 that it would expect to receive from the current
24 transport structure, and then set the price of the RIC to
25 recover that difference. The FCC specifically required

1 the LECs to develop these charges based upon historical
2 demand configurations and historical minutes of use. The
3 FCC states at paragraph 51 of its First Memorandum
4 Opinion and Order on Reconsideration, adopted July 21,
5 1993:

6
7 Because of LEC incentives to project
8 reconfigurations in a manner that would maximize the
9 interconnection charge, and because of the
10 difficulty of evaluating those projections, we
11 conclude that the LECs should be required to use
12 historical facility demand in computing the initial
13 interconnection charge.

14
15 For the same reasons, the Florida Public Service
16 Commission should likewise require the LECs to use a
17 historical network configuration in developing the
18 intrastate interconnection charge.

19
20
21 Q. WHAT IS AT&T'S POSITION ON THE LEVEL OF THE RIC?

22
23 A. As noted above, the RIC represents a residual
24 contribution element - i.e. a rate element with no direct
25 underlying costs. For this reason, the charge should

1 ultimately be eliminated in both the federal and state
2 jurisdictions. Recognizing, however, the "revenue
3 neutral" nature of the proposed RIC (assuming the basis
4 of historical network configuration described above) and
5 the limited scope of this docket, the Commission should
6 not delay the implementation of the transport restructure
7 to address this issue at this time.

8
9
10 **Q. DO THE PROPOSED INTRASTATE LTR FILINGS "MIRROR" THEIR**
11 **RESPECTIVE INTERSTATE LOCAL TRANSPORT OFFERINGS?**

12
13 **A.** All of the companies have "mirrored" the structure
14 approved by the FCC and ordered effective December 30,
15 1993. Further, both GTE and BellSouth have "mirrored"
16 their individual interstate rates for: 1) entrance
17 facilities, 2) direct trunk transport, and 3) tandem
18 switching. The level of the interconnection charge,
19 however, is unique in all cases reflecting the companies'
20 efforts to maintain "revenue neutrality" within the state
21 jurisdiction.

22
23
24 **Q. SHOULD THE COMMISSION APPROVE THE PROPOSED RATE**
25 **STRUCTURE?**

1 A. Yes, the Commission should approve the proposed rate
2 structure as filed. This structure will more accurately
3 reflect the underlying costs associated with the
4 provision of transport services. In addition, the
5 restructure will facilitate the introduction of expanded
6 interconnection services.

7

8

9 Q. **WHAT CRITERIA SHOULD THE COMMISSION USE TO EVALUATE THE**
10 **APPROPRIATENESS OF THE PROPOSED INTERCONNECTION CHARGES**
11 **(RICS)?**

12

13 A. The Commission should approve interconnection charges
14 that maintain revenue neutrality for the LEC with respect
15 to local transport service. The LECs, however, should
16 not be permitted to artificially inflate the level of the
17 RIC by developing the price based upon opportunistic
18 assumptions of network configurations. Further,
19 assumptions of the network arrangement, minutes of use,
20 and the related revenue requirement components supporting
21 the "revenue neutral" calculation should all be of the
22 same point in time.

23

24

25

1 **II. EXPANDED INTERCONNECTION-SWITCHED**

2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Q. WHAT IS EXPANDED INTERCONNECTION?

A. Expanded interconnection is a collocation arrangement that permits access providers other than the local exchange companies to interconnect with the local exchange companies' networks on the local exchange companies' premises. Under this arrangement, the local exchange companies are required to provide space at designated points within their networks for locating (either virtually or physically) the transmission equipment of competing access providers. Therefore, with expanded interconnection, customers can utilize the loop facilities of the local exchange companies for connection to the LEC central office and then select among available access providers the switched transport services connecting the local exchange office to the desired interexchange carrier (IXC) point of presence (POP). Interconnection offers to bring the benefits of switched access competition to greater number of customers than would be possible with traditional alternative access vendor (AAV) end to end service.

1 Q. HOW DOES "PHYSICAL" COLLOCATION DIFFER FROM "VIRTUAL"
2 COLLOCATION"

3
4 A. For purposes of expanded interconnection, the FCC has
5 described "physical" collocation as an arrangement
6 whereby the competitive access provider (CAP), IXC or
7 other customer leases floor space (and access to the
8 floor space) within a LEC central office for purposes of
9 installing, maintaining and managing telecommunications
10 equipment used in the provision of local transport
11 services. Under this arrangement, the interconnector can
12 gain entry to its designated space within the LEC central
13 office (generally with security escort) to install,
14 maintain, and/or repair their own equipment.

15

16 The FCC has described "virtual" collocation (again for
17 purposes of expanded interconnection) as an arrangement
18 whereby the local exchange company installs, maintains
19 and repairs interconnector designated telecommunications
20 equipment used in the provision of competitive access
21 services within the LEC central office. Under this
22 arrangement, the interconnector can maintain monitoring
23 and control ability, but cannot physically access the
24 equipment within the central office.

25

1 In either case, however, the equipment used to terminate
2 interconnected circuits would be located in the LEC
3 central office.

4
5
6 **Q. WHO SHOULD BE ALLOWED TO INTERCONNECT?**

7
8 **A.** Interconnection opportunities should be available to all
9 third parties including CAPs and IXCs and end users. The
10 purpose of expanded interconnection is to promote
11 competition and to begin to challenge the local exchange
12 monopoly. Creating artificial barriers to entry would
13 preclude potential competitive alternatives and only slow
14 the competitive process.

15
16
17 **Q. SHOULD COLLOCATORS BE REQUIRED TO ALLOW LOCAL EXCHANGE**
18 **COMPANIES (LECS) AND OTHER PARTIES TO INTERCONNECT WITH**
19 **THEIR NETWORKS?**

20
21 **A.** No. The purpose of expanded interconnection is to
22 facilitate the entry of potential competitors into the
23 monopoly preserves of the LECs. Because none of those
24 potential competitors possess a monopoly, interconnection
25 requirements are not necessary, and, in fact, would tend

1 to frustrate rather than encourage the development of
2 competition.

3
4 This recommendation is consistent with the Commission's
5 finding in Phase I of this Docket (see Order No. PSC-94-
6 0285-FOF-TP issued on March 10, 1994, pp.17-18).

7
8
9 **Q. HOW WOULD THE ADOPTION OF EXPANDED INTERCONNECTION SERVE**
10 **THE PUBLIC INTEREST?**

11
12 **A.** The adoption of expanded interconnection would facilitate
13 the beginning of competition within the local exchange
14 and would benefit customers in much the same way as
15 competition in other aspects of the telecommunications
16 industry (i.e., interexchange services or telephone sets)
17 has benefited customers over the years. Competition
18 facilitates customer choice and the development and
19 production of new and innovative services designed or
20 tailored to meet particular customer needs. Competition
21 fosters better price performance as competing vendors vie
22 for customers in the open market place. Competition will
23 also assist the regulators in regulating the local
24 exchange companies, encouraging these companies to become
25 more efficient and more responsive to customer needs.

1 Q. WILL THE ADOPTION OF EXPANDED INTERCONNECTION RENDER THE
2 LOCAL EXCHANGE COMPETITIVE?

3

4 A. No. The adoption of expanded interconnection through
5 this docket will represent only an initial step in the
6 efforts to create possibilities for real competition to
7 develop in the market for local exchange access service.
8 First, this immediate proceeding addresses only transport
9 services - a very small part of the local exchange
10 monopoly. The docket does not address the local loop and
11 the end office switches - the real core of the local
12 bottleneck monopoly. Second, it will take some time for
13 competitors to respond to the new opportunities offered
14 through expanded interconnection, to develop and deploy
15 competitive networks, particularly on a statewide basis.
16 Interconnection is a necessary initial step to begin the
17 introduction of competition but it alone will not
18 guarantee the development of competition within the state
19 and it will not directly alter the existing local
20 exchange monopoly held by the LECs.

21

22

23 Q. WOULD THE ADOPTION OF EXPANDED INTERCONNECTION BE
24 CONSISTENT WITH PREVIOUS COMMISSION DECISIONS?

25

1 A. Yes. The Florida Commission has consistently supported
2 competition within the telecommunications industry where
3 it has found that competition could work. This
4 Commission was one of the first state commissions in the
5 country to authorize limited IntraLATA (interEAEA) toll
6 competition shortly after AT&T's divestiture of the local
7 exchange companies. By order No. 23540, the Commission
8 expanded its prescription for intraLATA competition to
9 included intraEAEA service, thus bringing all Floridians
10 the benefits of statewide interexchange (toll)
11 competition. Through Docket No. 890183-TL, the
12 Commission recognized the benefits of bringing
13 competition to private line and special access customers
14 by establishing rules for the authorization of
15 alternative access vendors (AAVs). And most recently
16 through Phase I of this docket, the Commission ordered
17 expanded interconnection for special access services.
18 The adoption of expanded interconnection for switched
19 transport would support this tradition by further
20 facilitating the expansion of competition for local
21 transport services.

22

23

24 Q. WOULD YOU SUMMARIZE YOUR TESTIMONY WITH RESPECT TO
25 EXPANDED INTERCONNECTION?

1 A. Expanded interconnection is the next logical step toward
2 the introduction of competition into the monopoly
3 preserves of the local exchange companies. Expanded
4 interconnection will facilitate competition in the market
5 for switched transport services by allowing customers
6 greater opportunity to offer competitive services, thus
7 bringing the benefits of competition to a larger number
8 of customers. Expanded interconnection clearly serves
9 the public interest, and its implementation should be
10 immediately ordered by this Commission.

11

12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14

15 A. Yes.

16

17

18

19

20

21

22

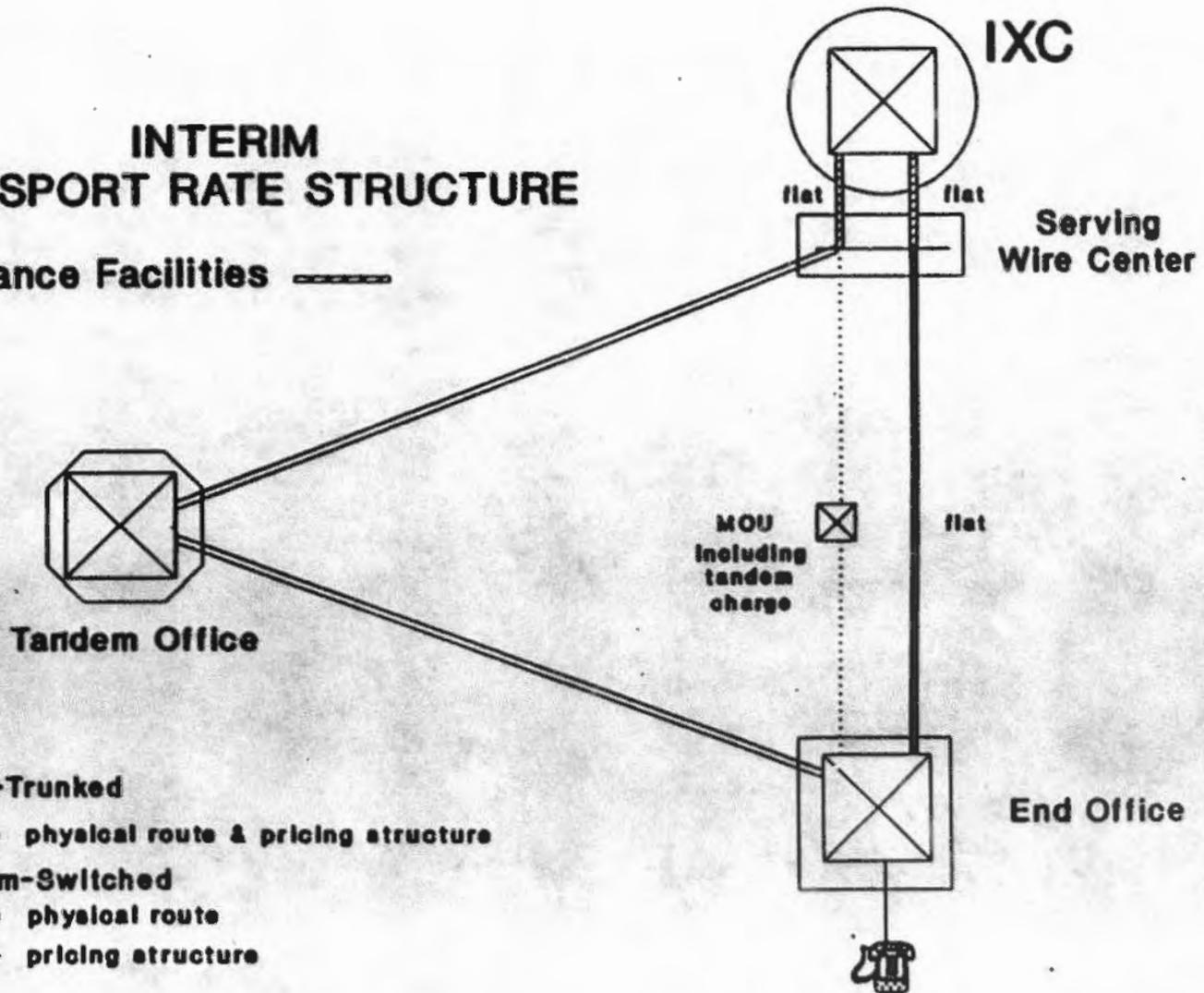
23

24

25

INTERIM TRANSPORT RATE STRUCTURE

Entrance Facilities -----



Direct-Trunked

— physical route & pricing structure

Tandem-Switched

— physical route

..... pricing structure

End Office

CERTIFICATE OF SERVICE

DOCKET NO. 921074-TP

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties on this 23rd day of May, 1994:

J. Jeffry Whalen, Esq.
Macfarlane, Ausley,
Ferguson & McMullen
Tallahassee, FL 32302

C. Dean Kurtz
Central Telephone Company
P. O. Box 2214
Tallahassee, FL 32316

Laura L. Wilson, Esq.
Florida Cable Television Assoc.
P. O. Box 10383
Tallahassee, FL 32301

Joseph P. Gillan
Gillan & Associates
P. O. Box 541038
Orlando, FL 32854-1038

Kimberly Caswell, Esq.
GTE Florida Incorporated
P. O. Box 110, FLTC0007
Tampa, FL 33601

Patrick Wiggins, Esq.
Wiggins & Villacorta, PA
P. O. Drawer 1657
Tallahassee, FL 32302

Brad E. Mutschelknaus, Esq.
Wiley, Rein & Fielding
1776 K Street, NW
Washington, DC 20006

Joseph A. McGlothlin, Esq.
McWhirter, Grandoff & Reeves
315 S. Calhoun St., Suite 716
Tallahassee, FL 32301

Charles J. Beck, Esq.
Office of the Public Counsel
Room 812, Claude Pepper Bldg.
111 West Madison Street
Tallahassee, FL 32399-1400

J. Phillip Carver, Esq.
c/o Marshall M. Criser, III
Southern Bell Telephone Co.
150 S. Monroe St., Suite 400
Tallahassee, FL 32301

Ms. Janis Stahlhut
Time Warner Communications
Corporate Headquarters
300 First Stamford Place
Stamford, CT 06902-6732

Tracy Hatch, Esq.
Florida Public Service Comm.
101 East Gaines Street
Tallahassee, FL 32399

C. Everett Boyd, Jr., Esq.
Ervin, Varn, Jacobs, et al
305 S. Gadsden Street
Tallahassee, FL 32301

F. Ben Poag
United Telephone Company
of Florida
P. O. Box 165000
Altamonte Springs, FL 32716-5000

Jodie L. Donovan, Esq.
Regulatory Counsel
Teleport Communications Group
Teleport Drive, Suite 301
Staten Island, New York 10311

Michael J. Henry, Esq.
MCI Telecommunications Corp.
780 Johnson Ferry Road
Suite 700
Atlanta, GA 30342

Peter M. Dunbar, Esq.
Pennington, Haben, P. A.
P. O. Box 10095
Tallahassee, FL 32302

Benjamin H. Dickens, Jr., Esq. (Ad Hoc)
Blooston, Mordkofsky, Jackson & Dickens
2120 L Street, NW, Suite 300
Washington, DC 20037-1527

Kenneth A. Hoffman, Esq.
Rutledge, Ecenia, Underwood,
Purnell & Hoffman
P. O. Box 551
Tallahassee, FL 32302-0551

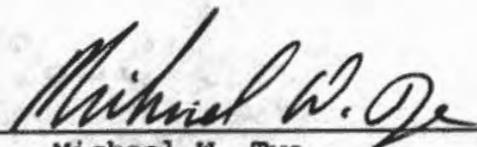
Chanthina R. Bryant, Esq.
US Sprint Communications
3065 Cumberland Circle
Atlanta, GA 30339

John P. Fons, Esq.
Macfarlane, Ausley,
Ferguson & McMullen
P. O. Box 391
Tallahassee, FL 32302

Floyd R. Self, Esq.
Messer, Vickers, Caparello,
Madsen, Lewis, et al
P. O. Box 1876
Tallahassee, FL 32302-1876

Richard D. Melson, Esq.
Hopping Boyd Green & Sams
P. O. Box 6526
Tallahassee, FL 32314

Douglas S. Metcalf (Ad Hoc)
Communications Consultants
P. O. Box 1148
Winter Park, FL 32790-1148


Michael W. Tye