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Ms. Blanca S. Bayo
Director
Division of Public Service Commission
101 East Gaines Street
Tallahassee, FL 32301

Re: In re: Expanded Interconnection Phase II and Local Transport Restructure; Docket Nos. [redacted], 930955-TL, 940014-TL, 940020-TL, and 931196-TL

Dear Ms. Bayo:

Enclosed for filing in the above-styled docket are the original and 15 copies of the Rebuttal Testimony of Joseph Gillan. Mr. Gillan will be testifying on behalf of the Interexchange Access Coalition. A disk formatted in Wordperfect 5.1 is also enclosed.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Sincerely,

Rachel J. Rothstein

Rachel J. Rothstein

Enclosures

cc: Parties of Record (w/encl.)

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CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of June, 1994, I caused copies of the foregoing "REBUTTAL TESTIMONY OF JOSEPH P. GILLAN ON BEHALF OF INTEREXCHANGE ACCESS COALITION" to be mailed via first-class postage prepaid mail to the following:

See attached list.

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for expanded interconnection for alternate access vendors within local exchange company central offices by INTERMEDIA COMMUNICATIONS OF FLORIDA, INC.	DOCKET NO. 921074-TP
In Re: Request for approval of tariff filing to restructure Switched Access Local Transport by BELLSOUTH TELECOMM-UNICATIONS, INC. d/b/a SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY (T-93-552 FILED 9/15/93)	DOCKET NO. 930955-TL
In Re: Request for approval of tariff filing to restructure local transport element of switched access service by UNITED TELEPHONE COMPANY OF FLORIDA (T-93-728 FILED 12/17/93)	DOCKET NO. 940014-TL
In Re: Request for approval of tariff filing to restructure local transport element of switched access service by CENTRAL TELEPHONE COMPANY OF FLORIDA (T-93-727 FILED 12/17/93)	DOCKET NO. 940020-TL ORDER NO. PSC-94-0076-PCO-TL ISSUED: January 21, 1994

REBUTTAL TESTIMONY OF JOSEPH GILLAN
ON BEHALF OF
INTEREXCHANGE ACCESS COALITION

Q. **Please state your name and business address.**

A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando, Florida, 32854.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the testimony of local telephone company ("LEC") witnesses requesting additional pricing flexibility with the advent of limited competition for switched access transport service. I recommend that a single form of pricing flexibility, zone pricing, be granted for the local telephone companies to respond to competition -- subject to a requirement that price reductions apply on a non-discriminatory basis to all transport customers within a zone. In addition, my rebuttal testimony responds to the claims of several LEC witnesses that their proposed restructure of local transport service should be approved despite the absence of <u>any</u> cost support for proposed rate levels which are discriminatory.

Finally, I respond to the LECs' request to selectively exempt their own toll services (to one degree or another) from the effect of the transport structure either by avoiding the Commission's imputation standard, exempting interLEC ("MABC") toll traffic. There is no justification for allowing one LEC to discriminate in the access charges applied to the toll traffic of another carrier simply because that carrier is also a local telephone company in a different part of the state.

Q. Why do you characterize the potential for access competition as being "limited"?

A. The competitive opportunity presented by expanded interconnection is overstated. While this event makes it theoretically possible for interexchange carriers to use an alternative provider for their dedicated transport needs, no real competition has yet developed.

Notably, Southern Bell has not received a single request for collocation in Florida -- the "potential" for competition has not translated to a "reality" anywhere in the state. While competition may develop in the future. the Commission should recognize that the intrastate dedicated transport is a relatively small market -- only $9 million for Southern Bell. This is less than 4 percent of its intrastate switched access revenues ($236 million for 1993).

Q. Are the LECs' requests for pricing flexibility inappropriate?

A. To a large extent, yes. But the real question is not *whether* the LEC should be provided pricing flexibility, the relevant question is what *form* the flexibility should take.

The single greatest danger in access pricing is discrimination between access customers -- i.e., interexchange carriers. The restructure of local transport service provides the LECs the opportunity to discriminate between customers of different size by introducing non-cost based rate relationships between transport options. In a nutshell, this is the real issue behind the transport debate. Using the cloak of moving towards "more" cost-based rates, the LECs want to introduce non-cost "market-based" rate differentials.

Access service is the fundamental underlying cost of interexchange service. If the LECs are permitted to discriminate among interexchange carriers -- selectively reducing contribution for some while denying equivalent relief for others -- the LECs will seriously distort interexchange competition through access pricing. The entire point of divestiture -- to separate interexchange competition from access favoritism -- will be lost.

Q. What types of pricing flexibility are appropriate?

A. The key objective should be pricing flexibility which allows the LEC to move its access rates closer to cost in a non-discriminatory manner for all access customers. Both elements must be met.

Clearly, the present form of pricing flexibility -- the contract service arrangement ("CSA") -- is an anathema to interexchange competition because it presupposes discrimination on a customer-by-customer basis. This form of flexibility is completely unacceptable for a service that is intended to be a wholesale input to the long distance industry. Just as the earth's surface reflects the geological pattern of plates and faults which underlie it, the competitive landscape of the interexchange marketplace will be determined by its underlying access costs.

Q. Why should the Commission be concerned with the competitiveness of the interexchange market when establishing access pricing policy?

A. Because the <u>only</u> way that access policy benefits <u>end users</u> is through the prism of interexchange competition. Without competition, access reductions enjoyed by only one or two carriers are unlikely to flow through to end-users and will become windfalls for those companies. And, in an unfortunate Catch 22, to the extent that dependent discriminatory access reductions *do result* in rate reductions, they will be at the expense of fair competition. In either event, the public interest demands that access pricing not distort interexchange competition.

Q. What type of flexibility should replace CSA authority for switched access service?

A. The principal LEC argument appears to be that geographic conditions affect their costs and that charging an averaged rate prevents the LECs from effectively competing. The answer is to allow zone pricing. With zone pricing the LECs are able to reduce prices closer to costs while maintaining appropriate relationships among transport options and customers. In this way -- and only in this way -- the LEC can be permitted to respond to competition while customers are protected from discrimination. In this regard I agree with United Witness Poag, the inherently discriminatory CSA approach should be replaced by non-discriminatory zone prices.

Q. Is zone pricing flexibility adequate for the LECs to compete?

A. Yes. Zone pricing allows the LECs to reduce rates for all access customers. The LECs do not need an additional ability to discriminate between IXCs to effectively compete with AAVs. If the LEC establishes non-discriminatory rates, the AAV's rates must follow with rates that are similarly non-discriminatory.

Q. Should AAVs be required to file tariffs?

A. Yes. Where AAVs have facilities and offer switched access transport, they should tariff so that any IXC can obtain service on equivalent terms and conditions. The AAVs should not have any more opportunity to discriminate between IXCs than the incumbent LECs. This standard eliminates __any__ justification for the LECs being allowed the customer-specific discrimination that is the essence of a CSA.

Q. Should the Commission's approve GTE's SAFD proposal?

A. No. GTE's discount matrix would allow for GTE to selectively price virtually every combination of term and volume commitment without cost justification. The threshold criteria for access pricing -- non-discrimination -- cannot be maintained under this structure. At this time, the __only__ pricing flexibility that the Commission should allow is zone pricing.

Q. Have you reviewed the LECs' justification for their proposed transport rates?

A. Yes. The LECs have essentially justified their proposed rate levels by the argument that if a rate exists in their <u>interstate</u> tariff, it should be presumed just and reasonable by the Florida Commission.

Ironically, GTE adopts this standard both to justify *this* filing ("GTE Florida's prices for its local transport rate elements . . . mirror the Company's interstate LTR tariff" -- Lee District page 10), while rejecting the standard for future filings ("Rates should not necessarily be mirrored but should be determined by market factors . . ." -- Lee District page 9). In other words, access shouldn't be regulated.

Southern Bell leans even more heavily on the FCC's decision by arguing that this Commission should approve its rates with the claim they will further three goals:

1. Encourage more efficient use of transport facilities;

2. Facilitate full and fair interexchange competition; and

3. Allow the development of access competition.

While these objectives are worthwhile, the reality is that none will be met under the rate levels proposed by Southern Bell. Rather, Southern Bell's tariff (and GTE's and United's) introduce discriminatory, non-cost based rates into the access environment that would seriously disrupt interexchange competition and encourage wasteful network reconfigurations, all without furthering access competition one bit.

Q. Would the restructure of access transport service achieve any of the objectives identified by Southern Bell's witness Mr. Hendrix?

A. No. The only way that interexchange carriers will be encouraged to order the most efficient combination of network facilities is if the price relationships among the three transport options -- tandem switched, DS1 and DS3 -- reflect the underlying cost relationship to Southern Bell. Similarly, fair interexchange competition requires that price level differences among the transport options (and, as a consequence, among the interexchange carriers) reflect only cost differences. Finally, access transport competition will be thwarted by rates which encourage large customers to order excess capacity from Southern Bell, effectively locking the AAVs out of this market.

Q. Southern Bell argues that the new structure will encourage interexchange carriers to be "more efficient." Do you agree?

A. No. First, Southern Bell is in error when it implies that interexchange carriers did not face incentives to be efficient under the old structure. Every access circuit must connect to an IXCs, and that IXC circuits must then extend to the nearest IXC switch where it requires a port and other equipment. For each of these items -- transmission facilities, termination equipment and switch ports -- the IXC incurs costs and has an incentive to use both its and the LEC's access network efficiently.

Second, IXCs will face appropriate incentives only if rate relationships reflect costs. Logically, IXCs should use tandem transport where they have low traffic volumes and can't load dedicated circuits very efficiently. As the IXC's traffic volume grow, the IXC should be encouraged to move traffic to dedicated circuits when the IXC can load those circuits efficiently. Finally, at very high traffic volumes it might make sense for the IXC to perform DS1-to-DS3 multiplexing rather than the LEC, thereby ordering DS3 units of capacity instead of DS1. Efficient network incentives exist when there are rational and consistent cross-over points between the three interoffice options: TST, DS1 and DS3. If the price relationships don't reflect cost relationships, these incentives will be seriously distorted.

Exhibit (JPG - 7) provides the crossover points between the TST, DS1 and DS3 options at two sample mileages: 2 miles and 32 miles. This exhibit shows the perverse incentives presented by the Southern Bell rates. In short mileage conditions, carriers are encouraged to "step up" to higher capacity options even though they cannot fill them. At longer mileages, the only "economic" choices are tandem switch transport or DS3 transport -- with the later option 60% idle. While the present rate structure is effectively neutral in how it influences carrier behavior, the new non-cost rate relationships proposed by Southern Bell encourage inefficiency by rewarding it with lower prices.

Finally, GTE's own demand projections demonstrate the insane incentives of the rates it has proposed. GTE expects carriers to order 55% more capacity to handle the same traffic as they "optimize" under its rates. Clearly these prices cannot be said to "encourage" a more efficient use of the network.

Q. Southern Bell implies that the impact of this plan is trivial. Please comment.

A. In the competitive interexchange market, fractions of a penny in access cost have significant impacts on interexchange carriers cost structures, pricing options and profitability. We have all seen AT&T advertisements which emphasize that price competition is a matter of only a few cents per call. In a market characterized by razor thin margins, price discrimination measured in the "tenths of a cent" in access cost can have a major impact on competitive positioning and profitability.

Further, it is important to remember that all interexchange carriers today pay far more to the LECs for transport than it costs to serve them. If the LECs were truly moving towards cost-based rates, then every carrier would be facing a reduction. The only reason that any carrier will see an increase from the restructure is because of LEC's desire to be "revenue neutral". If LEC's are convinced that a fraction of a cent is too small to be of concern, then they should cap each interexchange carrier's cost at the existing rate and absorb the difference.

Q. Are you recommending that the LECs not be permitted "revenue neutrality"?

A. No, but the quid pro quo for revenue neutrality -- not to mention the introduction of zone pricing -- is non-discriminatory rates. Unlike the FCC, this Commission can establish new transport rate levels that reflect underlying cost conditions because it can review the relevant cost information.

Q. Are cost-based rates compatible with mirroring?

A. Yes. Southern Bell itself recognizes that the structure can be mirrored without each rate element being identical. GTE actually recommends that only the structure be mirrored. In fact, none of the LECs propose that the interconnection charge be the same in the interstate and intrastate tariffs. Under either the LEC's proposal or cost-based rates, the LEC's remain revenue neutral -- that is, the average price for transport is the same as under both approaches. Because both approaches adopt the interstate structure, and both approaches have an identical average price, they each adhere to mirroring to roughly the same degree. Finally, nothing prevents Southern Bell or GTE from using the flexibility they enjoy under price caps to move their interstate transport rates toward cost (thereby mirroring the Florida rates).

Q. Should the Commission proceed with the restructure?

A. The potential benefits of the new structure for access transport service are entirely dependent upon rate levels that reflect underlying costs. Without this assurance, the structure seriously disrupts interexchange competition and encourages wasteful and unnecessary network reconfigurations. As a result, the new structure can be implemented <u>only in combination</u> with cost-based rate relationships. Because the LEC's prices are not cost-based, they should be rejected.

Q. Should local transport restructure proceed in light of the U.S. Court of Appeals Decision?

A. No. The entire underpinning of the (potential) competition for access transport service was the FCC's decision allowing physical collocation. Without this ability, other carriers cannot enter the LEC central office and, if they can't enter the central office, they cannot offer a competitive alternative to the LEC's switched transport network.

The U.S. Court of Appeals decision vacated this critical element of the decision -- effectively reversing the entire basis for potential access competition. The potential for access competition is now back at square one and any claim that the transport restructure is necessary to respond to competition is hollow. Therefore, the transport restructure should not proceed without a determination on how interconnection will be accomplished.

Q. Should the Commission's MABC and imputation standards be modified?

A. Yes. The Commission should not allow one LEC to favor the toll services of another LEC simply because they both provide local exchange service in different parts of the state. Coincident with the introduction of the local transport restructure on interexchange carriers, the LECs should incorporate the same elements to the MABC plan.

Furthermore, the Commission should explicitly reject (once again) Southern Bell's efforts to side step the Commission's imputation standards by providing itself switched access at special access prices. The Commission's current policy to limit the imputation of special access to only those instances where a special access line is used should not be changed.

Finally, the LECs should be required to impute transport applying rates for the tandem switched interoffice option until such time as they provide data demonstrating a different network configuration. In addition, the Commission should initiate workshops to impute (at a minimum) the unavoidable rate elements for collocation to reflect the least cost charges for the entrance facility component.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Exhibit (JFG - 7) ____
Docket 92-1074-TP

Excess Capacity Under Southern Bell's Proposed Prices

	Crossover Capacity(1)	Full Capacity(2)	Excess Capacity
Crossover at 2 miles			
TST to DS1	107,733 minutes	288,000 minutes	62.6%
DS1 to DS3	15 DS1s	28 DS1s	48.2%
Crossover at 32 miles			
TST to DS1	320,651 minutes	288,000 minutes	-11.3%(3)
DS1 to DS3	11 DS1s	28 DS1s	61.8%

Notes: (1) Crossovers calculated between interoffice transport choices. Assumes DS3 level entrance facility.

(2) Full Capacity for a DS1 assumes maximum potential loading of 12,000 mou/month. This is 33% larger than FCC's assume average loading of 9000/mou/month.

(3) At long mileages, DS1 transport is never less expensive even with extraordinarily high capacity loadings.