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**ORIGINAL
FILE COPY**

January 26, 1996

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

via Hand Delivery

Re: Resolution of Petition(s) to establish 1995 rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes; Docket No. 950985A-TP-Continental/Sprint United and 950985D-Time Warner/Sprint United

Dear Ms. Bayo:

Enclosed for filing please find an original and fifteen copies of the Rebuttal Testimony of Don J. Wood on behalf of Time Warner AxS of Florida, L.P. and Digital Media Partners for the above-referenced docket.

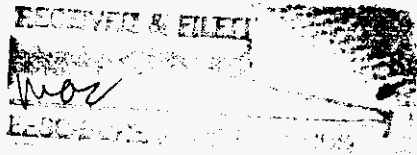
You will also find a copy of this letter enclosed. Please date-stamp the copy of the letter to indicate that the original was filed and return to me.

If you have any questions regarding this matter, please feel free to contact me.
Thank you for your assistance in processing this filing.

Respectfully,

Julie Weiske

Julie E. Weiske



- ACK
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- APP _____
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cc: All Parties of Record (w/ enclosure)

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CERTIFICATE OF SERVICE
DOCKET NO. 950985-TP

I HEREBY CERTIFY that a true and correct copy of the Rebuttal Testimony of Don J. Wood on behalf of Time Warner AxS of Florida, L.P. and Digital Media Partners has been served by either *Federal Express or Hand Delivery on this 26th day of January, 1996, to the following parties of record:

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SUE E. WEISKE, ESQ.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **DOCKET NO. 950985D-TP**
3 **(TIME WARNER AXS OF FLORIDA, L.P.**
4 **AND DIGITAL MEDIA PARTNERS**
5 **PETITION SPRINT UNITED)**
6 **REBUTTAL TESTIMONY OF**
7 **DON J. WOOD**
8 **ON BEHALF OF TIME WARNER AXS OF FLORIDA, L.P.**
9 **AND DIGITAL MEDIA PARTNERS**
10
11 **Q: PLEASE STATE YOUR NAME AND ADDRESS.**
12 **A: My name is Don J. Wood, and my business address is**
13 **914 Stream Valley Trail, Alpharetta, Georgia**
14 **30202. I provide consulting services to the**
15 **ratepayers and regulators of telecommunications**
16 **utilities.**
17
18 **Q: ON WHOSE BEHALF ARE YOU TESTIFYING TODAY?**
19 **A: I am testifying on behalf of Time Warner AxS of**
20 **Florida, L.P. ("Time Warner AxS") and Digital Media**
21 **Partners ("DMP") (collectively "Time Warner").**
22
23 **Q: HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
24 **PROCEEDING?**
25 **A: Yes.**

1 Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?
2 A. The purpose of my rebuttal testimony is to respond
3 to the testimony of Sprint United witness F. Ben
4 Poag. Specifically, Mr. Poag argues that a payment
5 in kind arrangement will not permit co-carriers --
6 including Sprint United and, presumably, Time
7 Warner -- to recover their costs pursuant to
8 §364.162, Florida Statutes. His detailed
9 discussion of Sprint United's proposed
10 interconnection offerings, however, indicate that
11 this is not the case. Mr. Poag also presents a
12 number of arguments in support of his assertion
13 that Sprint United's proposed rates will not create
14 a barrier to entry for Time Warner or other co-
15 carriers. These arguments are inconsistent with
16 both the best available data and other portions of
17 Mr. Poag's testimony. Finally, Mr. Poag's
18 arguments that imputation is not necessary fail to
19 address the issue and in no way diminish the
20 necessity of an effective imputation standard if
21 competition is to have to opportunity to develop
22 for local exchange services.
23
24 Q: DO YOU AGREE THAT A PAYMENT IN KIND ARRANGEMENT
25 WILL NOT RESULT IN ADEQUATE COMPENSATION FOR ALL

1 **CO-CARRIERS, INCLUDING BOTH SPRINT UNITED AND TIME**
2 **WARNER?**

3 A: No. In my direct testimony, I describe Time
4 Warner's proposal using the phrase "bill and keep,"
5 because this phrase has been used historically in
6 the industry to describe a scenario in which
7 carriers accept traffic from each other for
8 termination. LECs have engaged in this arrangement
9 in Florida and elsewhere in order to offer
10 ubiquitous service in a cost-efficient and
11 administratively simple manner. Time Warner is now
12 recommending that this same process be used to
13 address the same issue; hopefully with the same
14 results.

15
16 A suggestion that so-called "bill and keep" is
17 based on the idea that the LEC and other co-
18 carriers are not to be compensated merely because
19 cash is not exchanged is simply incorrect. A
20 fundamental and universally accepted concept in
21 economics is that compensation can take many forms;
22 it is the exchange of value, not the exchange of
23 coin of the realm, that determines whether parties
24 to a transaction have received compensation for
25 their efforts. As LECs have apparently found to be

1 the case over a number of years, mutual exchange of
2 traffic has value for both carriers, and an
3 agreement for each carrier to terminate calls
4 originated by the other is a form of "payment in
5 kind." A "payment in kind" is no less compensatory
6 than a "payment in cash," however, and this is the
7 point that Mr. Poag fails to consider in his
8 reasoning. Of course, if the recommended form of
9 "payment in kind" is administratively simpler and
10 less costly to implement than a corresponding
11 "payment in cash," society in general, and Florida
12 ratepayers in particular, will benefit from such a
13 proposal, whether it is labelled as payment in
14 kind, mutual exchange of traffic, or bill and keep.

15

16 **Q. DO OTHER REFERENCES IN MR. POAG'S TESTIMONY SUPPORT**
17 **THIS CONCLUSION?**

18 **A. Yes. In his testimony he describes in detail two**
19 **forms of interconnection being offered by Sprint**
20 **United: a flat rate port charge and a per minute**
21 **charge.**

22

23 **Mr. Poag describes the logistics of the flat rate**
24 **port arrangement at pp. 6-7 of his testimony:**
25 **"With a port charge the ALEC purchases the capacity**

1 of a DS1 for terminating traffic to Sprint United.
2 Similarly, Sprint United would purchase the
3 capacity of a DS1 from the ALEC...The rates and
4 charges for the various interconnection components
5 would be based on Sprint United's network access
6 services rates and charges....Sprint United would
7 pay the ALEC based on the same rates, terms, and
8 conditions for the services required to terminate
9 Sprint United's customers' traffic the ALEC's
10 customers."

11

12 Based on this description, it is unclear why it
13 would be more efficient for the money to change
14 hands than for Sprint United and other co-carriers
15 to agree to perform these functions for each other.
16 The only apparent difference between such a payment
17 in kind scenario and Mr. Poag's payment in cash
18 scenario is the cost associated with the effort by
19 each carrier to render a bill to the other.

20

21 At page 18 of his testimony, Mr. Poag describes how
22 the minute of use interconnection arrangement would
23 be implemented, and notes that "measurement and
24 billing based on actual use is required." He goes
25 on to explain that "the recording of the usage

1 requires special software which Sprint United has
2 not deployed in its switches; however, Sprint
3 United does not plan to install the software in its
4 access tandem switches in the first and second
5 quarter of 1996. However, because of the high cost
6 of the software, the Company does not plan to
7 deploy the software in any switches other than the
8 access tandem at this time" (emphasis added).

9
10 Based on my review of the costs associated with the
11 systems necessary to conduct the necessary
12 measurement of traffic, I fully agree with Mr.
13 Poag's characterization of the necessary software
14 as "high cost."¹ In fact, Mr. Poag goes on to
15 admit that "the cost of recording and billing for
16 the usage" represent a disadvantage of Sprint
17 United's proposal. Of course, the "high cost of
18 the software" necessary for measurement and the
19 additional costs for billing can be avoided if

20 ¹ While the actual numbers are proprietary and cannot
21 be reported, I was able to determine from
22 information provided by US West in a recent
23 proceeding that these measurement costs exceeded
24 all other costs associated with the termination of
25 traffic originated by a co-carrier. In other
26 words, the decision to measure the traffic caused
27 the cost of terminating a call originated by a co-
28 carrier to more than double.

1 payment in kind -- rather than payment in cash --
2 is utilized.

3

4 Q. IN YOUR DIRECT TESTIMONY, YOU STATED THAT A CO-
5 CARRIER SUCH AS TIME WARNER MAY BE UNABLE TO MAKE
6 ECONOMIC USE OF A FLAT RATED PORT FACILITY. PLEASE
7 EXPLAIN YOUR REASONING.

8 A. With initial relatively low volumes of traffic
9 being exchanged between co-carrier networks, no
10 carrier, including Time Warner and Sprint United,
11 will be able to make efficient use of a port
12 designated for this purpose. While this
13 arrangement is inefficient for the LEC, it clearly
14 has more immediate financial consequences for the
15 new entrant. Put simply, an increase in the level
16 of traffic reduces the cost incurred on a per unit
17 basis. As a result, the new entrant must have
18 sufficient traffic to make a flat rated port an
19 economic choice. Of course, a higher rate for the
20 port both increases the volume of traffic necessary
21 for the port to be a economic alternative and
22 increases the costs of entry for the new entrant.

23

24 Based on my understanding of his testimony, Mr.
25 Poag and I are in general agreement on this issue.

1 At page 8-9 of his testimony he states that "a
2 potential disadvantage of the port methodology
3 might be that the port must be purchased in a fixed
4 size. Thus, an ALEC may not have sufficient
5 traffic to justify purchasing a full port on day
6 one of its operations. Similarly, when a second
7 port is necessary to avert blockage on the first
8 port, full utilization of the second port may not
9 take place until some time later, but the
10 interconnector must pay the full rate on day one."

11

12 Such a rate structure creates a barrier to entry
13 for Time Warner and other co-carriers. The
14 magnitude of this barrier is exaggerated by the
15 magnitude of Sprint United's proposed charge.
16 Clearly, the Commission does not expect, and the
17 Legislature did not expect when drafting Chapter
18 364, that new entrants into the market for local
19 exchange services will have a substantial number of
20 customers (and therefore be carrying a substantial
21 amount of traffic) on day one. Sprint United's
22 flat rate port proposal is inconsistent, therefore,
23 with an objective of the development of the
24 consumer benefits that are created by a competitive
25 marketplace.

1 Q. HOW DOES SPRINT UNITED'S PROPOSED PRICING STRUCTURE
2 CREATE INCENTIVES FOR CO-CARRIERS, INCLUDING TIME
3 WARNER, TO MAKE POTENTIALLY INEFFICIENT
4 INVESTMENTS?

5 A. A rate structure that exaggerates the cost
6 differential for interconnection by a new entrant
7 at a Sprint United tandem versus a Sprint United
8 end office will create an incentive for co-
9 carriers, including Time Warner, to construct
10 inefficient facilities. The "build or buy"
11 decision facing a new entrant can only be
12 rationally made if the rate differential accurately
13 reflects the cost differential. My review of the
14 costs incurred by the LEC for termination of a call
15 originated on a co-carrier's network indicates that
16 the cost differential for end office and tandem
17 interconnection is much smaller than Sprint
18 United's rates indicate. As a result, co-carriers
19 may build facilities to Sprint United end offices
20 when it would be more efficient to utilize the
21 access tandem as an interconnection point.

22
23 Sprint United's position is unclear on this issue.
24 Mr. Poag argues that the bill and keep arrangement
25 proposed by Time Warner will create incentives for

1 co-carriers to interconnect at Sprint United's
2 tandem office, rather than to act to avoid the
3 higher proposed charge by interconnecting at the
4 end office. As cited above, however, Mr. Poag has
5 stated that Sprint United does not plan to deploy
6 the necessary measurement software in any locations
7 other than the access tandem. If Sprint United's
8 proposal is adopted, therefore, new entrants will
9 face detrimental impacts in both the short and long
10 run. In the short run, new entrants will be unable
11 to avoid the higher (and unjustified by cost
12 differentials) proposed rates for interconnection
13 at the access tandem. Over the long run, assuming
14 Sprint United eventually does install the necessary
15 software, the proposed rates structure will send
16 inaccurate signals to the marketplace, potentially
17 resulting in the wasteful investment of scarce
18 resources.

19

20 **Q. DO YOU AGREE WITH MR. POAG'S RESPONSE TO TIME**
21 **WARNER'S IMPUTATION PROPOSALS?**

22 **A.** No. At pages 32-33 of his testimony, Mr. Poag
23 makes a number of arguments that are either wholly
24 irrelevant (imputation is not necessary because
25 Sprint United cannot increase its local service

1 rate for three to five years) or which indicate the
2 difficulty of applying an effective standard
3 (Sprint United would need to conduct additional
4 cost work in order to have a basis for beginning an
5 imputation analysis).

6
7 While an effective imputation standard is
8 absolutely essential if Sprint United charges rates
9 above its direct cost for interconnection (either
10 on a minute of use basis or for a flat-rated
11 facility), it is avoidable if co-carriers adopt a
12 payment in kind arrangement for the termination of
13 traffic. To the extent that applying an imputation
14 standard would create additional costs for either
15 Sprint United or other co-carriers, these costs
16 should be added to the ever growing list of costs
17 that can be avoided if a payment in kind
18 arrangement is implemented. It is Sprint United's
19 inconsistency on a payment in cash rather than
20 payment in kind arrangement that creates the costs
21 associated with traffic measurement, carrier
22 billing, and, to the extent they prove to exist,
23 the application of an imputation standard. If bill
24 and keep is not adopted, then I recommend that the
25 rates charged to Time Warner and other ALECs with

1 the cost of Sprint United's non-essential component
2 should be imputed into the local exchange rates of
3 Sprint United.

4

5 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

6 A. My rebuttal testimony attempts to respond to a
7 number of issues raised by Sprint United's witness
8 Poag. Mr. Poag's conclusions are summed up at page
9 33 of his testimony, where he argues that Sprint
10 United's rates do not, in contrast to the
11 assertions in my direct testimony, create barriers
12 to entry. Specifically, he states that "I cannot
13 specifically address Time Warner's specific
14 situation, but I can tell you that Sprint United's
15 tariffed collocation rates are lower than the rates
16 for many LECs." Such a "we're no worse than
17 anybody else" defense is hardly a demonstration
18 that Sprint United's proposed rates will not create
19 a barrier to entry and effectively preclude the
20 development of effective competition.² It is
21 certainly not a basis for sound public policy.

22 ² Of course, Sprint United's collocation rates are
23 only a part of the rate structure necessary for
24 local interconnection.

1 In order for Florida ratepayers to benefit from the
2 development of effective competition for local
3 exchange telecommunications services, it will be
4 necessary to implement a compensation arrangement
5 that compensates co-carriers, including Sprint
6 United and Time Warner, for the termination of
7 calls originated on the networks of other co-
8 carriers. This compensation arrangement should
9 minimize, to the extent possible, both the
10 magnitude of administrative costs (including
11 measurement, billing, and administration) and the
12 incumbent LEC's ability to create barriers to
13 entry. The bill and keep proposal described in my
14 direct testimony will best meet these objectives.

15

16 If a flat rate port arrangement is adopted, the
17 rate must not prevent new entrants from utilizing
18 such an arrangement with the relatively low initial
19 traffic volumes that it is reasonable to expect
20 these carriers to have. Otherwise, an effective
21 barrier to entry will be created. Similarly, if a
22 per minute of use rate structure is considered, it
23 is essential that an effective imputation standard
24 be applied in order to prevent a price squeeze.

1 In addition to the objectives of minimizing total
2 costs and avoiding the creation of barriers to
3 entry, the compensation arrangement adopted for
4 local interconnection should not distort the
5 signals to the marketplace in a way that causes
6 inefficient investment and wasted resources.

7

8 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

9 **A. Yes. It does.**