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January 20, 1998

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Mrs. Blanca S. Bayo
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Florida Public Service Commission
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Tallahassee, Florida 32399

RE: Dockets Nos. 960847-TP, 960980-TP

Dear Mrs. Bayo:

Enclosed for filing in the above referenced dockets on behalf of AT&T of the Southern States Inc. (AT&T) is the Direct Testimony of Wayne Ellison.

Copies of the foregoing are being served on all parties or record in accordance with the attached Certificate of Service. Thank you for your assistance in this matter.

Sincerely,

Tracy Hatch
Tracy Hatch

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CERTIFICATE OF SERVICE
Docket No. 960847 and 960980

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to the following parties of record by U.S. Mail on this 20th day of January, 1998:

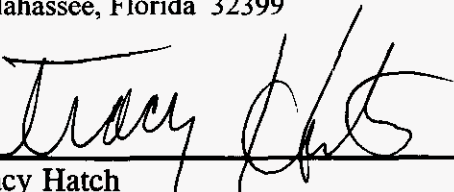
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of the Southern States, Inc.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL

DIRECT TESTIMONY

OF

WAYNE ELLISON

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.

DOCKET NOs: 960847-TP/960980-TP

January 20, 1998

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DIRECT TESTIMONY OF
WAYNE ELLISON
ON BEHALF OF
AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.
DOCKET NOS: 960847-TP/960980-TP

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.

A. My name is Wayne Ellison. My business address is 1200 Peachtree Street N.E., Atlanta, Georgia 30309. I am employed by AT&T as a District Manager in the Law and Government Affairs organization.

Q. WOULD YOU PLEASE STATE YOUR EXPERIENCE?

A. I have 33 years experience in the telecommunications industry including 20 years as a manager for C & P Telephone Company, now a part of Bell Atlantic, and 13 years with AT&T. At C & P Telephone Company, I worked for 7 years in the outside plant engineering organization, where I was responsible for loop planning and design, construction engineering, and plant utilization. I also worked 13 years in the C & P Telephone Company costs and economics organization. My primary responsibility within the costs and economics organization was to supervise the analysis of service costs in support of the Company's rate filings. During my time in the costs and economics organization, I also administered plant purchases and sales transactions, negotiated borderline billing agreements, and performed special separations analysis.

For the past thirteen years, I have been employed by AT&T. The majority of my time with AT&T has been devoted to the advocacy of AT&T's positions as a regulatory

1 witness and to the analysis of information and issues in support of those positions. In
2 that regard, I have been given the specific responsibility for determining acceptable
3 prices for network elements, transport and termination, means of interconnection, and
4 access to poles, ducts, conduits, and rights-of-way under the 1996 Telecommunications
5 Act (the "Act"). To meet this later responsibility, I have participated in AT&T's
6 negotiations with BellSouth and have analyzed the cost data that BellSouth has provided
7 to AT&T or to state regulatory authorities throughout BellSouth's nine state serving area.
8 I am currently evaluating similar data provided by GTE.

9
10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION**
11 **REGARDING APPROPRIATE PRICES UNDER THE**
12 **TELECOMMUNICATIONS ACT?**

13 **A.** Yes. I provided testimony in the AT&T/BellSouth arbitration proceeding, Docket No.
14 960833-TP. I have also provided testimony regarding this subject in state regulatory
15 proceedings in Alabama, Georgia, Louisiana, Mississippi, North Carolina, South
16 Carolina, and Tennessee.

17
18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 **A.** The purpose of my testimony is to:

- 20 1. Describe the appropriate cost standard for determining network element rates
21 that comply with the 1996 Telecommunications Act (the "Act").
22
- 23 2. Identify the procedures AT&T will follow to provide price recommendations for
24 the various network element prices addressed in this proceeding.
25

1 REQUIREMENTS OF THE TELECOMMUNICATIONS ACT OF 1996

2

3 **Q. WHAT ARE THE RELEVANT REQUIREMENTS OF THE**
4 **TELECOMMUNICATIONS ACT OF 1996 WITH RESPECT TO NETWORK**
5 **ELEMENTS BEING PRICED IN THIS PROCEEDING?**

6 **A.** Section 251(c)(3) of the Act requires that GTE provide network elements on rates, terms,
7 and conditions that are just, reasonable, and nondiscriminatory. Section 252(d)(1)
8 specifies that just and reasonable rates for network elements shall be based on the cost
9 (determined without reference to a rate-of-return or other rate-based proceeding) of
10 providing the network element, shall be nondiscriminatory, and may include a reasonable
11 profit.

12

13 **Q. HOW SHOULD COST-BASED RATES BE DETERMINED?**

14 **A.** Rates should be set at GTE's forward-looking economic costs. More specifically, rates
15 established in this proceeding should be set to recover TELRIC costs plus a reasonable
16 contribution to forward-looking common costs. These costs should reflect the most
17 efficient telecommunications technology and operating practices available, the lowest
18 cost network configuration based on existing wire center locations, forward looking cost
19 of capital, economic depreciation rates, geographic cost differences, and efficient fill
20 and/or utilization factors. Such rates must also exclude retail, embedded, and opportunity
21 costs.

22

23 **Q. WHAT IS TELRIC?**

24 **A.** TELRIC is the additional cost that would be borne by a wholesale-only firm using
25 efficient, forward-looking technology and operating practices to produce the total current

1 output of a given network element. This definition refers to the additional cost of
2 providing the total current volume of output of a UNE, which must then be divided by
3 the current volume to yield unit cost for rate purposes.

4

5 **Q. ARE TELRIC COSTS AND TSLRIC COSTS DIFFERENT?**

6 **A.** No. The Commission has previously noted that, at least theoretically, there should not be
7 substantial differences between the TSLRIC cost of a network element and the TELRIC
8 cost of a network element (See Order No. PSC-97-0064-FOF-TP, page 25). I agree. In
9 fact, there should be no differences between TSLRIC and TELRIC, because they are
10 conceptually identical. One applies incremental cost concepts to services, and the other
11 applies them to elements.

12

13 **Q. WHY IS IT NECESSARY THAT TELRIC REFLECT ONLY EFFICIENT,
14 FORWARD-LOOKING COSTS?**

15 **A.** Prices must be set at efficient, forward-looking costs to allow consumers to receive the
16 benefits of competition. Such prices benefit consumers by allowing competition to drive
17 GTE's retail rates to efficient price levels, and by providing an incentive to GTE to
18 operate efficiently and compete effectively. Prices that reflect efficient, forward-looking
19 costs also encourage efficient market entry, while discouraging wasteful, inefficient
20 entry. Finally, such prices limit GTE's ability to engage in anti-competitive pricing
21 behavior. Each of these outcomes precisely align with the pro-consumer, pro-
22 competition goals of the Act.

23

24 **Q. WHY IS IT NECESSARY THAT TELRIC REFLECT ONLY INCREMENTAL
25 COST?**

1 **A.** Incremental cost in this context is the additional cost of providing an entire network
2 element, as an addition to the existing mix of network elements otherwise being
3 provided. Where there are economies of scope among network elements, incremental
4 cost will be less than the cost of providing the network element on a stand alone basis.
5 Basing prices on incremental rather than stand alone cost shares such economies of scope
6 with purchasers of network elements, as would be required in a competitive market. The
7 expectation is, however, that there are few, if any, efficient, forward-looking common
8 costs among the group of network elements(see para 678, FCC's Order). This is what the
9 FCC emphasized when it described its rationale for the difference between TELRIC and
10 TSLRIC.

11

12 **Q. DO YOU HAVE A RATE RECOMMENDATION CONSISTENT WITH THE**
13 **PRINCIPLES YOU DESCRIBE?**

14 **A.** Not at this time. I will provide recommended prices for the network element capabilities
15 addressed by this proceeding in rebuttal testimony. I will base my recommendations on
16 the results of AT&T's review and analysis of GTE-provided cost studies. AT&T will not
17 present its own cost studies in this proceeding.

18

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

20 **A.** Yes.

21

22

23

24

25