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PLEASE REPLY TO:
TALLAHASSEE

November 8, 1993

BY HAND DELIVERY

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Comprehensive Review of the Revenue Requirements
and Rate Stabilization Plan of Southern Bell
Telephone and Telegraph Company, Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing and distribution are the original and 15
copies of the Testimony and Exhibits of Joseph Gillan on behalf of
the Florida Interexchange Carriers Association.

An extra copy of the Testimony and Exhibits of Joseph Gillan
on behalf of the Florida Interexchange Carriers Association is also
enclosed. Please stamp with the date of filing and return it to
me.

Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman
Vicki Gordon Kaufman

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SCANNED

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

In re: Comprehensive Review of the)	Docket No. 920260-TL
Revenue Requirements and Rate)	Filed: November 8, 1993
Stabilization Plan of Southern Bell)	
Telephone and Telegraph Company)	

**TESTIMONY OF JOSEPH GILLAN
ON BEHALF OF
THE FLORIDA INTEREXCHANGE CARRIERS ASSOCIATION**

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**TESTIMONY OF JOSEPH GILLAN
ON BEHALF OF
THE FLORIDA INTEREXCHANGE CARRIERS ASSOCIATION**

1 **I. Introduction**

2

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

4

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

7

8 **Q. What is your occupation?**

9

10 **A. I am an economist with a consulting practice specializing in**
11 **telecommunications.**

12

13 **Q. Please briefly outline your educational background and related experience.**

14

15 **A. I am a graduate of the University of Wyoming where I received B.A. [1978]**
16 **and M.A. [1979] degrees in economics. My graduate program concentrated**
17 **on the economics of public utilities and regulated industries with course work**
18 **emphasizing price theory and statistics. During graduate school, I served an**
19 **internship with Mountain Bell in its Demand Analysis Group modeling the**
20 **residential demand for local service.**

21

22 **In 1980, I joined the Illinois Commerce Commission where I had primary**

1 responsibility for developing Commission policy in its filings before the U.S.
2 District Court and the Federal Communications Commission and staff
3 testimony concerning the telecommunications industry. While at the Illinois
4 Commission, I served on the staff subcommittee for the NARUC
5 Communications Committee and was appointed to the Research Advisory
6 Council overseeing NARUC's research arm, the National Regulatory
7 Research Institute.

8
9 I have published a number of articles on contemporary issues in
10 telecommunications regulation and currently serve on the Advisory Council
11 for New Mexico State University's Center for Public Utilities and as Outside
12 Faculty for the Public Utility Research and Training Institute and the
13 University of Wyoming. A more detailed listing of my publications, prior
14 testimony and qualifications is provided in Exhibit (JPG-1).

15
16 **Q. On whose behalf are you testifying?**

17
18 **A. I am testifying on behalf of the Florida Interexchange Carriers Association**
19 **(FIXCA) which is an industry group formed to promote interexchange**
20 **competition.**

21
22 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to address three basic areas:

2

3 1. Southern Bell's Incentive Plan.

4

5 2. The Structure of the IntraLATA Toll Market.

6

7 3. Southern Bell's Corporate Network.

8

9 Q. Please summarize your recommendations to the Commission.

10

11 A. First, the obvious: The Commission should not renew Southern Bell's
12 incentive regulation plan without first recalibrating Southern Bell's rates.
13 These rate levels have not been reset since the inception of the plan over five
14 years ago. While Southern Bell would like the Commission to believe that all
15 of its earnings are the result of improved efficiencies, there is no way to
16 separate gains that occur because of extraordinary management efforts from
17 those that are the natural consequence of changes in technology and declining
18 costs. Further, if the Commission does renew the incentive plan, my
19 testimony recommends that a new "sharing" mechanism be incorporated which
20 would share the benefits of growth in the toll (and derivatively access)
21 markets between Southern Bell and its access customers.

22

1 **Second, the testimony recommends a coordinated strategy for the intraLATA**
2 **toll market. This strategy would rely on reduced access rate levels and the**
3 **empowerment of customers with control over their intraLATA 1+ dialing to**
4 **lower interexchange usage prices. The Commission should then allow some**
5 **time for this more competitive intraLATA environment to provide lower toll**
6 **prices before considering additional requests to remonopolize the market**
7 **through "25 cent plan" pricing. As consumer expectations change to recognize**
8 **the competitive nature of this market, I believe that pressures on the**
9 **Commission to carve out market exceptions such as the 25 cent plan will**
10 **decline. Under *no* circumstances should the Commission approve Southern**
11 **Bell's Expanded "Local" Service proposal. This proposal attempts to lure**
12 **customers to accept local measured service with toll prices that are well below**
13 **the access costs the Commission has ordered that Southern Bell must recover**
14 **in its retail rates.**

15
16 **Finally, I recommend that as the Commission resets Southern Bell's rates, that**
17 **it disallow Southern Bell's investment in its interLATA "corporate" network.**
18 **This investment exceeds Southern Bell's internal communication needs and**
19 **its presence in Southern Bell's regulated rate base is forcing today's monopoly**
20 **ratepayers to finance a network that could be used to subsidize Southern**
21 **Bell's (hoped for) reentry into the interexchange market.**

1 **II. The Southern Bell's Regulatory Incentive Plan**

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21

Q. Please describe the regulatory incentive plan that the Commission adopted for Southern Bell.

A. The Southern Bell incentive plan was designed to provide Southern Bell with an opportunity to retain increased profits under the premise that the opportunity for higher profits would encourage Southern Bell to improve its productivity.

This incentive took the form of a broader range of permissible profits which would allow Southern Bell to retain 100% of all earnings up to an achieved return on equity of 14%. In addition, the plan contained a sharing mechanism that allowed Southern Bell to retain 40% of earnings between 14% and 16%. The plan also contained a lower bound of 11.5% which (if reached) would relieve Southern Bell of its commitments.

This plan was first adopted by the Commission in September of 1988 and was originally intended to apply prospectively to influence Southern Bell's behavior during calendar years 1989 and 1990.

Q. How was the plan originally designed to reward only *improved* performance?

1 A. The incentive experiment was specifically designed to provide Southern Bell
2 with incentives to improve upon its *expected* performance. The Commission
3 was careful to design mechanisms to prevent Southern Bell from benefiting
4 from factors beyond its control. These preventive measures took two forms.

5

6 First, the Commission established rates using Southern Bell's own forecasts
7 for the period the plan was expected to be in effect (1989 and 1990). This
8 calibration served the purpose of establishing the benchmark of expected
9 performance against which Southern Bell would then be judged. In this way,
10 changing conditions which Southern Bell's own management anticipated under
11 "business as usual" were isolated from the reward (shared earnings) contained
12 in the incentive plan.

13

14 Second, the Commission established an annual "netting process" referred to
15 as the "box". The box was developed to isolate those exogenous events which
16 were easily quantifiable -- rate changes, separations, tax changes, other
17 significant government changes etc... This feature of the plan was designed
18 so that Southern Bell could not directly benefit from changes that were clearly
19 beyond its control.

20

21 In December of 1990, the Commission extended the experiment in order to
22 gather data for three complete years (1989-1991) and to provide a window for

1 its review of the plan (1992). When the Commission extended Southern Bell's
2 incentive plan, it decided not to recalibrate rates for 1991 and 1992. This
3 action had the effect of attributing all earnings improvements solely to
4 Southern Bell's efficiency. If I understand the testimony of Southern Bell's
5 witness Denton, Southern Bell would like this assumption continued in
6 perpetuity so that *all* increased earnings are presumed to be the consequence
7 of the extraordinary efforts of Southern Bell's management.
8

9 **Q. Should Southern Bell be forever entitled to a higher return to reward**
10 **productivity measures that it may have taken during the course of the**
11 **experiment?**

12
13 **A. No. For the incentive plan to work properly, there must be a way to isolate**
14 **earnings tied to improved productivity from earnings which result from other**
15 **factors. The solution adopted in the first two years of the incentive plan was**
16 **to establish a "baseline" performance by setting rates for 1989 and 1990 based**
17 **on projections for those years, and to then adjust achieved results by removing**
18 **earnings which could be directly traced to events beyond Southern Bell's**
19 **control (i.e., the "box"). By establishing the level of expected performance,**
20 **and removing known exogenous factors from achieved results, the remainder**
21 **was presumed to be the result of increased performance.**

22

1 For the third and final year of the experiment (1991), the Commission
2 declined to reset Southern Bell's baseline performance and chose to rely
3 exclusively on the "box" to remove exogenous effects. This decision effectively
4 made the generous assumption that all improvements in Southern Bell's
5 earnings (not directly explained by a known exogenous change) are the result
6 of Southern Bell's own productivity. The plan cannot continue indefinitely,
7 however, under such a charitable assumption.

8
9 To continue the incentive experiment without limit -- and without ever
10 adjusting Southern Bell's earnings to reestablish an appropriate baseline --
11 would forever attribute to the prowess of Southern Bell's management every
12 gain in technology, every reduction in cost (including capital costs) and every
13 increase in demand -- forever. This assumption (despite its obvious attraction
14 to Southern Bell) is plainly flawed and must ultimately be rejected by the
15 Commission.

16
17 **Q. Do you oppose the Commission renewing Southern Bell's incentive plan?**

18
19 **A. No, so long as the Commission recalibrates Southern Bell's rates and**
20 **incorporates a "sharing" mechanism so that access customers also have the**
21 **opportunity to benefit from growth.**

22

1 This modification is necessary to correct a deficiency in the structure of the
2 existing incentive plan where access customers -- i.e., interexchange carriers -
3 - could contribute to excess revenues, but are unlikely to receive a portion of
4 any refund amount. I recommend that the Commission modify the incentive
5 plan so that access customers are also able to benefit from the positive impact
6 of growth on revenues.

7
8 Specifically, I recommend that increased revenue from growth in Carrier
9 Common Line Charges (CCLC) be split between (1) growth attributable to
10 increases in the number of access lines, and (2) growth attributable to
11 increases in the average usage per line. Southern Bell should be allowed to
12 retain increased revenues from the addition of access lines, but the additional
13 revenue caused by an increase in access minutes per line -- which reflects
14 increasing usage of interexchange carrier toll products -- should be used to
15 reduce access charges.

16 17 **III. IntraLATA Toll Services**

18
19 **Q. What specific issues concerning the intraLATA toll market have been raised**
20 **in this proceeding?**

21
22 **A. First, there is the issue presented by Southern Bell's predatory toll product**

1 labeled "Expanded Local Calling Service" or (ELS). Second, there is the
2 continuing pressure for toll rate relief evidenced by the suggested introduction
3 of the "25 cent plan" to portions of the Southeast LATA.

4
5 I believe that each of these proposals misses the basic problem: Toll prices
6 in Florida need to be reduced. Southern Bell's proposal is a blatant attempt
7 to lure people to measured service with the promise of unlawfully low toll
8 prices. As such, the ELS proposal should be flatly rejected.

9
10 The introduction of the 25 cent plan is less objectionable on its face, but is
11 equally unacceptable in that it effectively trades competition for price levels
12 that could be achieved *without* this sacrifice. The better solution retains
13 competition and reduced prices by combining lower access rates with
14 enhanced customer choice. Before discussing this approach further, however,
15 it is useful to remove Southern Bell's ELS suggestion from the candidate list
16 of viable options.

17
18 **Q. Please describe the basic elements of Southern Bell's so-called expanded**
19 **"local" service (ELS) package.**

20
21 **A. Southern Bell's proposal consists of two elements: (a) a heavily discounted**
22 **interexchange service (priced well below access charges) bundled with (b) the**

1 elimination of the subscriber's free local calling area. (i.e., the introduction of
2 local measured service).

3

4 Those customers agreeing to local measured service would receive discounted
5 interexchange pricing for all their toll calls up to a 40 mile radius. The price
6 applicable to these interexchange calls would be only \$0.08 per minute.
7 Furthermore, for those customers who subscribe, the dialing pattern would
8 convert all calls within 40 miles to 7-digit dialing (i.e., these interexchange
9 calls will no longer be originated with the 1+ prefix).

10

11 Additional discounts are available if the customer subscribes to various
12 monopoly calling features. Residential customers also have the option of
13 purchasing unlimited calling for a flat fee of \$20.00 per month.

14

15 **Q. What issues are raised by Southern Bell's proposal to bundle a discounted**
16 **interexchange product with LMS?**

17

18 **A. Southern Bell is basically using an interexchange discount to entice customers**
19 **to subscribe to local measured service. Importantly, the discounted**
20 **interexchange portion is priced at rates which violate the Commission's**
21 **requirement that Southern Bell impute the access charges that it levies on**

1 interexchange carriers to its own cost of providing a toll service.¹

2
3 The Commission's imputation standards were adopted to assure that Southern
4 Bell's toll products were priced to reflect the same payment for monopoly
5 access service that Southern Bell imposes on its rivals. By pricing below the
6 Commission's imputation floor, Southern Bell would be able to capture
7 consumers using prices that cannot be matched by rivals due to the
8 exorbitantly high level of SBT's access charges.

9
10 **Q. How does Southern Bell's ELS toll rate compare to its access charges?**

11
12 **A. As noted, the *highest* toll rate in the ELS package is 8 cents/minute. In**
13 **contrast, even after implementing the relatively minor access reductions that**
14 **Southern Bell has proposed in this case, the lowest access charge that an IXC**
15 **would have to pay -- and which Southern Bell is obligated to impute -- is**
16 **closer to 11 cents per minute.**

17
18 The source of Southern Bell's lower prices do not stem from any advantage
19 that Southern Bell possesses as a provider of interexchange service, but rather
20 because it proposes to avoid the burden it imposes on its competitors (and

21 ¹ See Order Establishing Parameters for Local Exchange Company Toll Pricing,
22 Order 24859, Docket 900708-TL, issued 7/29/91.

1 their customers) in the form of access charges. Of course, with similar relief
2 from Southern Bell's access charges, other interexchange carriers could
3 continue to meet their customers' needs for lower prices and provide them
4 with competitive alternatives.

5
6 **Q. Is it appropriate to exempt Southern Bell's ELS-toll service from the**
7 **Commission's imputation standards?**

8
9 **A. No. The single precedent for an exemption from access charges is where a**
10 **community-of-interest exists to justify the pricing privilege of local service.²**
11 **Southern Bell has made no attempt to satisfy the "community of interest"**
12 **standard other than through creative labeling. Nor could it.**

13
14 **Southern Bell's proposed product is optional to *each* subscriber and is defined**
15 **geographically by a 40 mile radius. These parameters shout "toll product."**
16 **There is no conceivable basis to the claim that ELS corresponds to a**
17 **"community" -- the optional feature of the service belies the notion of any**
18 **collective interest. Meaningful communities of interest do not extend**
19 **concentrically from individual exchanges according to an arbitrary mileage**

20 ² Order 25708, Docket 910179-TL, issued 2/11/92.

1 radius; nor are they defined on an individual by individual basis.³

2
3 This discounted (indeed predatory) interexchange product is simply a "loss
4 leader" intended to extend Southern Bell's formidable "local" monopoly well
5 into the interexchange market. Further, through its bundling with local
6 measured service, Southern Bell is able to offset its reduced toll revenues with
7 higher local revenues. This strategy turns traditional rate relationships on
8 their head: While SBT's competitors are expected to subsidize local service
9 through inflated toll rates, SBT's ELS-toll service is "subsidized" by local
10 revenues.

11
12 If lower toll prices are a reasonable goal -- and I believe that they are -- then
13 interLATA calling is just as deserving as intraLATA; the customers of
14 competitive interexchange carriers are just as deserving as those of Southern
15 Bell; and, those that abhor local measured service are just as deserving as
16 those who accede to it. Customers shouldn't be forced to use Southern Bell
17 to avoid subsidizing it; and consumers shouldn't be required to purchase local
18 measured service to get toll rate relief. The Commission should flatly reject

19 ³ The Supreme Court has recently made clear the Commission has the
20 discretion to invoke a legal ban on competition along routes that it has
21 concluded are local. When viewed in the context of Southern Bell's proposal,
22 this authority would allow each individual to invoke (or remove) a legal ban
23 on competition depending upon the service that the customer selects. Clearly,
24 such a result is as implausible as Southern Bell's own characterization that the
25 toll calling under ELS is a form of "local" service.

1 this proposal.

2

3 **Q. What approach to the intraLATA market do you recommend?**

4

5 **A. First, I believe that it is important for the Commission's toll and local pricing**
6 **policies to remain separate. The Commission should reject Southern Bell's**
7 **effort to use discounted interexchange prices (below access charges) as an**
8 **inducement for consumers to subscribe to local measured service.**

9

10 **Second, I recommend that the Commission address its interexchange pricing**
11 **policies in a manner that will encourage broader rate reductions without the**
12 **sacrifice of competitive choice. Customers can have low rates, carrier**
13 **diversity and competitive protection under a system of non-discriminatory**
14 **access rates (coupled with the Commission's imputation policies).**

15

16 **Q. Do you believe that the Commission should work to reduce interexchange**
17 **usage prices?**

18

19 **A. Yes. Reductions in toll prices should expand the Florida economy, better**
20 **exploit the networks of both Southern Bell and its interexchange carrier**
21 **customers, and help reduce pressures for EAS that result from toll prices that**
22 **are excessive in comparison to the price of local usage.**

1 The underlying problem of high toll rates, however, should be addressed for
2 what it is -- a problem of high *toll* rates. And the principal cause of high toll
3 prices is high access charges. The cost of access, as the primary *source* of the
4 problem, should figure prominently in its *solution*.

5
6 **Q. How do you believe that the Commission should achieve toll rate relief?**

7
8 **A. First, I recommend that the Commission reduce access charges. A reasonable**
9 **target is the level of interstate access rates. I intend to provide a more**
10 **specific recommendation after reviewing the testimony of the revenue**
11 **requirements witnesses in this proceeding.**

12
13 **Second, the Commission should empower customers with control over their**
14 **1+ dialing as recommended by staff in Docket 93-0330. The more vigorous**
15 **competitive market for intraLATA services should reduce toll prices,**
16 **consumer dissatisfaction and, as a consequence, requests for selective and**
17 **discriminatory toll rate relief such as the 25 cent plan.**

18
19 **If the Commission concludes that additional, more focused toll rate relief is**
20 **warranted in particular markets (such as the intraLATA market), then the**
21 **Commission should establish a lower access rate for all intraLATA calls --**
22 **including those of Southern Bell's rivals. For example, if the Commission is**

1 particularly concerned that interexchange prices decline in the Southeast
2 LATA, then it would be appropriate to establish a reduced access charge
3 specific to intraLATA traffic in this LATA.

4
5 **Q. Are you aware of any examples of selective access reductions of the type you**
6 **describe here?**

7
8 **A. Yes. It appears that Southern Bell negotiated lower access rates for its ELS-**
9 **like service in South Carolina with the independent LECs in that state. Not**
10 **surprisingly, this apparent access-relief agreement is limited *only* to Southern**
11 **Bell and other local telephone companies that introduce ELS-like products.⁴**
12 **Aside from this patently anti-competitive limitation, the approach seems to**
13 **embody the principle of targeted access-relief discussed above.**

14
15 **Q. Should the Commission introduce in the 25 cent plan in Dade/Broward area?**

16
17 **A. No. The 25 cent plan does not fundamentally change consumer desires for**
18 **EAS, nor is it consistent with competition. In fact, the Commission has**
19 **previously *banned* competition along routes where it has implemented the 25**
20 **cent plan. The Supreme Court has recently made clear that these bans are**

21 ⁴ FIXCA has only recently learned of this agreement and intends to investigate
22 whether Southern Bell has made any similar suggestions to the independent
23 LECs in Florida.

1 not a necessary consequence of the statute, but are instead within the
2 discretion of the Commission. If the Commission moves forward with a 25
3 cent plan here, it should use this discretion to retain at least the *potential* for
4 competitive choice by allowing other carriers to continue to serve along these
5 routes.

6
7 My primary recommendation, however, is that the Commission instead adopt
8 a general reduction in intrastate access charges coupled with the
9 implementation of 1+ presubscription. The Commission should then allow
10 this more competitive environment time to mature to meet and change
11 customer expectations.

12
13 If the Commission concludes that more dramatic toll rate relief is necessary
14 in the Southeast LATA, then I recommend that the Commission conduct an
15 experiment based on LATA-specific access charges (again, combined with the
16 1+ presubscription that I am assuming will result from Docket 93-0330).

17
18 **Q. How do you believe your recommendations will reduce pressures for the 25**
19 **cent plan?**

20
21 **A. I believe that it is axiomatic that consumers will always seek lower prices. In**
22 **a competitive market, consumers look for lower prices by comparing**

1 alternatives. Ultimately, consumers discover the *lowest* price which they
2 essentially accept as the floor.

3
4 This process has no parallel in the regulated environment. When prices are
5 set by the Commission, consumers seek lower prices through administrative
6 petition. In the absence of alternatives, there is no logical "floor" to consumer
7 expectations which, in the extreme, become demands for "free" service (i.e.,
8 EAS). This, I believe, is the fundamental source of the Commission's
9 continuing frustration with requests for EAS and other selective rate relief:
10 There is no logical end to the process. Each time the Commission provides
11 selective rate relief it only encourages additional requests.

12
13 So long as the *Commission* establishes the rates for toll service, it will always
14 confront requests for selective exemption from these high prices. However,
15 if *consumers* are empowered with control over their own service choices, then
16 the prevailing expectation that it is the Commission's role to grant selective
17 price relief will dissipate. The only viable long term alternative to continual
18 requests before the Commission for "special treatment" is customer acceptance
19 that price levels are established through competitive forces and not
20 administrative order.⁵

21 ⁵ I should note that the Commission would still retain, through its regulation of
22 access charges, the ability to influence retail price levels.

1 **IV. Southern Bell's Private Toll Network**

2
3 **Q. Please describe Southern Bell's private toll network.**

4
5 **A. Although Southern Bell is (presently) prohibited from providing interLATA**
6 **services under the MFJ, it was given permission to construct and operate an**
7 **interLATA network for its own internal needs. Southern Bell exploited this**
8 **opportunity by constructing a fiber-optics network with capacity that is**
9 **unnecessary when compared to Southern Bell's needs. Yet, this excess**
10 **capacity is more than sufficient to provide Southern Bell with a subsidized**
11 **platform to provide interexchange services if its MFJ restrictions are ever**
12 **lifted.**

13
14 **Q. How many fiber pairs did Southern Bell install for use in its private internal**
15 **network?**

16
17 **A. Exhibit ____ (JPG-2) shows the number of interLATA fiber pairs installed in**
18 **by Southern Bell between each LATA and compares the number of active**
19 **pairs with those that are spare (or dark). These "dark" fiber pairs represent**
20 **potential transmission capacity that only requires the addition of optronics**
21 **systems to be "lit" and activated.**

1 As this exhibit demonstrates, Southern Bell has constructed an extensive
2 interLATA interexchange fiber optic network and a large percentage of this
3 network lies fallow in the ground. Statewide, approximately 45% of the fiber
4 is dark and sits idle. The cost of the entire network, as part of Southern
5 Bell's rate base, is being recovered from ratepayers through depreciation.

6
7 This comparison, while telling, is also a conservative estimate of the excess
8 capacity. This is because much of the fiber that is already "lit" is either
9 unused or (possibly) under-utilized.

10
11 **Q. What determines the capacity of a fiber system?**

12
13 **A.** The capacity of an operating fiber system is determined by the speed of the
14 optronics. The faster that the optronics can send and receive light signals, the
15 greater the volume of data that can be transmitted, thus increasing the
16 number of information "packages" available to transmit encoded (digital) voice
17 conversations. Fiber capacity is typically represented in DS-3 units (where
18 each DS-3 has the capacity of 672 voice-grade circuits). A 1.2 Gbps system
19 has the capacity of 24 DS-3s; a 565 Mbps system has the capacity of 12 DS-3s.

20
21 **Q. Have you estimated the potential capacity of this idle interLATA network?**

1 A. Yes. Using conservative assumptions, I determine the potential interLATA
2 capacity that Southern Bell has already installed, but which presently sitting
3 idle. The results of this analysis are presented in Exhibit ___ (JPG-3).

4
5 Q. What assumptions were used to develop this Exhibit?

6
7 A. First, I assumed that Southern Bell activated this fiber using 1.2 Gbps systems.
8 This is a conservative assumption; Southern Bell could deploy 2.4 Gbps
9 systems which would double the capacity of these links.

10
11 Second, I assumed that Southern Bell continues to configure its network with
12 1x1 protection. This architecture requires a working "protect" fiber pair for
13 each "active" fiber pair.⁶ An alternative architecture (called nx1) would
14 maintain one working fiber pair to protect any other fiber pair should it fail.
15 This architecture is slightly less reliable, but requires fewer fibers. Had the
16 alternative assumption been used, the potential capacity of the network would
17 have nearly doubled again.

18
19 Finally, along those less dense routes where Southern Bell has installed a 565

20 ⁶ Underscoring the conservativeness of my assumptions, wherever Southern Bell
21 had deployed an odd number of fiber pairs (and thus could not maintain 1x1
22 protection on each) I assumed that the odd fiber pair continued to remain
23 idle.

1 Mbps system, I estimated that additional capacity would be made available by
2 upgrading to 1.2 Gbps.

3

4 **Q. What are the results of your analysis?**

5

6 **A.** As Exhibit ___ (JPG-3) shows, Southern Bell has a substantial interLATA
7 network, presently being recovered through monopoly rates, that could be put
8 to competitive purposes simply by the addition (or upgrade) of its optronics.

9

10 To put my results in perspective, I compared the potential capacity of just this
11 idle portion of Southern Bell's network to the estimated size of the Florida
12 toll market. A rough estimate of the traffic carrying capability of the network
13 is 3 billion minutes per month.⁷ By comparison, the entire Southern Bell toll
14 market (intrastate) is only 400 million minutes per month, and the combined
15 (interstate and intrastate) toll market is estimated at less than 2 billion
16 minutes a month.

17

18 **Q. Do you have any other statistics that provide perspective on the size of**
19 **Southern Bell's corporate network?**

20

21 ⁷ This estimate assumes that each voice-equivalent circuit can carry 9000
22 minutes per month. This traffic loading was recently adopted by the FCC as
23 an estimate of the usage of the access circuits serving IXCs.

1 A. Yes. My understanding is that the second largest interexchange carrier in
2 Florida is LDDS Communications (successor to the Microtel network). The
3 standard size of its Florida network is 5 fiber pairs. Southern Bell's "private"
4 toll network is 2 to 3 times this size along most routes (between 12 and 18
5 fiber pairs). Even AT&T was averaging only 12 fiber pairs nationally in
6 1987⁸ (the last year that Southern Bell initially installed its private network).

7
8 Q. Are there other sources of spare capacity that should be considered?

9
10 A. Yes. The previous analysis focused almost exclusively on the potential
11 capacity of the fiber that is presently not used. As such, the analysis ignored
12 capacity that Southern Bell has activated, but which may be unused or under-
13 utilized. This capacity is created when Southern Bell installs a operating
14 system (such as 1.2 Gbps) which provides more capacity than it needs. The
15 operating systems installed by Southern Bell provide (statewide) 144 DS-3s of
16 capacity, of which Southern Bell is apparently using 101. The remaining one
17 third of the capacity can easily (and inexpensively) be used to provide
18 competitive services. This capacity alone is sufficiently large to accommodate
19 approximately 65% of the intrastate toll market.

20
21 Even this discussion assumes that the capacity that Southern Bell has

22 ⁸ Source: FCC Fiber Deployment Update, March 1992.

1 activated (i.e., the 101 operating DS-3s) is being efficiently used and doesn't
2 itself represent excess investment in both fiber *and* optronics. In this regard,
3 it is useful to note that during the pendency of this proceeding Southern Bell
4 increased its active capacity by nearly 125%, even though its switched voice
5 traffic increased by only 2.4%. Of course, this might be explained by an
6 "explosion" of non-switched demand on its network and my purpose isn't to
7 quibble about each and every circuit. It is the main point that concerns me:
8 Southern Bell has accomplished ratepayer funding of a competitively
9 significant asset for which ratepayers have received no benefit, and which is
10 more than adequate to position Southern Bell as a major interexchange
11 carrier in the future.

12
13 **Q. What remedy do you suggest?**

14
15 **A. The Commission should immediately remove the undepreciated value of the**
16 **dark fiber from Southern Bell's rate base so that ratepayers cease paying for**
17 **this strategic investment. Unfortunately, the potential competitive damage has**
18 **largely already been done. Southern Bell has put in place a subsidized**
19 **network investment that, if allowed to compete in the interexchange market,**
20 **would diminish the value of competing networks (funded by private investors).**
21 **The Commission may wish to consider additional remedies (such as reducing**
22 **the rate base by original cost plus interest) to assure that ratepayers have**

1 **Finally, the Commission should disallow Southern Bell's excess investment in**
2 **its interLATA "corporate" network. This investment exceeds Southern Bell's**
3 **internal communication needs and its presence in Southern Bell's regulated**
4 **rate base forces monopoly ratepayers to finance a network that could**
5 **subsidize Southern Bell's (hoped for) reentry into the interexchange market.**

6

7 **Q. Does this conclude your direct testimony?**

8

9 **A. Yes.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony and Exhibits of Joseph Gillan on behalf of the Florida Interexchange Carriers Association has been furnished by hand delivery* or by U.S. Mail to the following parties of record, this 8th day of November, 1993:

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**Qualifications, Publications and Testimony
Joseph Paul Gillan**

EDUCATION

B.A. Economics, University of Wyoming, 1978.

M.A. Economics, University of Wyoming, 1979.

Concentration in the economics of public utilities and regulated industries with an emphasis on price theory and statistics.

EMPLOYMENT HISTORY

1986 - Present

Private consulting practice specializing in the economic evaluation of regulatory policies and related business opportunities in the telecommunications industry. Economic and market analysis, product development, expert testimony, and regulatory planning services.

1985 - 1986 U.S. Switch; Vice President, Strategic Planning/Marketing

Responsibilities included project management, marketing and regulatory objectives for *Centralized Equal Access*, a networking concept design to provide equal access to rural areas while positioning independent telephone companies for competition.

1980 - 1985 Illinois Commerce Commission; Director, Market Structure Program

Primary staff responsibility for Commission policy concerning the level and structure of competition in the telecommunications and energy industries. Designed regulatory framework for IX competition, intralata market structure and developed intrastate access charge plan. Responsible for Commission representation in the Sunset process and all filings before federal agencies.

1979 Mountain States Telephone Company; Demand Analyst

Performed statistical analysis of the demand for access by residential subscribers.

EXPERT TESTIMONY

- New Mexico Re: Inquiry by the Commission into the Local Calling Area for the Albuquerque Metropolitan Area, Docket No. 93-218-TC, on behalf of LDDS Communications.
- Illinois Re: Application of Illinois Bell for Alternative Regulation, Docket 92-0048, on behalf of LDDS Communications.
- Mississippi Re: In Re: Notice of South Central Bell Telephone Company to Introduce Banded Rates for MTS, WATS and 800 Services, Docket 93-UN-0038, on behalf of LDDS Communications.
- Florida Re: Petition of Intermedia Communications of Florida for Expanded Interconnection for AAVs within LEC Central Offices, Docket 92-1074TP, on behalf of the Florida Interexchange Carriers Association.
- Louisiana Re: Objection to the Filing of Reduced WATSSAVER Service Rates, IntraLATA, State of Louisiana, Docket U-20237 on behalf of LDDS, MCI and AT&T Communications.
- S Carolina Re: Application of Southern Bell to Introduce Area Plus Service, Docket 93-176-C, on behalf of LDDS and MCI Telecommunications Corporation.
- Mississippi Re: Application of South Central Bell Telephone Company for Adoption and Implementation of a Rate Stabilization Plan, Case 89-UN-5453, on behalf of LDDS and Advanced Telecommunications Corporation.
- Illinois Re: Development of a Statewide Policy Regarding Local Interconnection Standards, Docket 92-0398, on behalf of the Competitive Carrier Coalition.
- Louisiana Re: Petition of the Louisiana Payphone Association for Implementation of Dial Around Compensation, Docket U-19993, on behalf of MCI Telecommunications Corporation.
- Maryland Re: Petition of the Middle Atlantic Payphone Association to Implement Dial Around Compensation, Docket 8525, on behalf of MCI Telecommunications Corporation.
- S Carolina Re: Petition of the South Carolina Public Communications Association for Implementation of Dial Around Compensation, Docket 92-572-C, on behalf of MCI.

EXPERT TESTIMONY (continued)

- Georgia Re: Application of the Georgia Communications Association for Dial Around Compensation, Docket 4206-U, on behalf of MCI.
- Delaware Re: The Diamond State Telephone Company's Application for a Rate Increase, Docket 91-47, on behalf of MCI.
- Florida Re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of Southern Bell, on behalf of the Florida Interexchange Carriers Association.
- Mississippi Re: Order of the Mississippi Public Service Commission to South Central Bell to (1) Expand ACP Calling Area, and (2) Include Calls to the County Seat in Capped Local Calling, 92-UA-100, on behalf of LDDS and ATC.
- Florida Re: Application for a Rate Increase by GTE Florida Incorporated 1992, Docket 920188-TL, on behalf of MCI and FIXCA.
- Wisconsin Re: Investigation Into the Extent of Competition in the IntraLATA Toll Telecommunications Market and of the Level of Regulation for IntraLATA Toll Telecommunications Service, 05-TI-119, on behalf of MCI and Schneider Communications.
- Florida Re: Investigation Regarding the Appropriateness of Payment for Dial Around Compensation from Interexchange Telephone Companies to Pay Telephone Providers, Docket 920399-TP, on behalf of MCI and FIXCA.
- California Re: The Matter of Alternative Regulatory Frameworks for Local Exchange Carriers and Related Matters, I.87-11-033, on behalf of Intellical, Inc.
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Office of Public Counsel and the Florida AdHoc Telecommunications Users Group.
- New York Re: Proceeding as to the Impact of the Modification of Final Judgment and FCC Docket 78-72 on the Provision of Toll Service in New York, Case 28425 Phase III, on behalf of Empire/Altel.
- Wisconsin Re: Investigation of Intrastate Access Costs and Intrastate Access Charges, Docket 05-TR-103, on behalf of Wisconsin CompTel and MCI.

EXPERT TESTIMONY (continued)

- Mississippi Re: Order of the Mississippi Public Service Commission Initiating Hearings Concerning (1) IntraLATA Competition and (2) Payment of Compensation by Interexchange Carriers and Resellers to Local Exchange Companies, Docket 90-UA-0280, on behalf of Intellicall, Inc.
- Louisiana Re: Investigation of the Revenue Requirement, Rate Structure, Charges, Services, Rate of Return, and Construction Program of Central Bell Telephone Company, Docket No. U-17949, Sub-Docket B (IntraLATA Competition), on behalf of Cable & Wireless Communications and ATC Corporation.
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Investigation of Intrastate Access Costs and Intrastate Access Charges, Docket 05-TR-103, on behalf of Wisconsin CompTel.
- Florida Re: Generic Investigation into the Operations of Alternate Access Vendors, Docket No. 890813-TP, on behalf of Intermedia Communications Inc.
- Alaska Re: In the Matter of Consideration of Regulations Governing the Market Structure for Intrastate Telecommunications Service, Docket R-90-1, on behalf of Telephone Utilities of Alaska.
- Minnesota Re: In the Matter of the Minnesota Independent Equal Access Corporation's Application for a Certificate of Public Convenience and Necessity, Docket P-3007/NA-89-76, on behalf of MCI and Telecom*USA.
- Florida Re: Investigation into Equal Access Exchange Areas, Toll Monopoly Areas, 1+ Restriction to the Local Exchange Carriers, and Elimination of the Access Discount, Docket 880812-TP, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Investigation of Intrastate Access Costs, Settlements and Intralata Access Charges, Docket 05-TR-102, on behalf of Wisconsin CompTel.
- Wisconsin Re: Investigation of Application of Wisconsin Independent Telecommunications Systems, Inc. (WITS) for Certificate of Public Convenience and Necessity to Offer Centralized Equal Access, etc..., Docket 6655-NC-100, on behalf of Wisconsin CompTel.

EXPERT TESTIMONY (continued)

- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Application of Various Interexchange Carriers for Authority to Provide Certain IntraLATA Toll Telecommunications Services (Not Including WATS and MTS), Docket 05-NC-100, on behalf of Wisconsin CompTel.
- Florida Re: Forbearance from Earnings Regulation of AT&T and Waiver of Rules, Docket 870347-TI, on behalf of FIXCA.
- Illinois Re: Investigation Concerning the Appropriate Methodology for the Calculation of Intrastate Access Charges for all Illinois Telephone Utilities, Docket 83-0142, on behalf of Illinois Consolidated Telephone Company.
- Texas Re: Inquiry of the General Counsel into the WATS Prorate Credit, Docket 8218, on behalf of TEXALTEL
- Iowa Re: Iowa Network Access Division, Docket RPU 88-2, on behalf of MCI and Teleconnect
- Florida Re: Investigation into Regulatory Flexibility for Local Exchange Carriers, Docket 871254-TL, on behalf of Microtel.
- Wisconsin Re: Investigation of Intrastate Interexchange Access Charges and Related Intralata and Interlata Compensation Matters, Docket 05-TR-5 Part B, on behalf of the Wisconsin State Telephone Association.
- Florida Re: Investigation into NTS Cost Recovery - Phase II, Docket 860984, on behalf of the Florida Association of Concerned Telephone Companies.

PROFESSIONAL APPOINTMENTS

- Advisory Council: New Mexico State University, Center for Regulation
- Faculty: Summer Program, Public Utility Research and Training Institute,
University of Wyoming
- Contributing Editor: Telematics: The National Journal of Communications Business
and Regulation, 1985 - 1989
- Member: NARUC Staff Subcommittee on Communications 1984-1985
- Advisory Committee: National Regulatory Research Institute, 1985

SELECTED PUBLICATIONS

- "Consumer Sovereignty: An Proposed Approach to IntraLATA Competition", Public Utilities Fortnightly, August 16, 1990.
- "Reforming State Regulation of Exchange Carriers: An Economic Framework", Third Place, University of Georgia Annual Awards Competition, 1988, Telematics: The National Journal of Communications, Business and Regulation, May, 1989.
- "Regulating the Small Telephone Business: Lessons from a Paradox", Telematics: The National Journal of Communications, Business and Regulation, October, 1987.
- "Market Structure Consequences of IntraLATA Compensation Plans", Telematics: The National Journal of Communications, Business and Regulation, June, 1986.
- "Universal Telephone Service and Competition on the Rural Scene", Public Utilities Fortnightly, May 15, 1986.
- "Strategies for Deregulation: Federal and State Policies", with Sanford Levin, Proceedings, Rutgers University Advanced Workshop in Public Utility Economics, May 1985.
- "Regulatory Considerations in the Introduction of Competition into the Telecommunications Industry", with Sanford Levin, Proceedings of the Thirteenth Annual Telecommunications Research Conference, April, 1985.
- "Charting the Course to Competition: A Blueprint for State Telecommunications Policy", Telematics: The National Journal of Communications Business, and Regulation, with David Rudd, March, 1985.

Excess InterLATA Fiber Capacity

Comparing Dark to Lit Fiber

InterLATA Route		Spare Fiber Pairs	Total Fiber Pairs	Percent Idle
Southeast	Orlando	9	18	50%
Orlando	Daytona	2	12	17%
Daytona	Jacksonville	8	18	44%
Gainesville	Jacksonville	8	15	53%
Jacksonville	Thomasville	9	12	75%
Jacksonville	Macon	3	6	50%
Panama City	Thomasville	0	3	0%
Panama City	Pensacola	0	3	0%
Total		39	87	45%

InterLATA Capacity

**Measured in DS-3s and Minutes/Month
 Compared to Florida Toll Market**

InterLATA Route		(1) DS-3s from:		Total Available DS-3s	Capacity in MOUs per Month (000s)
		Activation of Dark Fiber	Upgrade of Existing Fiber		
Southeast	Orlando	96		96	580,608
Orlando	Daytona	24		24	145,152
Daytona	Jacksonville	96		96	580,608
Gainesville	Jacksonville	96		96	580,608
Jacksonville	Thomasville	96	17	113	683,424
Jacksonville	Macon	24	13	37	223,776
Panama City	Thomasville	0	17	17	102,816
Panama City	Pensacola	0	17	17	102,816
Total Idle Capacity				496	2,999,808
Estimated Intrastate Toll Market					398,115
Estimated Florida Toll Market (interstate and intrastate)					1,990,576

- (1) Assumes use of 1.2 Gbps system.
- (2) Estimate of intrastate toll market based on Southern Bell's switched local transport minutes.
- (3) Combined interstate and intrastate toll market assumes a statewide percent interstate use (PIU) of 80%.