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June 27, 1994

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

Re: Docket No. ~~06321-TP~~

ACK Dear Ms. Bayo:

AFA 2
APP _____ Enclosed for filing in the above referenced docket are an
C/F _____ original and fifteen (15) copies of the Rebuttal Testimony
Keith of Mike Guedel on behalf of AT&T Communications of the
_____ Southern States, Inc. Copies of the foregoing are being
_____ served on all parties of record in accordance with the
_____ attached Certificate of Service.

ESP _____
LES Conyers
LIM 06/28/94
GTT _____
RCH _____
SEC 1
WAS _____
OTH _____

Yours truly,

Michael W. Tye

MWT:sad

Attachments

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FPSC BUREAU OF RECORDS

DOCUMENT NUMBER - DATE
06321 JUN 27 94
FPSC-RECORDS/REPORTING

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**IN RE: EXPANDED INTERCONNECTION)
PHASE II AND LOCAL TRANSPORT) DOCKET NO. 921074-TP
RESTRUCTURE)
_____)**

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

JUNE 27, 1994

**DOCUMENT NUMBER-DATE
06321 JUN 27 8
FPSC-RECORDS/REPORTING**

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

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

7

8

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

11

12 A. I received a Master of Business Administration with a
13 concentration in Finance from Kennesaw State College,
14 Marietta, GA in 1994. I received a Bachelor of Science
15 degree in Business Administration from Miami
16 University, Oxford, Ohio. Over the past years, I have
17 attended numerous industry schools and seminars
18 covering a variety of technical and regulatory issues.
19 I joined the Rates and Economics Department of South
20 Central Bell in February of 1980. My initial
21 assignments included cost analysis of terminal
22 equipment and special assembly offerings. In 1982, I
23 worked on access charge design and development. From
24 May of 1983 through September of 1983, as part of an
25 AT&T task force, I developed local transport rates for

1 the initial NECA interstate access filing. Post
2 divestiture, I remained with South Central bell with
3 specific responsibility for cost analysis, design, and
4 development relating to switched access services and
5 intraLATA toll.

6
7 In June of 1985, I joined AT&T, assuming responsibility
8 for cost analysis of network services including access
9 charge impacts for the five South Central States
10 (Alabama, Kentucky, Louisiana, Mississippi, and
11 Tennessee).

12
13
14 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

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

1 Q. ARE YOU THE SAME MIKE GUEDEL WHO FILED DIRECT TESTIMONY
2 IN THIS PROCEEDING ON MAY 23, 1994?

3
4 A. Yes.

5
6
7 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8
9 A. The purpose of my rebuttal testimony is threefold.

10

11 First, I will refute the arguments of Mr. Kirk Lee
12 testifying on behalf of GTE Florida Inc. regarding the
13 use of a "reconfigured" network in developing the
14 Residual Interconnection Charge (RIC). Mr. Lee's
15 proposal would ensure an immediate recovery in excess
16 of revenue neutrality.

17

18 Second, I will recommend that the Commission reject
19 GTE's proposal for the switched access discount plan
20 (SADP) again supported by Mr. Lee. The discount
21 structure does not reflect underlying costs and could
22 lead to discriminatory and anticompetitive pricing.

23

24 Third, I will refute Mr. Gillan's extended support of
25 the "equal charge" rule. In adopting the new transport

1 structure and price levels, the FCC struck a balance
2 between the desires of those who sought to continue the
3 "equal charge" application, and those who preferred
4 movement to rates that more accurately reflected cost
5 relationships.

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8
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10 I. Reconfigured Network - Local Transport

11
12
13 Q. WHY DO YOU BELIEVE SOME COMPANIES HAVE USED A
14 "RECONFIGURED" NETWORK TO DEVELOP THE RIC?

15
16 A. In the "equal charge" transport environment, there was
17 no incentive for carriers to optimally order access
18 facilities, because access configurations did not
19 affect access expense. In the restructured
20 environment, however, some carriers may find that they
21 can save some access expense by more efficiently
22 utilizing the LEC access networks. In other words,
23 these carriers could deliver the same number of access
24 minutes, using a more efficient access configuration,
25 and pay the LEC less money.

1
2 **Considering the revenue neutral nature of the proposed**
3 **restructure filing, with the RIC absorbing all revenue**
4 **not estimated to be recovered from the facility based**
5 **elements, the LEC can inflate the level of the RIC by**
6 **assuming instant (hypothetical) reconfiguration to an**
7 **optimally efficient network - a network that does not**
8 **exist today and one that may never exist.**

9
10 **With this procedure, the LEC would be loading some of**
11 **the revenue requirement currently being recovered from**
12 **the transport facility elements (i.e., DS1, DS3, and**
13 **tandem) into the RIC. Thus, while the current network**
14 **configuration remains, the LEC will be recovering its**
15 **network costs from both the transport facility charges**
16 **as well as the RIC. This methodology would ensure an**
17 **immediate recovery of revenue in excess of revenue**
18 **neutrality.**

19
20
21
22 **Q. MR. LEE SUGGESTS AT PAGES 16 AND 17 OF HIS TESTIMONY,**
23 **THAT GTE WILL LOOSE MONEY OVER THE LONGER TERM IF IT**
24 **DEVELOPS ITS RATES BASED UPON AN HISTORICAL NETWORK**
25 **CONFIGURATION. DO YOU AGREE WITH THAT CONCLUSION?**

1 A. No. GTE will not lose money if it establishes its
2 rates based upon a historical network. In fact, the
3 use of the "reconfigured" network will most likely
4 ensure over-recovery even in the longer term.

5
6 First, the use of the reconfigured network ignores the
7 fungability of the underlying plant. It is true that
8 as carriers reconfigure to find more efficient ways of
9 utilizing access services, GTE may find itself
10 providing the same volume of access minutes with less
11 access facilities. This may result in some decrease in
12 facilities transport revenue. However, the foregone
13 facilities (basically switching capacity and
14 transmission equipment) are generally re-usable. As
15 long as telecommunications services continue to grow,
16 GTE can use these facilities to provide additional
17 services. These additional services will generate the
18 revenue to recover the cost associated with the
19 facilities. However, if GTE recovers the cost of these
20 facilities through an inflated RIC and also through
21 rates for additional services, it will clearly recover
22 its costs twice.

23
24 Second, The RIC is a pure contribution element. In
25 other words, the incremental cost of providing an

1 additional minute of RIC is zero. Thus, if access
2 minutes were to grow 5% in the next year, GTE would
3 receive a 5% increase in revenue from the RIC with no
4 associated increase in cost. This additional revenue
5 could offset potential losses from network
6 reconfigurations.

7
8
9 **Q. WHAT ACTION SHOULD THE COMMISSION TAKE WITH RESPECT TO**
10 **GTE'S LOCAL TRANSPORT FILING?**

11
12 **A. The Commission should approve the proposed structure**
13 **and all of the rates except for the RIC. It should**
14 **then order GTE to recalculate and refile the RIC based**
15 **upon existing network configurations. Unless GTE has**
16 **assumed that carriers would "reconfigure" into less**
17 **efficient (i.e., more costly) configurations, this**
18 **should result in the filing of a lower RIC.**

19
20
21 **Q. HAVE LECS OTHER THAN GTE USED A "RECONFIGURED" NETWORK**
22 **TO DEVELOP THEIR RICS?**

23
24 **A. It is my understanding that both Centel and United have**
25 **also used a "reconfigured" network. For the same**

1 reasons discussed above with respect to GTE's filing,
2 those companies should also be required to refile their
3 transport rates reflecting charges based upon existing
4 network configurations.

5
6
7 **II. GTE Switched Access Discount Plan**

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9
10 **Q. MR. LEE HAS SUGGESTED THAT THE COMMISSION CONSIDER A**
11 **SWITCHED ACCESS DISCOUNT PLAN (SADP) AS A POSSIBLE**
12 **"ENHANCEMENT" TO LTR. IS THIS AN APPROPRIATE PRICING**
13 **ALTERNATIVE?**

14
15 **A. No. AT&T cannot support the Switched Access Discount**
16 **Plan proposed by GTE in this case because its Term and**
17 **Growth Plan options are not cost-based. For a monopoly**
18 **access supplier to discount the price it charges for**
19 **access traffic, without a demonstration that providing**
20 **that access traffic creates a cost savings for the**
21 **supplier, is both discriminatory and potentially anti-**
22 **competitive. Absent competition, such discounts for**
23 **access service cannot be justified.**

1 Q. WHAT SPECIFIC OBJECTIONS DOES AT&T HAVE TO THE TERM
2 PLAN PROVISIONS OF GTE'S DISCOUNT PROPOSAL?

3
4 A. The Term Plan option of GTE's Switched Access Discount
5 Plan is unacceptable because it is not cost-based.
6 Under the Term Plan, GTE proposes to discount switched
7 access rates based on a customer's commitment of a
8 certain percentage of its base period usage to GTE for
9 a specified term. The percentage of base to be
10 committed under the Term plan ranges from 80% to 100%,
11 and the term of the commitment varies from one to five
12 years. No distinction is made under the Plan for
13 differences in the size of customers' base period
14 usage, nor for any absolute increases in the volume of
15 participating customers' access minutes.

16
17
18 Q. SHOULD THE GROWTH PLAN OPTION OF GTE'S SWITCHED
19 DISCOUNT PLAN BE APPROVED?

20
21 A. No. The Growth Plan option of the Switched Access
22 Discount Plan offers discounts to GTE access customers
23 based on the percentage of growth in switched access
24 usage that these individual customers experience. On
25 the whole, it favors access customers with high growth

1 rates. Under the Growth Plan, the potential exists for
2 access customers with high growth rates to pay an
3 effectively lower rate per minute for switched access
4 than customers with equal or even greater overall
5 access usage, but lower percentage growth rates. This
6 is economically unjustified and unreasonably
7 discriminatory.

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10 **III. Equal Charge Rule**

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13 **Q. MR. GILLAN SUGGESTS AT PAGE 3, LINES 6 THROUGH 7, OF**
14 **HIS DIRECT TESTIMONY THAT IF THE NEW TRANSPORT**
15 **STRUCTURE IS "PROPERLY IMPLEMENTED," PRICE**
16 **RELATIONSHIPS SHOULD MATCH COST RELATIONSHIPS. DOES**
17 **MR. GILLAN'S PROPOSED PRICING METHODOLOGY PRESERVE THE**
18 **UNDERLYING COST RELATIONSHIPS?**

19
20 **A. No. Mr. Gillan's proposed methodology preserves the**
21 **equal charge rule.**

22
23 **Mr. Gillan suggests that a cost-based price for DS-1**
24 **facilities could be determined by adding the**
25 **incremental cost of the DS-3 to DS-1 multiplexing to**

1 one twenty-eighth of the proposed price of DS-3
2 facilities. However, in mixing the "price" (which
3 included cost plus mark-up) of the DS-3 with the "cost"
4 (incremental cost without any mark-up) of the DS-1, Mr.
5 Gillan distorts the cost relationship between the two
6 services. Under, his proposal, purchasers of DS-3s
7 would be required to pay the cost of providing the DS-3
8 plus some mark-up (contribution) above that cost.
9 Purchasers of DS-1, however, would only have to pay the
10 incremental cost associated with the additional
11 facilities required in providing DS-1 service. The
12 mark-up that would be associated with the additional
13 DS-1 facilities (mark-up that is included in proposed
14 LEC rates) would be moved to the RIC (or some other
15 "equal charge" recovery mechanism). However, because
16 the RIC is paid on a minute of use basis by all
17 purchasers of transport, the DS-3 customer would be
18 bearing a portion of the mark-up that is included in
19 the LEC's proposed DS-1 rates. This does not represent
20 cost based pricing; it simply represents a scheme to
21 perpetuate the non-cost-based advantage inherent in the
22 equal charge rule.

1 Q. DID THE FCC CONSIDER THE KINDS OF ARGUMENTS THAT MR.
2 GILLAN IS OFFERING PRIOR TO ORDERING THE STRUCTURE AND
3 RATE RELATIONSHIPS OF THE LOCAL TRANSPORT RESTRUCTURE?
4

5 A. Yes. The FCC received comments from over fifty
6 companies or organizations and reply comments from over
7 forty companies or organizations during its
8 investigation of local transport restructure. These
9 expressed concerns were weighed in the development of
10 the final order.
11

12 For example, the FCC placed the majority of the
13 contribution associated with transport in the RIC. The
14 RIC is billed on a minute of use basis consistent with
15 the equal charge rule. The FCC loaded 80% of the
16 revenue requirement associated with the tandem
17 switching element into the RIC to lighten the impact of
18 restructure on those carriers utilizing tandem
19 switching. By placing this revenue requirement in the
20 RIC, it too was recovered consistent with the equal
21 charge rule. Finally, the FCC established pricing
22 relationships between the direct trucking elements
23 based upon historical private line relationships.
24

1 To ensure the reasonableness of its decisions, the FCC
2 reviewed "shadow bills" created by the local exchange
3 companies to evaluate the impact of the proposed
4 restructure on various situated carriers. The
5 compromise order may not be perfect in all eyes.
6 Indeed the FCC considered it "interim," recognizing the
7 need for ongoing review. However, the order attempted
8 to strike a balance between the competing interests
9 while moving toward cost-based pricing.

10
11
12 Q. WILL SERVICE TO RURAL AREAS IN FLORIDA BE HARNED BY THE
13 APPROVAL OF THIS TARIFF AS MR. GILLAN SUGGESTS AT PAGE
14 9 OF HIS TESTIMONY?

15
16 A. No. Rural areas will continue to be served by a
17 combination of dedicated DS1 transport and tandem
18 switched transport, just as they are today. AT&T
19 serves all areas of Florida, including the most remote
20 rural areas, utilizing a combination of dedicated and
21 tandem switched facilities. Any IXC that desires to
22 serve rural areas will pay the same rate for the same
23 type of transport as AT&T and will, therefore, not be
24 disadvantaged.

25

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2

3 A. Yes.

4

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16

CERTIFICATE OF SERVICE

DOCKET NO. 921074-TP

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties on this 27th day of June, 1994:

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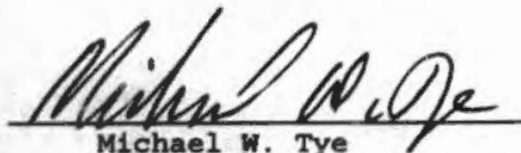
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