

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petitions by AT&T)	Docket No. 960847-TP
Communications of the Southern)	Docket No. 960980-TP
States, Inc., MCI)	
Telecommunications Corporation)	
and MCI Metro Access)	
Transmission Services, Inc., for)	
arbitration of certain terms and)	
conditions of a proposed)	
agreement with GTE Florida)	
Incorporated concerning)	
interconnection and resale)	
under the Telecommunications Act)	
of 1996.)	

SECOND DAY - LATE AFTERNOON SESSION

VOLUME 12

PAGES 1336 through 1494

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN SUSAN F. CLARK COMMISSIONER J. TERRY DEASON COMMISSIONER JULIA L. JOHNSON COMMISSIONER DIANE K. KIESLING COMMISSIONER JOE GARCIA
DATE:	Tuesday, October 15, 1996
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LISA GIROD JONES, RPR, RMR
APPEARANCES:	

(As heretofore noted.)

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EXHIBITS

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30 - (McLeod)		1388
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PROCEEDINGS

(Transcript continues in sequence from
Volume 11.)

DONALD W. McLEOD

having been called as a witness on behalf GTE Florida
Incorporated, and being duly sworn, continues his
testimony as follows:

CHAIRMAN CLARK: We'll reconvene the hearing.
Mr. Hoe.

MR. HOE: Thank you, Madam Chairman.
Mr. McLeod and Commission, I'm Sandy Hoe representing
AT&T.

COMMISSIONER KIESLING: You're going to have
to push your button again, I think.

MR. HOE: Did it right. Thank you

CROSS EXAMINATION

Q (By Mr. Hoe) Commission, Mr. McLeod, I'm
Sandy Hoe representing AT&T. And I'll be asking you a
few questions, Mr. McLeod.

Let me start with the exhibit that you
presented a few moments ago during your summary, Exhibit
32. Do you have that?

MS. CASWELL: Could you just identify what the
exhibit is?

1 MR. HOE: Certainly. It's entitled
2 Interconnection Resale and Unbundling Agreement Between
3 GTE and AT&T, and it has a date revised October 15,
4 1996.

5 WITNESS McLEOD: Yes, I do.

6 Q (By Mr. Hoe) Do you have that? Could you
7 tell us what this document purports to be?

8 A This is GTE's proposed interconnection
9 agreement.

10 Q Has this agreement been shown to the AT&T
11 negotiating team?

12 A The base agreement they have seen. AT&T has
13 seen this agreement. When you limit -- you limit the
14 question to the negotiating team. I would have to say,
15 yes, because Mr. Shurter has seen it. Mr. Harrison has
16 seen it, and Mr. Walsh has seen it.

17 Q And the exhibit we have in front of us is
18 Exhibit 32. When did Mr. Shurter see this document?

19 A I would anticipate that Mr. Shurter would have
20 seen this agreement some time after Monday of this past
21 week.

22 Q Is it possible he saw it for the first time an
23 hour or two ago?

24 A As it relates to Mr. Shurter, that may be
25 possible. Mr. Harrison and Mr. Walsh, I know, have seen

1 this -- saw it last Monday. I assume that Mr. Harrison
2 would have provided it immediately to Mr. Shurter since
3 he works for Mr. Harrison.

4 Q Now, what was the date on Monday? The 14th?

5 A No, no, wrong Monday.

6 Q A week ago Monday?

7 A A week ago Monday.

8 Q That would have been the 7th?

9 A That's correct.

10 Q Okay. Can you tell me how those gentlemen
11 would have seen this document on the 7th if it's dated
12 as revised October 15th, 1996?

13 A It's revised -- the date on the document is
14 because that's the print date of the document. This
15 document was prepared in response -- as far as -- it was
16 updated in response to the request of the ALJ, or
17 administrative law judge, in the state of Indiana
18 wherein they require -- or requested that the two
19 parties, AT&T and GTE put forward a joint agreement.

20 GTE tried to work out arrangements with AT&T
21 to develop a joint agreement and was not making a great
22 deal of progress. And we felt compelled, predicated on
23 the ALJ's time frames, that we needed to at least get
24 before her an agreement that incorporated all of the
25 changes that had been agreed upon by AT&T and GTE in our

1 negotiations. And those agreements are as described
2 principally in the five-part matrix that we use as a
3 negotiating document at the subject matter expert level.

4 Q Is it fair to say that this document
5 represents GTE's version of what it believes has been
6 agreed to and what it believes has not been agreed to?

7 A No, it does not.

8 Q But it was prepared solely by GTE; is that not
9 a fact? Wasn't that your testimony a moment ago?

10 A The contract itself was prepared solely by
11 GTE. The update is predicated on agreements reached
12 between AT&T and GTE in the negotiation process. It is
13 the same set of agreements with a possibility of a
14 couple of exceptions, and those exceptions I'll get to
15 in a minute. It's the same set of agreements on issues
16 that was used in the California proceeding and agreed to
17 by AT&T as being appropriate. And, in fact, in
18 California the AT&T representative elected to use GTE's
19 matrix of the status of issues negotiated rather than
20 their own because ours was more current.

21 The exceptions that may be included are only
22 those exceptions that would have come about since that
23 time that were further agreements that have been reached
24 between our two companies. And I cannot -- I don't
25 think there are any updates that are that current, i.e.,

1 current within the last few days, but there may be, but
2 I don't know -- well, it can't be any more current than
3 a week ago, whatever the date was, the 7th or whatever.

4 Q Well, just focusing on those updates or
5 exceptions, is there any way to tell from this printing
6 what changes or updates or exceptions there are in this
7 document?

8 A Just looking at the document before you?

9 Q Yes, the one you've offered as an exhibit.

10 A There is not, but we could certainly provide
11 you with a red-lined copy if you would like. We're not
12 trying to hide anything here at all. That's not our
13 intention. We started these negotiations with a list of
14 over 500 -- or excuse me, up to 500 issues with several
15 subparts behind a lot of those 500 issues. And we've
16 negotiated through the prescribed period of time of 135
17 days plus, and all we're trying to do here is to reflect
18 what we accomplished during that period of time and
19 reflect it in the body of the GTE agreement.

20 Q Do you think it appropriate, before this
21 document be taken as a reflection of what the parties
22 have agreed to, that AT&T have an opportunity to review
23 that and determine that that in fact is the case?

24 A Can you repeat your -- the first part of your
25 question?

1 Q Certainly. Do you think it appropriate that
2 before this Commission takes this document as an exhibit
3 as reflecting the current status of the negotiations
4 between AT&T and GTE, that AT&T have an opportunity to
5 confirm that in fact what has been agreed to is in this
6 document?

7 A I'll leave that to the Commission's
8 discretion.

9 Q Can you explain, Mr. McLeod, why, if this
10 document existed as of October 7, it was not presented
11 in connection with this proceeding until today?

12 A The answer to that question is simply because
13 it wasn't printed and provided by our folks to the
14 Florida company. We didn't get the disk until last
15 night.

16 Q Okay. Let's -- I want to ask you on another
17 subject, a topic I think you and MCI counsel talked
18 about briefly. And I thought maybe I misheard you, and
19 so I'm going to ask the question again. Is it GTE's
20 position that grandfathered services will not be
21 available for resale?

22 A My understanding is that is no longer -- let
23 me go back. I think I gave the wrong answer on that. I
24 wasn't up to date on that specific service, and the --
25 my understanding is, when I conferred with

1 Mr. Wellemeyer, that we are providing grandfathered
2 services for resale.

3 Q So grandfathered services are available for
4 resale from GTE, correct?

5 A Right.

6 Q Is the same true with respect to obsolete
7 services?

8 A I'm not sure I understand the distinction.

9 Q Well, actually, I'm looking at a response by
10 GTE to one of AT&T's interrogatories in this proceeding,
11 in which -- and I'll be happy to show this to you, but
12 in which GTE attached a matrix of what it called
13 grandfathered and obsolete services. Now maybe that --
14 the two terms were meant to say the same thing. So my
15 question really related to the use of the two different
16 terms in GTE's response. If you don't see a
17 distinction, that's fine.

18 A I don't see the distinction, but I would
19 suggest that you might ask that question to
20 Mr. Wellemeyer.

21 Q Well, you are the lead policy person and the
22 lead negotiator for GTE; is that correct?

23 A That's correct.

24 Q But you're not aware of whether there is a
25 distinction between -- in GTE's mind, between

1 grandfathered and obsolete services?

2 A There's not in mine, but I'm not the pricing
3 person, so there might be -- there may be some
4 distinction there. That's why I --

5 Q I don't think this is --

6 A My only point is if you're seeking the right
7 answer, check with Mr. Wellemeyer.

8 Q Are you -- just following along on this, are
9 you familiar with the term "contract service
10 arrangement?"

11 A Contract service arrangement?

12 Q Yes.

13 A Yes.

14 Q And is it your understanding that GTE will
15 make available new contract service arrangements for
16 resale?

17 A Yes.

18 Q And is it your understanding that GTE will not
19 make existing contract service arrangements available
20 for resale?

21 A Yes.

22 Q What is the time at which one determines if a
23 contract service arrangement is existing or new?

24 A My view would be it would be determined at the
25 time of the effectiveness of the agreement between our

1 two companies.

2 Q Could you explain what the rationale is for
3 distinguishing between existing and new contract
4 services arrangements for resale?

5 MS. CASWELL: I'm sorry, Madam Chairman,
6 Mr. McLeod is not offered up as an expert on the details
7 of GTE's resale policy. He can talk about the general
8 details of the policy as set forth in his testimony, but
9 I don't think his testimony goes into this level of
10 detail, and I think this might go a little faster if
11 Mr. Wellemeyer got the question instead of Mr. McLeod.

12 MR. HOE: Well, I think he does talk about
13 what services are excluded from resale at Page 11 of his
14 testimony. I don't recall at this point whether
15 Mr. Wellemeyer has been stipulated or not.

16 CHAIRMAN CLARK: Go ahead, Mr. Hoe. You may
17 ask that question. You may go ahead with your
18 question.

19 MR. HOE: Thank you.

20 Q (By Mr. Hoe) Mr. McLeod, can you help us
21 understand the distinction between existing and new
22 contract services arrangements for resale?

23 A In the case of existing contracts, those
24 contracts were negotiated between GTE and the customer,
25 and there was no consideration in those negotiations,

1 regardless of -- and some of those contracts are not --
2 were not negotiated today or yesterday. They've been in
3 place for some time. There's no opportunity for GTE to
4 recover the costs associated with -- if there are any --
5 with what we're now looking at relative to this
6 arbitration, avoided costs. Those contracts are -- some
7 of them were -- in fact, I would say a number of them,
8 were subject to competitive bid.

9 In the new contract environment we have an
10 opportunity to take into account the provisions of the
11 Act, as well as as defined by this commission in this
12 arbitration. That would be my distinction, and I would
13 again suggest to you that if you want a very definitive
14 answer, if that's what you're looking for, I would
15 suggest you talk to Mr. Wellemeyer. If you're not
16 looking for a definitive answer, that's fine. It's your
17 choice.

18 Q Well, let me just try one or two more
19 questions, and again, if Mr. Wellemeyer is the person,
20 so be it. But if I understood your answer, the GTE
21 concern about existing contract service arrangements has
22 to do with price, is that correct, the price at which
23 the existing service was set pre-Act?

24 A It has to do with price. It also has to do
25 with the terms and conditions of the contracts. We

1 can't go back and retroactively adjust contract
2 arrangements we have with other parties, particularly
3 with customers, and certainly not prior -- we can't do
4 anything, in my opinion, it would be imprudent to do
5 that -- prior to having a definitive interconnection
6 agreement with AT&T in this case. And I've said that
7 after we have a definitive agreement, then we can deal
8 with the issue, and we're willing to deal with the issue
9 on a prospective basis.

10 Q Let me just try one more. Just focusing on
11 price for the moment, if GTE gets its version of avoided
12 cost in connection with this proceeding, would GTE have
13 any objection to making existing contract service
14 arrangements available?

15 A Yes, it would. It's not a matter of -- it's a
16 matter of principle, not a matter of the level of the
17 discount specifically. We have arrangements with
18 customers, and we're not -- we're really not excited
19 about disturbing those relationships until such time as
20 we know what the ground rules are that we're playing
21 under. And right now, we have contracts of various ages
22 and styles and so on, all of which, I believe, have been
23 reviewed by this Commission.

24 Q Well, if a new entrant wanted to try to
25 compete on similar terms to those existing agreements at

1 GTE's avoided cost, what objection would GTE have, if
2 any?

3 A You mean after we have a definitive
4 agreement?

5 Q Certainly, certainly.

6 A My reaction to that -- I'll give it to you as
7 my reaction, and again I think you're better suited to
8 ask that question of Mr. Wellemeyer, but avoided costs,
9 however defined, were never a consideration in those
10 contractual arrangements. And I don't think that from a
11 personal perspective viewpoint that we should go back
12 and then be required to take into account a discount or
13 avoided cost level that has been determined on a
14 going-forward basis for historical contracts. That's
15 just my view.

16 Q Thank you, Mr. McLeod. Let me move on to
17 maybe a slightly more general topic. You mentioned in
18 your summary GTE's embrace of competition in the local
19 markets. Let me just ask you, do you see any practical
20 avenues for entry into the local market other than
21 the -- I'll call them the three in the Act, namely,
22 resale, purchase of unbundled network elements and
23 facilities-based competition? Are there any other
24 practical means of entry that you know of?

25 A Certainly AT&T or any new entrant can build

1 their own facilities, their own network, or they can
2 interconnect with other providers other than GTE.
3 You're not limited strictly to GTE, and you certainly
4 won't be on a prospective basis when there are multiple
5 players in the marketplace. And so I think there are
6 choices other than dealing with GTE.

7 Q Well, there are no other choices today, are
8 there, in the markets held by GTE?

9 A Again, there's nothing that precludes any new
10 entrant, and certainly a company of the size and
11 financial strength of AT&T, to construct a network.

12 Q So we agree facilities-based competition is
13 one avenue. Would you agree that the only other two
14 practical avenues in an area currently held by GTE is
15 through resale of GTE's services or purchase of
16 unbundled network elements from GTE?

17 A Yes.

18 Q You would agree that those are the only three
19 practical avenues today, correct?

20 A No, wait, you've changed my answer.

21 Q I'm not sure I was following you. So I wanted
22 to clarify.

23 A Well, you're assuming that you have to
24 interconnect with GTE in that scenario. I'm saying you
25 have an option that is beyond the three, and we'll call

1 it number four. And that is, you can build your own
2 network end to end, if you so choose to do that, or you
3 can interconnect with Time Warner or some other provider
4 of local services. You don't have to interconnect with
5 GTE specifically. It depends on what you want to do and
6 how you want to go about doing it and what customer
7 bases you're interested in going after.

8 Q Well, I don't really want to belabor this, but
9 if a new entrant today wants to be able to offer its
10 customers the ability to call customers on GTE's
11 network, isn't it true that the only practical ways of
12 doing that is to construct its own facility and
13 interconnect, or to purchase unbundled network elements
14 from GTE and interconnect, or to resell GTE's service,
15 services, and in that fashion be able to get into the
16 GTE network?

17 A The other option, as I've said, is you can
18 bypass our network, just as you do in the access world,
19 the toll world. Do that today, do it in GTE's
20 territory, you bypass our facilities, go right from your
21 POP to the customer. So --

22 Q And that would be a facilities-based approach;
23 would you agree with that?

24 A It's not the one you described.

25 Q But it is a facilities-based approach; is it

1 not?

2 A Yes, it is. And facilities-based approaches,
3 I think, are encouraged by the Telecommunications Act.

4 Q Let's -- I just want to look at each of those
5 options in connection with GTE's position in this
6 proceeding. Let's just look for a moment at resale. If
7 I understand it, GTE is offering a 7 percent discount
8 off the retail price to reach the wholesale price,
9 correct?

10 A That's correct.

11 Q And assume with me just for a moment --
12 actually, I don't think it's an assumption, I think it's
13 actual -- that the rate, the residential one-party rate,
14 Group 5 in Florida, is 11.-- \$11.81. Does that sound
15 agreeable to you, subject to check? I realize you don't
16 have this.

17 A Subject to check. I don't have this.

18 Q It's about that amount, isn't it?

19 A It's in that neighborhood.

20 Q And 7 percent of \$11.81, as I calculate it --
21 and again subject to check -- is 83 cents. Would you
22 take that, again, subject to check?

23 A I'll accept your math.

24 Q Now, would you agree that that represents the
25 margin that a new entrant will have to work with if the

1 new entrant chooses resale of GTE's services? In other
2 words --

3 A No, I won't agree to that because I don't
4 think that that's the extent of the services that you
5 would offer on a resale to your customer. I think once
6 you sell your services to the customer, you're going to
7 be selling that -- you're going to sell them vertical
8 services, toll services, et cetera. And my recollection
9 is that the average customer in Florida, in GTE's
10 operating area, generates approximately \$42, or
11 something in that neighborhood, of revenue. So I think
12 there's a lot more to it than that.

13 And I also would suggest to you that you
14 have -- you also have no obligations relative to -- on
15 a resale basis, constructing any facilities or putting
16 any investment into the provision of those services of
17 any material sort. And if you're looking strictly at a
18 basic service, and particularly in our one service,
19 those services are already below cost.

20 Q Mr. McLeod, within the \$42 average you
21 mention, does that include access charges?

22 A No.

23 Q All right, well let's take your \$42, and if I
24 quickly calculate that, the margin is about \$2.80.
25 Would you accept that subject to check? That's a

1 roundoff.

2 A That's correct.

3 Q So is it fair to say we're looking at a margin
4 somewhere around 2.80 and maybe less, maybe a little
5 more? But that's the average?

6 A I would agree with that.

7 Q Now the difference between the R-5 \$11.81 and
8 your estimate of \$42 are for these vertical services
9 that you mentioned; is that correct?

10 A And toll services.

11 Q And toll. Do you know what the average
12 vertical services feature -- vertical services per line
13 per month charge is?

14 A No.

15 Q Would it surprise you if I told you it was
16 about \$3 per month?

17 A That would not surprise me.

18 COMMISSIONER GARCIA: What was \$3 a month?

19 MR. HOE: The average vertical service charge,
20 in addition to the basic.

21 Q (By Mr. Hoe) Now, in the resale environment,
22 Mr. McLeod, would you agree with me that within this
23 margin, say \$2.80, that the new entrant is going to
24 incur some -- certainly some substantial advertising
25 costs?

1 A Yes.

2 Q And billing and collection and customer
3 service center costs? In other words to get up and
4 operating as a retail provider?

5 A Yes, the very similar costs that we would
6 incur.

7 Q And --

8 A As a retail provider.

9 Q Well, in fact it might be a little bit more in
10 the advertising area since the new entrant is new to
11 that particular market, wouldn't you agree, in order to
12 establish --

13 A That would be the new entrant's choice. It
14 very well may be. I have no way of knowing that.

15 Q And if that new entrant wanted to have the
16 similar ability of GTE in the area of electronic
17 processing of orders and preordering and maintenance,
18 et cetera, that we've talked about somewhat here, that
19 new entrant might need to spend some more money;
20 wouldn't it?

21 A I would think so. I don't -- I guess I'm kind
22 of curious about your line of questioning because it
23 implies that you're getting -- we're getting something
24 you are not, and that's not the case. You should be
25 able, as a new entrant, to make judgments as to how you

1 want to market your services and to what customers and
2 how to deploy or your spend your funds to the -- in the
3 most efficient manner. So --

4 Q Excuse me.

5 A -- whether it's going to cost you more, less,
6 the same, as it does GTE, I don't know.

7 Q Wouldn't you agree it might be important to a
8 new entrant to be able to offer back office systems that
9 are similar to GTE, just simply in order to compete?

10 A I think that -- well, certainly the answer is
11 yes to that. And we have -- I think we have gone
12 through some lengthy testimony on that exact subject.

13 Q And are you aware that -- I believe it's
14 Mr. Langley, has estimated that for GTE to develop those
15 systems for AT&T would run about \$400 million? Have you
16 ever heard that estimate?

17 A No, I have not.

18 Q Now, while the new entrant is incurring the
19 kind of charges we've talked about, is it your
20 understanding under GTE's discount proposal that the
21 wholesale revenues would cover costs like GTE's
22 advertising cost?

23 A Would you repeat the question, please?

24 Q Certainly. Is it your understanding that
25 under GTE's avoided cost approach, that the wholesaler

1 revenues would go towards covering GTE's unavaoided
2 advertising cost?

3 A You need to ask Mr. Wellemeyer that question.

4 Q Okay. Now, is it also GTE's position, in
5 connection in this resale environment, that it will not
6 brand a new entrant's repair services? And by that I
7 mean brand to the new entrant.

8 A GTE and AT&T agreed during the negotiation
9 process that branding was not required at this point in
10 time and that -- and GTE and AT&T agreed to unbrand
11 rather than to brand.

12 Q Have you reviewed Mr. Langley's testimony in
13 this proceeding, because I think his testimony differs
14 with that statement, and I want to be clear if GTE's
15 position today is an unbranded approach is appropriate.

16 A I have not looked at Mr. Langley's testimony
17 in this particular proceeding.

18 Q Okay. We'll ask Mr. Langley or his surrogate
19 that question.

20 CHAIRMAN CLARK: Just for the parties'
21 information, we've just had an indication that the Order
22 251 was stayed. We probably will have more information
23 after a 4:00 call, and our information is that it is
24 stayed in its entirety.

25 Go ahead, Mr. Hoe.

1 CHAIRMAN CLARK: Ms. Canzano?

2 MS. CANZANO: We were just informed that the
3 pricing standard -- apparently the Department of Justice
4 said the pricing standards in the FCC order were stayed,
5 as well as its interpretation of 252(i).

6 CHAIRMAN CLARK: Okay, so it wasn't the whole
7 thing.

8 MS. CANZANO: It was just those provisions,
9 but we're trying to get information on it as soon as we
10 can.

11 CHAIRMAN CLARK: Good. Thank you.

12 MR. HOE: May I approach the witness, Madam
13 Chair, just to look at one piece of testimony?

14 MS. CASWELL: Excuse me, counsel, can I?

15 (Pause)

16 Q (By Mr. Hoe) Mr. McLeod, I've had my
17 colleague hand you a copy of the direct testimony of
18 Rodney Langley in Docket No. 960847-TP, and I'm looking
19 at the bottom of Page 5 and the top of Page 6, the
20 sentence, if you're with me, at the bottom of Page 5,
21 starting with the word "also." Do you see that?

22 A Yes, I do.

23 Q Could you read that sentence and the next
24 sentence into the record, actually the next two
25 sentences?

1 A It says, "Also, AT&T demands that GTE be
2 required to unbrand calls to GTE service repair centers
3 and that GTE employees work under AT&T's brands. GTE
4 should be allowed to keep its brand on its service
5 repair centers just as AT&T will have its brand for its
6 own service repair center."

7 Q Could you read the next sentence too, please?

8 A "Further, GTE employees should continue to
9 work under GTE's own brand."

10 Q Now, is it, again, your testimony that, as we
11 sit here today, GTE has agreed to unbrand its services?

12 A My understanding, and it's predicated upon
13 agreements that were reached on July 19th, on the
14 branding issue, was that AT&T and GTE agreed to
15 unbrand. Subsequent to that time AT&T reversed their
16 position on unbranding and demanded that we brand all of
17 their services. So what Mr. Langley is apparently
18 dealing with here is: One, a broken agreement on
19 branding by AT&T; and second, taking the position that
20 we are back to square one in negotiating that issue. So
21 I would yield to Mr. Langley's position.

22 Q Now I am a little confused. Let me just spend
23 another minute on this and try to move on. At the
24 bottom of Page 5, Mr. Langley says, and you just read
25 into the record: "AT&T demands that GTE be required to

1 unbrand calls to GTE service repair centers." And then
2 at the top of the next page it seems to say that it's
3 GTE's position that GTE will use its own brand. I don't
4 see the change -- at least at the time Mr. Langley wrote
5 this -- I don't see a change in AT&T's position; do you?

6 A Yes, I did, because, again, we had reached an
7 agreement between the two companies on the 19th of July
8 to unbrand services, AT&T services. Subsequent to that,
9 AT&T reversed themselves relative to that agreement.
10 The parties who made that agreement on the 19th of July
11 are myself, Mr. Shurter and Mr. Harrison. And there, I
12 believe, is correspondence from AT&T reversing their
13 position. So what Mr. Langley is saying I will agree
14 with.

15 Q If AT&T were to say to you today that it was
16 willing to take unbranded services, would GTE agree to
17 that, and that GTE would unbrand its services as well?

18 A Unbranding GTE services was not a part of the
19 agreement.

20 Q So GTE would continue to brand its services,
21 but AT&T would get no brand; is that GTE's position
22 today?

23 A That was the agreement we had reached on the
24 19th of July, and there were a lot of reasons for that.
25 And Mr. Langley is the person who can go into depth into

1 the reasons why that occurred, both on the 19th, as far
2 as our agreement there, and his current position.

3 Q Now, we were talking before we got off on that
4 subject, about resale and GTE's position in resale. I
5 want to also ask you about GTE's view of parity in
6 connection with resale, and this last set of questions
7 may have gone to that.

8 Am I correct in understanding that GTE's view
9 of parity is that each new entrant would be treated
10 equally, but that GTE would have some other standard?

11 A Parity is an AT&T term, not a GTE term, nor is
12 it a term contained in the communications act, which is
13 also -- has been -- was recognized, I believe, by
14 Mr. Shurter in his testimony here yesterday morning. So
15 I don't think we have to debate what the Act says
16 relative to parity because it doesn't say anything.

17 What GTE has said we would do is provide
18 comparable services to those that we provide for
19 ourselves, and we will treat new entrants, whether it's
20 AT&T or any other new entrant, regardless of size, on a
21 nondiscriminatory basis. We are not going to be put in
22 a position of discriminating against carriers simply
23 because of their size.

24 Q And so -- go ahead.

25 A No, that's okay. I'm through.

1 Q So when you say that AT&T can have unbranded
2 service but GTE gets branded service, that's not
3 discriminatory; is that your testimony?

4 A It's not discriminatory given the requirements
5 that it would take for GTE to unbrand the services.
6 That's why I suggested you should seek clarification
7 from Mr. Langley.

8 Q Well, how difficult is it, Mr. McLeod, as you
9 understand it, for GTE simply, when it picks up calls at
10 its repair service center, not to brand that call, that
11 response?

12 A It's very difficult. You don't know where
13 that call is coming from, whose customer it is,
14 et cetera.

15 Q I'm just simply talking about unbranding.
16 Excuse me, if I interrupted, but --

17 A I thought you were talking about branding.

18 Q No, I'm talking about how difficult would it
19 be for GTE to unbrand its repair service centers? By
20 unbrand, I mean simply pick up the phone, or however the
21 response is, and not say "GTE," but have it neutral
22 for --

23 A I don't know. I would defer that to
24 Mr. Langley.

25 Q All right. Now, let me just ask you for a

1 moment, Mr. McLeod, to put yourselves in the shoes of a
2 new entrant who's interested in reselling GTE's
3 services, and it looks at a margin of maybe \$2.80 from
4 which it must consider recovering advertising costs,
5 billing and collecting, customer service centers,
6 electronic interfaces, where it has a branding
7 distinction between the incumbent and the new entrant,
8 and ask you how attractive you would find that prospect
9 from a businessman's standpoint?

10 A Again, it would depend on what customer groups
11 you were interested in pursuing, what you felt you could
12 do relative to selling services, new services to that
13 customer group, et cetera. You're not limited to what
14 GTE does today relative to providing service to a
15 particular customer. You can sell that customer more
16 services, you can generate more toll revenue,
17 et cetera. So I don't -- if you're asking me if I feel
18 that you can't be as efficient as GTE, I don't know if
19 that's true or not.

20 Q Well, how about if the new entrant decides to
21 look at buying some unbundled network elements and it
22 wants to connect unbundled network elements, the loop
23 and the port, to provide a service. Under GTE's view it
24 can't do that, can it?

25 A It cannot recombine -- our position is you

1 cannot recombine unbundled network elements to replicate
2 a wholesale service or a retail service.

3 Q So if it wants to buy some unbundled network
4 elements and combine them with non-GTE, it's going to
5 have to pay -- and you tell me if this is correct, if
6 I've characterized this correctly -- it's going to have
7 to pay GTE its forward-looking costs, a rate of return
8 on investment, existing investment, it's going to have
9 to pay the cost of unbundling the element, and it's
10 going to have to pay whatever embedded or stranded cost
11 is associated with that element. Isn't that GTE's
12 position?

13 A I'm not sure about the embedded stranded cost
14 statement. Our position is that you are required to
15 pay, if you will, or at least -- try it another way,
16 you're required -- we are required to develop our costs
17 predicated on the provisions of the Act. What we have
18 presented in this proceeding is our TSLRIC studies for
19 unbundled services that include the -- your LRIC, TELRIC
20 costs, and some joint and common costs, and a profit
21 element is included in there as well. And I think that
22 is in total conformance not only with the Act, it's in
23 conformance with the FCC's order relative to what it
24 views as the proper components of a costing methodology,
25 if you will, or to determine your price.

1 So I don't think GTE, AT&T, MCI or any carrier
2 should be asked to give away their service below cost or
3 without an opportunity -- and vacate any opportunity to
4 earn a profit. That's not what business is about. If
5 you think -- if that's your position, or what y'all
6 think is appropriate, I strongly disagree with that.

7 Q Do you know whether GTE also, in its proposal,
8 requires new entrants to pay the cost of unbundling the
9 elements and to be reimbursed for its embedded or
10 stranded cost?

11 A I would suggest you ask that question to
12 Mr. Trimble, or Mr. Steele.

13 Q Okay. Well, let's look at facilities-based
14 competition. Do you anticipate that there will be any
15 new entrants at this point interested in a full
16 facilities-based -- or full facilities to compete with
17 GTE in its market?

18 A I'm not sure what you mean by full facilities.

19 Q Well, to use the term you used earlier, the
20 construction of facilities independent of GTE to compete
21 in that market; do you think that's a likely prospect in
22 the near future, anybody will undertake that
23 construction and development?

24 A It's my understanding that that's precisely
25 what the cable operators are planning to do.

1 Q And is that Time Warner that you're talking
2 about primarily?

3 A No, it's Continental, it's Cox, and it's also
4 Time Warner. And I'm familiar with the articles in the
5 paper relative to Time Warner, but I don't know that
6 that's -- they've got a lot of other issues they're
7 trying to deal with internally from a management of debt
8 standpoint, that I think are driving many of their
9 business decisions, and rightfully so.

10 Q So you think in the near future there will be
11 facilities constructed that will compete with GTE in
12 your market; is that correct?

13 A Do I think there will be?

14 Q In the near future.

15 A There are facilities that have been built by
16 alternate providers.

17 Q That will compete with --

18 A MFS, ICI, and so on. They've been around for
19 a long, long time. They are also now ALECs, if you
20 will, in the state of Florida, and other places.

21 Q Is it fair to say it's your view that those
22 who do not currently have such facilities in place, like
23 the cable companies, are unlikely to become full
24 facilities-based competitors in the near future, just
25 simply because of the expense of constructing?

1 A I would agree with that. I think that if
2 you -- if you want to get into the business, in an
3 expeditious fashion, then you're going to elect to
4 resell services and migrate to unbundle -- the use of
5 unbundled elements in the interconnection arrangements.
6 I think that's common knowledge. It's not a great
7 admission on my part of anything. I think that's your
8 strategy. It's a sensible strategy.

9 Q And obviously, the higher the price of getting
10 in and the smaller the potential margin, the more
11 difficult it's going to be for an AT&T or an MCI to
12 enter that market; isn't that true?

13 A I'm sorry, I missed the first part of your
14 question.

15 Q My question was really, isn't it true that the
16 higher the price of resale, or the higher the price of
17 the unbundled network elements, and hence, the smaller
18 the margin available to a new entrant, will discourage
19 an AT&T or an MCI, correct?

20 A I would disagree with you. Because if prices
21 are set appropriately, and if you -- and appropriately
22 meaning, in this context, in conformance with the
23 prescriptions of the Act, I don't see that you're --
24 anybody is disadvantaged. So I totally disagree with
25 your premise.

1 Q If AT&T were to conclude that the 7 percent
2 discount was much too small and hence the price was too
3 high and that the unbundled network element's prices
4 included too many costs that weren't appropriate, would
5 it be fair for them to conclude that that's simply a
6 reflection of the fact that GTE has little, if any,
7 incentive, to allow new entrants into the market?

8 A No. You're -- I think your assumptions are
9 erroneous. First of all, GTE is not trying to preclude
10 new entrants into the market. And I heard these kind of
11 rumblings going on by various witnesses relative to what
12 our employees may or may not do, what we are able to do
13 selectively within the network and impart harm on
14 another party, and that's just so much hogwash. We
15 don't treat our employees, instruct our employees, to do
16 anything of the like. And we have no interest in doing
17 so, and we have a substantial interest in trying to
18 foster competition in the market, but we want to do it
19 in a manner -- see it evolve in a manner that's fair to
20 all the parties, as I said in my opening statement.

21 And I think you also have drawn the wrong
22 conclusion somewhere along the line relative to GTE's
23 interest in building its wholesale business. When we
24 first entered into negotiations with your company, one
25 of the first things your people recommended to GTE was

1 that we develop a separate wholesale entity and a
2 separate retail entity, and they presented diagrams as
3 to how that might be accomplished. That wasn't at our
4 request. We just sat there and listened to them.

5 And as time went on, I'll tell you quite
6 frankly, I am very interested in seeing GTE build a very
7 robust wholesale relationship, not only with AT&T and
8 MCI, but a whole slew of players. We have opportunities
9 there and we have no incentive whatsoever to price
10 anybody out of the market simply because we think we
11 have some kind of an advantage. That's a totally
12 unrealistic position for us to take.

13 Q If AT&T came to you and said, we're interested
14 in reselling, but quite frankly, we don't find the
15 7 percent discount very attractive as a business
16 proposition, would GTE be willing to negotiate a higher
17 discount rate?

18 A I think we might, on a -- in a negotiating
19 setting. We, in fact, attempted to do that. AT&T came
20 back to us with offers, their positions that were in the
21 area of 80 percent, 60 to 80 percent discounts, and they
22 were totally outlandish. So as a result of that, we
23 basically saw no way that we were going to come together
24 in some reasonable fashion. We're always willing to
25 negotiate and willing to negotiate any day, anytime.

1 Q How does a 25 or 30 percent discount sound?

2 A It sounds way too high.

3 Q Let me move on, Mr. McLeod, and I just have --
4 I think just a few other items here I wanted to cover
5 with you. One was the subject of performance guarantees
6 that Mr. Shurter addressed yesterday and some other
7 witnesses addressed this morning. Let me just ask you,
8 does GTE obtain performance guarantees from its
9 suppliers?

10 A I'm not sure. I just don't know what kind of
11 contractual terms we have with -- are you talking about
12 like Lucent?

13 Q Yeah. So for example, if GTE bought a switch
14 from Lucent, do you know what kind of performance
15 guarantees, if any, are included in those supplier
16 agreements?

17 A No. No.

18 Q If, just to take that example. If the switch
19 didn't work as promised, I take it that GTE would expect
20 to be compensated in some way; is that correct?

21 A As I said, I don't know.

22 Q Do you think it's reasonable for a customer to
23 ask for definitive performance guarantees with some type
24 of enforcement mechanism when the supplier is also the
25 customer's primary competitor?

1 A I guess your question strikes me as somewhat
2 of a deja vu question, or the shoe is on the other foot
3 kind of question, because we've got that relationship
4 with AT&T in the access world, and we have no such
5 requirements in that world as far as prescribed
6 contractual performance guarantees and penalties. And
7 that's a business that's a -- I don't know how many
8 billion dollar a year business, and it far exceeds at
9 least what this business is going to generate in the
10 near term. And so -- and yet people seem to be very
11 hung up on all kinds of penalties and requirements that
12 go well beyond the needs to conduct business.

13 Q But the access market that you reference,
14 Mr. McLeod, is different, isn't it, than what we're
15 talking about here? In that market GTE and AT&T are not
16 in competition, are they?

17 A I guess I fail to see the -- a great
18 distinction because AT&T is a competitor of ours today
19 and they're also a customer of ours as it relates to
20 access.

21 Q I'm just --

22 A So I think you're splitting hairs on, you
23 know, who is a customer and who is a provider.

24 Q Don't you think, and I will ask this just one
25 more time -- don't you think it would be reasonable and

1 appropriate when the customer and the supplier are also
2 primary competitors, that the customer would want some
3 enforceable assurances that it would get what it asked
4 for?

5 A And I think GTE has offered that in our
6 negotiations and in our contract.

7 Q Now, I think you said -- and correct me if I'm
8 wrong -- in your summary, that GTE objected to AT&T's
9 request for demand that it be indemnified for lost
10 revenues in the event of any service problems. Do you
11 recall that in your summary? I think that's what I
12 heard.

13 A I don't believe I made the statement that we
14 objected to respond for any service problems. I know I
15 didn't say that.

16 Q Well, I thought I heard you say that GTE and
17 AT&T couldn't reach agreement on performance guarantees
18 because AT&T was seeking damages in the form of lost
19 revenues for service problems. Did I mishear you?

20 A I think -- in that context, you didn't mishear
21 me. The words -- and we would have to go to the
22 contract -- excuse me, the transcripts, to determine the
23 precise wording of it, but that was the gist of it. And
24 I didn't say "any."

25 Q I don't want to take the Commission's time,

1 but is it possible for you to take the current draft
2 interconnection agreement between AT&T and GTE and
3 identify where in that agreement AT&T makes such a
4 request or demand? Are you able to point to that rather
5 rapidly? And again, I don't want to take the
6 Commission's time here.

7 A In this agreement you're talking about?

8 Q Yes.

9 A No, I'm not.

10 Q If you had enough time, do you think you could
11 do that and provide that to the Commission?

12 A Yes.

13 Q As a late-filed exhibit?

14 MS. CASWELL: I'm sorry, what was the nature
15 of the exhibit you were requesting?

16 MR. HOE: Where it is in the agreement that
17 AT&T makes the request or demand for lost revenues as
18 damages.

19 MS. CASWELL: And I would request that we
20 be --

21 WITNESS McLEOD: Talking about in our
22 agreement or your agreement?

23 MR. HOE: Well, I thought Exhibit 32 was your
24 understanding of where both parties were at this point.

25 WITNESS McLEOD: That's correct. My concern

1 only goes to this point: That the indemnification issue
2 was debated ad nauseam between your legal department and
3 our legal department. So I was not directly involved in
4 the discussions or the writing of that piece of the
5 contract.

6 MR. HOE: Okay, well, perhaps to make this
7 easier, we can just argue that in the brief and point
8 that out in the brief. I don't think we need to take
9 the time for that.

10 CHAIRMAN CLARK: So Mr. Hoe, we don't need an
11 exhibit?

12 MR. HOE: That's correct.

13 Q (By Mr. Hoe) Let me ask you one more question
14 on this, Mr. McLeod. If GTE causes service disruption
15 to AT&T customers, what damages should GTE cover?

16 A I'm not prepared to respond. I think that's a
17 legal issue.

18 Q Is there someone who is going to testify who
19 can respond to that?

20 A I don't know that we have any legal people who
21 are going to be witnesses.

22 Q Let me move on to just one or two more
23 topics. There was testimony during Mr. Shurter's cross
24 examination about who would pay for operations support
25 systems changes or enhancements desired by AT&T. Were

1 you in the hearing room when that testimony was given?

2 A Yes, I was.

3 Q And do you recall that it is, I believe, GTE's
4 position that AT&T should pay the whole cost of whatever
5 enhancements or changes are required in that area, by
6 AT&T?

7 A It's our position that, whether it's AT&T or
8 anyone else, that if they are the causer -- they cause
9 the cost, they should pay for it.

10 Q Let's assume that AT&T is the causer of the
11 cost, would you agree that AT&T should obtain title to
12 the property that's reflected by that cost expenditure?

13 A I'm not sure how you would do that. Again, I
14 think you're asking me to make some kind of a legal
15 contractual interpretation, and I'm not prepared to do
16 that.

17 Q Just on a contractual level, because I gather
18 you are the chief contractual negotiator, would you
19 agree as a contractual matter/business matter, that AT&T
20 should obtain title to the property that's created by
21 the cost that it pays, and hence GTE would not have
22 title to that property?

23 A I don't agree because I don't know how you
24 would do it.

25 Q I'm sorry?

1 A I'm sorry, I don't agree because I'm not
2 sure I'm clear on how one would go about transferring
3 title to a modification to a system. I'm just not
4 versed in that, so I can't tell you. I don't know.

5 Q Let me ask you this: Do you think it would be
6 appropriate, in the circumstance I've described, for GTE
7 to retain rights in the property and to sell that to
8 other new entrants for a price?

9 A If we sold it to another provider; is that
10 your question?

11 Q If you made the changes or enhancements or new
12 technology available to another provider, should GTE
13 retain the revenues?

14 A You know, it's an interesting question because
15 I guess I hadn't -- I never considered that a major
16 issue.

17 Q Well, do you --

18 A If you're asking me if we are going to take
19 something that AT&T paid for and resell it umpteen times
20 and not do anything to reimburse AT&T; is that what
21 you're asking me?

22 Q Yes.

23 A I have no -- I guess I can't answer because
24 I've never -- I haven't dealt with that question in
25 those terms. That's not a part of our business plan,

1 let's put it that way. I know that.

2 MS. CASWELL: I'm sorry, I have to object to
3 this line of questioning, to the extent that it
4 continues, because I think it is calling for legal
5 conclusions about transfer of title, property, and
6 that's involved with complicated legal issues. I don't
7 think Mr. McLeod is prepared to testify to that.

8 MR. HOE: Madam Chair, I'm simply asking him
9 from a contract negotiator/businessman standpoint, and
10 frankly, a policy standpoint from GTE's position. The
11 question of where title is is a separate question from
12 who ought to be reimbursed for any further use of that
13 property. That was all I was asking. And I'm literally
14 done with that line.

15 CHAIRMAN CLARK: I put it in the category, for
16 what it's worth, Mr. Hoe, and I just don't know that
17 it's worth pursuing.

18 MR. HOE: Well, I am finished.

19 Q (By Mr. Hoe) Just one final question on this,
20 Mr. McLeod. If, in fact, GTE benefited in some way from
21 the enhancements to operation services systems,
22 operation support systems, would you agree it's
23 appropriate for GTE to pay a share of that cost?

24 A If we gained efficiencies from the development
25 and application of a particular platform, I would agree

1 with you.

2 Q One other and last topic, there was some
3 discussion during Mr. Shurter's testimony about the
4 status of steps to get these electronic interfaces up
5 and running, and I think there was some testimony that
6 the parties were currently working together to make that
7 happen. Is that your understanding of the current
8 status of the electronic interface issue?

9 A Yes, it is.

10 Q But that was not always the case, was it?
11 Wasn't there a time when GTE stated it would not
12 consider that issue further?

13 A Unless you can cite some specific time, I'm
14 not aware of one.

15 Q Do you recall a letter you wrote to AT&T in
16 the beginning of July in which you indicated that until
17 there was agreement on wholesale prices with AT&T, that
18 GTE could move no further on the electronic interface
19 issue?

20 A If I recall -- I would have to look at the
21 letter. But in any event, if I recall that situation
22 correctly, it was one wherein AT&T was asking us to
23 commit to a substantial -- what appeared to us to be a
24 substantial expenditure of money, funds, to develop
25 their system, and they were not willing at that point in

1 time to indicate what they were willing to pay for, as
2 far as those systems were concerned. There was no offer
3 of up-front funding. There was no -- and there was no
4 apparent willingness on AT&T's part to negotiate price
5 of services. And it didn't make a lot of sense for us
6 to go out and spend a great deal of money when we didn't
7 know what AT&T -- that AT&T was even going to go the
8 resale route, because it was -- they certainly had other
9 alternatives, but they were asking us to do a lot of
10 things without making any commitments on AT&T's part
11 whatsoever.

12 And in addition to that, there was no distinct
13 definition -- and that's one of the things we're still
14 dealing with, and I think Mr. Shurter alluded to that in
15 his testimony, and that is the definition, specific
16 definition, of what AT&T really wants. We can't build
17 something if we don't know what the parts are. You
18 don't want to end up with a car with three wheels and
19 the engine in the trunk. So if you want it done right,
20 you provide specifications, detailed specifications, so
21 we know what we're dealing with. That hasn't happened.

22 Q And yet, is it your testimony that the parties
23 are making good progress right now?

24 A Absolutely, but it has nothing -- it's not a
25 new event. It's just evolution of the negotiation

1 process, and more definition by AT&T as to what they
2 want. We're not -- I mean, I think on this particular
3 issue, very frankly, we are caught in a time squeeze.
4 It's not a willingness, it's a time squeeze. And it's
5 also -- it has to do -- there are -- there is a
6 compensation issue there, but the real issue is the time
7 it's going to take to do all the things AT&T wants done
8 and definition of what they want done. We've agreed to
9 do it, whatever that encompasses.

10 Q Isn't it true, Mr. McLeod, that GTE only came
11 back to the table on this subject after a California
12 mediation request was filed by AT&T?

13 A No. That's absolutely not correct. I mean I
14 don't want to get into this kind of stuff, but, you
15 know, if you want to bring it up, I'll tell you what
16 happened.

17 Q That's -- if you want to.

18 A We were in a meeting to negotiate for three
19 days in -- not Basking Ridge, but in AT&T's building in
20 New Jersey. We got into town, we went to the meeting.
21 One of the issues we were negotiating was electronic
22 interfaces. Reid Harrison called that very morning,
23 said I want to talk to you. He says, we're going
24 forward -- we're filing a complaint in California on
25 electronic interfaces, and that was one of the issues

1 that we were there to negotiate.

2 And I'll tell you very frankly, and I told
3 him, that, one, I don't know how you can expect to carry
4 on reasonable negotiations when we fly a whole team of
5 people to New Jersey, and then you turnaround at the
6 same time as we walk in the door and make a complaint
7 filing in California on an issue, major issue, that we
8 are willing to negotiate with you. And it actually
9 slowed the process down because it diverted our
10 resources and our expertise that was there to negotiate
11 to respond to the California complaint filed by AT&T.
12 And that's the kind of nonsense that we got involved in
13 throughout this negotiation process.

14 So, you know, I'd prefer just let these things
15 lie, but if you want to bring them up, you know, we can
16 sit here for a long, long time and discuss those kinds
17 of things.

18 MR. HOE: Madam Chairman, I have no further
19 questions.

20 CHAIRMAN CLARK: Staff, how much do you have?

21 MS. CANZANO: We just have a few questions.

22 CHAIRMAN CLARK: Okay.

23 CROSS EXAMINATION

24 BY MS. CANZANO:

25 Q Good afternoon, Mr. McLeod. I'm Donna Canzano

1 representing the Commission Staff.

2 A Good afternoon.

3 Q We'd like a clarification on GTE's position
4 regarding grandfathered services. It's my understanding
5 in response to certain questions you answered to Rick
6 Melson, that you originally said yes to grandfathered
7 services, then it appeared that in response to questions
8 regarding MCS-1, Page 4 of 13, you changed that
9 position. What is your position regarding grandfathered
10 services?

11 A Our position is we will resell grandfathered
12 services.

13 Q Thank you. Are there any other changes to
14 your Exhibit MCS-1 that have been made since the time
15 this testimony has been filed, other than those that you
16 already talked about to Mr. Melson?

17 A None that I know of.

18 Q Also, regarding Exhibit 32, Staff would
19 request a red-lined version of that, that you talked
20 about earlier, showing the changes from the previous
21 document identified in Exhibit 31.

22 A That's fine. We'll be happy to do that.

23 MS. CANZANO: At this time Staff requests a
24 late-filed exhibit be marked.

25 CHAIRMAN CLARK: Give me a title.

1 MS. CANZANO: Red-lined version exhibit of
2 Exhibit 32.

3 CHAIRMAN CLARK: And what does the red line
4 show?

5 MS. CANZANO: It shows the changes from the
6 previous version of this document in Exhibit 31.

7 CHAIRMAN CLARK: Okay. That will be
8 Late-filed Exhibit 33.

9 (Late-filed Exhibit No. 33 identified.)

10 MS. CANZANO: Thank you. And with that, Staff
11 has no more questions.

12 CHAIRMAN CLARK: Redirect?

13 REDIRECT EXAMINATION

14 BY MS. CASWELL:

15 Q Mr. McLeod, my first few questions concern
16 some questions that Mr. Melson asked you. Is it your
17 understanding that this Commission has the authority to
18 impose resale restrictions on certain services?

19 A Yes.

20 Q And might the Commission require GTE to file a
21 tariff that included those restrictions?

22 A Yes.

23 Q Do you believe that entry of a contract as a
24 result of this proceeding will somehow affect the
25 Commission's authority to require tariff filings of

1 ILECs?

2 A No.

3 Q Mr. McLeod, did GTE elect price regulation
4 before passage of the federal Telecommunications Act?

5 A Yes.

6 Q And before the federal act was passed, did GTE
7 know what requirements would be imposed on it with
8 regard to resale, unbundling and the like?

9 A As a result of the federal act, no.

10 Q And now speaking in terms of the Florida State
11 statute, is it your understanding that under the
12 statute, a large LEC would be subject to competition
13 whether or not it elected price regulation?

14 A My understanding -- my recollection of the Act
15 is that competition -- we would be subject to
16 competition regardless of our election on the first of
17 January.

18 Q Is it your understanding, Mr. McLeod, that
19 GTE's avoided cost studies comply with the standard in
20 the Act for determining wholesale prices?

21 A Yes, it is.

22 Q And does that act -- does that standard in the
23 Act include any provision requiring either the ILEC or
24 the state commissions to guarantee a margin adequate to
25 ensure a reseller's success in the marketplace?

1 A There's no such provision.

2 Q If prices are not set on appropriate costs,
3 will rational and efficient competition ever develop in
4 Florida?

5 A No.

6 Q I have a couple of questions on the branding
7 issue. Would you expect an AT&T local customer to call
8 GTE's repair center when that AT&T customer had a
9 problem?

10 A No. AT&T is providing their own repair center
11 as far as I know.

12 Q So is there any branding issue associated with
13 that occurrence?

14 A Not to my knowledge.

15 Q And to your knowledge, do GTE's contracts with
16 its suppliers require those suppliers to reimburse GTE
17 for unlimited consequential damages if the product fails
18 to perform as specified?

19 A Not to my knowledge.

20 Q And would AT&T's broad performance guarantee,
21 as you understand it from the testimony in this case,
22 hold GTE to a standard of perfect service?

23 A That's where it would have to go, yes.

24 Q With regard to Exhibit 32, which is the
25 updated contract, does that exhibit reflect areas of

1 agreement by both parties, as you understand the
2 negotiations?

3 A In terms of the issues themselves, not in
4 terms of the contract language.

5 Q Okay. And has GTE agreed to AT&T's proposed
6 service indemnification?

7 A No.

8 Q So would you expect it to be in the contract,
9 if that's the case?

10 A No.

11 Q I believe Mr. Hoe asked you some questions
12 about GTE's retention of title to GTE systems for which
13 AT&T will pay GTE for their use. Mr. McLeod, are you
14 even aware of whether GTE holds title to all the systems
15 it uses today and to which AT&T wants compensated --
16 uncompensated access, I'm sorry?

17 A It's my understanding that many of the systems
18 are -- title is held by GTEDS, for example, or some
19 other provider, but it's -- that's my understanding.

20 Q And if GTE is not the title holder to any or
21 all of such systems, would GTE -- would you expect GTE
22 to defer to the owner's rights and restrictions?

23 A No, if I understood your question. You can
24 repeat it if you like.

25 Q Let me try and rephrase it. Should the

1 property owner -- assuming that GTE does not have title
2 on the system, should the property owner be the party
3 who negotiates with AT&T, MCI or other ALECs about
4 payment for use of that property?

5 A I'm not sure, because we have engaged in those
6 kinds of discussions, and if that was not appropriate,
7 then --

8 MS. CASWELL: I have no further redirect.
9 Thank you.

10 WITNESS MCLEOD: -- I'm in trouble, I guess.

11 CHAIRMAN CLARK: She'll talk to you later.
12 Exhibits?

13 MS. CASWELL: We would like to move
14 exhibits --

15 CHAIRMAN CLARK: I have 30 and 31.

16 MS. CASWELL: 30 and 31, and I believe 32.

17 CHAIRMAN CLARK: Okay, without objection.

18 MR. HOE: Madam Chairman, we do have an
19 objection to Exhibit 32.

20 CHAIRMAN CLARK: All right, we'll admit 30 and
21 31.

22 (Exhibit Nos. 30 and 31 received into
23 evidence.)

24 CHAIRMAN CLARK: What is your objection to
25 32?

1 MR. HOE: On several bases. One, it's
2 certainly a late exhibit. We didn't get it here until I
3 think an hour or two before this witness went on.
4 That's number one. Number two, I'm advised by some
5 people who have had a short opportunity to look at it
6 that it bears little if any resemblance to any document
7 that AT&T has ever produced or seen that purports to be
8 a collection of the agreements of the parties. So
9 frankly, we don't know what it is. And we obviously, in
10 the time we've had, we are unable to confirm that it is
11 what it is purported to be here. So on that basis we
12 would object to its inclusion in the evidence.

13 CHAIRMAN CLARK: Ms. Caswell.

14 MS. CASWELL: I don't think we're asking AT&T
15 to agree to what the document purports to be. We're
16 just filing an updated version of our contract in view
17 of the fact that negotiations have been ongoing since
18 the arbitration petition was filed, and we thought it
19 might be more convenient and more helpful to the
20 Commission and the Staff if our current proposed
21 contract were in the record, just as AT&T's proposed
22 contract is in the record. We're not representing that
23 AT&T has agreed to the language of the contract.

24 CHAIRMAN CLARK: Mr. Hoe?

25 MR. HOE: Well, that's -- I appreciate that

1 clarification, because that's not how I understood the
2 document. I guess the problem is that we haven't had a
3 chance to really address that.

4 CHAIRMAN CLARK: I appreciate that, and what
5 I'm going to do is leave it pending. But I would point
6 out that it's being represented as GTE's proposal to you
7 all. And in that case I would think it would be
8 acceptable. But I will leave it pending and you all can
9 talk about admitting it without objection. But I think
10 she's provided a plausible basis on which to admit it.
11 And with -- and with that being said, we'll also
12 leave -- well it's a late-filed exhibit is 33. So that
13 won't be admitted at this time.

14 MS. CANZANO: And I'm sure they're tied
15 together.

16 CHAIRMAN CLARK: Okay. And probably the
17 red-lining would help, too, if you have that readily
18 available.

19 MS. CASWELL: We'll try and get that and have
20 it here tomorrow morning.

21 CHAIRMAN CLARK: Okay.

22 MR. HOE: Madam Chairman, may I ask, will we
23 have an opportunity to address the document? I
24 understand now it's represented to be simply GTE's
25 proposal. And I guess if that's all it is, and it's not

1 used as evidence of agreement of the parties or of the
2 reasonableness of any particular position, then we can
3 certainly probably deal with that. But if it's intended
4 to be for anything more than that, we would like to have
5 the opportunity to respond.

6 MS. CASWELL: We will not mention it in the
7 brief as evidence of the parties' agreement on anything.

8 CHAIRMAN CLARK: I'm still going to leave it
9 pending so you all have a chance to talk, because there
10 may be some basis on which you want to stipulate -- you
11 want it understood as being in evidence, and I'm going
12 to let you talk about that and leave it pending until
13 tomorrow.

14 MR. HOE: Thank you, Madam Chair.

15 CHAIRMAN CLARK: Thank you. Thank you
16 Mr. McLeod.

17 We'll go ahead and take a break until five
18 minutes to five. We'll probably go for another hour and
19 a half and take a short dinner break. I won't guarantee
20 it will even be half an hour, but you're welcome to
21 bring your food in here.

22 (Witness McLeod excused.)

23 * * *

24 (Recess from 4:45 p.m. until 5:00 p.m.)

25 CHAIRMAN CLARK: We're ready to call the

1 hearing back to order. And it's my understanding we
2 would start with Mr. Wellemeyer.

3 WITNESS WELLEMEYER: That's correct.

4 CHAIRMAN CLARK: Mr. Wellemeyer, who can
5 answer all these questions.

6 Whereupon,

7 DOUGLAS E. WELLEMEYER

8 was called as a witness, having first been duly sworn to
9 speak the truth, the whole truth, and nothing but the
10 truth, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. GILLMAN:

13 Q Mr. Wellemeyer, have you been sworn in?

14 A Yes, I have.

15 Q Would state your name and business address?

16 A My name is Douglas E. Wellemeyer. My business
17 address is 4100 North Roxboro Road.

18 Q By whom are you employed?

19 A By GTE Telephone Operations as manager of
20 south area pricing and tariffs.

21 Q Mr. Wellemeyer, did you have cause to be filed
22 direct testimony under your name consisting of 43 pages
23 which was filed in Docket 960847?

24 A Yes.

25 COMMISSIONER KIESLING: I am having trouble

1 hearing you because one mike is way over here and one
2 mike way over here and no mike in front of you.

3 MR. GILLMAN: Thanks.

4 Q (By Mr. Gillman) Did you cause to be prefiled
5 a direct testimony under your name consisting of 43
6 pages?

7 A Yes, I did.

8 Q And was there an exhibit to that testimony?

9 A Yes, there was.

10 MR. GILLMAN: Chairman Clark, there was -- the
11 Exhibit DEW-1 attached to his direct testimony is not
12 reflected in the prehearing report.

13 CHAIRMAN CLARK: Okay, I'm sorry. And I
14 should have Docket 960847; is that correct?

15 MR. GILLMAN: And I would ask that Exhibit No.
16 DEW-1 be marked for identification purposes.

17 CHAIRMAN CLARK: It will be marked as Exhibit
18 34.

19 MR. GILLMAN: Exhibit 34?

20 CHAIRMAN CLARK: Yes.

21 (Exhibit No. 34 marked for identification.)

22 Q (By Mr. Gillman) Mr. Wellemeyer, did you also
23 have cause to be filed direct testimony consisting of
24 two pages which was filed in Docket No. 960980?

25 A Yes, that's right.

1 Q And did you also have cause to be filed
2 rebuttal testimony in Docket No. 960980?

3 A Yes.

4 Q Consisting of 15 pages?

5 A That's right.

6 Q And was there also an exhibit attached to that
7 rebuttal testimony?

8 A Yes, there was.

9 Q And Chairman Clark, that is also referred to
10 as DEW-1. It is a four-page exhibit and would request
11 that that exhibit be marked for identification
12 purposes.

13 CHAIRMAN CLARK: DEW-1 which is attached to
14 the rebuttal testimony in Docket 960980 will be marked
15 as Exhibit 35.

16 (Exhibit No. 35 marked for identification.)

17 Q (By Mr. Gillman) Mr. Wellemeyer, do you have
18 any changes, modifications or additions to any of these
19 three testimonies?

20 A Yes, I have some minor changes.

21 Q Could you go through those at this time?

22 A Yes. On my direct testimony in Docket 960847,
23 on Page 39, Line 15, the last word in the question is
24 "retail." That should be changed to read "resale."

25 Q Okay.

1 A And on Lines 20 and 21, grandfathered services
2 and discounted calling plans should be removed from the
3 list of services shown.

4 Q Grandfathered services and what?

5 A Discounted calling plans. That's on Lines 20
6 and 21.

7 There's one further change in my rebuttal
8 testimony on Page --

9 Q And that is?

10 A On Page 15, Line 7, there's a word left out at
11 the end of the line. We should add the word "determine"
12 after the word "properly". That's all the corrections.

13 Q Mr. Wellemeyer, if I asked you the same
14 questions which appear in these three pieces of prefiled
15 testimony, would your answers here today under oath be
16 the same?

17 A Yes.

18 MR. GILLMAN: At this time, Chairman Clark, I
19 would request that the direct testimony filed by
20 Mr. Wellemeyer in Docket 960847 and Docket No. 960980,
21 as well as the rebuttal testimony filed in 960980 be
22 inserted into the record as though read.

23 CHAIRMAN CLARK: It will be inserted in the
24 record as though read.

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GTE FLORIDA INCORPORATED
TESTIMONY OF DOUGLAS E. WELLEMAYER
DOCKET NO. 960847-TP

I. Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Douglas E. Wellemeyer. My business address is 4100 North Roxboro Road, Durham, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by GTE Telephone Operations, as Manager - South Area Pricing and Tariffs. I am providing testimony in this proceeding on behalf of GTE Florida (GTE or the Company).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I graduated from Duke University, Durham, North Carolina in 1976 with a Bachelor of Science degree in Engineering. During 1978 I began graduate study, and in 1980 earned a Master's Degree in Business Administration, also from Duke.

I was employed by General Telephone Company of the Southeast, now GTE South, in 1976 and held various positions in the Network Engineering organization. In 1983, I was named Staff Manager - Network Program Management with GTE Service

1 Corporation in Stamford, Connecticut, and in 1985 I was
2 reassigned to the position of Staff Manager - Separations and
3 Access Costs in Irving, Texas. In both positions, my
4 responsibilities involved development and administration of
5 separations and access cost study procedures used by the
6 domestic GTE telephone operating companies.

7
8 In May 1987, I was named Pricing and Tariffs Manager for
9 GTE South, responsible for the development of rates for all
10 products and services offered under tariff, and for preparing and
11 executing GTE South's tariff filings as required by the various
12 state regulatory commissions. In January 1989, I was named
13 Manager - Separations and Access Costs for GTE Telephone
14 Operations, with responsibility for the development of
15 jurisdictional separations and access cost studies in accordance
16 with applicable Federal Communications Commission (FCC) Rules
17 and Regulations, and for the preparation of jurisdictional and
18 access service cost support for various intrastate compensation
19 arrangements and tariff filings in GTE's South Area states. I
20 assumed the responsibilities of my current position in January,
21 1993.

22

23 **Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT**
24 **POSITION?**

25 **A. As Manager - South Area Pricing and Tariffs, I am responsible for**

1 the development and implementation of pricing and costing policy
2 and procedures; the design of corresponding price structures for
3 toll and local network service offerings; and the design and
4 execution of cost studies necessary to support certain pricing
5 proposals. I am also responsible for filing tariffs for these
6 services, as well as the intrastate access service tariffs, according
7 to state commission rules and regulations.

8
9 I am responsible for these activities in Alabama, Florida,
10 Kentucky, North Carolina, South Carolina and Virginia, and in
11 other states as the need may arise from time to time.

12

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE OTHER**
14 **REGULATORY COMMISSIONS?**

15 **A.** Yes. I have appeared before the state regulatory commissions in
16 Florida, Georgia, Kentucky, North Carolina, South Carolina and
17 West Virginia.

18

19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A.** My testimony addresses the development of GTE's proposed
22 wholesale prices for all services offered for resale. In my
23 testimony, I offer and explain two avoided cost studies prepared
24 by GTE in support of the proposed prices. Both GTE studies
25 produce avoided cost results that are significantly lower than

1 AT&T's proposed avoided cost discount and the FCC's avoided
2 cost discount rates.

3

4 The first study is GTE's Avoided Cost Study, where GTE's
5 proposed prices are calculated as the price of the retail offering
6 less costs avoided when service is offered through wholesale,
7 rather than retail, distribution channels. My testimony describes
8 the methodology and results of GTE's analysis of avoided costs.

9

10 The second study is a modification of the ARMIS-based avoided
11 cost analysis conducted by MCI, upon which the FCC relied, in
12 part, to establish its default avoided cost discount range. Based
13 on analysis of actual "direct expenses" (i.e., marketing and
14 customer service expenses), GTE has modified the ARMIS model
15 to reflect all costs that can reasonably be expected to be avoided
16 in a manner that conforms with the FCC's proposed avoided cost
17 study criteria. GTE believes that its Avoided Cost Study best
18 reflects the intent of the Act, and offers this Modified Avoided
19 Cost Study based on an ARMIS model as an alternative for use
20 only if the FCC's rules on avoided cost are held to be lawful.
21 Nevertheless, the Modified Avoided Cost Study clearly shows that
22 both the AT&T proposal and the FCC's avoided cost discount for
23 GTE are artificially high and economically burdensome.

24

25

1 Finally, my testimony addresses GTE's positions on various issues
2 related to resale offerings and restrictions.

3

4 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

5 A. Section II of my testimony discusses GTE's methodology for
6 determining avoided retail costs, and discusses the application of
7 that methodology in the GTE Avoided Cost Study. Section III
8 discusses GTE's methodology for determining avoided retail costs
9 under the Modified Avoided Cost study using an ARMIS-based
10 model. Section IV compares the results of the GTE Avoided Cost
11 Study and the Modified Avoided Cost Study to AT&T's proposal
12 and to the FCC's rate of 18.81% for GTE overall. Section V
13 addresses the resale issues.

14

15 **Q. WHY DID GTE PERFORM AVOIDED COST STUDIES?**

16 A. The Telecommunications Act of 1996 (the Act) states that it is
17 the duty of each incumbent local exchange carrier (ILEC) "to offer
18 for resale at wholesale rates any telecommunications service that
19 the carrier provides at retail to subscribers who are not
20 telecommunications carriers" (47 U.S.C. § 251(c)(4) (1996)).
21 The Act further states that for this purpose "a State commission
22 shall determine wholesale rates on the basis of retail rates
23 charged to subscribers for the telecommunications service
24 requested, excluding the portion thereof attributable to any
25 marketing, billing, collection, and other costs that will be avoided

1 by the local exchange carrier" (47 U.S.C. § 252(d)(3) (1996)).
2 To comply with the requirements of the Act, it is necessary to
3 determine avoided retail costs to establish the required wholesale
4 rates for services offered for resale. GTE's Avoided Cost Study
5 was conducted for this purpose.

6
7 In addition, the FCC's First Report and Order in CC Docket No.
8 96-98, released August 8, 1996, provided for the addition of Part
9 51 Rules governing local interconnection. Subpart G of these
10 Rules defines specific avoided cost study requirements and
11 criteria. GTE prepared its Modified Avoided Cost Studies in
12 conformance with Part 51 Rules, for use if the Rules are
13 determined to be lawful.

14
15
16 **Q. PLEASE SUMMARIZE THE RESULTS OF GTE'S AVOIDED COST**
17 **STUDY AND THE MODIFIED AVOIDED COST STUDY, AND**
18 **COMPARE THESE RESULTS TO AT&T'S PROPOSAL AND TO THE**
19 **FCC'S DISCOUNT RATE FOR GTE OF 18.81%.**

20 **A.** GTE's Avoided Cost Study analyzes avoided costs separately for
21 each of five major service categories. The avoided costs for
22 residential services are \$0.83 per line per month; avoided costs
23 for business services are \$1.06 per line per month. Since the
24 amount of the avoided costs per line is the same for all rate
25 groups, the effective discount rate varies by rate group. For

1 example, if the monthly residential line rate in a given rate group
 2 is \$10.00, the avoided cost discount is \$0.83, or 8.3%.

3

4 For the remaining service categories, the avoided cost discount
 5 rates are as follows:

6	Usage Services	7.1%
7	Vertical Services:	
8	Business	5.5%
9	Residence	6.6%
10	Combined	6.2%
11	Advanced Services	15.3%

12

13 The Modified Avoided Cost Study determines a single discount
 14 rate for each tariff entity. Each single rate is appropriate for
 15 application to all retail services offered for resale. The avoided
 16 cost discount rates calculated using the ARMIS-based model is as
 17 follows:

18	GTE Florida	11.25%
----	-------------	--------

19

20 In all cases, the rates calculated by GTE are lower than the FCC's
 21 default avoided cost discount rates, and differ significantly from
 22 AT&T's suggested 30.9% discount rate.

23

24 II. GTE's Avoided Cost Study

25

1 Q. HOW ARE AVOIDED COSTS DEFINED FOR THE PURPOSES OF
2 THE GTE AVOIDED COST STUDY?

3 A. Avoided retail costs are defined as the difference in total costs
4 with and without the offering of service for resale, i.e., the costs
5 avoided when a service is offered through wholesale, rather than
6 retail, distribution channels.

7
8 Q. WHAT IS THE BASIS FOR THIS DEFINITION OF AVOIDED
9 COSTS?

10 A. This definition is consistent with the Act, and properly positions
11 wholesale prices for competitive markets. Setting wholesale
12 prices too high could result in undercutting the ability of resellers
13 to recover a sufficient retail mark up to allow for a viable resale
14 market. On the other hand, if the adjustment for avoided retail
15 costs is too large, the ILECs will not be compensated for their true
16 costs. Moreover, facilities-based alternative local exchange
17 carriers (ALECs) could be placed at a competitive disadvantage in
18 pricing their retail service if ALEC resellers are able to purchase
19 wholesale local exchange services below its cost. Finally,
20 appropriately-set wholesale prices will encourage facilities-based
21 competition.

22
23 GTE's definition of avoided costs also recognizes the inescapable
24 fact that while some retail costs are avoided for certain activities,
25 a similar activity is often required to offer the same service on a

1 wholesale basis for resale. For example, some incremental retail
2 customer billing activities may be avoided when the service is
3 offered instead for resale, but a wholesale billing function must
4 still be performed. The avoided billing cost is, logically, the
5 difference between the costs of these two activities.

6

7 **Q. BASED ON THIS DEFINITION, WOULD YOU PLEASE DEFINE THE**
8 **COMPONENTS OF AVOIDED RETAIL COSTS AS USED IN THE**
9 **AVOIDED COST STUDY?**

10 **A. Yes. When a retail service is offered instead on a wholesale basis**
11 **for resale, the resulting avoided costs can be separated into two**
12 **components. First, total costs are decreased because it is no**
13 **longer necessary to provide some incremental retailing functions**
14 **in support of the service. Second, total costs are increased to the**
15 **extent that it becomes necessary to provide substitute**
16 **wholesaling functions in support of the resale service.**

17

18 Therefore, avoided retail costs are equal to: (1) costs associated
19 with displaced retail activities (affected retail costs) minus
20 (2) added costs associated with replacement wholesale activities
21 (substitute resale costs).

22

23 **Q. HOW WAS THE FIRST COMPONENT OF AVOIDED COSTS, THE**
24 **AFFECTED RETAIL COSTS, QUANTIFIED IN THE AVOIDED COST**
25 **STUDY?**

1 A. The first component of avoided costs was calculated by
2 examining all activities involved in the provision of retail services,
3 and identifying the cost of performing those activities that are
4 affected when services are provided on a wholesale, rather than
5 a retail, basis (affected costs). Some activities are required
6 regardless of whether the service is offered on a retail or a
7 wholesale basis, so the associated costs would be unaffected
8 when service is provided on a wholesale, rather than a retail,
9 basis (unaffected costs). These activities were ignored in the
10 Avoided Cost Study, since none of the associated costs will be
11 avoided.

12
13 For example, in the Avoided Cost Study, the total costs of
14 affected activities required to provide residential services were
15 calculated to be \$1.36 per line per month. This amount for the
16 first component represents the decrease in total costs when a
17 residential basic service is offered on a wholesale basis.

18
19 **Q. HOW WAS THE SECOND COMPONENT OF AVOIDED COSTS,**
20 **THE SUBSTITUTE RESALE COSTS, QUANTIFIED IN THE**
21 **AVOIDED COST STUDY?**

22 A. The second component of avoided costs was calculated by first
23 identifying existing wholesale services similar in nature to those
24 in each of the retail service categories. Then, using these
25 services as a proxy for the new wholesale distribution channel,

1 the cost of substitute wholesale activities required when services
2 are offered on a wholesale, rather than a retail, basis was
3 analyzed.

4
5 For example, the cost of substitute activities for the residential
6 services category was assumed to be the same as the cost of the
7 same activities currently performed in providing wholesale special
8 access service to interexchange carrier customers. In the
9 Avoided Cost Study, the total costs of affected activities required
10 to provide special access services were calculated to be \$0.53
11 per line per month. This amount for the second component
12 represents the increase in total costs when a residential basic
13 service is offered on a wholesale basis.

14
15 **Q. USING THESE TWO COMPONENTS, HOW ARE THE AVOIDED**
16 **COSTS CALCULATED FOR YOUR RESIDENTIAL SERVICES**
17 **EXAMPLE?**

18 **A.** Avoided costs are calculated as the first component, affected
19 retail costs, less the second component, substitute resale costs.
20 In the Avoided Cost Study, the costs avoided when residential
21 service is provided on a wholesale basis were calculated as \$1.36
22 minus \$0.53, or \$0.83 per line per month.

23
24 **Q. WHAT DATA WERE USED TO CONDUCT THE AVOIDED COST**
25 **STUDY?**

1 A. The Avoided Cost Study was based on actual annual results for
2 GTE Telephone Operations's total domestic telephone operations
3 for 1995. The data are reported in a managerial accounting
4 framework reflecting the results of the business as it is managed,
5 rather than according to traditional financial accounting rules.

6
7 Q. WHY WERE RESULTS FOR GTE'S TOTAL DOMESTIC
8 OPERATIONS USED, RATHER THAN RESULTS SPECIFIC TO THIS
9 STATE?

10 A. The necessary data are not recorded on a state specific basis, so
11 data specific to operations in this state are not available from
12 GTE's records. This is because the vast majority of the affected
13 activities are performed on a centralized basis from regional and
14 national service centers located throughout the country. Each of
15 these centers handles one or more specific retailing functions for
16 a number of different states.

17
18 For example, the National Customer Contact Support Center
19 located in Tampa, Florida provides nationwide support for the
20 customer contact centers by clearing order entry exceptions and
21 processing customer correspondence. A complete listing and
22 description of these centralized functions is provided as
23 Attachment II (Workcenter Glossary) of the Avoided Cost Study.
24 Because the functions are organized and managed in this way,
25 the associated costs for all affected activities taken together are

1 not meaningful at other than a total GTE Telephone Operations
2 level.

3

4 **Q. HOW WERE AFFECTED RETAIL COSTS QUANTIFIED IN THE**
5 **AVOIDED COST STUDY?**

6 A. In order to identify the retail costs affected by the offering of
7 services through wholesale rather than retail distribution channels,
8 all of GTE's workcenters were examined to determine which
9 activities would be affected. Resale of existing retail services is
10 defined as the sale of services to a reseller for sale to its end user
11 customers, without any change in the nature of the product by
12 the reseller. Thus, changes in workcenter costs that result from
13 offering services on a wholesale, rather than a retail, basis arise
14 solely from activities associated with the distribution of services,
15 and not from production activities.

16

17 **Q. WOULD YOU PLEASE DEFINE THE TERM "WORKCENTER?"**

18 A. A workcenter is defined as a collection of activities that exhibit:
19 (1) common functions; (2) a common unit measure of demand;
20 (3) a common unit measure of resource consumption; (4) a
21 common geographic uniqueness; and/or (5) a common
22 management structure. Most of the workcenters are defined
23 based on common functions or work activities.

24

25

1 For example, the National Customer Contact Support Center I
2 mentioned earlier performs two specific activities in support of the
3 Customer Contact Centers, clearing order entry errors and
4 processing customer correspondence. These off-line customer
5 contact support functions are organized as a workcenter.

6

7 **Q. WERE THE WORKCENTERS ORGANIZED IN A PARTICULAR**
8 **MANNER SO THAT THE AFFECTED WORKCENTER ACTIVITIES**
9 **COULD BE IDENTIFIED?**

10 **A.** Yes. In general, the affected workcenters are uniquely associated
11 with one of the three lines of business organizations within
12 GTE Telephone Operations. The three lines of business are
13 Consumer, Business and Carrier. The Consumer line of business
14 organization serves the residence and small business markets; the
15 Business line of business serves the balance of the business
16 market, including national accounts; and the Carrier line of
17 business is responsible for the wholesale relationship with other
18 telecommunications providers (this wholesale relationship
19 currently consists primarily of switched access services, special
20 access services, billing and collection, and operator service
21 agreements).

22

23 In addition, as shown in the Workcenter Glossary, workcenters
24 are identified for all Network Operations and Corporate General
25 and Administrative functions. These workcenters were reviewed

1 as well, but are generally not included in the analysis of affected
2 costs because the functions are required for wholesale and retail
3 service provision alike. Finally, Uncollectibles was defined as a
4 workcenter for the purposes of this analysis, and included as such
5 in the Avoided Cost Study.

6
7 Once the affected workcenters were identified for study, the total
8 annual costs were determined from the books and records for
9 each affected workcenter. The workcenter costs include labor
10 costs, support and supervision, data processing, training and
11 other employee-related expenses.

12
13 The data processing costs were included net of system
14 development and enhancement costs. Development and
15 enhancement costs are "one-time" costs associated with the
16 design and implementation of systems, and were therefore
17 excluded from the Avoided Cost Study. Likewise, projected
18 development and enhancement costs for systems to support the
19 wholesale distribution channel have also been excluded from the
20 Avoided Cost Study. These costs should be recovered from the
21 ALECs who cause them.

22
23 **Q. DID YOU MAKE ANY ADJUSTMENTS TO THE ANNUAL COSTS**
24 **BY WORKCENTER?**

25 **A. Yes. First of all, the identified workcenter costs were adjusted to**

1 include certain payroll overheads not accounted for by
2 workcenter. These costs include health insurance, payroll taxes
3 and management incentives. These costs are recorded and
4 managed separate from the workcenter costs, but are properly
5 included in the Avoided Cost Study, as they would be affected by
6 the offering of resale services in the same way as the related
7 direct labor costs. These adjustments by workcenter are shown
8 in Attachment I of the Avoided Cost Study.

9
10 Also, an adjustment was made to workcenter costs to remove
11 any non-recurring costs associated with service ordering
12 activities. The workcenters affected by this adjustment can be
13 identified from the listing provided in Attachment III of the
14 Avoided Cost Study. These costs were identified separately, and
15 not distributed among the service categories in the Avoided Cost
16 Study. This was done because GTE prepared an independent
17 analysis of service ordering and service connection charges.

18
19 **Q. HOW WERE THE WORKCENTER NON-RECURRING COSTS**
20 **ASSOCIATED WITH SERVICE ORDERING ACTIVITIES**
21 **SEPARATELY IDENTIFIED?**

22 **A.** The identification of these costs is documented in Attachment VI
23 of the Avoided Cost Study. Generally, the calculations were
24 based on workcenter-specific data representing the percentage of
25 a workcenter's activities associated with service orders.

1 For example, for GTE's Customer Contact Centers, the number of
2 calls for service orders was counted and then multiplied by the
3 average length of a service order call (GTE's Customer Contact
4 Centers accounted for approximately 40 percent of GTE's total
5 costs in workcenters having affected costs associated with
6 consumer services). The resulting total service order time was
7 expressed as a percentage of the total time spent on all calls
8 received by Customer Contact Centers. This percentage was
9 then multiplied by the workcenter's adjusted total costs to obtain
10 NRCs. In this way, \$182,924,000 in non-recurring costs was
11 separately identified as part of the workcenter costs for the
12 Customer Contact Center.

13
14 Once the non-recurring costs were separately identified, the next
15 step was to assign the remaining workcenter costs to the service
16 categories. The target retail service categories are Residential,
17 Business, Usage, Vertical, Advanced and "Other." The Other
18 category was further divided among Directory, Customer Premises
19 Equipment (CPE), CALC and Other.

20

21 **Q. WHAT SERVICES ARE INCLUDED IN THE FIVE TARGET RETAIL**
22 **SERVICE CATEGORIES?**

23 **A.** Residential and Business are simply local residential and business
24 services, respectively. Residential services include both flat rate
25 and measured rate services, while business services include

1 measured rate services, CentraNet® and PBX. The Usage
2 category includes intraLATA toll, discount calling plans, local
3 measured usage, Zone Usage Measurement (ZUM), and Extended
4 Area Services (EAS). Vertical features include such features as
5 call waiting and last number redial, and are offered to both
6 business and residential customers. The Advanced services
7 category includes such services as ISDN BRI and ISDN PRI, Frame
8 Relay, Digital Channel Service, DS-1, and various other dedicated
9 channel services including private line.

10

11 **Q. HOW WERE THE REMAINING RECURRING COSTS ASSIGNED TO**
12 **THE SPECIFIC CATEGORIES OF RETAIL SERVICES?**

13 A. For a number of workcenters, sufficient information was available
14 to assign costs directly to specific retail service categories. For
15 example, all the costs of the Calling Card workcenter could be
16 directly assigned to the Usage category. In other cases, sufficient
17 information was available to directly assign only a portion of
18 costs.

19

20 **Q. PLEASE DESCRIBE THE ASSIGNMENT DONE FOR OTHER**
21 **WORKCENTERS.**

22 A. In each of the following workcenters, complete or partial direct
23 assignments of affected costs were made:

24

25

1 **National Credit Management Center (NCMC):** Workcenter
2 costs were allocated to services on the basis of each
3 service's share of consumer and business uncollectibles for
4 the services supported by the NCMC.

5
6 **Business Sales Center (BSC):** Non-attributed Business
7 service costs were allocated on the basis of business
8 revenues relative to total revenues and the remainder of
9 costs were distributed on the basis of the 1995 sales
10 quotas for the BSC associated with each remaining service.

11
12 **Branch Sales, Market Response, Branch Sales Engineering**
13 **and Business Operations Support:** Costs associated with
14 the sale of CPE products were netted out of
15 non-attributable costs based on time studies for each of
16 these workcenters. The remaining costs were then
17 distributed according to the relative size of the 1995 sales
18 quotas for each of these workcenters.

19
20 **Branch Sales Support:** The Branch Sales Support - East
21 (West) workcenter's costs replicated the combined
22 allocation of other East (West) branch service workcenters'
23 costs.

24
25

1 National Accounts: The distribution of non-attributable
2 costs replicated the combined allocation of both East and
3 West branch sales service costs.

4
5 Business Data Processing: The distribution of
6 non-attributable costs replicated the combined allocation of
7 all branch sales services, BSC, National Accounts and
8 Business Operations Support Service costs.

9
10 National Customer Support Center: Non-attributable costs
11 were allocated according to the relative number of service
12 specific calls received by the workcenter.

13

14

15 **Q. IF SUFFICIENT INFORMATION WAS NOT ALWAYS AVAILABLE**
16 **TO DIRECTLY ASSIGN THE WORKCENTER'S TOTAL AFFECTED**
17 **COSTS, HOW WERE THESE COSTS ASSIGNED TO THE SERVICE**
18 **CATEGORIES?**

19 **A.** In such cases, workcenter costs not directly assigned were
20 assigned to the service categories in proportion to the net
21 revenues for the service categories associated with that
22 workcenter. This method of assignment is known as the relative
23 revenue rule [see generally, D. Spulber, Regulation and Markets
24 Ch. 3 (1989)]. Attachment III of the Avoided Cost Study
25 identifies the method of assignment used for each workcenter.

1 Attachment V, page 1, displays the results of assigning costs for
2 all workcenters to the retail service categories.

3

4 **Q. HOW WAS THIS INFORMATION USED TO CALCULATE THE**
5 **AFFECTED COSTS PER UNIT FOR RETAIL SALES?**

6 A. The units for each of the retail service categories are shown on
7 page 2 of Attachment V of the Avoided Cost Study. For local
8 residential, local business, and advanced services, avoided costs
9 were divided by the number of lines. For usage, avoided costs
10 were divided by the number of minutes. Per unit affected costs
11 for vertical services were not calculated, because data for the
12 second component of avoided costs, substitute resale costs, are
13 not available. I will discuss this issue later in my testimony in the
14 context of substitute resale costs. The results of these
15 calculations are also shown on Attachment V, page 2.

16

17 **Q. WHAT ARE THE PER UNIT AFFECTED COSTS ASSOCIATED**
18 **WITH RETAIL SALES FOR EACH SERVICE CATEGORY?**

19 A. The per unit affected retail costs for each retail service
20 category are:

21 Residential \$1.36 per month per line;

22 Business \$1.60 per month per line;

23 Usage \$0.01006 per minute; and

24 Advanced \$4.30 per month per line.

25

1 Q. HOW WAS THE SECOND COMPONENT OF AVOIDED RETAIL
2 COSTS, SUBSTITUTE RESALE COSTS, CALCULATED?

3 A. Since retail services have not yet been offered for resale for any
4 length of time, their substitute costs cannot be measured directly.
5 Instead, GTE's substitute costs associated with offering service
6 on a wholesale, rather than a retail, basis were calculated by
7 determining the affected costs of an existing wholesale service
8 similar in nature to the services to be offered at resale.

9
10 Q. WHAT EXISTING WHOLESALE SERVICES WERE USED TO
11 CALCULATE SUBSTITUTE RESALE COSTS?

12 A. The offering of local residential, local business, and advanced
13 services for resale was assumed to be analogous to the current
14 wholesale provision of special access service. The wholesale
15 offering of retail usage services was assumed to be analogous to
16 the current provision of originating and terminating switched
17 access.

18
19 Q. WHY DID YOU CHOOSE THESE PARTICULAR EXISTING
20 SERVICES AS PROXIES FOR RESALE SERVICES?

21 A. Special and switched access services are existing wholesale
22 services provided through a well-established provisioning process.
23 As such, they constitute GTE's most accurate information on the
24 cost of the wholesale provision of line-based and usage-based
25 services. Special access is a logical choice as a proxy for the

1 retail line-based service, because it is also line-based. Likewise,
2 switched access is a logical choice as a proxy for all usage
3 services.

4

5 **Q. WHAT EXISTING WHOLESALE SERVICE DID YOU USE AS A**
6 **PROXY FOR THE RESALE OF VERTICAL FEATURES?**

7 A. GTE was not able to identify an existing wholesale service
8 corresponding to the offering of vertical features for resale.
9 Consequently, an alternative approach, which I will describe later,
10 was used to estimate these substitute resale costs.

11

12 **Q. WHAT WAS THE FIRST STEP IN CALCULATING SUBSTITUTE**
13 **RESALE COSTS?**

14 A. The workcenters were examined to see which ones were
15 applicable. In the case of substitute resale costs, the affected
16 workcenters are organized within the carrier line of business. A
17 workcenter was included in the Avoided Cost Study if it was part
18 of the wholesale access structure.

19

20

21 Once the workcenters applicable to substitute resale costs were
22 determined, the affected costs were distributed among resale
23 service categories using essentially the same methodology I
24 described earlier for the retail workcenters. Sufficient information
25 was not available to assign costs directly to specific service

1 categories. Consequently, the relative revenue rule was used to
2 assign costs according to carrier revenues.

3

4 The assignment of substitute resale costs for all included
5 workcenters is displayed along with the retail affected costs in
6 Attachment V, page 1. The Access column contains the affected
7 costs of providing originating and terminating switched access,
8 which serves as a proxy for the costs of offering switched
9 services, such as intraLATA toll service, for resale. The
10 Advanced column contains the affected costs relating to both
11 retail and wholesale workcenters.

12

13 **Q. HOW WAS THIS INFORMATION USED TO CALCULATE THE**
14 **SUBSTITUTE COSTS PER UNIT FOR RESALE SALES?**

15 A. The units for the Advanced and Access wholesale service
16 categories are shown on page 2 of Attachment V of the Avoided
17 Cost Study. The per unit substitute costs of Advanced services
18 were determined by dividing total substitute costs by the
19 corresponding number of lines. Likewise, the per unit substitute
20 costs for access services are calculated by dividing total
21 substitute costs by the corresponding number of minutes.

22

23 **Q. WHAT ARE THE PER UNIT RESALE SUBSTITUTE COSTS FOR**
24 **EACH OF THE TWO PROXY SERVICE CATEGORIES?**

25 A. The per unit substitute resale costs for each category are:

1 Access \$0.00414 per minute, and
2 Advanced \$0.53 per month per line

3

4 **Q. PLEASE EXPLAIN THE DEVELOPMENT OF THE AVOIDED COST**
5 **RESULTS.**

6 **A.** Avoided retail costs are defined as the difference in total costs
7 with and without the offering of service for resale. Thus, avoided
8 retail costs are equivalent to the affected retail costs less the
9 substitute resale costs. Since both of these components were
10 calculated on the same per unit basis, the avoided cost results for
11 each retail service category were simply determined by
12 subtraction. The avoided cost results are:

13

14 • GTE's avoided retail costs of providing local residential
15 service for resale are equal to \$1.36 (affected retail
16 costs) less \$0.53 (substitute resale costs), or \$0.83
17 per line per month.

18

19 • GTE's avoided retail costs of providing local business
20 service for resale are equal to \$1.60 (affected retail
21 costs) less \$0.53 (substitute resale costs), or \$1.06
22 per line per month.

23

24 • GTE's avoided retail costs of providing intraLATA toll
25 service for resale are equal to \$0.01006 (affected retail

1 costs) less \$0.00414 (substitute resale costs), or
2 \$0.00592 per minute.

3

4 ● GTE's avoided retail costs of providing advanced
5 services for resale are equal to \$4.30 (affected retail
6 costs) less \$0.53 (substitute resale costs), or \$3.77
7 per line per month.

8

9 **Q. HOW WAS THE AVOIDED COST DISCOUNT FOR VERTICAL**
10 **FEATURES DETERMINED?**

11 A. Since GTE was unable to identify an existing service whose costs
12 would approximate the cost of providing vertical features, it was
13 not possible to calculate avoided costs for vertical features
14 offered for resale. The best alternative available was to apply
15 avoided cost relationships associated with basic exchange
16 services. Thus, the avoided cost discount rates for residential
17 and business basic exchange service were used to approximate
18 the relative avoided costs for vertical features. Consequently

19

20 ● the avoided cost discount rate for residential vertical
21 features was set equal to the avoided cost discount of
22 local residential service, 6.6 percent;

23

24 ● the avoided cost discount rate for business vertical
25 features was set equal to the avoided cost discount of

1 local business service, 5.5 percent; and

2

3 ● the avoided cost discount rate for vertical features not
4 segregated in the tariff as either residential or business
5 was set equal to the composite avoided cost discount
6 of local residential and business services, 6.2 percent.

7

8 **Q. WHAT WAS THE BASIS FOR THE CALCULATION OF GTE'S**
9 **PROPOSED WHOLESALE RATES?**

10 A. I relied on the pricing rules presented in the testimony of GTE
11 witness Dr. Sibley. Generally, the wholesale price for a resale
12 service can be calculated as the retail price for that service less
13 the avoided retail costs.

14

15 In the case of basic exchange access services, however, an
16 adjustment to costs should be made to acknowledge the foregone
17 contribution associated with complementary services, such as
18 intraLATA toll service. As explained in Dr. Sibley's testimony, the
19 ALEC reseller is very likely to package and self-provision
20 intraLATA toll with the resold local exchange service, rather than
21 purchase intraLATA toll from GTE for resale. Therefore, the
22 "bundle" of services resold includes not only basic exchange
23 access, but also profitable intraLATA toll.

24

25

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14 purchase intraLATA toll from GTE for resale. Therefore, the
15 "bundle" of services resold includes not only basic exchange
16 access, but also profitable intraLATA toll.

17

18 **Q. HAVE YOU DONE ANY ANALYSIS TO QUANTIFY THE**
19 **OPPORTUNITY COST THAT ARISES FROM TOLL CONTRIBUTION**
20 **LOSSES WHEN BASIC EXCHANGE ACCESS SERVICES ARE**
21 **PROVIDED BY GTE TO AN ALEC FOR RESALE?**

22 A. Yes. In performing the analysis, I first determined the average
23 intraLATA toll revenue and minutes for GTE's current retail
24 customers by type of local service. I then calculated the current
25 level of contribution from intraLATA toll service, based on the

1 cost studies which have been filed by GTE. I then converted the
2 average toll minutes per customer to access minutes, based on
3 the assumption that in a resale scenario the ALEC reseller would
4 self-provision intraLATA toll and pay switched access to GTE
5 instead. Finally, I calculated the level of contribution that would
6 be provided by the substitute access service, again based on the
7 cost studies filed in this docket.

8
9 This analysis is summarized in Exhibit No. DEW-1 with this
10 testimony. The resale opportunity cost for each basic exchange
11 access service is calculated as the difference between the current
12 toll margin per line and the access margin per line.

13
14 **Q. BASED ON THE PRECEDING DISCUSSION AND ANALYSIS,**
15 **WHAT ARE YOUR PROPOSED WHOLESALE RATES FOR THE**
16 **BASIC EXCHANGE ACCESS SERVICES UNDER DISCUSSION?**

17 **A.** For all basic local exchange services the proposed wholesale rates
18 should be determined, using the pricing rules proposed by
19 Company witness Sibley and the contribution analysis above, as
20 follows:

21 (1)the retail price,
22 less(2) the avoided costs per line from the Avoided Cost
23 Study,
24 plus(4) toll opportunity cost (toll contribution),
25 less(5) access opportunity gain (access contribution).

1 Q. DR. SIBLEY DISCUSSES TWO EXCEPTIONS THAT MAY AFFECT
2 THE ASSESSMENT OF FOREGONE TOLL CONTRIBUTION UNDER
3 THE RESALE SCENARIO YOU HAVE JUST DISCUSSED. WOULD
4 YOU PLEASE IDENTIFY THEM?

5 A. Yes. First, it is possible that an ALEC reseller such as AT&T has
6 self-provided toll service to the end user prior to the time resale
7 was initiated. In this case, GTE would not experience any further
8 foregone toll contribution. Second, the ALEC reseller may not
9 actually self-provision toll service. In this case, GTE would
10 continue to provide intraLATA toll, and again there would be no
11 opportunity loss.

12
13 Q. HAVE YOU ACCOUNTED FOR THESE SITUATIONS IN YOUR
14 ANALYSIS, BOTH OF WHICH WOULD OFFSET GTE'S RESALE
15 OPPORTUNITY LOSSES TO SOME DEGREE?

16 A. No, the analysis assumes that the ALEC reseller will self-provide
17 intraLATA toll 100 percent of the time. To properly
18 accommodate these situations, I propose to establish a credit rate
19 equal to the opportunity cost I included in the calculation of the
20 resale price for each basic exchange access service. This "toll
21 provider credit" would be a MRC. Upon certification by the ALEC
22 local reseller that it was the toll provider prior to the authorization
23 of local resale, GTE will apply the toll provider credit rate to the
24 account. Likewise, upon certification that the ALEC local reseller
25 is not also the toll provider for the end user customer, GTE will

1 apply the same toll provider credit. This procedure is
2 administratively simple for both the ALEC and GTE, and properly
3 addresses both of the exception conditions.

4

5 **Q. WOULD THE PROPOSED TOLL PROVIDER CREDIT REMAIN**
6 **CONSTANT OVER TIME, OR WOULD YOU RECOMMEND THAT**
7 **IT BE ADJUSTED PERIODICALLY?**

8 A. The toll provider credit should vary over time with changes in the
9 levels of the underlying toll and access contributions. Inasmuch
10 as local, toll and access rates will be rebalanced over time, the
11 toll provider credit should be adjusted whenever toll and access
12 rates are adjusted. Ultimately, the toll provider credit will be
13 replaced entirely by rebalanced rates for both retail and resale
14 services.

15

16 **Q. WHAT RATES DO YOU PROPOSE FOR USAGE RELATED**
17 **SERVICES, INCLUDING MEASURED LOCAL SERVICE, EAS AND**
18 **INTRALATA TOLL, AND HOW ARE THEY DEVELOPED?**

19 A. The Usage services category of the Avoided Cost Study includes
20 all of these services. For this category, the results of the Avoided
21 Cost Study are expressed as a discount rate of 7.1 percent to be
22 applied to the various retail prices. As there are no additional
23 opportunity costs associated with offering these usage services
24 for resale, the proposed rates are based on the retail price less
25 avoided costs.

1 Q. WHAT ARE YOUR PROPOSED WHOLESALE RATES FOR
 2 VERTICAL FEATURES, INCLUDING VERTICAL SERVICES,
 3 CENTRANET® BASIC FEATURE PACKAGES, AND PATS
 4 FEATURES, AND HOW ARE THEY DEVELOPED?

5 A. The Vertical features category of the Avoided Cost Study includes
 6 all of these services. For this category, the results of the Avoided
 7 Cost Study are expressed as a set of discount rates to be applied
 8 to the respective retail prices:

9	Residential vertical features	6.6%
10	Business vertical features	5.5%
11	Composite	6.2%

12
 13 The composite discount rate is applied to vertical feature offerings
 14 that are not offered separately in the tariff as either residence or
 15 business features. As there are no additional opportunity costs
 16 associated with offering vertical features for resale, the proposed
 17 rates are based on the retail price less avoided costs.

18

19 **III. The Modified Avoided Cost Study**

20

21 Q. DID GTE PERFORM ANOTHER TYPE OF AVOIDED COST STUDY?

22 A. Yes. GTE's second study is a modification of the MCI avoided
 23 cost study, which the FCC relied upon, in part, to calculate its
 24 default avoided cost discount range. GTE has modified certain
 25 inputs to the ARMIS-based model used in preparing this study to

1 properly identify avoided costs in accordance with the FCC's
2 proposed avoided cost criteria. As I discussed above, GTE
3 strongly believes that its Avoided Cost Study best reflects the
4 intent of the Act, and offers this Modified Avoided Cost Study as
5 an alternative to be used only if the FCC's rules on avoided costs
6 are held to be lawful.

7

8 **Q. PLEASE DESCRIBE THE MCI MODEL, AS EMPLOYED BY THE**
9 **FCC.**

10 **A.** Generally speaking, the MCI model is an ARMIS-based model
11 which has been used by the FCC and others to greatly simplify,
12 in fact oversimplify, the determination of avoided retail expenses.
13 I refer to the model as "ARMIS-based" because it applies avoided
14 cost factors to ARMIS data as filed with the FCC by the LECs
15 according to established reporting requirements.

16

17 In the model, both direct and indirect expense allocations are
18 performed. Direct expenses are those marketing and customer
19 service expenses reported in accounts 6611, 6612, 6613, 6621,
20 6622 and 6623. In its proposed rules, lacking any specific actual
21 study data the FCC designated that expenses in accounts 6621
22 and 6622 would be presumed 100% avoidable, and expenses in
23 the remaining accounts would be presumed 90% avoidable.
24 These were cast by the FCC as rebuttable assumptions.

25

1 Indirect expenses generally include support and overhead
2 expenses, which the FCC found to be presumptively avoidable in
3 the same proportion as direct expenses to total expenses. The
4 model performs the necessary allocations internally, based on the
5 treatment of direct expenses.

6
7 **Q. PLEASE IDENTIFY GTE'S MODIFICATIONS TO THE ARMIS-**
8 **BASED STUDY MODEL.**

9 A. Three basic modifications were made to data inputs used in GTE's
10 Modified Avoided Cost Study; the model itself was not altered,
11 and GTE believes it conforms, as presented, with the FCC's
12 proposed avoided cost criteria.

13 The three principal modifications are as follows:

14
15 1) GTE developed allocators for direct expenses in the model,
16 based on analysis of actual costs. These allocators are
17 used in place of the FCC's presumptions of either 90% or
18 100% avoidable for each of the six direct expense
19 accounts. A detailed study proves the validity of GTE's
20 replacement allocators;

21 ;
22 2) Revenues for services to which the avoided cost discount
23 rate is not to be applied were identified and subtracted from
24 operating revenues to determine the appropriate revenue
25 base for calculating the resale discount rate; and

1 3) Plant-related expenses, return and taxes were identified as
2 attributable to avoidable land and support assets, and
3 included as avoidable costs. These elements were
4 apparently not included in the FCC's analysis using the MCI
5 model.

6
7 **Q. PLEASE DESCRIBE THE DETAILED STUDY USED BY GTE TO**
8 **DEVELOP THE DIRECT EXPENSE ALLOCATORS INPUT TO THE**
9 **ARMIS-BASED MODEL.**

10 **A. This study was developed for the purpose of determining an**
11 **"avoided retail expense" factor to be applied in the ARMIS model**
12 **to each of the six direct expense accounts. The FCC's**
13 **preliminary analysis established and applied presumptive factors**
14 **for this purpose.**

15
16
17 **The study was based on the same workcenter cost detail used in**
18 **GTE's Avoided Cost Study. Workcenters were grouped by**
19 **function to facilitate a determination of activities that could**
20 **reasonably be expected to be avoided in a resale environment.**
21 **Generally, the costs for each workcenter were either classified as**
22 **"all avoided" or "none avoided"; the allocation of "sales"**
23 **workcenter expenses is the only exception to this general**
24 **approach. Avoided expenses identified in this way were then**
25 **summarized by account, and divided by total expenses excluding**

1 "General and Administrative" and "Support" workcenter costs to
2 determine the avoided retail percent by account.

3

4 **Q. PLEASE IDENTIFY THE KEY AVOIDED COST ASSUMPTIONS**
5 **UNDERLYING THIS STUDY, AND GIVE THE RATIONALE FOR**
6 **EACH.**

7 **A.** The key assumptions and rationale inherent in the study are as
8 follows:

9

10 1) Carrier Access expenses recorded in account 6623 are not
11 avoided costs, since access services are not offered for
12 resale, and the associated expenses are not included in the
13 retail rates for services that are offered for resale.

14

15 2) Public Telephone expenses recorded in account 6623 are
16 not avoided costs because they are similar in nature to
17 expenses in Account 6351 discussed in Paragraph 927 of
18 the FCC's First Order and Report. The FCC states that
19 these expenses are not avoided because "they are unrelated
20 to the retail services being discounted". The FCC further
21 explains that it "would not expect these expenses to be
22 included in retail service rates for resold services; but if
23 these expenses were included in retail rates, they would not
24 be avoided when the services are purchased by resellers."

25

- 1 3) Service ordering costs recorded in account 6623 are not
2 avoided costs, because ordering activities will still be
3 required to provide retail services to ALECs for resale.
4 Services will be ordered by ALECs in virtually the same
5 manner as retail services are presently ordered by end user
6 customers. Any efficiencies attributable to the wholesale
7 nature of the ordering process will be nominal, and are
8 offset at least in part by additional ordering activities
9 required as part of the wholesale ordering process.
- 10
- 11 4) Operator services expenses are not avoided, since there are
12 separate tariff rates for operator services (i.e., the services
13 are offered on an unbundled basis today), and the
14 associated expenses are not included in the rates for other
15 retail services offered for resale. The FCC erred when they
16 allowed that operator services expense avoidance was
17 somehow dependent upon whether an ALEC uses their own
18 operators; in fact, this option has nothing to do with
19 avoided costs. The only relevant issue with respect to
20 avoided costs is the difference in cost between retail and
21 wholesale offerings; in the case of operator services, there
22 is none; the offerings are provisioned, recorded and billed
23 in the same way.
- 24
- 25

1 5) Product Management expenses are not avoided, since
2 product planning, product development and product rollout
3 activities, which account for the preponderance of
4 expenses recorded in this account, are required regardless
5 of whether the products are offered at retail or wholesale.
6 This assertion is further proven simply by observing that the
7 reseller incurs none of these types of expenses, and so to
8 the extent that product planning, development and
9 introduction occurs, the associated costs will continue to be
10 borne by GTE and will not be avoided.

11

12 **Q. WHAT IS THE AVOIDED COST DISCOUNT RATE INDICATED BY**
13 **GTE'S MODIFIED AVOIDED COST STUDY?**

14 **A. The avoided cost discount rates calculated using the ARMIS-**
15 **based model is as follows:**

16 GTE Florida 11.25%

17

18 **IV. Comparison of Results**

19

20 **Q. HAVE YOU PREPARED A COMPARISON OF THE RESULTS OF**
21 **GTE'S STUDIES WITH AT&T'S PROPOSAL AND THE FCC'S**
22 **AVOIDED DISCOUNT RATE FOR GTE OVERALL?**

23 **A. Yes. For the purposes of this comparison, GTE's Avoided Cost**
24 **Study results by service category are composited together into**
25 **one discount factor (GTE's study results are not to be applied in**

1 this manner; this is done simply to facilitate a comparison of the
 2 various avoided cost proposals).

3 The results are tabulated as follows:

4	GTE's Avoided Cost Study	7.00%
5	Modified Avoided Cost Study:	
6	GTE Florida	11.25%
7	AT&T's Proposed Avoided Cost	
8	Discount Rate	30.9%
9	FCC's Estimated Avoided Costs	
10	for GTE	18.81%

11

12

V. Resale

13

14 Q. WHAT SERVICES WILL GTE OFFER AT WHOLESALE RATES FOR
 15 *Resale*
RETAIL?

16 A. GTE will offer all the services it currently offers on a retail basis
 17 except for: below-cost services, promotional services, services
 18 that are already provided on a wholesale basis (e.g., special
 19 access sold to carriers and private line services offered
 20 predominately to carriers), ~~grandfathered services, discounted~~
 21 ~~calling plans~~, AIN services, non-recurring charge services, pay
 22 phone lines, semi-public pay phone lines, and COCOT coin and
 23 coinless lines.

24

25 Q. WHY DOES GTE EXCLUDE THESE SERVICES?

1 A. Let me first address GTE's position with respect to below-cost
2 services. Under GTE's current rates, certain services are priced
3 below cost. These services receive contributions from other
4 services, such as intraLATA toll, access, and vertical and
5 discretionary services, all of which are priced above incremental
6 cost. If GTE were required to offer its below-cost services on a
7 wholesale basis, then other carriers would (1) obtain avoided-cost
8 discounts for both below-cost and above-cost services, and (2) be
9 able to pocket the contributions from the above-cost services that
10 had been used to price the other services below-cost.
11 Accordingly, GTE could not cover its total costs unless these
12 services are excluded from GTE's wholesale offerings or are
13 repriced to cover their costs.

14
15 Second, GTE should not be required to offer services such as
16 promotions on a wholesale basis, otherwise GTE would not be
17 able to differentiate its retail services from those of competing
18 carriers. Put another way, a competitor will be able to offer any
19 service it wants on any terms and conditions it desires to attract
20 new customers, and GTE needs this same flexibility to respond to
21 competition on a retail basis and give its customers more choices.

22
23 For example, if GTE offers a special promotion to its customers
24 but is required to provide that same promotion to AT&T on an
25 avoided cost basis, then GTE could never differentiate its

1 offerings from those of AT&T. Importantly, GTE would have
2 absolutely no incentive to develop additional promotions and other
3 new services that would benefit customers because AT&T could
4 take and use them for its own marketing and economic
5 advantage. In fact, GTE could never differentiate its offerings
6 from AT&T's. This result is contrary to the purpose of the Act by
7 limiting choices to customers. The Act should be implemented in
8 a manner that allows all carriers to respond to competition,
9 including GTE.

10
11 Finally, GTE should not be required to offer at wholesale rates
12 those services that have no avoided retail costs

13
14 **Q. HOW DOES GTE PROPOSE TO OFFER OPERATOR SERVICES
15 AND DIRECTORY ASSISTANCE IN A RESALE ENVIRONMENT?**

16 **A.** GTE proposes to offer tariffed operator services and directory
17 assistance services for resale on the same terms and at the same
18 rates as the corresponding retail offerings. As discussed
19 previously, there are no avoided costs associated with the
20 wholesale provision of operator services or directory assistance;
21 the services are offered and provided in the same manner and
22 require the same activities, whether on a wholesale or retail basis.
23 Except for any DA call allowance bundled with basic exchange
24 service, there are separate tariff rates for these services, and the
25 associated expenses are not included in the rates for other retail

1 services offered for resale. The services will be made available for
2 resale, but there is no basis for wholesale rate that differs from
3 the resale rate, as there are no avoided costs.

4

5 **Q. WHAT IS GTE'S POSITION WITH RESPECT TO SUBSCRIBER LINE**
6 **CHARGES ASSOCIATED WITH RESELLER SERVICES?**

7 A. GTE intends to bill all associated subscriber line charges to the
8 ALEC reseller. GTE assumes the ALEC will, in turn, bill its end
9 user customer a like amount.

10

11 **VI. Summary**

12

13 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

14 A. Yes. Both of the avoided cost studies prepared by GTE produce
15 results that are lower than the FCC's default avoided cost
16 discount range of 17% to 25%, and significantly below AT&T's
17 proposal of 30.9%.

18

19 Wholesale prices for resale services should be determined based
20 on retail rates less avoided costs, as calculated using GTE's
21 Avoided Cost Studies. The AT&T proposal and the FCC's
22 avoided cost discounts both are artificially high and economically
23 burdensome.

24

25

1 Also considered in developing the resale rates for basic exchange
2 services is the fact that resellers do not generally endeavor to sell
3 only the basic local service, but rather the entire bundle of
4 services currently offered by GTE. GTE loses considerable
5 contribution associated with any complimentary services, notably
6 intraLATA toll, and this lost contribution is properly included as an
7 opportunity cost in developing the proposed resale rates.

8

9 Finally, I have reviewed GTE's position with respect to various
10 resale issues.

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

13 **A. Yes.**

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GTE FLORIDA INCORPORATED
TESTIMONY OF DOUGLAS E. WELLEMAYER
DOCKET NO. 960980-TP

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Douglas E. Wellemeyer. My business address is 4100 North Roxboro Road, Durham, North Carolina.

Q. ARE YOU THE SAME DOUGLAS E. WELLEMAYER WHO FILED DIRECT TESTIMONY IN DOCKET 960847-TP, THE ARBITRATION BETWEEN AT&T AND GTE?

A. Yes. That Testimony was filed on September 10, 1996.

Q. WHAT WAS THE PURPOSE OF THAT EARLIER-FILED TESTIMONY?

A. That Testimony addresses the development of GTE's proposed wholesale prices for all services offered for resale. I offer and explain two avoided cost studies prepared by GTE in support of its proposed prices.

Q. DO THE CONCEPTS YOU ADVOCATED IN YOUR TESTIMONY IN THE AT&T CASE APPLY EQUALLY TO MCI?

A. Yes. The proper determination of wholesale prices under the methodologies I present will not change regardless of the identity of the entity to which GTE sells its wholesale services. As such, it would

1 be unduly repetitive to offer wholly new testimony with regard to MCI,
2 particularly because the AT&T and MCI arbitrations have now been
3 consolidated. For this reason, I am adopting my Direct Testimony in
4 the AT&T arbitration as my Direct Testimony in the MCI arbitration.
5 I will address any MCI-specific issues and positions in my Rebuttal
6 Testimony.

7

8 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A. Yes, it does.**

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GTE FLORIDA INCORPORATED
REBUTTAL TESTIMONY OF DOUGLAS E. WELLEMAYER
DOCKET NO. 960980-TP

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Douglas E. Wellemeyer. My business address is 4100 North Roxboro Road, Durham, North Carolina.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. The purpose of this testimony is to clarify GTE's position on, and to offer GTE's response to, certain issues discussed in the testimony of MCI witness Mr. Price regarding (1) resale restrictions, and (2) the setting of wholesale rates based on avoided cost studies.

Q. WHAT IS MCI'S POSITION REGARDING RESALE RESTRICTIONS AS DESCRIBED IN THE TESTIMONY OF MR. PRICE?

A. Mr. Price states at page 10 of his testimony that "all of the telecommunications services offered to end-users must be made available to resellers at a wholesale discount" and that "absent this requirement, ILECs will be able to discriminate against resellers by making offers to customers that their retail competitors are unable to match."

1 Mr. Price also states at page 11 and 12 of his testimony that, with
2 only extremely limited exceptions, GTEFL should not be permitted to
3 impose any restrictions on the resale of services.
4

5 **Q. WHAT IS GTE'S POSITION REGARDING RESALE**
6 **RESTRICTIONS?**

7 A. GTE seeks to have several resale restrictions and conditions
8 established in the course of this proceeding in accordance with
9 guidelines and procedures established by the FCC. It is GTE's
10 position that the need for certain resale restrictions is contemplated
11 by the FCC's Part 51 Rules, and authority is reserved to the state
12 commission to permit specific resale restrictions that are reasonable
13 and non-discriminatory. GTE's specific proposals for resale
14 restrictions should, therefore, not be dismissed out of hand based on
15 representations that resale restrictions are prohibited by the FCC's
16 Rules.
17

18 In my earlier testimony, I stated that GTE will offer for resale at
19 wholesale rates all of the services it currently offers on a retail basis
20 except for: below-cost services, promotional services, services that
21 are already provided on a wholesale basis, grandfathered services,
22 discounted calling plans, AIN services, non-recurring charge services,
23 pay phone lines, semi-public pay phone lines, and COCOT coin and
24 coinless lines.
25

1 The specific resale restrictions proposed by GTE can be classified
2 into two groups: (1) services that GTE will not agree to offer for
3 resale; and (2) services that GTE will not agree to offer for resale at
4 wholesale rates.

5

6 **Q. CAN YOU OFFER A COMPREHENSIVE SUMMARY OF THE**
7 **PROVISIONS FOR RESALE RESTRICTIONS THAT ARE**
8 **INCLUDED IN THE FCC'S PART 51 RULES?**

9 **A. Yes. The FCC's Part 51 Rules state that an incumbent local**
10 **exchange carrier (ILEC) shall not impose restrictions on resale except**
11 **as explicitly allowed. The following types of resale restrictions are**
12 **expressly provided for by the Rules:**

13

14 (1) Cross-class selling. When purchasing for resale services the
15 ILEC offers only to residential customers (or to a limited class
16 of residential customers) a requesting carrier may be
17 prohibited from offering service to customers not eligible to
18 subscribe to the service from the ILEC;

19

20 (2) Withdrawn (grandfathered) services. ILEC services offered
21 only to a limited group of customers who subscribed to such a
22 service in the past must also be offered at wholesale rates to
23 requesting carriers for resale to the same limited group of
24 customers;

25

1 (3) Promotions. An ILEC is not required to discount special
2 promotional rates, provided such rates will not be in effect for
3 more than 90 days; and

4

5 (4) Otherwise, an ILEC may impose such a restriction by proving
6 to the state commission that the restriction is reasonable and
7 nondiscriminatory.

8

9 It is important to acknowledge that this fourth provision of the FCC's
10 Part 51 Rules contemplates that further resale restrictions may be
11 required and reserves to the state commission the authority to permit
12 further restrictions that are reasonable and nondiscriminatory.

13

14 **Q. ARE THERE ANY CHANGES TO THE LIST OF SERVICES**
15 **IDENTIFIED IN YOU EARLIER TESTIMONY?**

16 **A. Yes. GTE will now agree to offer for resale at wholesale rates:**

17

18 (1) Grandfathered services, subject to the condition prescribed in
19 the FCC's Rules that resale is to be limited to those customers
20 who are eligible to subscribe to the service from GTE;

21

22 (2) Discounted calling plans offered in GTE's retail tariffs; and

23

24 (3) AIN services that are currently offered in GTE's retail tariffs.
25 However, GTE will not agree at this time to offer all future AIN-

1 based services for resale. It is my understanding that issues
2 requiring further discussion involve trigger access to a
3 competing carrier's network platform and services.

4

5 **Q. WHAT SERVICES WILL GTE NOT AGREE TO OFFER FOR**
6 **RESALE?**

7 **A. GTE will not offer for resale the following services:**

8

9 (1) Any services priced below cost. GTE would be prevented from
10 covering its total costs unless these services are excluded
11 from GTE's services offered for resale, or unless the services
12 are first repriced to cover costs. It is noteworthy that the FCC
13 "declined to limit" resale offerings to exclude below-cost
14 services, but did not prohibit a resale restriction.

15

16 (2) Any promotional offerings. GTE would be denied the
17 opportunity to respond to competition unless all such offerings
18 are excluded from GTE's services offered for resale. It is
19 noteworthy that if all avoided costs are properly reflected in the
20 wholesale price for the underlying service, then promotional
21 offerings have no anti-competitive implications, regardless of
22 the duration of the offering.

23

24 (3) Public pay telephone lines. These are not retail service
25 offerings.

1 (4) Semi-public pay telephone lines. There are a number of
2 reasons why GTE will not agree to offer these services for
3 resale. The most prominent reason is that GTE will not agree
4 to offer for resale the coin station apparatus essential to the
5 service offering as it is currently defined. In addition, the
6 service is not currently priced to support maintenance and
7 collection activities desired without substantial support from
8 toll collections.

9

10 **Q. WHAT SERVICES WILL GTE NOT AGREE TO OFFER FOR**
11 **RESALE AT WHOLESALE RATES?**

12 A. GTE will offer for resale, but not at wholesale rates, the following
13 services:

14 (1) Any services already priced at wholesale rates. Such services
15 include special access and private line services tariffed under
16 the special access tariff, and COCOT coin and coinless lines.

17

18 (2) Operator services and directory assistance services. Because
19 the provision of these services requires the same activities to
20 be performed whether offered on a retail or a resale basis,
21 there are no avoided costs for these services. Except for the
22 DA call allowance bundled with the basic local service offering,
23 the costs for these services are recovered through separate
24 rates, and are not included in the rates for other services
25 offered for resale.

1 (3) Non-recurring charge services. There are no associated costs
2 that can reasonably be expected to be avoided for these
3 offerings. Therefore, the rates for primary service ordering
4 and installation should not be based on the application of an
5 avoided cost discount to the associated retail rate, but rather
6 on an appropriate study reflecting the costs of the wholesale
7 provisioning process.

8

9

10 **Q. ARE THERE ANY OTHER RESALE RESTRICTIONS OR**
11 **CONDITIONS THAT GTE IS PROPOSING AT THIS TIME?**

12 A. Yes, there is one final restriction. A requesting carrier should not be
13 permitted to purchase unbundled loop and unbundled port services
14 in combination at unbundled service rates for the purpose of avoiding
15 a higher resale rate. The FCC certainly did not intend to enable this
16 sort of tariff arbitrage when they stated that the requesting carrier
17 should be able to combine unbundled elements in any way they wish.
18 It is GTE's position that unbundled loop and port services purchased
19 in combination constitutes the purchase of basic local service for
20 resale, and should be priced accordingly.

21

22

23 **Q. WHAT IS GTE'S POSITION WITH RESPECT TO THE OFFERING**
24 **OF VOICE MAIL AND INSIDE WIRE SERVICES FOR RESALE AS**
25 **SUGGESTED BY MR. PRICE?**

1 A. These services are not "telecommunications services" as defined in
2 the Telecommunications Act of 1996 (the Act), and GTE is therefore
3 not required to offer them for resale.

4

5 **Q. WHAT IS GTE'S POSITION WITH RESPECT TO THE OFFERING**
6 **OF CONTRACT SERVICES FOR RESALE AS SUGGESTED BY**
7 **MR. PRICE?**

8 A. Contract services are offerings that are made, by definition, on an
9 individual case basis. A rational consideration of this issue requires
10 that a distinction be drawn between existing contract services and
11 new contract offers.

12

13 Existing contract services are offered under terms and conditions of
14 a standing contract between a retail customer and GTE. Termination
15 liabilities would be defined in the contract as necessary to protect
16 GTE's investment to provide the service, and would apply if GTE's
17 customer should choose to change to a different service provider
18 during the term of the contract. GTE will not agree to offer existing
19 contract services for resale at wholesale rates.

20

21 GTE will agree to offer new contract services for resale. Pricing for
22 these services will be established on a nondiscriminatory individual
23 case basis, and will reflect the avoidance of any costs that would only
24 be associated with the retail provision of the same service.

25

1 Q. WOULD YOU NOW PLEASE SUMMARIZE MCI'S POSITION
2 REGARDING THE SETTING OF WHOLESALE RATES AS
3 DISCUSSED IN THE TESTIMONY OF MCI'S WITNESS MR. PRICE?

4 A. Yes. Mr. Price describes MCI's position in terms that are generally
5 consistent with the requirements stated in the FCC's Part 51 Rules,
6 including the definition of direct and indirect costs that are to be
7 included in determining avoided costs through study. Mr. Price also
8 advocates for the application of the results of the avoided cost study
9 on a "rate-element-by-rate-element" basis.

10

11 However, Mr. Price claims at page 17 of his testimony that GTE's
12 substitute wholesale costs of offering service for resale, rather than
13 on a retail basis "will be quite small" and "should be minimal". In
14 support of this claim, Mr. Price notes that "(t)he FCC addresses this
15 issue by treating only 90 percent of the costs in certain of the directly
16 avoided categories as avoided . . .". MCI's avoided cost study is
17 based on the FCC's presumptive avoided cost factors for each of the
18 six direct expense accounts.

19

20 In addition, Mr. Price claims at page 18 of his testimony that it is
21 necessary to use separated ARMIS data in the analysis of avoided
22 costs since interstate access services will not be subject to the
23 wholesale discount.

24

25

1 Based on these claims and on MCI's analysis, Mr. Price suggests the
2 use of an avoided cost discount of 17.26% to set GTEFL's resale
3 rates. I believe, based on my previous work with MCI's models, that
4 this discount is calculated based on the ratio of avoided costs to total
5 operating expenses, although this calculation is not presented in Mr.
6 Price's testimony.

7

8 **Q. HOW DOES GTE'S POSITION DIFFER FROM THAT OF MCI?**

9 A. GTE's position differs from that of MCI in two significant respects.
10 First, and most importantly, the continued use of the FCC's
11 presumptive factors is inappropriate given that analysis of GTE's
12 avoided costs is available. In fact, GTE has filed two avoided cost
13 studies, both of which are based on actual costs and an appropriate
14 analysis of the work functions that can reasonably be expected to be
15 avoided when services are offered for resale. Second, MCI's analysis
16 improperly calculates the avoided cost discount rate based on total
17 expenses rather than on revenues for retail services that are to be
18 offered on a wholesale basis for resale. This approach is in conflict
19 with the Act.

20

21 **Q. CAN YOU BRIEFLY DESCRIBE THE TWO STUDIES GTE HAS**
22 **CONDUCTED?**

23 A. Yes. Both of these studies are discussed in my earlier testimony.
24 The first of these studies, which is referred to as "GTE's Avoided Cost
25 Study" was prepared in response to the Act. The study determines

1 avoided costs for each of five service groups. Avoided cost discounts
2 range from about 5% for the residence category to about 15% for
3 advanced services. GTE believes this study best represents the
4 intent of the Act, and continues to recommend that this study be used
5 to set resale rates for GTEFL in this proceeding.

6
7 The second of these studies, which is referred to as "GTE's Modified
8 Avoided Cost Study", was prepared in response to the FCC's First
9 Report and Order and conforms precisely with the FCC's avoided
10 cost rules. This study includes an analysis to determine avoided cost
11 factors for the six direct expense accounts that are appropriate for
12 use in place of the FCC's presumptive factors. The study uses state-
13 specific ARMIS data to calculate a recommended avoided cost
14 discount rate of 11.25% for GTEFL, which should be used to set
15 resale rates if the Commission chooses to follow the FCC's
16 methodology.

17

18 **Q. WOULD YOU PLEASE DESCRIBE YOUR PREVIOUS WORK WITH**
19 **MCI'S AVOIDED COST STUDY MODELS?**

20 A. Yes. I first worked with MCI's models in June, 1996. MCI filed
21 testimony, which was later withdrawn, in California (*Rulemaking on*
22 *the Commission's Own Motion to Govern Open Access to Bottleneck*
23 *Services and Establish a Framework for Network Architecture*
24 *Development of Dominant Carrier Networks, R. 93-04-003 and I. 93-*
25 *04-002*). The model filed in California was the same model filed by

1 MCI with the FCC in response to the NPRM, which the FCC relied
2 upon for its analysis which is discussed in the First Report and Order.
3 GTE's Modified Avoided Cost Study was designed based in part on
4 this analysis. A comparative analysis between MCI's model and
5 GTE's Modified Avoided Cost Study is included as Exhibit No. DEW-1
6 with this testimony. This analysis is based on MCI's previous use of
7 unseparated ARMIS data, as opposed to the separated data referred
8 to in Mr. Price's testimony in this proceeding.

9
10 Based on my previous work with MCI's model, I believe the analysis
11 offered by Mr. Price is not suitable for use in setting resale rates for
12 GTEFL.

13
14 **Q. WHY DO YOU BELIEVE MCI'S ANALYSIS CANNOT BE USED?**

15 **A.** There are three reasons for this opinion:

16
17 (1) MCI does not have sufficient data available to it to conduct a
18 reliable analysis of costs that can reasonably be avoided.
19 Analysis of data more detailed than that available from the
20 ARMIS reporting system is needed to make reliable judgments
21 about specific work functions that will or will not be avoided.
22 For example, Account 6623, Customer Service Expenses,
23 includes substantial expenses incurred for account
24 maintenance for carrier access; none of the expenses
25 associated with carrier access work functions can be avoided.

1 Yet, Mr. Price's analysis, as well as that of the FCC, makes no
2 allowance for this reality, because their analyses use data that
3 lacks the necessary detail to support judgments about what
4 costs can reasonably be avoided.

5

6 (2) In the absence of the necessary data, MCI has relied on the
7 FCC's presumptions of avoided costs for the direct expense
8 accounts, which in turn determine the amount of avoided
9 indirect expenses. It is noteworthy that the FCC did not
10 support their presumptions that direct expenses would be
11 avoided, nor their assumptions that the substitute costs for
12 these functions performed on a wholesale basis would amount
13 to ten percent of retail costs. With respect to the latter, the
14 FCC stated at paragraph 928 of the First Report and Order:
15 "Given the lack of evidence, and the wide range of estimates
16 that have been made by these states, we find it reasonable to
17 assume, for purposes of determining a default range of
18 wholesale discount rates, that ten percent of the costs in
19 accounts 6611, 6612, 6613, and 6623 are not avoided by
20 selling services at wholesale."

21

22 (3) In failing to attempt the necessary analysis, MCI has failed to
23 identify significant expenses that I believe even MCI would
24 agree cannot reasonably be avoided, many of which are
25 recorded to Account 6623 (Customer Services) to which Mr.

1 Price refers at page 17 of his testimony. More detailed
2 information than that available in the ARMIS reports, such as
3 the workcenter data of the type used in both of GTE's studies,
4 is necessary to enable identification of these expenses.

5

6 **Q. WHY IS IT INAPPROPRIATE TO USE THE FCC'S PRESUMPTIVE**
7 **AVOIDED COST FACTORS?**

8 A. The FCC created their presumptions about avoided direct expenses
9 for the purpose of establishing a default avoided cost discount range,
10 and nothing more. The FCC made their intent clear when they stated
11 at paragraph 909 of the First Report and Order that "our rules for
12 identifying avoided costs are cast as rebuttable presumptions", and
13 further clarified their expectations at paragraph 917, stating that
14 "(t)hese presumptions regarding accounts 6611-6613 and 6621-6623
15 may be rebutted if an incumbent LEC proves to the state commission
16 that specific costs in these accounts will be incurred with respect to
17 services sold at wholesale, or that costs in these accounts are not
18 included in the retail prices of the resold services."

19

20 **Q. WHAT IS YOUR RESPONSE TO MR. PRICE'S SUGGESTION**
21 **REGARDING THE USE OF SEPARATED ARMIS DATA?**

22 A. Mr. Price's suggested use of separated ARMIS data is without merit.
23 The problem Mr. Price seeks to solve with this approach, if there is a
24 problem at all, arises from a deficiency in MCI's methodology for
25 calculating the avoided cost discount rate: MCI's studies compute the

1 discount rate as the ratio of avoided costs to total expenses. This
2 methodology is in conflict with the Act, which requires that resale
3 rates be set based on retail rates, *i.e.*, revenues, minus avoided
4 costs.

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Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17

A. Yes.

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1 Q (By Mr. Gillman) Mr. Wellemeyer, do you have
2 a summary of your testimony?

3 A Yes, I do.

4 Q Could you please provide that now?

5 A Yes. Good afternoon, Commissioners. My
6 testimony addresses two avoided cost studies that have
7 been provided by GTE in its responses to AT&T's and
8 MCI's filings. Both of the studies are referred --
9 well, each of the studies are referred to in my
10 testimony as GTE's avoided cost study and GTE's modified
11 avoided cost study. I'll try to refer to them as the
12 avoided or the modified study to avoid any confusion.

13 The first of those studies, GTE's avoided cost
14 study, was prepared in early 1996 in response to the
15 Telecommunications Act. It's based on an avoided cost
16 standard that's prescribed in the Act that was conducted
17 on a national basis for GTE Telephone Operations. And
18 the study determines avoided costs for each of five
19 service groups with effective discounts that range from
20 about 5 percent up to about 15 percent.

21 GTE believes this is the study that best
22 represents the intent of the Act for determining avoided
23 costs, and GTE recommends this is the appropriate study
24 for the Commission to use in establishing resale rates
25 for GTE Florida.

1 GTE's modified avoided cost study was prepared
2 in August 1996 in response to the order. This study
3 applies the reasonably avoidable cost standard that was
4 substituted by the FCC for the avoided cost standard
5 described in the Act. It was conducted on a
6 state-specific basis, and it conforms precisely with the
7 FCC's avoided cost rules. In particular, this study
8 details GTE's rebuttal of the FCC's presumptions as
9 discussed in the order at paragraphs 909 and 917.

10 The results of this study are an avoided cost
11 discount of 11.25 percent, to be applied uniformly to
12 all GTE Florida services offered for resale at wholesale
13 rates.

14 Due to the nature of a number of concessions
15 that are incorporated in this analysis, this discount
16 should be viewed as an upper bound on the range of costs
17 that GTE Florida can reasonably expect to avoid, and if
18 you decide you are bound in these cases by the FCC's
19 proposed avoided cost rules, this is the study that
20 should be used to set resale rates based on a discount
21 rate of 11.25 percent or less.

22 AT&T and MCI have each offered two studies in
23 these proceedings. I've worked directly with the
24 studies that were first offered by both AT&T and MCI on
25 a continuous basis since June of this year. Both of the

1 studies that are offered here were -- are the same as
2 studies that were filed in California's OANAD
3 proceeding, and MCI's study was also filed with the FCC,
4 or a study based on that same model was the study that
5 was filed with the FCC.

6 I also discussed with the FCC staff their use
7 of the MCI model in calculating estimates of GTE's
8 avoided cost discount rate that were published in the
9 order.

10 The replacement studies that were recently
11 submitted by both AT&T and MCI are not materially
12 different from the initial studies. Based on my work
13 with these models, it is my opinion that none of the
14 studies that have been offered by AT&T and MCI are
15 suitable for this Commission's use in setting rates in
16 these cases for three reasons: First, AT&T and MCI do
17 not have sufficient data, nor have they sought it, to
18 conduct any meaningful analysis of costs that GTE can
19 reasonably avoid. Analysis of data more detailed than
20 that reported in the ARMIS reporting system is necessary
21 to make reasonable judgments about specific work
22 functions that will or will not be avoided in a
23 wholesale environment. GTE's studies are both based on
24 this kind of analysis.

25 Second, in the absence of such data, AT&T and

1 MCI have relied generally on the FCC's presumptions for
2 the treatment of direct expenses. The FCC did not
3 provide support for those presumptions, and neither have
4 AT&T and MCI in these proceedings.

5 And third, in failing to attempt the necessary
6 analysis, AT&T and MCI have failed to identify
7 significant amounts of costs that even they agree are
8 not avoidable.

9 Commissioners, AT&T and MCI are asking you to
10 set rates for wholesale services based on financial
11 detail no more detailed than ARMIS, as reported at a
12 major account level, and avoided cost factors that have
13 not be supported by the FCC, nor by AT&T and MCI
14 themselves. I believe if GTE presented a general rate
15 case filing based on nothing more than high level
16 financial data and unsupported allocation factors, it
17 would be quickly dismissed as unsatisfactory and
18 substandard, and rightly so.

19 GTE believes that its avoided cost study best
20 reflects the intent of the Act and should be used to set
21 resale rates. It's GTE's position that the FCC's
22 methodology is incorrect in its substitution of an
23 avoidable cost standard for the avoided cost standard
24 plainly stated in the Act. However, if the FCC's rules
25 are upheld, GTE's modified avoided cost study conforms

1 precisely with those rules and should be used to
2 determine GTE Florida's avoided cost discount.

3 Briefly, let me summarize my resale discussion
4 from my testimonies. In its First Report and Order, the
5 FCC established guidelines and procedures for resale
6 restrictions. And GTE seeks to have several resale
7 restrictions established in the course of this
8 proceeding in accordance with these guidelines.

9 The Part 51 rules state that an ILEC shall not
10 impose restrictions on resale except as explicitly
11 allowed. And the following types of resale restrictions
12 are expressly provided for in the rules. Three of these
13 you've heard from other witnesses. They're referred to
14 as cross-class selling, withdrawn or grandfathered
15 services, and promotions. But there's a fourth
16 provision which states, basically, that otherwise, other
17 than those three specific provisions, an ILEC may impose
18 such a restriction by proving to the state commission
19 that the restriction is reasonable and
20 nondiscriminatory.

21 This is from the rules in Paragraph
22 51.613(b). I think it's important to acknowledge that
23 this provision of the rules contemplates that further
24 resale restrictions may be required and reserves to the
25 state commission the authority to permit further

1 restrictions that are reasonable and nondiscriminatory.
2 Therefore GTE's specific proposals should not be
3 dismissed out of hand based on any representations that
4 all such restrictions are prohibited under the rules.
5 This concludes my summary.

6 MR. GILLMAN: Tender the witness for cross.

7 CHAIRMAN CLARK: Mr. Melson?

8 MR. MELSON: Commissioner Clark, I would like
9 to defer to AT&T. I think that will make those go
10 quicker.

11 Before I do, a procedural issue. I believe
12 Mr. Wellemeyer is sponsoring two confidential cost
13 studies that are in a later exhibit of Mr. Trimble and
14 Mr. Steele. I will have a little bit of cross about one
15 of them. And to the extent those could get distributed
16 and marked -- I don't know if AT&T intends to use them
17 or not, but certainly before my cross-examination, that
18 would make things run much smoother.

19 MR. LEMMER: Madam Chairman, AT&T will use
20 both of those in its cross-examination.

21 CHAIRMAN CLARK: All right, let's see if we
22 can get those exhibits. Do we have them, Donna?

23 MS. CANZANO: I believe they're GTE's exhibits
24 to put in. Are those the ones you're referring to?

25 MR. GILLMAN: Yes, it's the study binder, all

1 of which is confidential. And it would be two tabs
2 within that binder. What I would propose to do is hand
3 out all of the binders at this time.

4 CHAIRMAN CLARK: How do we know they're
5 confidential? They're not in red binders.

6 MR. HATCH: Move to strike, they're not in red
7 binders. Just kidding.

8 CHAIRMAN CLARK: Thank you. Huge manila
9 envelopes?

10 MS. CASWELL: This is our replacement for red
11 envelopes.

12 CHAIRMAN CLARK: Mr. Gillman, if you would
13 take them home tonight and color them red, I'd
14 appreciate it.

15 COMMISSIONER DEASON: I'm curious as to how
16 much stock in binder companies has gone up since
17 arbitration has started.

18 CHAIRMAN CLARK: Mr. Gillman, this is the
19 whole exhibit that we should be identifying; is that
20 correct?

21 MR. GILLMAN: At this time I would identify
22 the exhibit, yes, as one exhibit. The portion that
23 Mr. Wellemeyer is sponsoring are just two tabs of that
24 particular exhibit.

25 CHAIRMAN CLARK: So we would wait to move it

1 into the record until appropriate witnesses?

2 MR. GILLMAN: That would be fine.

3 CHAIRMAN CLARK: We're going to identify as
4 Exhibit 36 the GTE Florida TSLRIC Work Papers, Book 1,
5 and it is a confidential exhibit.

6 (Exhibit No. 36 marked for identification.)

7 CHAIRMAN CLARK: Mr. Melson, is this what you
8 need?

9 MR. MELSON: Yes, ma'am. Thank you.

10 MR. HATCH: Madam Chairman, what was that
11 number again? I'm sorry.

12 CHAIRMAN CLARK: I have Exhibit 36.

13 Mr. Lemmer.

14 MR. LEMMER: Yes. Thank you, Madam Chairman.

15 CROSS EXAMINATION

16 BY MR. LEMMER:

17 Q Good afternoon, Mr. Wellemeyer. Tom Lemmer
18 for AT&T.

19 A Good afternoon.

20 Q Would you turn to Page 39 of your direct
21 testimony in the AT&T docket, please. And just to see
22 if we can clarify what is and what is not subject to
23 resale, would you please go through the list that is in
24 your answer beginning on Lines 17, and tell me
25 specifically whether each one of those -- I will call

1 types of services, are or are not subject to resale,
2 based on your current position?

3 A Sure. Starting with below cost services?

4 Q Yes, please.

5 A Not available for resale. Promotional
6 services, not available for resale. Services already
7 provided on a wholesale basis, not available for
8 resale. Grandfathered services, available for resale at
9 wholesale rates. Discounted calling plans, also
10 available for resale at wholesale rates. AIN services,
11 our position is yes and no. Those that are currently
12 offered in a retail tariff we will agree to offer for
13 resale at wholesale rates. GTE can't agree at this time
14 to offer all future AIN-based services, based on the
15 ongoing discussions over trigger access which some of
16 the other witnesses have already referred to. However,
17 I think our agreement to offer those that are currently
18 offered in the retail tariff for resale at wholesale
19 rates satisfies the requirements of the Act.

20 Nonrecurring charges are not available for
21 resale at wholesale rates, but they are available for
22 resale. Pay phone lines are not available for resale.
23 Semi-public pay phone lines are not available for
24 resale, and COCOT coin and coinless lines are not
25 available for resale at wholesale rates.

1 Q Thank you. Let's talk about these for a few
2 minutes. What is the reason or the basis for GTE's
3 position that the low cost services are not subject to
4 resale?

5 A For below cost services?

6 Q That is correct.

7 A I believe Mr. McLeod clarified that at this
8 time below cost services would include only residential
9 service, R-1. These services receive contribution from
10 other services, as he indicated, notably intraLATA
11 toll. And if GTE were required to offer these services,
12 which are priced below cost on a wholesale basis, and if
13 we do not retain the opportunity to resell the
14 complementary services, then we lose the opportunity to
15 provide contribution for the below cost service, which
16 was originally priced in combination with the
17 complementary service.

18 Q So then GTE's position is is that it's the
19 risk of losing the interLATA toll revenue?

20 A No, it's not the risk. It's the reality.
21 When a requesting carrier wins a customer's account for
22 basic local service, it's fully expected that they will
23 also become the toll provider for that account. They
24 will self-provide toll for that customer.

25 Q It is true -- it's true, is it not, that below

1 cost services are offered to a consumer; is that
2 correct?

3 A Yes.

4 Q And they are offered at what are represented
5 to be retail prices; is that correct?

6 A Yes, that's right.

7 Q Promotional services, why will GTE not sell
8 promotional services for resale?

9 A The reasoning on promotional services is that,
10 for any promotion, GTE needs the opportunity to use that
11 offering to differentiate itself from its competitors.
12 And regardless of the term of the offer, that
13 opportunity doesn't exist if we are required to discount
14 a promotional offering for resale because competing
15 carriers could then offer their own promotions to match
16 or beat any promotional offering by GTE. We would be
17 incented to not offer any more promotions under those
18 conditions. I don't think that's what's best for the
19 consumer in Florida.

20 Q So then under GTE's position, if a promotion
21 was put into place that had an indeterminate life, that
22 promotion would never be subject to resale; is that
23 correct?

24 A That's correct. That would be our position.
25 I think it's also noteworthy that if the avoided costs

1 are identified correctly for the underlying service,
2 then there probably are no other avoided costs to be
3 recognized in a further discount of a promotional offer.

4 Q That, of course, assumes that the promotional
5 discount relates solely to retail costs; isn't that
6 correct?

7 A No, it would be just the opposite, that the
8 promotional discount is offered out of contribution that
9 would otherwise be received from the service.

10 Q Now, I believe you said nonrecurring charge
11 services are available for resale, but the discount
12 would not be applicable to those services; is that
13 correct?

14 A Yes, that's right.

15 Q What is your rationale for that?

16 A The rationale for that is that there's no
17 reason that we can expect to realize any cost avoidance
18 in a wholesale environment for the ordering activities
19 whose costs are recovered through those charges.

20 Q So then it's your opinion that there are no
21 retail costs that are -- that relate to a nonrecurring
22 type effort?

23 A There are no avoided costs is what my position
24 is, or essentially, that those retailing costs that are
25 incurred now for end user ordering, would not be

1 different from the ordering costs that we will incur to
2 process the requesting carrier's order when the same
3 service is offered on a wholesale basis.

4 Q I believe you testified that pay phone lines
5 and semi-public pay phone lines are not available for
6 resale; is that correct?

7 A Yes, that's right.

8 Q And the rationale for that, please?

9 A On public pay phone lines, the rationale is
10 that the line itself is not a retail service offering
11 today. On public pay phones, the offering is the
12 capability to make a phone call. And there isn't any
13 way to offer the call at resale. The line itself, I
14 think is what would be of interest, and that's not
15 what's offered as public phone service today. That
16 service is not a retail service offering.

17 On semi-public, there's quite a number of
18 reasons why we won't agree to offer that for resale.
19 The one I cited in the testimony was that we won't agree
20 at this time to offer for resale the coin telephone
21 equipment that is an essential component of the way the
22 service is defined right now. The way the service is
23 defined, it requires a coin access line and a coin
24 station.

25 Q Were you present for the previous testimony of

1 Mr. McLeod?

2 A Yes, I was.

3 Q And did you hear the discussions regarding
4 whether obsolete and grandfathered services were the
5 same or different?

6 A Yes, I did.

7 Q And what is your position on that issue?

8 A They are essentially the same with respect to
9 their availability for resale.

10 Q Now I assume that all of these services that
11 we've talked about, the below cost promotional services,
12 et cetera, all generate revenues for GTE; is that
13 correct?

14 A Which services did you refer to?

15 Q The various services we just talked about that
16 are not available for resale or not available for resale
17 at a discount. Each one of those generate revenues for
18 GTE; doesn't it?

19 A Yes, they do.

20 Q Now, referring to your cost studies that you
21 are sponsoring, and for a moment we don't need to look
22 at them specifically. It is my understanding that the
23 basis for the cost study that GTE has offered and that
24 you're sponsoring is what I will call an actually
25 avoided standard; is that correct?

1 A Yes, that's correct.

2 Q And can you tell me how you determine what are
3 actually avoided costs?

4 A Well, I suppose there's a short answer and a
5 long answer to that.

6 I can describe the process that we undertook
7 to perform the study very quickly.

8 Q Let me rephrase my question. Maybe we can
9 save some time. Does GTE have any history of selling at
10 wholesale that's meaningful to the establishment of a
11 discount?

12 A Yes. Our experience in providing access
13 services is, I think, meaningful to the establishment of
14 wholesale discounts.

15 Q And was your experience in selling access
16 services the basis for the conclusions reached in the
17 study?

18 A It was one component that was analyzed in the
19 study, yes.

20 Q What were the other components?

21 A Well, we analyzed the retail expenses involved
22 in current end user services, or retail offerings, and
23 identified those that would not be incurred if those
24 same services were provided on a wholesale basis. Those
25 would be the activities that are detailed in the cost

1 study generally identified under the consumer and
2 business lines of business.

3 Q And I believe you just talked about costs that
4 will be incurred or will not be incurred. You're
5 talking about costs in the future, aren't you?

6 A Well, technically I suppose that's true.
7 That's when these rates are going to be applied. But
8 the costs and the activities that were analyzed were
9 1995 actuals.

10 Q But we're talking about applying activities or
11 analyzing activities as they may or may not exist in the
12 future; isn't that correct?

13 A That's correct.

14 Q So then judgments and estimates had to be made
15 regarding what might occur in the future; isn't that
16 correct?

17 A To a greater or lesser degree, yes, that's
18 true. However, generally, in the production of this
19 study, it was presumed that the activities that are
20 undertaken now are the ones that will be avoided in the
21 future, and that the wholesaling activities that are
22 undertaken now are representative of the costs that will
23 be incurred in the future when these services are
24 offered at wholesale.

25 Q Under the standard that you've applied for

1 your study, if AT&T were to purchase a retail service
2 today from GTE at a discount, isn't it fair to say that
3 there would be retail costs included in the wholesale
4 price charged to AT&T?

5 A No, I don't believe that's true.

6 Q Well, in your --

7 A That would be counter to the purpose for the
8 study.

9 Q So it's your testimony then that there are no
10 retail related services that are -- that remain in the
11 wholesale price?

12 A There are no incurred retailing costs that
13 would be included in the wholesale price. Is that your
14 question?

15 Q So is it your testimony that GTE will not
16 incur any retail costs that they will charge to AT&T?

17 A Well, that was the assumption that drove this
18 analysis, that's right. We identified all of the
19 current retailing costs and we also identified the costs
20 for any substitute activities of a similar nature that
21 would still be required to offer those services at
22 wholesale.

23 Q But if in fact there were retail costs that
24 were not removed and just assume that for the moment,
25 assume that there were retail costs not removed, those

1 costs would be charged to AT&T if AT&T were to purchase
2 a service from GTE; isn't that correct?

3 A As I said, that would be counter to the
4 purpose of the study. The study set out to and did
5 accomplish the identification of all of the retailing
6 costs. Your assumption is arithmetically correct. The
7 mathematical result of the rate calculation would be
8 just the way you put it. But the purpose for the study
9 was to identify all retailing costs, and that's what it
10 did.

11 Q Okay, I'm going to be referring now to your
12 study, and the tab I believe the study is behind is Tab
13 20 in the Exhibit 36 to this proceeding.

14 Now directing your attention to Page 1, the
15 very first page of this tab, the last sentence in the
16 first paragraph talks about the -- it says, "The
17 distribution process is a focus on GTE's avoided costs,"
18 and there's a parenthetical that refers to consumer
19 contact. Is it fair to say that consumer contact is the
20 basis of your analysis?

21 A Customer contact, the way it's listed there,
22 as an example --

23 CHAIRMAN CLARK: Mr. Lemmer, we haven't found
24 it. Tab 20?

25 MR. LEMMER: Hopefully behind Tab 20.

1 MR. MELSON: Page B-407.

2 CHAIRMAN CLARK: Okay. I don't have a
3 paragraph on that page.

4 MR. LEMMER: The bates number that I have at
5 the bottom of the page I'm looking -- and actually it's
6 not the first page, that's my error -- is 1036. It's
7 the third page in in my binder.

8 CHAIRMAN CLARK: It's not even close to what I
9 have.

10 MR. GILLMAN: I think you're in the wrong
11 binder.

12 MR. LEMMER: Now I have two large binders.
13 And the page I'm looking at has a number down at the
14 bottom that says A-409. That would be the third page in
15 on this exhibit.

16 CHAIRMAN CLARK: Okay.

17 COMMISSIONER KIESLING: Which paragraph?

18 MR. LEMMER: The bottom of the very first
19 paragraph. The sentence that starts, "Accordingly."

20 Q (By Mr. Lemmer) And my question, and you may
21 have answered it, but if you please, answer it again.
22 Regarding customer contact, my question was, is that the
23 central focus of the study that GTE conducted where
24 there are costs related to customer contact?

25 A Actually, as it says, the entire distribution

1 process is the focus of the study, and listed as
2 examples are work functions that are involved in the
3 retail distribution process. For example, customer
4 contact and bill inquiry are two of the quite a number
5 of work center activities that were analyzed to identify
6 the retailing costs associated with the distribution
7 process, the retail distribution process.

8 Q But customer contact was a factor in your
9 analysis; is that correct?

10 A Yes, it was.

11 Q Now I assume that the documents that are
12 included in this Tab 20 of Exhibit No. 36 represent the
13 entire output of your study; is that correct?

14 A Yes, that's correct.

15 Q So there were no work papers that support this
16 study?

17 A I believe there were work papers provided that
18 detailed the work center costs by account. Other than
19 that, all the work papers are included in this binder.

20 Q So when we encounter discussions regarding
21 what a cost might be or how it was spread, other than
22 the documents that are included in this Tab 20, there
23 are no other documents?

24 A That's correct.

25 Q If you would turn to Attachment 1 of this

1 document, which begins on -- the page number at the
2 bottom is A-420. Do you see that?

3 A Yes, I've got that.

4 Q Now I notice, if you turn over one page to the
5 next page, the second page of Attachment 2, down at the
6 bottom of the page, I notice the listing for G&A/Other;
7 do you see that?

8 A Yes.

9 Q And is it correct that based on the statement
10 in the column far to the right, the word "no" indicates
11 that G&A was excluded from this study?

12 A That's correct.

13 Q So there was no G&A costs deemed to be avoided
14 costs in this study?

15 A None that are accounted for in the work
16 centers called G&A, that's right.

17 Q Now, would you turn over to Attachment 2,
18 please, which is on Page A-422.

19 A Okay.

20 Q As I understand Attachment 2, it is a
21 description of the various accounts that are listed in
22 Attachment 1; is that correct?

23 A It is a description of the work centers,
24 which, yes, are listed in Attachment 1.

25 Q And a work center, as I understand it, is a

1 grouping of costs that have a similar purpose; is that a
2 fair statement?

3 A Yes, on a functional basis, right.

4 Q Let me direct your attention down on the first
5 page of Attachment 2 to the description regarding
6 national customer quality assurance center. Do you see
7 that?

8 A On page -- the first page?

9 Q That is correct.

10 A Yes, I see it.

11 Q And that description talks about the
12 activities -- included in here there are responsibility
13 for contacting consumer customers regarding recent new
14 orders. Do you see that language?

15 A Yes, I do.

16 Q Isn't it correct that this activity involves
17 interfacing with retail customers?

18 A That's the extent of this activity today, yes,
19 that's right.

20 Q And isn't it a fact that this cost was
21 excluded from the study so it was deemed not avoided?

22 A That's right. That work center was not
23 included in the study. So it was deemed not avoided.
24 The rationale for that would have been that similar
25 activities will be undertaken, with the requesting

1 carrier as the customer, to assure that they were
2 satisfied with their order/activity and that the quality
3 was as it was warranted.

4 Q Currently that account is -- relates to retail
5 activity; isn't that correct?

6 A In today's wholly retail environment, that's
7 correct.

8 Q Let me direct your attention over to the -- a
9 page that would be numbered A-425.

10 A Okay.

11 Q And I direct your attention to the last item
12 on that page, consumer president. Do you see that?

13 A Yes.

14 Q And isn't it a fact that the consumer
15 president is responsible for, among other things,
16 dealing with retail customers?

17 A Yes, certainly is.

18 Q And isn't it a fact that this cost was not
19 considered -- was considered to be an unavoided cost?

20 A Yes, that's true. On the assumption, the
21 rationale that GTE will still offer retail products, it
22 will still have a consumer line of business that manages
23 the introduction of those products and the -- all retail
24 activities associated with those products. And so there
25 will still be a consumer president.

1 Q Let me ask you to turn over to Page A-427.
2 And on this page there are a number of work centers,
3 beginning with business operations support, that deal
4 with, as I read them, one way or another, in dealing
5 with retail consumers. Would you agree with that?

6 A Well, business operations support -- well,
7 actually, yes, the answer to your question is yes. They
8 all deal with retail end user customers.

9 Q And isn't it true that under GTE's study, that
10 no costs included in any of these work centers was
11 considered to be an avoided cost?

12 A Well, I could check that on Attachment 1.
13 Business operations support down through what?

14 Q Down through the end that have page, business
15 president.

16 A Business operations support was included in
17 this study. That can be found on Page 420, which is
18 Attachment 1 where we started some of these questions.
19 In the far right-hand column it says yes.

20 Q And the other categories we're discussing on
21 Page A-427, they were in fact excluded from the study;
22 weren't they?

23 A Yes. I believe they all would be included.
24 I'm not going to check each one on Attachment 1. That
25 will speak for itself. Based on a quick review of the

1 functions, I believe those should all be included.

2 Q I'm sorry, could you repeat that, please?

3 A All of these should have been included in the
4 study and the costs treated as not avoided.

5 Q And what is the basis for your conclusion?

6 A Well, in every case, these are activities that
7 will either require -- be required to support continued
8 retail offerings, or more importantly, and let me use an
9 example to cover this one, that the activities will
10 still be required in connection with the wholesale
11 service offerings.

12 And just as an example, marketing services,
13 which is responsible for demand analysis and
14 forecasting, market planning and analysis, pricing and
15 tariffs and a small amount of international product
16 development, those activities -- actually, whether you
17 view the ongoing business as retail entirely, wholesale
18 entirely or some combination of the two, those
19 activities are required in any case.

20 Q So it's your testimony that in a situation
21 where GTE is not offering retail products, or is selling
22 at wholesale, that these types of costs will be incurred
23 in the same manner and at the same volume as they always
24 have been?

25 A Well, yes, on a per unit basis, that's

1 correct.

2 Q And do you have anything to support that? Are
3 there any work papers that support that?

4 A No.

5 Q I mean, there is a difference, is there not,
6 between a retail customer and a wholesale customer as to
7 what those customers might demand; isn't that true?

8 A Well, there's many differences. Depends on
9 what sort of dimension you're trying to measure those
10 differences along. With respect to the retailing costs
11 that are under study in this analysis, and when they're
12 viewed, for example, on a per line basis, for the
13 residence service category that was included in this
14 study, no, I don't think things such as pricing,
15 tariffing and demand analysis and forecasting would
16 vary, whether we're talking about a retail product or a
17 wholesale product.

18 Q You just stated there were many differences
19 between a retail buyer and a wholesale buyer, yet all of
20 these cost accounts that we've talked about were
21 excluded from -- were identified as not avoided in their
22 entirety; isn't that correct?

23 A Yes.

24 Q Let me ask you to turn to Pages 16 and 17 of
25 your direct testimony in the AT&T case, please. And as

1 I understand the discussion on these two pages, we're
2 talking about nonrecurring costs; is that correct?

3 A Yes, that's right.

4 Q Would you define nonrecurring costs for me,
5 please?

6 A As it's used in this part of the testimony,
7 it's those costs that are incurred for the ordering and
8 installation activities associated with service
9 establishment.

10 Q When you say ordering, are you talking about a
11 situation where a customer calls up and said I want to
12 purchase some sort of service; is that what you mean?

13 A Yes.

14 Q And what would it also include -- would
15 nonrecurring include a customer who is already a
16 customer calling up and saying, I want to add a
17 service?

18 A Yes, it would include any service ordering.

19 Q Now, in the testimony -- have you looked at
20 the testimony of Mr. Trimble?

21 A Yes, I have.

22 Q In his testimony he sets forth certain rates
23 for nonrecurring activities. Do you recall that?

24 A Yes, I do.

25 Q And do you have that in front of you?

1 A I don't have his testimony, but I think I have
2 the rates he proposed.

3 Q Under the heading Resale Services, there's a
4 category called Service Ordering, and then under that it
5 says Initial Service Order Per Order, then there is a
6 stated rate. Do you recollect that verbiage?

7 A Yes.

8 Q Would you describe for me what an initial
9 service order is, please?

10 A An initial service order?

11 Q Yes.

12 A An initial service order is an order placed by
13 a customer to establish primary service.

14 Q And then it talks about a subsequent service
15 order. What is a subsequent service order?

16 A That would be the case that you used in an
17 example just a moment ago, where a customer who has
18 primary service established already calls to add a
19 feature to their service or to add additional service.

20 Q During the year 1995 -- let me back up, the
21 cost data that's used in your study, as I understand it,
22 is 1995 cost data; is that correct?

23 A That's right.

24 Q During 1995, costs that GTE incurred for an
25 initial service order were -- where were those charged?

1 A Where were they charged?

2 Q Yes. What cost account? Do you know?

3 A Well, they would be charged to the customer
4 services account.

5 Q Would that be account 6623?

6 A Some subaccount within that major account,
7 that's right.

8 Q And would the same be true for subsequent
9 service order type costs, they would also have been
10 charged to 6623?

11 A Yes, I believe that's right.

12 Q And the rates that GTE charged, say, for a
13 residential service in 1995, I assume would have been
14 based upon, at least in part, costs that are in account
15 6623; is that correct?

16 A You're talking about the nonrecurring
17 charges?

18 Q We can divide it up. First of all, let's talk
19 about the nonrecurring charges. And my question -- let
20 me back up and see if I can make it easier. I believe
21 you just agreed with me that the costs of both the
22 initial -- excuse me, the costs of nonrecurring, as well
23 as recurring type costs, were charged last year to
24 account 6623; is that correct?

25 A Yes, right.

1 Q And my question is, because those costs were
2 charged to that account, is it fair to say that the
3 GTE's rates in 1995, say for a residential service,
4 would have been based upon the costs that were in 6623;
5 is that correct?

6 A No.

7 Q Why not?

8 A I don't understand why there would be a
9 relationship between the two things that you just
10 described.

11 Q Well during 1995 wasn't GTE subject to rate
12 regulation?

13 MR. GILLMAN: I object, unless he would
14 classify -- or clarifies, is he talking about GTE
15 Florida or --

16 Q (By Mr. Lemmer) Let me clarify my question.
17 Do you know whether in 1995 GTE Florida was subject to
18 rate regulation?

19 A I don't know what you mean by rate regulation
20 with that question. Can you just clarify that for me.

21 Q Let me clarify. Do you whether in 1995 for
22 GTE Florida, GTE Florida's rates were developed based
23 upon a cost?

24 A Yes.

25 Q And if they were developed based upon a cost,

1 then isn't it true that costs charged to account 6623
2 would have an influence on that rate?

3 A Yes, they would. What I'm trying to
4 understand is the connection you've drawn between costs,
5 nonrecurring costs for service ordering, on the one
6 hand, and the monthly recurring rate for local service
7 on the other. Those two are not related. GTE has
8 separate nonrecurring charges that are designed to
9 recover the initial costs for ordering and
10 installation. Therefore, the local service rate for R-1
11 wouldn't include those costs. Those are recovered
12 through separate charges.

13 Q And that is true for what, for the
14 nonrecurring?

15 A For any nonrecurring service establishment
16 activity.

17 Q Is it true for recurring?

18 A Is what true?

19 Q What you just said regarding having a separate
20 rate. Is that true for recurring service type
21 activities, service order activities?

22 A I'm sorry, I don't understand the question.
23 Are you asking whether the recurring charges are also
24 based on cost?

25 Q No. What I'm asking you is, is there a

1 separate rate for recurring service order activities?

2 A I don't believe there is any such thing.
3 Service ordering activities and the costs that are
4 associated with them are defined as they're one time in
5 nature. They happen and they're over. We get the call
6 from the customer. There is no recurring nature to that
7 cost. It's a nonrecurring cost.

8 Q So then account 6623 includes no costs for
9 service orders?

10 A No. Account 6623 includes all the costs for
11 service ordering activities which are one time in
12 nature.

13 Q I believe the study that you conducted
14 includes not only what costs are identified as avoided,
15 but also what I will call additional costs, or costs
16 that you have in a sense added back in; is that correct?

17 A I'm not sure I know what you're referring to.

18 Q I believe your testimony says the -- we will
19 start off with the retail rate, we will subtract out
20 avoided costs, and we will add in certain other costs.
21 Do you agree with that?

22 A Yes, we add in -- what I said we would add in,
23 in that rate development, is the opportunity costs for
24 the lost toll that we're sure to lose, along with the
25 basic service.

1 Q So you're talking about a lost revenue?

2 A We're talking about a lost contribution to
3 joint and common costs, that's currently provided by
4 complementary services.

5 Q Contribution is not a cost; is it?

6 A Contribution is not a cost. The loss of
7 contribution is an opportunity cost.

8 Q Does the Act provide for recovery of lost
9 revenue?

10 A Lost revenue?

11 Q Yes.

12 A I don't know. I don't believe so.

13 Q Does the Act provide for the recovery of lost
14 contribution?

15 A I don't know. It doesn't use those words in
16 any way. It provides for the recovery of -- it provides
17 for the recognition of avoided costs in the development
18 of resale rates.

19 Q Would you agree with me that a diminution of
20 revenue, in other words less revenues, is not a cost?

21 A I think I could agree with that generally,
22 yes.

23 Q And aside from the lost revenues that we were
24 just discussing, were there other costs added in your
25 study?

1 A In the development of resale rates?

2 Q Correct.

3 A No.

4 Q Now let me ask you to turn to Attachment 5 of
5 Exhibit No. 36. And that begins on Page A-442.

6 COMMISSIONER KIESLING: What page?

7 MR. LEMMER: I'm sorry?

8 COMMISSIONER KIESLING: What page?

9 MR. LEMMER: Page A-442.

10 COMMISSIONER KIESLING: No. 5?

11 MR. LEMMER: Attachment 5.

12 COMMISSIONER KIESLING: Oh. Back to --

13 MR. LEMMER: Taking you back to the big book.
14 I'm sorry.

15 Q (By Mr. Lemmer) As I understand Attachment 5,
16 it is a spreadsheet whereby costs assigned to a
17 particular work center are spread over various
18 categories; is that correct?

19 A Yes, among the service categories that are
20 being studied, that's right.

21 Q I'm sorry, I couldn't hear you.

22 A Those costs are spread among the service
23 categories that are being studied.

24 Q So by service categories, we're talking about
25 the designations across the top of that page, for

1 example residential and business?

2 A Yes, that's right.

3 Q And it's my understanding that if you
4 identified a particular cost within the consumer
5 category, which is the first category on this page, that
6 it was spread based upon revenues; is that correct?

7 A In many cases, a relative revenue distribution
8 was used for that cost allocation, that's right.

9 Q Now revenue is not an appropriate way to
10 spread costs, is it, when revenues don't recover your
11 costs; is that correct?

12 A I don't -- I think revenues are an appropriate
13 way to allocate costs when no other information is
14 available to indicate a relative distribution of the
15 costs. I would have to point out that most of these
16 allocations of work center cost among the service
17 categories first identified portions of the costs that
18 could be directly associated with specific categories.
19 Particularly, I cited any of those that involved
20 allocation to the nonrecurring charge and service
21 ordering category. The first step in trying to
22 associate the work center costs with service categories
23 was to identify any portion that could be directly
24 assigned. And that's the way the costs were assigned to
25 the nonrecurring charge category.

1 In some cases, the work center costs were
2 directly assigned to other service categories based on
3 direct relationship between the activities that were
4 performed and the services that they support. When
5 there was no other information to relate the expense of
6 the activities for that work center with the supported
7 services, then we used the relative distribution of the
8 revenues that are associated with some or all service
9 categories, depending on the nature of the work center
10 activity performed, in order to attribute the expenses
11 to particular service categories.

12 Q Now, is it fair to say that these spreading of
13 these costs among the service categories was required
14 because the cost charged to work centers are not
15 identified with those service categories at the time
16 that they're incurred.

17 A Yes, that's right. They're not recorded with
18 any identity as to a service category that would be
19 meaningful for the purpose of this study. But their
20 identification by work center is the necessary
21 information for us to determine whether or not those
22 work center costs can be avoided.

23 Q Now, looking at the business category, which
24 is the second category on this first page, it's -- is my
25 understanding correct that those costs were spread based

1 upon sales quota data?

2 A You're talking about the business work
3 centers?

4 Q Correct.

5 A The second group of lines on this page.

6 Q That is correct.

7 A Those that involve sales activities, the basis
8 for the distribution of the expenses among the
9 categories was the relative distribution of sales quota,
10 that's right.

11 Q And is it correct that a sales quota is an
12 estimate about what might happen in the forthcoming
13 year?

14 A Yes, it is. And it's also reasonable to
15 expect that those quota objectives will drive the
16 activities through the course of the year, and that was
17 the relationship that was relied on in choosing that as
18 a basis for the allocation the.

19 Q Have you ever done an analysis to determine
20 whether sales quotas are predictive of what actually
21 happens during the year?

22 A No, I have not.

23 Q Now, let me ask you to turn to the Page A-455,
24 which begins what I'll call an attachment to this
25 exhibit, although it's not labeled in that way.

1 A Okay.

2 Q Can you explain to me what this page does?

3 A Yes, I can. This page is a summary of the
4 detailed analysis that appears on the following four
5 pages. And it summarizes, at the top, total expenses
6 for each of a number of groups of work centers by ARMIS
7 account. And then it also summarizes for those same
8 groups of work centers the avoided expenses that are
9 determined through the analysis on the following pages
10 by ARMIS account. And finally, on Line 29, the purpose
11 of this whole five page analysis is to develop avoided
12 cost percentages that are appropriate for use in place
13 of the FCC's presumptive factors in the modified avoided
14 cost study.

15 Q Is it correct that the information that's on
16 these five pages results from the analysis that takes
17 place in the previous pages we've been looking at,
18 particularly Attachment 3?

19 A No, that's not true. There is a relationship
20 between the two studies, but the relationship is that
21 we've analyzed the same work centers and the same total
22 work center costs are used in both studies.

23 Q Well, then, looking at this five-page
24 analysis, what is the basis of the analysis for
25 determining what is considered to be avoided expenses?

1 A The basis for the analysis?

2 Q Yes.

3 A Is for each work center to determine whether
4 or not expenses in network center could reasonably be
5 expected to be avoided, and in general to determine on a
6 basis of either a decision that all of the expenses
7 would be avoided or none of the expenses would be
8 avoided. That decision is documented on each of the
9 Pages 2 through 5234 the second column from the left
10 which is headed percent avoided. And those percentages
11 are applied to the work center expenses in each ARMIS
12 account and totalled.

13 (Transcript continues in sequence in
14 Volume 13.)

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