

REBUTTAL TESTIMONY OF RICHARD CABE

ON BEHALF OF MCI

DOCKET NO. 961230-TP

NOVEMBER 19, 1996

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Q. PLEASE STATE YOUR NAME AND ADDRESS.

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A. My name is Richard Cabe and my business address is Box 3CQ, New Mexico State University, Las Cruces, New Mexico 88003-0001.

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Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

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A. Yes.

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Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

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A. The purpose of this testimony is to respond to testimony presented by Mr. Hunsucker, Mr. Farrar and Mr. Dunbar relating to the appropriate pricing of local interconnection and unbundled network elements.

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Q. MR. HUNSUCKER STATES THAT SPRINT SHOULD BILL THE CARRIER COMMON LINE CHARGE AND TRANSPORT INTERCONNECTION CHARGE WHEN MCI PURCHASES UNBUNDLED ELEMENTS FROM SPRINT. (PAGE 28) DO YOU AGREE?

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A. No. As pointed out in my direct testimony, the Hatfield model provides the basis for pricing interconnection and unbundled network elements at TELRIC with a reasonable allocation of forward looking common costs, with all the concomittant benefits for economic efficiency in the present and the efficient development of future competition.

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ACK \_\_\_\_\_  
AFA \_\_\_\_\_  
APP \_\_\_\_\_  
CAF \_\_\_\_\_  
CMU \_\_\_\_\_  
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W.S \_\_\_\_\_  
OT \_\_\_\_\_

1           The imposition of charges which do not reflect economic costs distort decisions and lead  
2           away from economic efficiency. For these reasons I recommend that the Commission  
3           take this opportunity for efficient pricing by choosing to exclude the carrier common  
4           line charge and transport interconnection charge from prices of interconnection and  
5           unbundled network elements. If an interim approach such as that adopted by the FCC  
6           is considered it should incorporate the three elements adopted by the FCC: it should  
7           take an immediate step in the direction of efficient pricing by allowing only a fraction  
8           of historical non-cost based access charges, it should constrain the transition to  
9           completion by a date certain, and it should immediately begin the work necessary to  
10          conclude the process by the designated date.

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12        Q.     MR. HUNSUCKER STATES THAT COMPENSATION FOR CALL TERMINATION  
13            SHOULD BE RECIPROCAL AND SYMMETRICAL. (PAGE 36) DO YOU AGREE?

14        A.     Yes. But Mr. Hunsucker's proposal is not reciprocal and symmetrical because it does  
15            not provide for equivalent compensation unless the CLEC uses the same network  
16            architecture as the incumbent.

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18        Q.     SHOULD SYMMETRIC COMPENSATION APPLY ONLY WHERE THE TWO  
19            CARRIERS USE THE SAME NETWORK ARCHITECTURES?

20        A.     No. If exchange of traffic is to involve reciprocal charges rather than a bill and keep  
21            arrangement the charges should be based on functionality provided rather than network  
22            architecture employed. The FCC recognized the need to "consider whether new  
23            technologies (e.g., fiber ring or wireless networks) perform functions similar to those  
24            performed by an incumbent LEC's tandem switch." In the view of the FCC this  
25            consideration comes down to whether "the interconnecting carrier's switch serves a

1 geographic area comparable to that served by the incumbent LEC's tandem switch."  
2 While a new entrant's coverage area will never be as densely occupied by the new  
3 entrant's customers, the appropriate question to consider in deciding the comparability  
4 of serving areas is the distance over which terminating calls must be carried for ultimate  
5 delivery.

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7 The principle of establishing rates and rate structures that will not bias technology  
8 choices is fundamental and of the utmost importance to the objective of achieving  
9 economic efficiency in the telecommunications network. By using the incumbent's cost  
10 as a proxy for the cost to be recovered by the entrant, the entrant has a strong incentive  
11 to adopt the cost minimizing technology and architecture, without any reference to the  
12 technology and architecture adopted by the incumbent. To impose a cost recovery  
13 mechanism which creates incentives to mirror the technology and architecture of the  
14 incumbent will greatly blunt incentives to find a better way to provide functionally  
15 equivalent service. This "search for a better way" is a very large part of the benefits  
16 to be obtained from competition, and the prospect for capturing these benefits will  
17 diminish with the imposition of an asymmetric compensation mechanism.

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19 Q. THE DIRECT TESTIMONY OF SPRINT'S WITNESSES DESCRIBES SPRINT'S  
20 PRICING PROPOSAL FOR UNBUNDLED NETWORK ELEMENTS IN GENERAL  
21 TERMS. PLEASE COMMENT ON THE COST METHODOLOGY WHICH SPRINT  
22 PROPOSES AS THE BASIS FOR SETTING THOSE PRICES.

23 A. Sprint proposes to set prices for unbundled network elements at TELRIC plus a  
24 reasonable allocation of forward looking common costs. I agree with this general  
25 approach, but there is a great deal of judgement that goes into implementing this

1 proposal. While there are suggestions in Mr. Farrar's testimony that Sprint's approach  
2 to certain parameters and to estimation of forward looking common cost may not be  
3 appropriate, it is premature to try to analyze Sprint's proposal in detail before seeing  
4 exactly how the principles are implemented in Sprint's actual cost studies. Examples  
5 of specific parameters that raise questions include the apparent use of tax depreciation  
6 rates instead of economic depreciation rates, economic lives and utilization rates or fill  
7 factors that may be inappropriately low, and the use of embedded cost data to  
8 determine annual charge factors. From Mr. Farrar's testimony the treatment of "shared  
9 and common costs" looks very much like a fully distributed cost study, but again it is  
10 premature to draw any firm conclusions before examining the detailed studies.

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12 Q. WHAT ABOUT MR. DUNBAR'S DISCUSSION OF THE BCM 2 COST MODEL  
13 THAT WILL BE USED BY SPRINT TO ESTIMATE TELRIC COSTS?

14 A. At this time, I would simply note that a variety of criticisms of BCM 2 have been filed  
15 in other proceedings. BCM 2 is not designed to estimate TELRICs of unbundled  
16 network elements, but has been adapted to the purpose in this proceeding. While Mr.  
17 Farrar's testimony contains a brief discussion of the adaptation, I will reserve comment  
18 on the BCM 2 as it is used to estimate TELRICs for unbundled network elements until  
19 I have had an opportunity to examine the actual cost studies. I expect to have an  
20 opportunity to discuss Sprint's cost estimates when the actual studies become available.

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23 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

24 A. Yes, at this time. I may file additional rebuttal testimony to respond to Sprint's specific  
25 cost studies after they have been filed.