

FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	:	Docket No. 921074-TP
	:	Docket No. 930955-TP
Expanded Interconnection	:	Docket No. 940014-TP
Phase II and Local	:	Docket No. 940020-TP
Transport Restructure.	:	Docket No. 931196-TP
	:	Docket No. 940190-TP

FIRST DAY - AFTERNOON SESSION

VOLUME 3

Pages 291 through 391

PROCEEDINGS:

HEARING

BEFORE:

CHAIRMAN J. TERRY DEASON
 COMMISSIONER SUSAN F. CLARK
 COMMISSIONER JULIA L. JOHNSON

DATE:

Monday, August 22, 1994

TIME:

Convened at 3:10 p.m.

PLACE:

FPSC Hearing Room 106
 101 East Gaines Street
 Tallahassee, Florida

REPORTED BY:

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 Chief, Bureau of Reporting
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 and
 LISA GIROD JONES, RPR, CM

APPEARANCES:

(As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION

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FPSC-RECORDS/REPORTING

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P R O C E E D I N G S

(Hearing convened at 3:30 p.m.)

(Transcript continues in sequence from Volume 2.)

MS. CASWELL: GTE calls Mr. Kirk Lee to the stand.

R. KIRK LEE

was called as a witness on behalf of GTE Florida Incorporated and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. CASWELL:

Q Please state your name and business address.

A My name is R. Kirk Lee. I work at GTE Telephone Operations, 600 Hidden Ridge, Irving, Texas, 75038.

Q By whom are you employed and in what capacity?

A I'm employed by GTE Telephone Operations as Section Manager, Intrastate Access Pricing, here representing GTE of Florida.

Q Did you file direct testimony in this proceeding?

A Yes, I did.

Q Do you have any additions or corrections to that testimony?

A No, I don't.

1 Q So if I asked you the same questions today
2 your answers would remain the same?

3 A Yes, they would.

4 MS. CASWELL: Mr. Chairman, I would ask that
5 Mr. Lee's direct testimony be inserted into the record.

6 CHAIRMAN DEASON: Without objection, it will be
7 so inserted.

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is R. Kirk Lee. My business address is 600
3 Hidden Ridge, Irving, Texas 75038.

4
5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed as Section Manager-Intrastate Access
7 Pricing for GTE Telephone Operations, representing
8 GTE Florida, Inc. (GTEFL or Company) in this
9 proceeding. I am responsible for the development
10 of access pricing plans and rates for intrastate
11 purposes in all states in which GTE Telephone
12 Operations operates in its East Area, including
13 Florida. My responsibilities also include
14 testifying on access pricing and other related
15 matters before regulatory bodies as appropriate.

16
17 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
18 WORK EXPERIENCE.

19 A. I received a Bachelor of Arts degree in Business
20 Administration (Accounting Concentration) from the
21 University of Washington in 1978. In 1988, I
22 received a Masters of Business Administration
23 degree from Seattle University.

24
25 My work experience began with GTE Northwest

1 Incorporated in Everett, Washington in December
2 1978 as a Staff Accountant. At GTE Northwest I
3 held various positions of increasing responsibility
4 in payroll, cost accounting, general accounting,
5 internal auditing and budget. In June of 1989, I
6 was promoted to Staff Manager-Regulated Earnings
7 Analysis in the Regulatory and Governmental Affairs
8 department at GTE Telephone Operations Headquarters
9 in Texas. My responsibilities in this position
10 included the analysis and reporting of interstate
11 access rates of return, providing support for the
12 annual Interstate Access Tariff filing, and
13 analyzing GTE liabilities and supporting Company
14 negotiations resulting from FCC Docket 84-800
15 earnings levels and FCC Price Caps sharing
16 requirements. In June 1992, I was promoted to my
17 current position in the Access Pricing and Tariffs
18 Department.

19

20 Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE FLORIDA
21 PUBLIC SERVICE COMMISSION (FPSC)?

22 A. No. However, I have testified previously before
23 regulatory commissions in Indiana and Wisconsin.

24

25 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

1 **A. The purpose of my testimony is to address the**
2 **issues raised by the Commission in its Order No.**
3 **PSC-94-0277-PCO-TL of March 10, 1994 in Phase II of**
4 **this docket, which pertains to the local transport**
5 **restructure and additional pricing flexibility.**
6 **Specifically, I will address issue numbers 1-2 and**
7 **18-24. Company witness Edward Beauvais will**
8 **address the public policy and expanded**
9 **interconnection matters identified as issue numbers**
10 **3-18.**

11
12 **Q. HOW IS SWITCHED ACCESS PROVISIONED AND PRICED**
13 **TODAY?**

14 **A. Switched access is provisioned today under a**
15 **feature group (FG) arrangement. Interexchange**
16 **carriers (IXCs) who utilize the networks of the**
17 **local exchange carriers (LECs) subscribe to either**
18 **a premium (FGC or FGD) or non-premium (FGA or FGB)**
19 **connection arrangement. There are several rate**
20 **elements which apply to each feature group service,**
21 **including End Office Switching (EOS), Local**
22 **Transport, Information Surcharge, and Carrier**
23 **Common Line Charge (CCLC). These rate elements are**
24 **priced today under the equal charge rule. That is,**
25 **each unit is priced the same as the next unit for a**

1 given rate element. For example, EOS is purchased
2 on a minute of use (MOU) basis, with each
3 additional minute priced the same as the last.

4
5 The equal charge rule is just one part of an
6 antiquated set of fully distributed costing rules
7 (FCC Parts 36 and 69) which have been utilized to
8 price access rates in the past. These rules have
9 not kept up with the fast-paced changes in the
10 telecommunications industry and which are
11 subjecting LECs to an increasing amount of
12 competitive pressure today. Access reform, such as
13 the FCC's local transport restructure (LTR), has
14 helped address some of the types of structural
15 flexibility and pricing flexibility that are needed
16 for access services in today's competitive
17 environment. The whole realm of access charges
18 beyond LTR needs to be further examined by the
19 FPSC.

20

21 Q. HOW IS LOCAL TRANSPORT STRUCTURED AND PRICED TODAY?

22 A. For GTEFL, the current intrastate local transport
23 rate element is applied on a per minute of use per
24 termination basis. Because GTEFL bills its IXC
25 customers under a single bill/single tariff

1 arrangement, two transport terminations per MOU
2 apply since the Company bills the entire length of
3 haul between offices. This is consistent with the
4 Company's interstate rate structure and billing
5 methodology for the transport termination rate
6 element. The actual rate applied is, again, based
7 on the equal charge rule.

8
9 Q. SHOULD THE COMMISSION MODIFY ITS PRICING AND RATE
10 STRUCTURE REGARDING SWITCHED TRANSPORT SERVICE WITH
11 THE IMPLEMENTATION OF SWITCHED EXPANDED
12 INTERCONNECTION?

13 A. Yes. It is imperative that the Commission allow
14 the restructuring of the LECs' local transport
15 services in accordance with the FCC's LTR
16 methodology if it also approves expanded
17 interconnection and colocation for switched access.
18 To do otherwise would leave the LECs on an unlevel
19 playing field in which they could not compete
20 fairly with entities like alternative access
21 vendors (AAVs). For example, these AAVs would be
22 able to interconnect with the LECs networks and
23 offer lower priced dedicated transport to the IXCs.
24 A LEC must be able to offer similar flat-rated
25 transport options to its customers to be able to

1 have a reasonable chance of retaining traffic on
2 its network.

3
4 **Q. SHOULD THE COMMISSION MODIFY ITS PRICING AND RATE**
5 **STRUCTURE REGARDING SWITCHED TRANSPORT SERVICE**
6 **EVEN IF SWITCHED EXPANDED INTERCONNECTION SERVICE**
7 **(EIS) IS NOT IMPLEMENTED?**

8 **A. Yes. With or without switched expanded**
9 **interconnection, local transport is subject to**
10 **substantial competitive pressure. The FCC has**
11 **recognized this fact and, as a result, approved LTR**
12 **to go into affect ahead of switched EIS. The FCC,**
13 **in its October 16, 1992 order (paragraph 2) in CC**
14 **Docket No. 91-213 regarding the Local Transport**
15 **Restructure stated that "Even without expanded**
16 **interconnection, LECs are already facing access**
17 **competition, for example, as reflected in the**
18 **proliferation of "closet POP" arrangements. A POP**
19 **is an IXC's point of presence. With "closet POPs,"**
20 **access customers purchase flat-rate special access**
21 **from CAPs or LECs and avoid paying a part of the**
22 **LECs' per-minute transport rate. A rate structure**
23 **change is necessary to promote more efficient use**
24 **of LEC networks, and access competition."**

25

1 AAVs operating in the Company's territories today
2 are currently providing alternative services which
3 compete with GTEFL's switched access services.
4 Intermedia Communications Inc. of Florida (ICI), an
5 alternative local transport provider, has a network
6 in the Company's Tampa market which has been in
7 service since November 1988. Other AAVs, including
8 MFS Telecom, FiberNet, Jones Lightwave, and Florida
9 Digital Media Partners either have a presence in or
10 have announced expansion plans for the near future
11 for the Tampa/St. Petersburg area. Other
12 competitors such as cable television companies, PCN
13 providers, STS providers, cellular companies, and
14 VSAT providers are also competing for GTEFL's
15 largest customers in the Tampa/St. Petersburg area.
16 All are providing alternative sources of access
17 which can bypass all or part of the Company's
18 switched access network. Implementation of
19 expanded interconnection for switched access will
20 only serve to accelerate this competitive erosion
21 of the Company's revenues. Company witness
22 Beauvais further describes how this erosion will
23 occur with switched EIS.

24

25

The FCC, in its October 16, 1992 order in CC Docket

1 91-213 regarding Local Transport Restructure, found
2 that "the equal charge rate structure cannot remain
3 in place if customers are to receive the benefits
4 of switched transport competition." The FCC also
5 found that "the current rate structure, under the
6 equal charge rule, has promoted significant
7 inefficient use of the LEC networks by IXCs and
8 other access customers. The uneconomic pricing
9 signals created by the equal charge rule have
10 caused wasteful use of LEC facilities and higher
11 rates for ratepayers. For this reason, it is
12 critical that we [the FCC] adopt a new rate
13 structure that will better match LEC transport
14 rates and costs."

15
16 Elimination of the equal charge rule was found to
17 be in the public interest and was accomplished at
18 the federal level prior to implementation of
19 switched interconnection. The FPSC should allow
20 the ratepayers to benefit equally by allowing LTR
21 to go into effect immediately.

22
23 Q. IF THE COMMISSION CHANGES ITS POLICY ON THE PRICING
24 AND RATE STRUCTURE OF SWITCHED TRANSPORT SERVICE,
25 WHAT SHOULD THE NEW POLICY BE BASED ON?

1 **A. GTEFL believes the Commission's new switched**
2 **transport policy should mirror each LEC's**
3 **interstate tariff structure, terms and conditions.**
4 **Mirroring can help reduce the potential for**
5 **arbitrage, ease the burden of administration for**
6 **tariffs and billing systems, reduce customer**
7 **confusion, and increase the customer's ability to**
8 **aggregate traffic and purchase the most cost**
9 **efficient transport options.**

10

11 **Rates should not necessarily be mirrored but should**
12 **be determined by market factors such as market**
13 **demand, competitive conditions, and the number of**
14 **available substitutes for transport services in a**
15 **given market. Rates should also be supported by**
16 **Long Run Incremental Cost (LRIC) as a price floor**
17 **to prevent anti-competitive pricing. Market**
18 **conditions should determine the actual prices and**
19 **the level of contribution provided by each access**
20 **service option.**

21

22 **Q. PLEASE EXPLAIN HOW GTEFL ESTABLISHED ITS INTRASTATE**
23 **PRICES FOR ENTRANCE FACILITIES (EF), DIRECT-TRUNKED**
24 **(DT), TANDEM SWITCHED TRANSPORT (TST) AND RESIDUAL**
25 **INTERCONNECTION CHARGE (RIC) RATE ELEMENTS IN**

1 **FLORIDA.**

2 **A. GTE Florida's prices for its local transport rate**
3 **elements for EF, DT, and TST mirror the Company's**
4 **interstate LTR tariff. The interstate rates were,**
5 **by FCC order, based on September 1, 1992 interstate**
6 **special access rates, then adjusted if necessary**
7 **for an FCC established benchmark DS3-to-DS1**
8 **crossover ratio of at least 9.6-to-1, and further**
9 **adjusted for the 1993 price cap filing. GTEFL's**
10 **intrastate RIC element was residually priced to**
11 **maintain revenue neutrality to the Company's**
12 **existing intrastate switched transport revenue**
13 **streams.**

14

15 **Q. IF THE COMPANY BELIEVES THAT MARKET-BASED PRICING**
16 **IS APPROPRIATE FOR SWITCHED TRANSPORT, WHY DID IT**
17 **FILE ITS INTRASTATE LTR RATES TO MIRROR ITS**
18 **INTERSTATE LTR RATES?**

19 **A. The FCC set its initial LTR rates based on**
20 **equivalent special access rates in existence at a**
21 **particular point in time (September 1, 1992). The**
22 **Company believes these rates to be a close**
23 **approximation to market based rates since special**
24 **access has been a more competitive service and its**
25 **rates are closer to their relevant economic costs.**

1 The FCC thoroughly investigated the issues
2 associated with LTR and determined that rates which
3 met the minimum 9.6-to-1 crossover ratio would be
4 reasonable and lawful in the absence of proof
5 otherwise. Because GTEFL's rates met the FCC's
6 requirements, the Company believes these rates are
7 also appropriate for the "initial" implementation
8 of LTR for intrastate purposes. The best short-
9 term approach to implementing LTR is to mirror the
10 interstate rates and structure, with the exception
11 of the RIC, which was priced to maintain revenue
12 neutrality with intrastate specific transport
13 revenues.

14
15 However, the Company also believes that a number of
16 enhancements to the LTR structure and pricing
17 guidelines should be considered by the FPSC in
18 these proceedings. These improvements to LTR serve
19 to further promote economic efficiency, provide
20 additional choices to customers in a competitive
21 market, and eliminate the potential for arbitrage
22 between switched and special access services.

23
24 Q. WHAT ENHANCEMENTS DOES GTEFL PROPOSE BE MADE TO
25 LTR?

1 **A. There are four primary enhancements. These**
2 **enhancements are discussed further below:**

3
4 1. **Pricing Flexibility:** Even before the
5 implementation of expanded interconnection for
6 switched access, LECs will need increased
7 pricing flexibility in order to have a level
8 playing field in a competitive market place.
9 Volume and term discounts are one form of
10 pricing flexibility that will be needed.
11 GTEFL's proposed Switched Access Discount Plan
12 (SADP) is an example of this type of pricing.

13
14 Since the current basis for switched dedicated
15 transport rates and rate structure is the
16 special access rates and rate structure, GTEFL
17 believes it is also appropriate to include
18 term and volume discounts for switched
19 dedicated facilities (EF and DT rate elements)
20 that are similar to those provided for special
21 access customers today. An example is the
22 Optional Payment Plans found in GTEFL's
23 special access tariff today.

24
25 Zone pricing and other forms of pricing

1 flexibility such as contract service
2 arrangements (CSAs) should also be allowed for
3 switched access services to enable the Company
4 to address competitive pressures. I will
5 discuss GTEFL's specific proposals for pricing
6 flexibility later in this testimony.

7

8 2. Matching Switched and Special Access Rates:

9 GTEFL believes that the rates and charges for
10 entrance facilities and direct trunked
11 transport should be the same as those charges
12 currently applicable for special access lines
13 (SALs) and special transport, respectively.
14 Switched entrance facilities and special
15 access lines (SALs) are equivalent service
16 offerings and therefore should reflect the
17 same rates and charges. The same is true of
18 switched direct trunked transport and special
19 transport services. GTEFL therefore proposes
20 that these two services be rated the same.

21

22 The FCC established September 1, 1992 special
23 access rates as the basis for determining
24 current entrance facility and direct trunked
25 transport rates. Since that time, special

1 access rates have changed significantly. The
2 rates for switched and special transport need
3 to be equivalent to help lessen the potential
4 for uneconomic migration to special access
5 services from switched access, since both
6 switched and special traffic can be carried
7 over the same facilities. Therefore, LTR
8 rates should be updated to reflect the most
9 current special access rates in effect.

10

11 3. Crossover Ratio Flexibility: GTEFL would
12 propose that the crossover ratios between DS1
13 and DS3 switched services be flexible and that
14 the market be allowed to drive the appropriate
15 pricing of such services. Currently, the
16 crossover ratio that exists between approved
17 rates for special DS1s and special DS3s is
18 appropriate and therefore should be the same
19 for switched dedicated services. The FCC has
20 chosen to require a minimum 9.6 to 1 crossover
21 ratio between DS1 and DS3 services. This
22 means that the price for one DS3 must be at
23 least equal to or greater than the price total
24 of 9.6 DS1 circuits.

25

1 Automatic application of the FCC's 9.6 to 1 or
2 any other fixed crossover requirement,
3 however, creates rate differences between
4 switched and special services that are not
5 justified. Again, different rates for
6 substitutable services create tariff shopping
7 or arbitrage opportunities. Switched
8 dedicated transport and special access rates
9 should be the same, since these are equivalent
10 services. Fixed crossover points, such as
11 those ordered by the FCC, or higher ones such
12 as those advocated by the Interexchange Access
13 Coalition (IAC), will only serve to widen the
14 gap between these rates and ignore the real
15 cost and market differences inherent in the
16 development of DS1/DS3 prices.

17

18 4. Reconfigured vs. Current Network: GTEFL
19 proposes that LTR units and rates be developed
20 using a reconfigured optimal network. This
21 approach assumes that customers will quickly
22 optimize their transport services into the
23 most cost-efficient and operations-efficient
24 design up front. Under normal circumstances,
25 once LTR is implemented, it is GTE's

1 assumption that this optimization process
2 might take 6-12 months. However, the non-
3 recurring charge (NRC) waiver currently in
4 effect further encourages IXC customers to
5 optimize their networks sooner rather than
6 later. The Company began receiving LTR-
7 related orders for transport services well in
8 advance of the actual FCC effective date,
9 which further supports this position.

10

11 To develop reconfigured network demand, the
12 Company utilizes a model which looks at
13 traffic volumes by customer and route, then
14 determines the best mix of common transport
15 and direct trunked transport per customer
16 based on the least cost choice. Direct
17 transport would be further reconfigured into
18 an optimal voice grade, DS1, and DS3 mix based
19 on combined switched and special access
20 transport facility use.

21

22 Use of these reconfigured units in pricing
23 helps to ensure that the initially proposed
24 RIC rate maintains revenue neutrality for
25 transport services as a whole. If the RIC

1 were to be developed using a historical
2 network approach, as soon as an IXC places an
3 order to reconfigure a part of its network
4 into a lower cost alternative, the Company is
5 no longer revenue-neutral and the lost
6 revenues will never be recouped. As a result,
7 GTEFL has filed its LTR tariff rates using
8 reconfigured demand. The Company's modeling
9 of demand does not, however, take into account
10 potential reconfiguration associated with
11 hubbing and tandem direct transport options
12 available with LTR. This has the effect of
13 making the Company's reconfigured demand
14 estimates more conservative.

15

16 Q. SHOULD THE LECs' PROPOSED LOCAL TRANSPORT
17 RESTRUCTURE TARIFFS BE APPROVED? IF NOT, WHAT
18 CHANGES SHOULD BE MADE TO THE TARIFFS?

19 A. GTEFL's LTR tariff should be approved as is and
20 allowed to go into effect. The Company's rates
21 have previously been found to be reasonable and
22 lawful by the FCC after extensive review of the
23 issues surrounding LTR. As such, they should be
24 allowed to go into effect so that the Company's
25 local ratepayers and access customers can begin to

1 benefit immediately from elimination of the equal
2 charge rule and an increasingly competitive market.
3 The Commission should also allow the Company's
4 proposed enhancements which were not included in
5 the initial LTR filing to be put into effect.

6

7 Q. SHOULD THE MODIFIED ACCESS BASED COMPENSATION
8 (MABC) AGREEMENT BE MODIFIED TO INCORPORATE A
9 REVISED TRANSPORT STRUCTURE FOR INTRALATA TOLL
10 TRAFFIC BETWEEN LECs?

11 A. GTEFL is not a party to the MABC agreement and
12 therefore takes no position on this issue in this
13 proceeding.

14

15 Q. HOW SHOULD THE COMMISSION'S IMPUTATION GUIDELINES
16 BE MODIFIED TO REFLECT A REVISED TRANSPORT
17 STRUCTURE, IF IT IS ADOPTED?

18 A. The Commission's current imputation guidelines
19 should be left as is in this proceeding. The
20 Commission's established policy for imputation can
21 be utilized without modification by merely
22 substituting the new transport rate elements for
23 the old transport rate elements where appropriate.
24 Since the RIC element constitutes the majority of
25 the revenues now recovered for transport under LTR,

1 GTEFL recommends that the RIC be used as a
2 surrogate for the previously used transport rate
3 elements in the imputation calculations. This
4 method is easy to administer and could serve as an
5 interim approach to imputation under LTR until the
6 Commission can comprehensively address imputation
7 in a more appropriate forum.

8
9 Further, the issue of imputation is associated with
10 the setting of toll rates. This proceeding has
11 been established to specifically examine the
12 appropriateness of rate levels for local transport
13 access rates. Introduction of the imputation issue
14 into this docket will not help determine whether
15 these access rates are appropriate or not.
16 Instead, due to the contentious nature of the
17 issues inherent with imputation, it will only
18 result in unnecessary delays in getting these LTR
19 tariffs approved and in attaining associated
20 customer and ratepayer benefits.

21
22 Imputation issues are important and need to be
23 addressed. However, the Company recommends that
24 these issues be treated in a separate docket or in
25 toll rate proceedings for individual LECs, so that

1 customers and ratepayers may begin receiving the
2 benefits associated with LTR immediately.

3

4 Q. SHOULD THE LECs BE GRANTED ADDITIONAL PRICING
5 FLEXIBILITY? IF SO, WHAT SHOULD IT BE?

6 A. Yes, the LECs should be granted additional pricing
7 flexibility for switched access services
8 immediately due to an already highly competitive
9 environment in Florida. Implementation of expanded
10 interconnection for switched access will tend to
11 further accelerate competition. Additional pricing
12 flexibility is necessary to allow LECs rates to
13 become more competitive with the rates and service
14 offerings of the AAVs. In addition to LTR, GTEFL
15 has proposed three forms of pricing flexibility in
16 the illustrative tariffs it filed on May 16, 1994
17 in this proceeding. These include a Switched
18 Access Discount Plan (SADP), a Zone Pricing Plan
19 for switched access, and CSA authority for switched
20 access services. Each of these three plans is
21 discussed in more detail below. Access reform,
22 such as the LTR and Zone Pricing implemented by the
23 FCC, is critical to the ability of the LECs to be
24 able to effectively compete in today's environment.
25 The Commission should grant GTEFL the authority to

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implement its flexible pricing proposals in order to be able to address competitive pressures in its markets.

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED SADP IN MORE DETAIL.

A. The Company is proposing two separate switched access discount plans within its SADP: a Term Plan and a Growth Plan. The plans may be subscribed to individually or in conjunction with each other. The Term Plan would provide savings to customers who commit to various time periods at specified usage and/or monthly recurring charge (MRC) levels; the longer the time period committed to at a specified usage or MRC level, the greater the discount.

The Growth Plan would provide savings to customers who commit to various percentages of usage/MRC growth over a one year time period; the greater the percentage of growth, the greater the discount. The plans are available on a statewide basis or by specific market areas within the state. The discounts would be overlaid on top of any zone prices the customer is already paying. Terms and

1 conditions associated with both plans are detailed
2 in the illustrative tariff filed by the Company on
3 May 16, 1994 in this proceeding.

4
5 Q. PLEASE DESCRIBE THE ZONE PRICING PLAN FOR SWITCHED
6 ACCESS PROPOSED BY THE COMPANY.

7 A. The Company's proposed Zone Pricing Plan was
8 developed using similar methodology to the plan
9 proposed to the FCC. First, a count of all
10 equivalent switched and special access DS1 high
11 capacity circuits was compiled for each end office.
12 The offices were then sorted based on the
13 equivalent DS1 facilities in each office. Finally,
14 break points were established so that end offices
15 and their associated revenues were spread to three
16 zones. Zone 1 contains offices with more than 112
17 equivalent DS1s, Zone 2 contains offices with
18 greater than 50 but less than or equal to 112 DS1s,
19 and Zone 3 contains all offices with less than or
20 equal to 50 DS1s. In addition, all Zone 2 offices
21 that were contiguous to a Zone 1 office were also
22 assigned as Zone 1, consistent with the FCC
23 methodology.

24
25 This proposal is consistent with the plan filed

1 with the FCC, except for the break points for each
 2 zone. However, the Company's FCC zone plan is
 3 being reworked and will be refiled with the FCC
 4 later this year to be identical to the intrastate
 5 filing proposed here. The Company proposes pricing
 6 flexibility within each zone based on market
 7 conditions rather than the strict limits placed on
 8 zone pricing bands at the federal level.

9

10 Q. WHAT CHANGES IS THE COMPANY PROPOSING TO THE CSA
 11 PROCESS FOR SWITCHED ACCESS?

12 A. In Section 12.3 ("Contract Service Arrangements")
 13 of its intrastate access tariff, GTEFL proposes
 14 additional language to make CSAs applicable for
 15 switched access services in addition to the
 16 provisions already in place for special access
 17 services. This will enable the Company to use CSAs
 18 in lieu of existing tariff offerings provided there
 19 is reasonable potential for uneconomic bypass of
 20 the Company's switched access services. As I've
 21 already indicated, significant competitive pressure
 22 on the Company's access revenues exist today.
 23 Switched EIS will accelerate these pressures even
 24 more. CSAs for switched access will help the
 25 Company to address this pressure, thereby

1 **increasing its ability to retain the revenues and**
2 **contribution provided by switched access.**
3 **Retention of this contribution will help lessen the**
4 **upward pressure on local basic service rates.**

5

6 **Q. SHOULD THESE DOCKETS BE CLOSED?**

7 **A. Yes, with the adoption of the Company's**
8 **recommendations regarding the issues addressed in**
9 **this proceeding, these dockets should be closed.**

10

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

12 **A. Yes, it does.**

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1 Q (By Ms. Caswell) Do you have a summary of
2 your direct testimony for us today, Mr. Lee?

3 A Yes, I do.

4 Q Would you please give that to us?

5 A The purpose of my testimony today is to
6 respond to issues in this docket regarding the local
7 transport restructure and additional pricing
8 flexibility.

9 The main points of my testimony would be
10 summarized as GTE's position regarding its intrastate
11 LTR tariff is that the tariff as filed, which mirrors
12 its interstate rate structure, terms and conditions,
13 should be approved. The Company's tariff mirrors all
14 aspects of the interstate tariff with the exception of
15 the residual interconnection charge, or RIC, which has
16 been residually priced to be revenue neutral to
17 intrastate transport revenues.

18 The Commission should act to approve the
19 Company's tariff without delay to enable the ratepayers
20 and customers to benefit from the goals of LTR. Rates
21 for LTR should be cost-supported and market-driven.

22 In addition, I propose four enhancements to
23 the existing LTR tariff. Those are, pricing
24 flexibility, which I'll elaborate on in a minute
25 matching switched and special access rates; if the

1 underlying facilities that provide switched and similar
2 special access services are the same, the costs are the
3 same, the facilities are the same, then it is
4 appropriate to charge similar rates.

5 Crossover ratios should be flexible, based on
6 existing special access services as they are today. And
7 I also advocate the use of reconfigured demand estimates
8 in developing the RIC charge. It is well-documented
9 that the interexchange carriers seek cheaper forms of
10 access and will ultimately reconfigure their networks to
11 lower cost alternatives. The result, if GTE is not
12 allowed to reconfigure their demand, is that it will be
13 difficult to maintain revenue neutrality.

14 The additional pricing flexibility that I
15 advocate, the Company has proposed three different types
16 of pricing flexibility for consideration: A zone
17 pricing tariff, which is similar to the interstate zone
18 pricing methodology; a switched access discount plan,
19 which discounts switched access usage; and a monthly
20 recurring charges based on term and growth commitments,
21 as well as enhancements to the CSA process to expand it
22 to include switched access over and above the additional
23 special access options.

24 In addition, the Company recommends that the
25 tariff approval process for rate changes be expedited

1 and a 14-day approval period be implemented.

2 MS. CASWELL: Mr. Lee is available for cross
3 examination.

4 CHAIRMAN DEASON: Mr. Carver.

5 MR. CARVER: No questions.

6 MR. FONS: No questions.

7 MS. KAUFMAN: Mr. Chairman, I do have some
8 questions.

9 CROSS EXAMINATION

10 BY MS. KAUFMAN:

11 Q Mr. Lee, I'm Vicki Kaufman, and I'm here on
12 behalf of the Interexchange Access Coalition. Now, in
13 your direct testimony beginning at the bottom of Page 9
14 and continuing over to the top of Page 10 you discuss
15 how GTE established the transport rate that it's asking
16 the Commission to approve in this docket; is that
17 correct?

18 A That's correct.

19 Q And, basically, what you're seeking is
20 approval of the rates that the FCC approved on an
21 interstate basis; is that correct?

22 A That's correct.

23 Q Now, it's true, isn't it, that those
24 interstate rates that the FCC approved were not based on
25 any cost studies performed by GTE?

1 A That's correct.

2 Q In fact, GTE did not submit any cost studies
3 to the FCC; isn't that correct?

4 A That's correct.

5 Q So you would agree with me that the FCC's
6 decision was not based on any cost information that was
7 provided by GTE to the FCC?

8 A Not entirely, no. The FCC did consider cost
9 factors in making their decision, although they did not
10 request and actually look at cost studies themselves;
11 and the Commission, the FCC, concluded that they had
12 enough information to make a determination in the local
13 transport case.

14 Q But you did agree, didn't you, that you didn't
15 submit any cost studies and therefore the FCC couldn't
16 have considered any cost studies in their decision?

17 A That's correct.

18 Q Now on Page 12 of your testimony, you talk
19 about a plan called the switched access discount plan at
20 Line 12; do you see that?

21 A Yes.

22 Q Okay. That plan also is not based on any cost
23 studies that GTE has performed; isn't that true?

24 A The plan that we filed is illustrative in
25 nature at this point in time. We haven't developed

1 specific rates or prices, so it cannot possibly be based
2 on cost at this point in time.

3 Q Now, on Page 15 you talk about GTE's desire to
4 use a reconfigured network for purposes of the local
5 transport restructuring, beginning at Line 18 and
6 continuing on to the next page. Can you tell us what
7 percent of reconfiguration that GTE has assumed in this
8 docket has actually been ordered?

9 A I'm not sure I follow your question. Has been
10 ordered?

11 Q Or requested?

12 A Requested by customers?

13 Q Yes.

14 A At this point in time?

15 Q Yes.

16 A For intrastate purposes, nothing since LTR is
17 not in effect.

18 Q Right. What about interstate? I should have
19 clarified that.

20 A In interstate, although I don't have exact
21 numbers, I am aware of quite a bit of reconfiguration
22 activity that is going on. We do have printouts from
23 our billing system that shows that orders are being
24 made.

25 Q Can you tell me what percent? Do you have a

1 percentage?

2 A I do not have a percentage, no.

3 Q So you can't tell us based on your interstate
4 filing if your reconfigured network has been ordered up
5 to 50%, 25%, 75%?

6 A It is very difficult to tell.

7 Q Now, on Page 18 at the bottom there and
8 continuing on to the top, you talk about access
9 imputation. Do you see that?

10 A Excuse me, where is that?

11 Q Beginning at the bottom of Page 18 and
12 continuing on to the top of Page 19, you talk about the
13 access imputation issue.

14 A Yes.

15 Q And I think, as I understand what GTE wants,
16 they want to replace the current access imputation
17 methodology, if you will, and they want to use the RIC
18 as a substitute or a surrogate for that; is that
19 correct?

20 A We identified that as a short-term solution,
21 as a possible way to address the imputation issue in
22 this docket and take --

23 Q Is that -- excuse me, were you finished?

24 A Yes.

25 Q Is that what you're recommending? Is that

1 GTE's position?

2 A Long-term, no.

3 Q Is that what you are recommending that the
4 Commission do as a result of this docket?

5 A That is one alternative, yes, that we would
6 recommend.

7 Q Did you put forth any other alternatives in
8 your testimony?

9 A I believe I discussed another option in my
10 deposition.

11 Q In the prefiled testimony before the
12 Commission, did you suggest any other alternatives other
13 than using the RIC surrogate to replace the access
14 imputation methodology we now use?

15 A No, I did not.

16 Q And as I understand your testimony -- I think
17 we've had some discussion of this already today the
18 purpose of the RIC is to maintain revenue neutrality; is
19 that correct?

20 A That's correct.

21 Q Okay. And, basically, am I correct in
22 understanding that the RIC doesn't have anything to do
23 with network usage as we've discussed on Dr. Beauvais'
24 chart but it is simply applied, if you will, at the end
25 of the transaction to ensure that the LEC remains

1 revenue neutral?

2 A It is a residual rate element, right, to bring
3 the Company back to the revenue levels they collected
4 under the previous equal charge structure, transport
5 structure.

6 Q It has nothing to do with network usage, is
7 that correct? It is not related in any way to the costs
8 of using the network?

9 A There are no specific costs that support the
10 RIC itself. It is simply a contribution element.

11 Q So is that a yes, it is not related to the
12 cost of using the network? (Pause)

13 A I will answer by saying that it is not a
14 cost-supported rate element.

15 Q I'm not sure, I think this is a yes or no
16 question.

17 A Uh-huh.

18 Q Am I correct when I say that the RIC is not
19 related to the cost of using the network?

20 A I don't think it's a simple yes or no
21 question. I think that there is a lot of costs involved
22 in using the network; some of those are public policy
23 costs. The RIC would be an example of a rate element
24 that's used to help keep lower basic local service
25 rates.

1 Q But when you figure out what the RIC
2 is going to be, as I said before, what you are doing is
3 at the end of the haul or at the end of the
4 transaction, it is simply a calculation of what amount
5 of revenue is needed to keep the LEC revenue neutral; is
6 that right?

7 A That's correct.

8 Q And isn't it true that we've heard some
9 parties suggest that the RIC is going to be phased out
10 eventually?

11 A I think ultimately that competition will drive
12 it that way, yes.

13 Q Is that GTE's view that it will eventually be
14 phased out?

15 A Yes, that's GTE's view.

16 Q And when that occurs, if we follow GTE's
17 suggestion that the RIC be used as a surrogate for the current
18 access imputation and then, as most parties seem to think the
19 RIC is ultimately phased out, then won't GTE basically not be
20 imputing any access revenue for its traffic?

21 A My recommendation on use of the RIC as a
22 surrogate in imputation guidelines was only meant as a
23 short-term solution, not the longer term solution where
24 it would be phased out or eliminated. We also
25 recommended that a separate docket or some other

1 proceeding be initiated to look at imputation to set the
2 appropriate permanent guidelines for imputation.

3 MS. KAUFMAN: Thank you, Mr. Lee, that's all I
4 have.

5 MR. HOFFMAN: No questions.

6 CROSS EXAMINATION

7 BY MS. BRYANT:

8 Q Mr. Lee, good afternoon. I'm Chan Bryant here
9 for Sprint. I believe you have discussed in your
10 testimony you're proposing additional pricing
11 flexibilities; is that correct?

12 A That's correct.

13 Q And one of the four enhancements that you
14 proposed was the switched access discount plan?

15 A That's correct.

16 Q Can you tell me -- can you briefly explain how
17 this plan works, the volume and time discount plan?

18 A Yes, I will. There is basically two separate
19 discount plans within the switched access discount plan;
20 one is a term plan, the other is a growth plan.

21 Under the term plan, a customer commits to
22 delivering a certain percentage of base period usage to
23 the LEC for a number of periods or years and receives a
24 discount correspondingly. The discounts increase in
25 proportion to the length of the term and the higher the

1 commitment of usage delivered.

2 The second plan, the growth plan, is based on
3 -- this is a one-year type commitment in which a
4 customer, IXC customer, commits to deliver a certain
5 percentage of growth over their prior period access
6 usage with the LEC; and for the higher growth
7 commitments, a higher discount is received
8 proportionately.

9 Q Now, is this a percentage of the IXC's total
10 growth, specific IXCs, or is it a percentage of total?

11 A This would be tailored for this individual
12 IXC, not total IXCs. And the plan can be subscribed to
13 on a total state basis or all the way down to an
14 end-office basis by an IXC. And they can cluster those
15 offices, as well.

16 Q And I believe you stated earlier that this
17 plan is not based on any cost justification whatsoever?

18 A Not at this point in time. We don't even have
19 rates at this point.

20 Q Have you filed this plan in any other states?

21 A We did file this plan in Illinois in our rate
22 case there.

23 Q Did you have any proponents of the plan in
24 Illinois? Did you have any supporters?

25 A Any supporters?

1 Q Right.

2 A We did receive support from a couple of
3 parties for the term plan option.

4 Q Were there any interexchange carriers that
5 were supportive of your plan?

6 A Es, I believe both Sprint and MCI supported
7 our term plan option, or agreed that it was not unduly
8 discriminatory, and the Staff supported that position as well.

9 Q So you filed the rates and your tariffs in
10 Illinois; is that correct? You filed illustrative
11 tariffs in Florida and you filed --

12 A We actually filed discount percentages in
13 Illinois, yes.

14 Q Based on the testimony that you've read in
15 this docket so far, are there any proponents of the plan
16 in Florida?

17 A Proponents? I am not aware of any specific
18 proponents, no.

19 MS. BRYANT: Thank you. I have no further
20 questions.

21 CHAIRMAN DEASON: Mr. Tye?

22 MR. TYE: Thank you, Mr. Chairman.

23 CROSS EXAMINATION

24 BY MR. TYE:

25 Q Mr. Lee, my name is Mike Tye and I represent

1 AT&T. With respect to the switched access discount plan
2 that you were just discussing with Ms. Bryant, are you
3 familiar with the SAVE Plan which GTE proposed to this
4 Commission in its most recent rate case?

5 A I have a little bit of knowledge of it.

6 Q Is this plan something like that plan?

7 A It's similar in that it discounts switched
8 access. The SAVE Plan, I believe, had a feature which
9 involved flowing through the credits on access back to
10 the end users themselves.

11 Q Since you're the first LEC witness to get up,
12 I need to talk to you a little bit about how the RIC is
13 developed so we can get the record clear on that. And
14 let me go through with you the way that I understand
15 that GTE developed the RIC that it's proposing in this
16 case. To start with, it's my understanding that you
17 took the rates that were -- excuse me, you started with
18 an amount of revenue which was the amount of revenue
19 which GTE Florida received from local transport charges
20 under the old structure; is that correct?

21 A That's correct.

22 Q And then you took the rates that had been
23 approved by the FCC and applied them to some usage
24 configuration, whether it be historical or reconfigured
25 and came up with the amount of money that would be

1 produced from the application of those rates; is that
2 correct?

3 A That's correct.

4 Q And then you subtracted that amount of money
5 from the amount you started with, which was the amount
6 that you received in total under the old structure, and
7 you divide an estimate of minutes of use into that and
8 you come up with the RIC; is that correct?

9 A That's correct.

10 Q So the RIC is essentially just, as its name
11 implies, a residual interconnection charge?

12 A That's correct.

13 Q Would you agree that it's somewhat similar to
14 the carrier common line charge in that there's no direct
15 cost associated with the RIC?

16 A I would agree that there is no direct
17 incremental cost associated with the RIC, yes.

18 Q Now, there are a couple of different ways that
19 one could come up with a RIC in this case. One would be
20 to look at the historical use of the network, i.e.,
21 looking at the way the network is configured today, and
22 assume that IXCs would keep those same configurations
23 and use those same configurations to generate the pot of
24 money that you take away in order to come up with the
25 RIC; is that correct?

1 A That's one way to do it, yes.

2 Q And the other way would be to take a
3 reconfigured network, i.e., looking at what you would
4 consider to be the optimal use of the network, come up
5 with the amount of money that would be -- that you would
6 receive from the charges, the direct charges you've
7 proposed, using that optimal reconfiguration, subtract
8 that from the amount you're currently receiving from the
9 local transport charges and develop the RIC from the pot
10 of money that's left remaining there; is that correct?

11 A That's correct.

12 Q And what you have chosen to do, what GTE
13 Florida has chosen to do, as I understand it, is develop
14 its RIC on the basis of a network that assumes 75%
15 reconfiguration and 25% historical usage; is that
16 correct?

17 A That's correct.

18 Q Now, it's my understanding from your
19 testimony, and specifically Page 17 of your testimony,
20 Lines 1 through 6, that if you don't assume some
21 reconfiguration of the network, you feel GTE Florida
22 will lose revenues when the network is reconfigured; is
23 that correct?

24 A That's correct.

25 Q Now, Mr. Chairman, I think I can save some

1 time and maybe a few trees if I could have one of the
2 exhibits that Staff has passed out marked for
3 identification at this point. It would be the one
4 labeled Witness Lee, Response to Staff Interrogatories 1
5 through 7, Response to IAC Interrogatories, 1 through 10
6 and Response to AT&T Interrogatories 1 through 10.

7 CHAIRMAN DEASON: That will be identified as
8 Exhibit No. 17.

9 (Exhibit No. 17 marked for identification.)

10 Q (By Mr. Tye) Mr. Lee, do you have the exhibit
11 that I just referred to before you?

12 A Yes, I do.

13 Q Now, what is the -- what is the RIC that GTE
14 Florida has filed in this case and the one that it's
15 proposing based on the 75% reconfigured and 25%
16 historical network?

17 A The RIC we are proposing in this case is
18 .01318840 cents.

19 Q .013188406, right? Now, would you turn to the
20 document that's just been marked Exhibit No. 17, turn to
21 Page 32, please, sir. And look at GTE Florida's
22 Response to Interrogatory No. 4 there.

23 A Okay.

24 Q Okay, now what you've given us here is the
25 RIC -- excuse me, a RIC that would be based on a

1 historical network; is that correct?

2 A That's correct.

3 Q And that RIC, according to the response to
4 this interrogatory, is higher than the number you just
5 gave me, which was based on a 75% reconfigured and 25%
6 historical network; is that correct?

7 A That's correct.

8 Q Mr. Lee, if in fact GTE Florida were ordered
9 to charge -- or excuse me, to base its charges in this
10 docket on the historical basis, how could GTE lose
11 money, as you say you would in your testimony?

12 A First of all, I need to explain that the data
13 in Florida appeared to be an anomaly that I think we've
14 only seen in one other place. Under most circumstances,
15 a reconfiguration -- reconfiguration activity itself
16 results in lower price transport options that the
17 carriers can avail themselves of. The result is that
18 more dollars are shifted to be recovered by the RIC, and
19 it results in a higher RIC rate.

20 We have looked at the data here and tried to
21 determine the specific causes of it. Without coming up
22 with any one answer there is a number of factors that
23 could be resulting in the difference in the RICs, it
24 actually be slightly higher on the historical side than
25 on the reconfigured side.

1 And I do need to point out that it is only
2 3/1000's of a cent difference here. Very slight
3 difference. And some of those factors that can be
4 causing this difference, from our estimation, are the
5 fact that in Florida today we have a high amount of
6 direct trunk facilities in place already, traffic going
7 over those. There is also -- could be some discrepancy
8 due to the difference in the base time periods that our
9 different models use. Our reconfigured model uses
10 demand from the month of February, '93, whereas the
11 historical demand was based off the interstate model,
12 which used base period demand of July '93. So there
13 could be some potential mismatches there that could
14 cause this slight discrepancy. Also the difference
15 between the two models, there could be differences in
16 percent interstate usage factors, as well as market
17 share, since this is looked at down to an IXC level.
18 And then -- since all the data has been rolled up.

19 Q With respect to the differences in the models,
20 would it be possible for you to run a historical -- or
21 develop a historical RIC based on the same model that
22 you used for your reconfiguration?

23 A The data for the reconfigured model was --

24 Q Yes, the same demand set. I'm sorry.

25 A Not without a significant effort to do so.

1 The demand was pulled out of different systems or
2 different sources, and it was in a different format
3 because of the necessity of the model itself.

4 Q If we were to assume that this -- that the two
5 RICs were comparable, that there weren't significant
6 differences in the demand sets, wouldn't this imply that
7 IXCs in Florida are already making better than optimal
8 use of your network?

9 A I don't think it implies that, no. I just
10 believe that at this point in time the actual mix of
11 usage makes it appear that way. If you compare the
12 demand from the two different scenarios, you do see some
13 efficiency type moves amongst certain demand elements.

14 Q But you would agree that based on the numbers
15 that we've been talking about here today, GTE could not
16 lose money if it charged a historical RIC; is that
17 correct?

18 A In the short term, yes.

19 Q Now, when GTE made its filing at the FCC with
20 respect to local transport restructure, did you propose
21 a historical or reconfigured network?

22 A The company advocated the use of a
23 reconfigured network before the FCC.

24 Q And is it correct that the FCC ordered the use
25 of a historical network?

1 A That's correct.

2 MR. TYE: Thank you, sir, I have no further
3 questions.

4 CHAIRMAN DEASON: We're going to take ten
5 minutes, and maybe we can have the system checked out.

6 MR. POUCHER: (Recess)

7 CHAIRMAN DEASON: Call the hearing back to
8 order. Mr. Poucher?

9 CROSS EXAMINATION

10 BY MR. POUCHER:

11 Q Mr. Lee, I'm Earl Poucher from the Office of
12 Public Counsel. On Page 22 of your testimony you
13 discussed your zone density pricing plan as proposed; is
14 that correct?

15 A That's correct.

16 Q And have you filed this tariff with the
17 Commission?

18 A With the Florida Commission? Yes.

19 Q And your job back in Dallas is developing
20 access line pricing of tariffs; is that correct?

21 A Responsible for access tariffs, yes.

22 Q And did you develop these tariffs?

23 A The tariffs themselves are actually developed
24 by a separate tariffs group. My group is responsible
25 for the prices that go into the tariffs.

1 Q So you make the pricing decisions?

2 A That's correct, with the input of others in
3 the corporation.

4 Q What services that the company offers would be
5 subject to the zone pricing plan that you filed with
6 this Commission?

7 A In this particular case here, this is
8 referring to the zone pricing plan for switched access.

9 Q That's correct.

10 A There's also a zone pricing plan for special
11 access. But in this case the zone pricing would pertain
12 -- as filed, would pertain to all switched access rate
13 elements, I believe, with the exception of carrier
14 common line.

15 Q And you've also filed tariff for special
16 access, is that correct, on a zone density basis?

17 A For zone density, that's correct.

18 Q Could you describe the differences between the
19 zones that you have filed with this tariff?

20 A Are you interested in how the zones were
21 determined; is that your question?

22 Q That's correct.

23 A The zones were determined by looking at
24 existing special access facilities and switched traffic
25 within an exchange and converting all of that traffic

1 and high capacity special access type services to DS1
2 equivalents. These DS1 equivalents then were totalled
3 by central office or exchange and put in descending
4 order based on the number of equivalent circuits. Then
5 break points were developed to group offices into one of
6 three zones. And Zone 1 was determined to have the
7 highest density of DS1 equivalents. That was for all
8 exchanges that had over 112 equivalent DS1s. For Zone
9 2, the grouping was those exchanges that had between 50
10 and 112 DS1 equivalents. And for Zone 3 it was those
11 offices with below 50.

12 Q So Zone 1 would be the most competitive
13 market; Zone 3 would be the least competitive, is that
14 correct?

15 A That's correct.

16 Q Can you describe generally the pricing
17 differentials that you have applied to the various
18 zones, 1, 2 and 3?

19 A At this point for the switched access zone
20 plan there were no pricing differentials filed. That
21 was an illustrative tariff only, to illustrate the
22 structure of the tariff and demonstrate the terms and
23 conditions and how it would work.

24 Q Have you developed, back in Dallas,
25 prospective differentials that you would apply to each

1 of the zones?

2 A On the intrastate side we haven't yet
3 determined what those price differentials would be.

4 Q Have you determined for the interstate portion
5 of the market?

6 A The interstate portion of the market is
7 somewhat governed by some pricing restrictions or
8 banding limits on to how far you can move the prices
9 within each zone, percentage wise. I would imagine that
10 the intrastate prices or differences between zones would
11 be very similar.

12 Q Do you anticipate when you develop the prices
13 that there will be a higher price for Zone 2 and Zone 3
14 than for Zone 1?

15 A Ultimately, that's correct.

16 Q That basically is your competitive response
17 because Zone 1 is the most competitive market?

18 A That's correct.

19 Q Do you know -- not having filed the rates, but
20 do you anticipate that the proposed rates for Zone 3
21 would be higher than the existing rates for those
22 existing locations?

23 A I can't say that unequivocally. It's not
24 necessarily the case. It could be that rates in Zone 1
25 and Zone 2 would be lower somewhat, and Zone 3 could be

1 left alone. Again, it would depend on the
2 circumstances, level of competition, et cetera, that's
3 being faced in each zone.

4 Q Well, who is going to make that decision and
5 when?

6 A At a point in time that this Commission makes
7 an order approving in concept the Company's zone pricing
8 tariffs, we would be prepared to file within a short
9 period of time some actual prices. Those would be
10 developed out of our product management department and
11 pricing as well in Dallas.

12 Q Are you going to propose to this Commission
13 that the Commission make the company whole in terms of
14 its revenues from Zone 1, 2 and 3? In other words,
15 you're going to end up with the same revenues as a
16 result of zone density pricing after the tariff change,
17 as opposed to before?

18 A I want to say yes, but that may not
19 necessarily be the case.

20 Q So you're not sure at this point in time?

21 A At this point in time. There are a number of
22 factors that would need to be considered in that
23 decision.

24 Q Have you considered the possibility of meeting
25 the competitive threat in Zone 1 and leaving Zone 2 and

1 3 revenue neutral in terms of the existing customers, or
2 the existing prices?

3 A You're suggesting take a financial hit in Zone
4 1 and not be revenue neutral overall?

5 Q Yes.

6 A That's an option. That's correct.

7 Q Would you agree that that would be a good
8 option for the customers in Zone 2 and 3?

9 A It would certainly lessen the impact on them.
10 It's one of the things that we would be concerned about
11 in making any pricing decision is rate shock on
12 customers, say, in Zone 3.

13 Q So you really don't know at the present time,
14 whether or not the prices for services in the rural
15 areas, the small exchanges, Zone 3, are going to change
16 as a result of your competitive response in Zone 1?

17 A That's correct.

18 Q You heard the questions that I asked of
19 Dr. Beauvais about the cost justification for new
20 technology. Did you hear that?

21 A Yes.

22 Q Isn't it true that your costs and your
23 revenues are in a continual state of change in your
24 business

25 A That's pretty much correct.

1 Q When you've implemented new technology in the
2 business, it is not your practice to come to this
3 Commission and request lower rates because your costs
4 are going to be lower; is it?

5 A Could you restate the question?

6 Q When you have implemented new technology that
7 is more cost-effective, such as digital switching and
8 fiber technology, it's not your practice to come to this
9 commission and request lower rates because your costs
10 are declining?

11 A Not simply as a result of those cost changes,
12 no. That is one factor that would be in the decision to
13 do that.

14 Q Yes. And likewise, in the face of a
15 competitive threat in Zone 1, it would not be your knee
16 jerk reaction to the come to the Commission and ask for
17 an increased price for Zone 2 and Zone 3 that is not
18 competitive; is that correct?

19 A That may not be the appropriate competitive
20 response.

21 Q What do you think the appropriate competitive
22 response should be?

23 A Again, you need to target the rates in the
24 zone where most of the competition occurs. As I
25 mentioned before, there may or may not be a shift in --

1 or increase in rates in the other zones to offset that.

2 MR. POUCHER: Thank you. That's all the
3 questions I have.

4 CHAIRMAN DEASON: Mr. Wiggins?

5 MR. WIGGINS: No questions.

6 CHAIRMAN DEASON: Staff?

7 CROSS EXAMINATION

8 BY MS. CANZANO:

9 Q Good afternoon, Mr. Lee. Could you please
10 turn to what has been identified as Exhibit No. 17 and
11 turn to Page 23. And while you're doing that, have you
12 had a chance to review this particular exhibit?

13 A Excuse me, are you -- what page did you say?

14 Q Page 23.

15 A This is the interrogatories; is that correct?

16 Q That's correct. It's GTE's response to
17 Staff's, IAC's and AT&T's discovery. Have you had a
18 chance to review this exhibit?

19 A I have looked through it, yes.

20 Q And was that information in this exhibit
21 prepared by you or under your supervision?

22 A Yes, it was.

23 Q And is this information accurate to the best
24 of your knowledge?

25 A To the best of my knowledge, it is.

1 Q On Page 23, GTE has responded to No. 19 of
2 IAC's first set of interrogatories. In No. 19, in that
3 response, you have provided the estimated impact of
4 GTE's proposed local transport rates on large, medium
5 and small IXCs; is that correct?

6 A That's correct.

7 Q Am I interpreting your response correctly that
8 large IXCs will see a 3.54% increase in intrastate
9 transport costs?

10 A That's correct.

11 Q And will the small IXCs get a 9.5.6% decrease?

12 A That's correct.

13 Q Why do the big ones go up and the little ones
14 go down? I'm just getting confused here. Just plain
15 English.

16 A It's not a simple answer without looking at
17 the underlying data by each carrier. But, again, you
18 have to look at what the existing facilities are of each
19 carrier and how that changes as a result of LTR. And
20 for the smaller IXCs, I would -- based on past knowledge
21 of what their facilities are, that there has been a lot
22 of excess capacity built into their network in the past
23 because under the equal charge rule they never had to
24 pay for it.

25 The medium and larger IXCs are probably better

1 positioned in terms of their network today, but, again,
2 as far as the large IXC goes, without looking at the
3 individual data, demand data, for that carrier, I
4 couldn't answer that off the top of my head.

5 Q Are you aware of current access imputation
6 guidelines approved by this commission?

7 A I am aware that there are imputation
8 guidelines. I'm not real familiar with them.

9 Q Do you think that imputation guidelines should
10 be revised in this proceeding?

11 A No, I do not. It's GTE's recommendation that
12 a separate docket or some other proceeding be
13 established to look at imputation. This docket is
14 really looking at access rates, and imputation is
15 associated with the setting of toll rates. And
16 therefore, it's not really an appropriate place to
17 examine it here, in my opinion.

18 Q Am I correct in understanding that you think
19 this should be spun off into a different docket, this
20 issue?

21 A That's correct.

22 Q You have suggested that since the RIC
23 represents most of the transport revenues, that it
24 should be used as an interim surrogate for transport in
25 imputing access to LEC toll rates; is that correct?

1 A Yes. Again, that was a fallback position.
2 Our primary position is that imputation be addressed
3 elsewhere other than this docket, but if the Commission,
4 after hearing all the arguments, still wishes to address
5 it in this docket, we recommended that as just a
6 temporary surrogate, as a way to implement imputation
7 with LTR until it can be examined at a later time in
8 more detail.

9 Q Would you object to using the existing local
10 transport rates until changes to imputation guidelines
11 are made?

12 A No, I would not

13 MS. CANZANO: At this time Staff will be handing
14 out an exhibit that we would like marked for
15 identification at this time, although we would like to
16 sponsor it under a different witness. This particular
17 exhibit is the late-filed deposition exhibit of
18 Mr. Gillan. We are handing out a redacted version of that
19 exhibit that has been corrected.

20 CHAIRMAN DEASON: This will be identified as
21 Exhibit No. 18.

22 (Exhibit No. 18 marked for identification.)

23 Q (By Ms. Canzano) Mr. Lee, are you familiar
24 with the cost numbers that GTE has submitted to
25 Mr. Gillan in preparation of this exhibit?

1 A Yes, I've seen those.

2 Q Do you have any knowledge of whether there is
3 any difference in the type of data provided by the LECs?

4 A I don't understand the question.

5 Q I guess the terms of the actual --

6 A As far as this cost data here between the --
7 as far as the cost data between the three LECs on this?

8 Q Yes. Like is it all -- are the components of
9 that data, do you think those would be the same, or are
10 you aware of any differences in what goes into that
11 data?

12 A I'm not aware of any differences, but I do not
13 know what went into the numbers. I would have some
14 concerns about them given the size of some of the
15 differences between Southern Bell and ourselves.

16 Q We're trying to seek or shed some light on
17 maybe the nature of those components. We're not asking
18 about numbers or something that would -- like I said, on
19 the actual types of components in those numbers.

20 A You're looking for the type of equipment
21 that's embedded in those costs, or something else?

22 Q Yes.

23 A I cannot testify to the actual equipment costs
24 or anything that went into these numbers, as they were
25 prepared by another department within the company.

1 Q Is there a way to make GTE's numbers
2 non-confidential?

3 A Deregulate us.

4 Q Besides that.

5 A If I had a better understanding of what these
6 numbers represented and how they were calculated,
7 particularly the lower portion, I could consider that
8 for the lower portion, but the upper section of this
9 exhibit, the Company wishes to remain as confidential.
10 (Pause)

11 MS. CANZANO: Mr. Lee, we were planning to
12 obtain Mr. Gillan's work papers and have them filed as an
13 exhibit, if it's possible. But we would like you to
14 review them and we would like to request a late-filed
15 exhibit at this time.

16 And we ask that you provide an analysis of the
17 problems with the cost data that Mr. Gillan provided in
18 his deposition exhibit, and any changes to the data and
19 cost results that would render them appropriate for the
20 Commission to use as a base for cost-based rates, if it
21 so desires. And we would also request your work papers
22 to accompany this late-filed exhibit.

23 CHAIRMAN DEASON: Can that be provided?

24 WITNESS LEE: I believe that can be required.

25 That still doesn't answer the question, though, of whether

1 the costs amongst the companies here were prepared in a
2 consistent manner. And I have no knowledge of how the
3 other companies prepared their cost.

4 MS. CANZANO: And I think we understand that.

5 MS. PEED: Ms. Canzano, are you going to request
6 that of all of the LECs?

7 MS. CANZANO: Yes.

8 CHAIRMAN DEASON: This will be identified as
9 Late-Filed Exhibit No. 19. Could we have a short title,
10 please?

11 MS. CANZANO: "GTE Cost Data for DS1 and DS3.

12 Also, Staff at this time would like to have
13 marked for identification the remaining exhibits for
14 Mr. Lee.

15 Q (By Mr. Canzano) Mr. Lee, have you reviewed
16 these remaining exhibits?

17 A I'm not sure which ones you're referring to
18 here.

19 Q There's an exhibit of the deposition
20 transcript, then there's one of the late-filed
21 deposition exhibits, plus attachments, and then the
22 tariff.

23 A Yes.

24 Q Okay. And are they accurate to the best of
25 your knowledge and belief?

1 A To the best of my knowledge, yes.

2 Q Okay.

3 MS. CANZANO: We would like them marked at this
4 time.

5 CHAIRMAN DEASON: Okay. The deposition
6 transcripts will be identified as Exhibit 20. The
7 "Late-Filed Deposition Exhibits" will be identified as
8 Exhibit 21, and the "Local Transport Restructure Tariff"
9 will be identified as Exhibit 22.

10 (Late-Filed Exhibit No. 19 identified.)

11 (Exhibit Nos. 20 through 22 marked for
12 identification.)

13 MS. CANZANO: Staff has no further questions.

14 CHAIRMAN DEASON: Commissioners? Redirect?

15 MS. CASWELL: I do have just a few questions.

16 REDIRECT EXAMINATION

17 BY MS. CASWELL:

18 Q Mr. Lee, has GTE filed a tariff to waive the
19 nonrecurring charges associated with reconfiguration?

20 A Yes, that's true.

21 Q Has that tariff been approved?

22 A To my knowledge, yes.

23 Q Would you expect reconfiguration activity to
24 continue and even accelerate based on this nonrecurring
25 charge waiver?

1 A Yes, I believe it will. The waiver of the
2 NRCs further encourages IXCs to get their
3 reconfiguration orders in sooner rather than later.

4 Q Is there any allegation in this proceeding
5 that GTE's proposed transport rates are below cost,
6 below incremental cost?

7 A No, none that I'm aware of.

8 Q Is the purpose of zone density pricing to
9 maintain revenue neutrality for the LEC?

10 A That is not the purpose of zone density
11 pricing, no.

12 MS. CASWELL: That's all I've got. Thank you.

13 CHAIRMAN DEASON: Exhibits.

14 MS. CANZANO: Staff moves into the record 17, 20
15 21 and 22.

16 CHAIRMAN DEASON: Without objection, Exhibits
17 17, 20 and 21 and 22 are admitted.

18 MS. CANZANO: And 19.

19 CHAIRMAN DEASON: 19 is late-filed.

20 MS. CANZANO: I'm sorry.

21 CHAIRMAN DEASON: 18, I think you're going to
22 have Mr. Gillan sponsor that?

23 MS. CANZANO: That's correct.

24 CHAIRMAN DEASON: Very well.

25 MS. CANZANO: So we'll have that.

1 (Exhibit Nos. 17 and 20 through 22 received
2 into evidence.)

3 CHAIRMAN DEASON: Thank you, Mr. Lee.

4 Mr. Carver, you may call your witness.

5 (Witness Lee excused.)

6 MR. CARVER: Southern Bell calls David B.
7 Denton.

8 DAVID B. DENTON

9 was called as a witness on behalf of Southern Bell
10 Telephone and Telegraph Company and, having been duly
11 sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. CARVER:

14 Q Mr. Denton, would you please state your full
15 name and business address?

16 A My name is David B. Denton, business address
17 is 675 West Peachtree Street, Atlanta, Georgia.

18 Q And by whom are you employed and in what
19 capacity?

20 A Employed by BellSouth Telecommunication as
21 Director of Regulatory Policy and Planning.

22 Q Mr. Denton, have you caused to be filed in
23 this docket direct testimony consisting of 15 pages and
24 supplemental direct testimony consisting of four pages?

25 A Yes, I did.

1 Q Do you have any changes or modifications to
2 your testimony?

3 A No, I don't.

4 MR. CARVER: Okay. One mechanical point,
5 Mr. Chairman, that I'd like to raise at that juncture.
6 This is not really a change in the witness's testimony,
7 but we do have some copies of his testimony that came out
8 from a printer so they printed illegible. In fact, I
9 think the official copy filed with the Commission may be
10 legible. I think the parties were all served with copies
11 that did not contain those errors. The pages in question
12 are Pages 8 and 14. So just in case the official record
13 has bad copies, I do have some, if I recall pages I can
14 substitute for those. It's not really a change in his
15 testimony it's just an effort to correct that printing
16 error.

17 MR. CARVER: Are the copies the Commissioners
18 have okay?

19 CHAIRMAN DEASON: My copy is fine.

20 Q (By Mr. Carver) Mr. Denton, if I were to ask
21 you the questions that appear in your direct and
22 supplemental direct testimony today, would your answers
23 be the same?

24 A Yes, they would.

25 MR. CARVER: Mr. Chairman, I request the

1 witness's testimony be inserted into the record as though
2 read.

3 CHAIRMAN DEASON: Without objection, it will be
4 so inserted.

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1 **SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY**
2 **TESTIMONY OF DAVID B. DENTON**
3 **BEFORE THE**
4 **FLORIDA PUBLIC SERVICE COMMISSION**
5 **DOCKET NO. 921074-TP**
6 **MAY 23, 1994**

7
8
9 Q. **WILL YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

10

11 A. **I AM DAVID B. DENTON. MY BUSINESS ADDRESS IS 675 WEST**
12 **PEACHTREE STREET, ATLANTA, GEORGIA.**

13

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

15

16 A. **I AM EMPLOYED BY BELLSOUTH TELECOMMUNICATIONS INC., D/B/A**
17 **IN FLORIDA AS SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY**
18 **("SOUTHERN BELL"), AS DIRECTOR IN THE REGULATORY POLICY AND**
19 **PLANNING DEPARTMENT.**

20

21 Q. **PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND**
22 **EXPERIENCE.**

23

24 A. **I SERVED IN THE UNITED STATES MARINE CORPS FROM 1954 TO**
25 **1958. I WAS GRADUATED FROM THE UNIVERSITY OF MIAMI IN 1961**

1 WITH A BACHELOR OF BUSINESS ADMINISTRATION DEGREE CUM LAUDE
2 IN ECONOMICS AND WAS AWARDED A MASTER OF ARTS DEGREE IN
3 ECONOMICS IN 1964 FROM THE SAME UNIVERSITY. IN 1979, I WAS
4 AWARDED A MASTER OF SCIENCE DEGREE IN ADVANCED MANAGEMENT
5 FROM PACE UNIVERSITY.

6
7 I BEGAN EMPLOYMENT WITH SOUTHERN BELL IN 1962 AND HELD
8 VARIOUS POSITIONS IN THE COMMERCIAL DEPARTMENT BEFORE
9 JOINING THE HEADQUARTERS RATES ORGANIZATION IN 1966. I
10 HAVE HELD VARIOUS POSITIONS AT SOUTHERN BELL HEADQUARTERS
11 IN ATLANTA AND AT AT&T HEADQUARTERS IN NEW YORK CITY IN THE
12 RATES AND TARIFF AREA. SINCE NOVEMBER 1991, I HAVE BEEN IN
13 THE BELLSOUTH TELECOMMUNICATIONS INC., HEADQUARTERS
14 REGULATORY POLICY AND PLANNING DEPARTMENT. I HAVE
15 TESTIFIED BEFORE THIS COMMISSION AND BEFORE THE GEORGIA,
16 NORTH CAROLINA, AND SOUTH CAROLINA COMMISSIONS. ATTACHED
17 TO MY TESTIMONY IS AN APPENDIX LISTING THE SPECIFIC STATE
18 DOCKETS IN WHICH I HAVE TESTIFIED.

19

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

21

22 A. THE PURPOSE OF MY TESTIMONY IS TO ADDRESS CERTAIN ISSUES
23 IDENTIFIED IN PHASE II OF DOCKET NO. 921074-TP.

24

25 Q. UNDER WHAT CIRCUMSTANCES SHOULD THE COMMISSION IMPOSE THE

1 SAME OR DIFFERENT FORMS OR CONDITIONS OF EXPANDED
2 INTERCONNECTION THAN THE F.C.C.? (ISSUE 3)

3
4 A. THIS COMMISSION HAS THE AUTHORITY TO ALLOW FOR EXPANDED
5 INTERCONNECTION ON AN INTRASTATE BASIS IN THE WAY THAT IT
6 FINDS WILL BEST SERVE THE PUBLIC INTEREST AND MAY IMPOSE
7 DIFFERENT FORMS OR CONDITIONS FOR EXPANDED INTERCONNECTION
8 THAN THE F.C.C. FOR INTRASTATE PURPOSES. WHILE NOT,
9 HOWEVER, NECESSARILY IMPOSING A FRAMEWORK FOR EXPANDED
10 INTERCONNECTION ON THIS COMMISSION, THE F.C.C.'S ORDER MAY
11 MAKE SUBSTANTIAL DEPARTURE FROM THAT ORDER MORE DIFFICULT
12 AND EXPENSIVE FOR THOSE PROVIDING EXPANDED INTERCONNECTION
13 TO ADMINISTER SUCH SERVICE. FURTHER, THE ADMINISTRATIVE
14 PROBLEMS THAT WOULD BE CAUSED BY VASTLY DIFFERENT EXPANDED
15 INTERCONNECTION STRUCTURES FOR INTRASTATE AND INTERSTATE
16 SERVICES COULD HINDER THE DEVELOPMENT OF SERVICES AND LIMIT
17 THE DEVELOPMENT OF COMPETITIVE ALTERNATIVES. BASICALLY,
18 SOUTHERN BELL BELIEVES THE TERMS AND CONDITIONS APPROVED IN
19 PHASE I FOR SPECIAL ACCESS EXPANDED INTERCONNECTION, WHICH
20 TRACKED THE F.C.C.'S ORDER, ARE PROPER FOR PHASE II AS
21 WELL. THEREFORE, IT IS MY RECOMMENDATION THAT THE
22 COMMISSION ADOPT, WITH ONE EXCEPTION, THE F.C.C.'S APPROACH
23 TO EXPANDED INTERCONNECTION FOR SWITCHED ACCESS.
24
25 UNLIKE THE F.C.C., THIS COMMISSION SHOULD ALLOW THE LECs

1 THE OPTION TO PROVIDE EITHER VIRTUAL OR PHYSICAL
2 COLLOCATION. THIS WILL GIVE THE LECs THE ABILITY TO USE
3 THEIR FACILITIES AS EFFICIENTLY AND EFFECTIVELY AS
4 POSSIBLE. INDEED, SOUTHERN BELL HAS APPEALED THE F.C.C.'S
5 ORDER BECAUSE OF ITS MANDATORY PHYSICAL COLLOCATION
6 REQUIREMENT AND THAT APPEAL IS NOW RIPE FOR A DECISION.

7

8 Q. IS EXPANDED INTERCONNECTION FOR SWITCHED ACCESS IN THE
9 PUBLIC INTEREST? (ISSUE 4)

10

11 A. ASSUMING, AS THIS COMMISSION DID IN THE ALTERNATE ACCESS
12 VENDOR DOCKET NO. 890183, AND IN PHASE I OF THIS DOCKET,
13 THAT INCREASING CUSTOMER OPTIONS FOR TELECOMMUNICATION
14 SERVICES IS IN THE PUBLIC INTEREST, THEN ALLOWING EXPANDED
15 INTERCONNECTION FOR INTRASTATE SWITCHED ACCESS SERVICE MAY
16 BE IN THE PUBLIC INTEREST BECAUSE IT COULD RESULT IN
17 ADDITIONAL COMPETITIVE ALTERNATIVES.

18

19 SWITCHED ACCESS SERVICES, HOWEVER, PROVIDE SIGNIFICANT
20 CONTRIBUTION. EXPANDED INTERCONNECTION FOR SWITCHED ACCESS
21 SERVICE WILL PUT THESE CONTRIBUTION LEVELS IN JEOPARDY.
22 THIS COMMISSION SHOULD THUS PROVIDE THE LECs WITH THE
23 FLEXIBILITY NECESSARY TO COMPETE FOR THE PROVISION OF
24 ACCESS SERVICES. WITHOUT FLEXIBILITY THERE IS THE
25 POTENTIAL THAT THE PUBLIC INTEREST MAY NOT BE WELL SERVED.

1
2 BY ALLOWING EXPANDED INTERCONNECTION, PROVIDERS OF TELE-
3 COMMUNICATIONS SERVICE ALTERNATIVES TO THE LECs' SERVICES
4 WILL GAIN A GREATER MARKET SHARE. AT THE SAME TIME
5 EXPANDED INTERCONNECTION IS ALLOWED, THE LECs SHOULD BE
6 ALLOWED THE PRICING FLEXIBILITY TO FULLY COMPETE TO ENSURE
7 THAT SUBSCRIBERS ARE ABLE TO OBTAIN THEIR SERVICE FROM THE
8 MOST EFFICIENT COMPETITOR. WITHOUT THIS FLEXIBILITY, AN
9 INEFFICIENT ALTERNATIVE PROVIDER COULD UNDERPRICE A MORE
10 EFFICIENT LEC. THIS WOULD DENY THE END USER THE BENEFITS
11 THAT WOULD ARISE FROM THE ATTENDANT
12 ABILITY TO PURCHASE ACCESS SERVICES FROM THE MOST EFFICIENT
13 PROVIDER. FOR THIS REASON, LECs MUST BE ALLOWED TO COMPETE
14 TO ENSURE THAT END USERS ARE ABLE TO OBTAIN THEIR SERVICE
15 FROM THE MOST EFFICIENT COMPETITOR. THIS WOULD GIVE THE
16 LECs THE OPPORTUNITY TO RETAIN AS MUCH CONTRIBUTION AS THEY
17 CAN BY COMPETING ON THE SAME BASIS.

18

19 Q. WHAT SEPARATION IMPACTS MAY OCCUR IF EXPANDED
20 INTERCONNECTION IS APPROVED? (ISSUE 4)

21

22 A. SOUTHERN BELL HAS NOT DEVELOPED A FORECAST OF DEMAND FOR
23 COLLOCATION AND THEREFORE CANNOT QUANTIFY THE POTENTIAL
24 JURISDICTIONAL SEPARATIONS IMPACT OF EXPANDED
25 INTERCONNECTION.

1

2 Q. HOW WOULD RATEPAYERS BE FINANCIALLY AFFECTED BY EXPANDED
3 INTERCONNECTION? (ISSUE 4)

4

5 A. AS STATED IN PHASE I OF THIS DOCKET, RESIDENTIAL RATEPAYERS
6 MAY BE FINANCIALLY AFFECTED IF THE LECs ARE NOT ABLE TO
7 COMPETE FULLY FOR THE PROVISION OF ACCESS SERVICES THAT
8 CURRENTLY PROVIDE A CONTRIBUTION TO RESIDENTIAL SERVICE.
9 TELECOMMUNICATIONS SERVICES PROVIDED BY THE LECs CANNOT BE
10 VIEWED IN A VACUUM. BECAUSE OF THE EXISTING CROSS-
11 ELASTICITIES BETWEEN DEDICATED AND SWITCHED ACCESS
12 SERVICES, THERE IS ALREADY A SIGNIFICANT THREAT TO THE
13 CONTRIBUTION RECEIVED BY THE LECs FROM THESE SERVICES.
14 WITH MORE COMPETITION FOR SWITCHED ACCESS, WHICH PROVIDES
15 THE LION'S SHARE OF THIS SUPPORT, THERE IS AN EVEN GREATER
16 RISK OF THE LOSS OF CONTRIBUTION. THEREFORE, THE LECs NEED
17 THE ABILITY TO BE EFFECTIVE AND VIABLE COMPETITORS IN THIS
18 MARKET. IF THEY DO NOT HAVE THIS ABILITY, THEN THERE IS
19 THE POTENTIAL THAT RATEPAYERS COULD BE ADVERSELY AFFECTED.

20

21 Q. IS THE OFFERING OF DEDICATED AND SWITCHED SERVICES BETWEEN
22 NON-AFFILIATED ENTITIES BY NON-LECs IN THE PUBLIC INTEREST?
23 (ISSUE 5)

24

25 A. IF ALLOWING CUSTOMERS MORE OPTIONS FOR THEIR

1 TELECOMMUNICATIONS SERVICE REQUIREMENTS IS DEEMED TO BE IN
2 THE PUBLIC INTEREST, THEN PERMITTING DEDICATED AND SWITCHED
3 SERVICES TO BE PROVISIONED BETWEEN NON-AFFILIATED ENTITIES
4 BY NON-LECs WOULD PROVIDE CERTAIN END USERS MORE OPTIONS
5 AND, THEREFORE, COULD BE CONSIDERED IN THE PUBLIC INTEREST.
6 THIS, IN TURN, WOULD ALLOW FOR MORE COMPETITIVE INROADS TO
7 BE MADE INTO TRADITIONAL LEC SERVICE AREAS. AS STATED
8 ABOVE, IF THIS COMPETITIVE EROSION IS ALLOWED WITHOUT
9 PROVIDING ANY ADDITIONAL FLEXIBILITY TO THE LECs, THEN THE
10 OVERALL PUBLIC INTEREST WILL NOT BE SERVED.

11

12 Q. DOES CHAPTER 364, FLORIDA STATUTES, ALLOW THE COMMISSION TO
13 REQUIRE EXPANDED INTERCONNECTION FOR SWITCHED ACCESS?

14 (ISSUE 6)

15

16 A. THOUGH I AM NOT A LAWYER, SOUTHERN BELL'S ATTORNEYS ADVISE
17 ME THAT THERE IS NOTHING IN CHAPTER 364, FLORIDA STATUTES
18 THAT WOULD PROHIBIT THIS COMMISSION FROM ORDERING EXPANDED
19 INTERCONNECTION FOR INTRASTATE SWITCHED ACCESS SERVICE.
20 HOWEVER, EXPANDED INTERCONNECTION COULD NOT BE USED AS A
21 WAY TO DO SOMETHING THAT WOULD OTHERWISE BE PROHIBITED BY
22 CHAPTER 364. FOR EXAMPLE, UNDER SECTION 364.337 OF THE
23 STATUTE, NEITHER AN ALTERNATE ACCESS VENDOR (AAV), NOR ANY
24 OTHER NON-LEC ENTITY, CAN PROVIDE SWITCHED SERVICES TO AN
25 END USER. THEREFORE, EXPANDED INTERCONNECTION COULD NOT BE

1 USED BY AN AAV OR OTHER PROVIDER OTHER THAN A LEC AS A
2 MEANS TO PROVIDE SWITCHED ACCESS SERVICE.

3

4 Q. DOES A PHYSICAL COLLOCATION MANDATE RAISE FEDERAL AND/OR
5 STATE CONSTITUTIONAL QUESTIONS ABOUT THE TAKING OR CON-
6 FISCATION OF LEC PROPERTY? (ISSUE 7)

7

8 A. THIS IS ANOTHER LEGAL QUESTION, BUT I KNOW SOUTHERN BELL
9 HAS APPEALED THE F.C.C.'s ORDER BECAUSE IT BELIEVES THE
10 ORDER CONSTITUTES AN UNLAWFUL TAKING OF PROPERTY. AT THE
11 PRESENT TIME THAT APPEAL IS PENDING A DECISION.

12

13 Q. SHOULD THE COMMISSION REQUIRE PHYSICAL AND/O
14 COLLOCATION FOR SWITCHED ACCESS EXPANDED INTERCONNECTION?
15 (ISSUE 8)

16

17 A. AS I STATED EARLIER, THIS IS ONE AREA WHERE THE COMMISSION
18 SHOULD NOT FOLLOW IN THE FOOTSTEPS OF THE F.C.C. THIS
19 COMMISSION SHOULD NOT MANDATE EITHER FORM OF COLLOCATION.
20 RATHER, THE LOCAL EXCHANGE COMPANIES SHOULD HAVE THE OPTION
21 OF PROVIDING EITHER PHYSICAL OR VIRTUAL INTERCONNECTION
22 ARRANGEMENTS. WHILE SOUTHERN BELL DOES NOT HAVE ANY
23 OBJECTION TO COLLOCATION FOR SWITCHED ACCESS SERVICES, THE
24 CENTRAL OFFICES WHERE THE COLLOCATION WILL TAKE PLACE ARE
25 PROPERTIES OWNED AND ADMINISTERED BY SOUTHERN BELL, AND AS

1 SUCH, SOUTHERN BELL IS THE APPROPRIATE PARTY TO DETERMINE
2 WHETHER A PHYSICAL OR VIRTUAL COLLOCATION ARRANGEMENT IS
3 THE MOST ECONOMIC AND EFFICIENT USE OF CENTRAL OFFICE
4 SPACE. ALTHOUGH THE COLLOCATOR'S REQUEST SHOULD BE
5 CONSIDERED, LECs MUST RETAIN THE ABILITY TO DETERMINE THE
6 APPROPRIATE FORM OF COLLOCATION IN ANY GIVEN CENTRAL
7 OFFICE.

8

9 Q. WHICH LECs SHOULD PROVIDE SWITCHED ACCESS EXPANDED
10 INTERCONNECTION? (ISSUE 9)

11

12 A. UNDER THE F.C.C.'S ORDER ONLY TIER I LECs, WHICH IN FLORIDA
13 WOULD BE SOUTHERN BELL, GTE, AND UNITED/CENTEL, ARE
14 REQUIRED TO PROVIDE EXPANDED INTERCONNECTION. THE F.C.C.'S
15 RATIONALE FOR THIS DECISION WAS THAT MANY SMALLER LECs MAY
16 HAVE INADEQUATE CENTRAL OFFICE SPACE TO ACCOMMODATE
17 COLLOCATION. THIS COMMISSION IS, HOWEVER, FREE TO EITHER
18 ADOPT THIS SAME APPROACH OR TO DECIDE THIS ISSUE
19 DIFFERENTLY. OF COURSE, AS THE F.C.C. RECOGNIZED, SPACE
20 LIMITATIONS ARE ALSO PRESENT IN SOME TIER I LEC CENTRAL
21 OFFICES.

22

23 Q. FROM WHAT LEC FACILITIES SHOULD EXPANDED INTERCONNECTION
24 FOR SWITCHED ACCESS BE OFFERED? SHOULD EXPANDED
25 INTERCONNECTION FOR SWITCHED ACCESS BE REQUIRED FROM ALL

1 SUCH FACILITIES? (ISSUE 10)

2

3 A. THE FACILITIES THAT ARE OFFERED FOR EXPANDED
4 INTERCONNECTION FOR SWITCHED ACCESS SHOULD BE CONSISTENT
5 WITH THOSE REQUIRED BY THE F.C.C.'S ORDER. AS THE
6 COMMISSION RECOGNIZED IN PHASE I OF THIS PROCEEDING,
7 REQUIRING THE LECs TO OFFER EXPANDED INTERCONNECTION OUT OF
8 THE SAME OFFICES THAT HAVE BEEN TARIFFED AT THE INTERSTATE
9 LEVEL MAKES PRACTICAL SENSE AND WILL BE THE LEAST
10 BURDENSOME APPROACH FOR THE LECs. SPECIFICALLY FOR
11 SWITCHED ACCESS, THESE FACILITIES ARE END OFFICES, SERVING
12 WIRE CENTERS AND TANDEM SWITCHES. THE F.C.C. RECOGNIZED IN
13 ITS ORDER THAT THE LECs SHOULD NOT BE REQUIRED TO PROVIDE
14 EXPANDED INTERCONNECTION AT REMOTE NODES OR REMOTE SWITCHES
15 IN HOST/REMOTE ARRANGEMENTS, UNLESS THEY SERVE AS A RATING
16 POINT FOR SWITCHED TRANSPORT AND HAVE THE NECESSARY SPACE
17 AND TECHNICAL CAPABILITIES. THE LECs SHOULD NOT BE
18 REQUIRED TO BUILD ADDITIONAL SPACE TO ENHANCE THESE REMOTE
19 NODE/SWITCHES TO ACCOMMODATE EXPANDED INTERCONNECTION.
20 BECAUSE OF PROBLEMS OF ADMINISTRATION, IT WOULD AGAIN MAKE
21 PRACTICAL SENSE FOR THIS COMMISSION TO FOLLOW THE F.C.C.
22 GUIDELINES FOR SWITCHED COLLOCATION.
23
24 THE ISSUE OF "CHECKERBOARDING" AS A MEANS TO ACCOMMODATE
25 EXPANSION NEEDS FURTHER EXAMINATION WITH RESPECT TO

1 **EXPANDED INTERCONNECTION FOR SWITCHED ACCESS SERVICE.**
2 **THERE WOULD SEEM TO BE SOME INCONSISTENCY BETWEEN**
3 **"CHECKERBOARDING" AND HOW THE CONCEPT OF "WAREHOUSING" WAS**
4 **ADDRESSED BY THIS COMMISSION IN ITS ORDER. ALSO, THE**
5 **F.C.C.'s ORDER DID NOT PROVIDE FOR "CHECKERBOARDING."**
6 **THERE IS AN OBVIOUS INCONSISTENCY IN ALLOWING**
7 **"CHECKERBOARDING" FOR COLLOCATION OF INTRASTATE SERVICES,**
8 **BUT NOT FOR INTERSTATE. THIS INCONSISTENCY WILL**
9 **UNQUESTIONABLY MAKE THE ADMINISTRATION OF EXPANDED**
10 **INTERCONNECTION MORE DIFFICULT AND COSTLY.**

11

12 **Q. WHICH ENTITIES SHOULD BE ALLOWED EXPANDED INTERCONNECTION**
13 **FOR SWITCHED ACCESS? (ISSUE 11)**

14

15 **A. THOSE ENTITIES SUCH AS INTEREXCHANGE CARRIERS, ALTERNATE**
16 **ACCESS VENDORS, CABLE COMPANIES, AND END USERS WHO DESIRE**
17 **TO INTERCONNECT THEIR OWN BASIC TRANSMISSION FACILITIES**
18 **ASSOCIATED WITH OPTICAL TERMINATING EQUIPMENT AND**
19 **MULTIPLEXERS SHOULD BE ALLOWED TO INTERCONNECT ON AN**
20 **INTRASTATE BASIS.**

21

22 **Q. SHOULD COLLOCATORS BE REQUIRED TO ALLOW LECs AND OTHER**
23 **PARTIES TO INTERCONNECT WITH THEIR NETWORKS? (ISSUE 12)**

24

25 **A. YES, RECIPROCITY UNDER THE SAME TERMS AND CONDITIONS AS**

1 **REQUIRED FOR LECs SHOULD BE PART OF ANY INTERCONNECTION/
2 COLLOCATION ORDER IN FLORIDA. CUSTOMERS MAY BE DENIED THE
3 FULL BENEFIT FROM INCREASED COMPETITION IN THE MARKETPLACE
4 IF RECIPROCITY IS NOT AVAILABLE TO ALL TELECOMMUNICATIONS
5 PROVIDERS AND THEIR CUSTOMERS. FOR EXAMPLE, WITHOUT
6 RECIPROCAL INTERCONNECTION, CUSTOMERS MAY BE DENIED THE
7 OPTION OF PURCHASING LEC SERVICES AT THE MOST COMPETITIVE
8 PRICE. OUR EXPERIENCE DEMONSTRATES THAT THIS SHOULD BE
9 REQUIRED BY THIS COMMISSION BECAUSE IN A NUMBER OF
10 INSTANCES WE, OR OUR CUSTOMERS, HAVE NOT BEEN ALLOWED TO
11 COLLOCATE ON REASONABLE TERMS.**

12

13 **Q. SHOULD THE COMMISSION ALLOW SWITCHED ACCESS EXPANDED
14 INTERCONNECTION FOR NON-FIBER OPTIC TECHNOLOGY? (ISSUE 13)**

15

16 **A. BECAUSE OF THE LIMITED AVAILABILITY OF CONDUIT AND RISER
17 SPACE THE INTERCONNECTION OF NON-FIBER OPTIC CABLE SHOULD
18 NOT BE ORDERED. THE TELECOMMUNICATIONS NETWORK IS MOVING
19 TOWARDS A FIBER OPTICS-BASED NETWORK. SOUTHERN BELL IS IN
20 THE PROCESS OF MODERNIZING ITS NETWORK AND DEPLOYING FIBER
21 OPTIC TECHNOLOGY. EXPANDED INTERCONNECTION OFFERINGS
22 SHOULD BE COMPATIBLE WITH THESE TECHNOLOGICAL DEVELOPMENTS.
23 EXPANDED INTERCONNECTION SHOULD BE USED AS A MEANS TO
24 PROMOTE NETWORK INNOVATION. HOWEVER, AS THE COMMISSION
25 RECOGNIZED IN PHASE I, WHERE FACILITIES PERMIT,**

1 ARRANGEMENTS SHOULD BE NEGOTIATED ON A CASE-BY-CASE BASIS
2 FOR NON-FIBER FACILITIES USED FOR EXPANDED INTERCONNECTION
3 FOR SWITCHED ACCESS. SOUTHERN BELL BELIEVES THAT THIS
4 CASE-BY-CASE NEGOTIATION PROCESS IS APPROPRIATE FOR DSO
5 INTERCONNECTIONS AS WELL. AT THE VERY LEAST, REQUESTS FOR
6 DSO INTERCONNECTIONS SHOULD BE HANDLED IN THE SAME MANNER
7 OUTLINED BY THE F.C.C. IN ITS ORDER. SPECIFICALLY, LECs
8 SHOULD NOT BE REQUIRED TO FILE TARIFFS FOR DSO
9 INTERCONNECTION UNTIL IT HAS BEEN REQUESTED.

10

11 Q. SHOULD THE PROPOSED LEC FLEXIBLE PRICING PLANS FOR PRIVATE
12 LINE AND SPECIAL ACCESS SERVICES BE APPROVED? (ISSUE 15)

13

14 A. YES. SOUTHERN BELL HAS SUBMITTED A SPECIAL ACCESS TARIFF
15 THAT WOULD IMPLEMENT ZONE PRICING. THIS COMMISSION SHOULD
16 APPROVE SOUTHERN BELL'S TARIFF TO IMPLEMENT ITS ZONE
17 PRICING PLAN ON THE BASIS OF WIRE CENTER GROUPINGS RATHER
18 THAN AT AVERAGED STATEWIDE RATES. INITIALLY, SOUTHERN
19 BELL'S TARIFF WILL INTRODUCE THE ZONE PRICING STRUCTURE
20 WITHOUT CHANGING ANY RATES. HAVING THE STRUCTURE IN PLACE
21 WILL FACILITATE SOUTHERN BELL'S ABILITY TO REACT TO
22 COMPETITION. AS COMPETITION INCREASES, IT IS OF CRITICAL
23 IMPORTANCE THAT THE LECs BE ABLE TO RESPONSE QUICKLY TO
24 COMPETITION IN THIS ARENA. THE PROPOSED TARIFF STRUCTURE
25 WILL ALLOW SOUTHERN BELL TO DO THIS.

1

2 Q. SHOULD THE LECs PROPOSED INTRASTATE PRIVATE LINE AND
3 SPECIAL ACCESS INTERCONNECTION TARIFF BE APPROVED? (ISSUE
4 16)

5

6 A. YES. SOUTHERN BELL'S PROPOSED INTRASTATE EXPANDED
7 INTERCONNECTION TARIFFS WITH ONE EXCEPTION (THE SPACE
8 CONSTRUCTION CHARGE), MIRROR THE STRUCTURE AND RATES FILED
9 WITH THE F.C.C. THE PROPOSED TARIFF ALSO COMPLIES WITH
10 THIS COMMISSION'S MARCH 10, 1994 ORDER. WITH THE EXCEPTION
11 OF THOSE MATTERS ADDRESSED BY SOUTHERN BELL IN ITS MOTION
12 FOR RECONSIDERATION, SOUTHERN BELL'S INTERSTATE TARIFFS ARE
13 IN EFFECT BUT ARE UNDER INVESTIGATION. SUBJECT TO ANY
14 CHANGES MADE BY THE F.C.C. AND DECISIONS MADE BY THIS
15 COMMISSION ON RECONSIDERATION, THE TARIFFS SOUTHERN BELL
16 HAS FILED FOR EXPANDED INTERCONNECTION FOR INTRASTATE
17 PRIVATE LINE AND SPECIAL ACCESS SERVICE ARE FAIR TO
18 INTERCONNECTORS AND TO RATEPAYERS AND WILL SERVE TO ENHANCE
19 COMPETITION AND, THEREFORE, SHOULD BE APPROVED.

20

21 Q. PLEASE SUMMONY.

22

23 A. ALLOWING EXPANDED INTERCONNECTION FOR INTRASTATE SWITCHED
24 ACCESS SERVICE MAKES ADDITIONAL COMPETITIVE ALTERNATIVES
25 AVAILABLE TO END USERS. THIS IN TURN PROMOTES THE

1 CONTINUED EVOLUTION TO A FULLY COMPETITIVE ENVIRONMENT FOR
2 TELECOMMUNICATION SERVICES. THIS COMMISSION SHOULD ALLOW
3 THIS COMPETITIVE ENVIRONMENT TO DEVELOP IN THE MOST
4 EQUITABLE, EFFICIENT AND FAIR MANNER POSSIBLE FOR ALL
5 TELECOMMUNICATIONS SERVICE PROVIDERS. A DEVELOPMENT OF
6 THIS SORT WILL ENSURE THAT THE USERS OF SWITCHED ACCESS
7 WILL RECEIVE THE BENEFITS OF COMPETITION. THIS, HOWEVER,
8 CAN ONLY OCCUR IF THE LECs ARE ALLOWED THE PRICING
9 FLEXIBILITY THEY SEEK. ALSO, INTRASTATE SWITCHED ACCESS
10 SERVICE PROVIDES SIGNIFICANT CONTRIBUTION TO THE LECs'
11 REVENUE REQUIREMENTS. WITHOUT PRICING FLEXIBILITY, THE
12 LECs WILL BE LESS COMPETITIVE IN THE MARKETPLACE AND WILL
13 BE LESS ABLE TO MAINTAIN CONTRIBUTION. FINALLY, THE LECs
14 SHOULD BE AFFORDED THE SAME RECIPROCAL TREATMENT FROM
15 INTERCONNECTORS ON THE SAME TERMS AND CONDITIONS WHEN
16 SEEKING EXPANDED INTERCONNECTION FOR THEMSELVES AND THEIR
17 CUSTOMERS.

18

19 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

20

21 A. YES IT DOES.

22

23

24

25

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 SUPPLEMENTAL TESTIMONY OF
3 DAVID B. DENTON BEFORE THE
4 FLORIDA PUBLIC SERVICE COMMISSION
5 DOCKET NO. 921074-TP

6 JULY 15, 1994

7

8

9 Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS
10 ADDRESS?

11

12 A. I AM DAVID B. DENTON. MY BUSINESS ADDRESS IS 675
13 WEST PEACHTREE STREET, ATLANTA, GEORGIA.

14

15 Q. ARE YOU THE SAME DAVID B. DENTON WHO FILED DIRECT
16 TESTIMONY IN THIS DOCKET ON MAY 23, 1994, AND WHO
17 FILED REBUTTAL TESTIMONY ON JUNE 27, 1994?

18

19 A. YES.

20

21 Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL DIRECT
22 TESTIMONY?

23

24 A. THE PURPOSE OF THIS SUPPLEMENTAL DIRECT TESTIMONY
25 IS TO RESPOND TO AN ISSUE CONCERNING THE EFFECT OF

1 THE RECENT UNITED STATES COURT OF APPEALS DECISION
2 REGARDING PHYSICAL COLLOCATION THAT WAS ADDED TO
3 THE ISSUES TO BE CONSIDERED BY THE COMMISSION IN
4 THIS DOCKET.

5

6 Q. SHOULD THE COMMISSION MODIFY THE PHASE I ORDER IN
7 LIGHT OF THE DECISION OF THE UNITED STATES COURT OF
8 APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT?

9

10 A. YES. AS YOU KNOW, THE FCC ORDERED THE LOCAL
11 EXCHANGE COMPANIES (LECs) TO ALLOW PHYSICAL
12 INTERCONNECTIONS IN THEIR CENTRAL OFFICES BY OTHER
13 TELECOMMUNICATIONS PROVIDERS. THIS ORDER WAS
14 APPEALED BY THE LECs, AND ON JUNE 10, 1994, THE
15 UNITED STATES CIRCUIT COURT OF APPEALS FOR THE
16 DISTRICT OF COLUMBIA CIRCUIT VACATED THE FCC'S
17 MANDATE OF PHYSICAL COLLOCATION AND REMANDED THE
18 VIRTUAL COLLOCATION PORTIONS OF THE FCC'S ORDER.
19 THIS COMMISSION SHOULD MODIFY ITS PHASE I ORDER IN
20 LIGHT OF THE COURT OF APPEALS DECISION.

21

22 IT HAS BEEN SOUTHERN BELL'S POSITION THROUGHOUT
23 THIS DOCKET THAT THE COMMISSION SHOULD ALLOW THE
24 LECs THE OPTION TO PROVIDE EITHER PHYSICAL OR
25 VIRTUAL COLLOCATION. THE COMMISSION SHOULD NOT

1 MANDATE EITHER FORM OF EXPANDED INTERCONNECTION.
2 SOUTHERN BELL'S POSITION HAS NOT CHANGED. AT THE
3 SAME TIME, I BELIEVE THAT THE FEDERAL COURT
4 DECISION MAKES IT CLEAR THAT THIS COMMISSION CANNOT
5 REQUIRE PHYSICAL COLLOCATION. THEREFORE, THIS
6 COMMISSION SHOULD MODIFY ITS PHASE I ORDER TO
7 PROVIDE FOR THE LEC TO CHOOSE THE FORM OF EXPANDED
8 INTERCONNECTION TO OFFER IN EACH CASE.

9

10 Q. DO YOU WANT TO SUPPLEMENT YOUR DIRECT TESTIMONY
11 FILED IN PHASE II OF THIS DOCKET IN LIGHT OF THE
12 COURT OF APPEALS JUNE 10, 1994 DECISION?

13

14 A. YES. I WANT TO REITERATE THAT SOUTHERN BELL IS NOT
15 OPPOSED TO EXPANDED INTERCONNECTION, EITHER FOR
16 SPECIAL OR SWITCHED ACCESS SERVICES. THIS
17 COMMISSION SHOULD REACH A RESULT IN PHASE II FOR
18 SWITCHED ACCESS COLLOCATION THAT IS THE SAME AS THE
19 RESULT SOUTHERN BELL ADVOCATED IN PHASE I, AND THAT
20 IS CONSISTENT WITH THE COURT OF APPEALS DECISION.

21

22 AS I TESTIFIED IN BOTH PHASE I OF THIS DOCKET AND
23 EARLIER IN PHASE II, IT IS IMPORTANT THAT THERE BE
24 A GREAT DEGREE OF CONSISTENCY BETWEEN THE
25 INTERSTATE AND INTRASTATE JURISDICTIONS AS TO

1 EXPANDED INTERCONNECTION. AT ITS OPEN MEETING ON
2 JULY 14, 1994, THE FCC ADOPTED AN ORDER THAT, IN
3 THE ABSENCE OF PHYSICAL COLLOCATION, THE LECs ARE
4 TO PROVIDE EXPANDED INTERCONNECTION THROUGH VIRTUAL
5 COLLOCATION TARIFFS TO BE FILED SEPTEMBER 1, 1994
6 AND EFFECTIVE DECEMBER 15, 1994. THIS COMMISSION
7 SHOULD CONSIDER THAT ORDER IN MAKING ITS DECISION.

8

9 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

10

11 A. YES IT DOES.

12

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1 Q (By Mr. Carver) Mr. Denton, could you
2 summarize your testimony, please?

3 A Yes. My testimony deals with Phase II of the
4 collocation docket. In Phase I the Commission
5 ordered -- dealing with private line special access,
6 issued an order in March, I believe of this year, which
7 basically followed the FCC model, as most parties had
8 asked during the Phase I hearings. Also it
9 followed the model in terms including mandatory physical
10 collocation, which my company and others had asked that
11 you not do.

12 As I think you all know, a Court of Appeals in
13 June of this year turned back that FCC order of
14 mandatory physical collocation, and the FCC has since,
15 on July 14th, reissued their collocation order requiring
16 a virtual collocation filing by September 1st, to be
17 effective December 15th.

18 In Phase II of the order here, I would hope
19 that the Commission would again generally follow the FCC
20 model with the exception, obviously, of the mandatory
21 physical collocation, which is now not a part of the FCC
22 model.

23 I think that the Commission here should also
24 go back and revise their Part 1 order to eliminate the
25 mandatory physical collocation part of the order.

1 And finally, I think the Commission should
2 order reciprocal interconnection so as to bring benefits
3 to consumers more than what would appear without
4 reciprocal interconnection.

5 And that concludes my summary.

6 MR. CARVER: The witness is available for cross
7 exam.

8 CHAIRMAN DEASON: Let me ask a question. I
9 notice that there's both original and supplemental
10 testimony.

11 MR. CARVER: Yes, that's right.

12 CHAIRMAN DEASON: And did you move both of those
13 into --

14 MR. CARVER: Yes, it was my intention to.

15 CHAIRMAN DEASON: Okay. Now, there is an
16 appendix; is that just part of the testimony or do you
17 wish to have that identified?

18 MR. CARVER: The appendix just identifies the
19 witness's previous testimony and I don't really think it
20 needs to be moved into evidence.

21 CHAIRMAN DEASON: Very well. Questions?

22 MR. FONS: No questions.

23 MR. WIGGINS: No questions.

24 CHAIRMAN DEASON: Staff.

25 MS. CANZANO: Of course, Staff has questions.

CROSS EXAMINATION

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BY MS. CANZANO:

Q Mr. Denton, your position is that expanded interconnection for switched transport is in the public interest only if the Commission grant LECs' pricing flexibility; is that correct?

A Yes.

Q What is your response to the argument that LECs should not be granted flexibility until more competition develops?

A I think it's an argument that this Commission has not followed in the past and should not follow now. In the Phase I order, they ordered expanded interconnection and also allowed the LECs to pursue pricing flexibility. In every other case that I'm aware of in the history of this Commission where they ordered expanded competition, they've also allowed the existing providers to offer competitive rate plans. So this would be a first if they were to take that tack and I don't recommend they do so.

Q Would it be typical for LECs and AAVs to offer services to large end users through long-term contracts?

A Yes.

Q If so, what would be the typical duration of such a long-term contract?

1 A I would guess three, four, five, six, seven
2 years would be my guess.

3 Q Mr. Denton, assume that the Commission does
4 not grant LECs pricing flexibility until 18 months after
5 the issuance of a final order, how would that affect the
6 market for switched transport?

7 A The market for switched transport?

8 Q Uh-huh.

9 A Well, it would introduce a distortion into it,
10 in that the -- you know, the beneficiaries of LEC
11 pricing flexibility are the consumers, the end users,
12 the people who buy the products. And what would you do
13 for 18 months is you would deny them the opportunity,
14 the potential opportunity for a price benefits.

15 Q Are you familiar with the direct testimony of
16 Teleport's witness, Mr. Andreassi?

17 A I've read it.

18 Q On Pages 6 to 8 of his testimony, he discusses
19 the percentage of revenues at risk through expanded
20 interconnection for switched transport. Do you agree
21 with his assessment that the total level of transport at
22 risk for Southern Bell is relatively small in relation
23 to the total of switched access revenues?

24 A I don't have his testimony in front of me. I
25 don't recall what -- he used percentage, as I recall. I

1 don't recall what he used so I --

2 MS. CANZANO: Just one moment. Staff will be
3 handing you that information.

4 MR. CARVER: I don't object to Mr. Denton's
5 trying to answer that question, but Mr. Hendrix is our
6 witness on the transport issues so he might be better able
7 to address it.

8 MS. CANZANO: Okay. We'll just wait then for
9 Mr. Hendrix.

10 Q (By Mr. Canzano) Mr. Denton, do you believe
11 that extending the expanded interconnection to the DS0
12 level has the potential to extend competition to small
13 business users?

14 A Yes.

15 Q If an AAV requests DS0 expanded
16 interconnection, am I correct to assume from your direct
17 testimony on Page 13, Lines 5 through 9, that Southern
18 Bell does not object to tariffing DS0 interconnection?

19 A That's correct. We'd like to follow the model
20 in this case of the FCC; if there is a request, we could
21 follow a tariff for it.

22 Q In your direct testimony on Page 12 and 13,
23 you argue "That because of the limited availability of
24 conduit and riser space, the interconnection of nonfiber
25 optic cable should not be ordered." Could you elaborate

1 on that point for us, please?

2 A What I'm trying to say there is the space is a
3 scarce resource. In my view, if anything that uses more
4 space than otherwise, you're using up space faster than
5 otherwise; that's the point I'm trying to make.

6 Q Why do you believe the Commission should
7 require reciprocal interconnection?

8 A Interconnection?

9 Q Yes.

10 A Well, I guess it's a matter of symmetry. I
11 think the whole point of requiring interconnection of
12 the LECs is to extend more competitive alternatives to
13 consumers. If you were not to have reciprocal
14 interconnection, you would have fewer benefits extended
15 to consumer. There would be cases where consumers
16 wanted to interconnect and would not be able to.

17 So if you want to have a symmetrical
18 advancement in advancing benefits to consumers, all
19 parties should be required to offer interconnection.

20 COMMISSIONER CLARK: I'd like to understand more
21 why Southern Bell would even be interested in having
22 interconnection with, I guess, an AAV. I mean, under what
23 circumstances do you think you would seek that?

24 WITNESS DENTON: They may have facilities in
25 place that we don't have. They may have facilities that

1 are less expensive than ours. But in point in fact, we
2 are consumers and I'm not sure I can give you all of the
3 specifics, but I know that we've had consumers that come
4 to us and for whatever reasons benefit them, they want to
5 collocate in a central office or a location of an IXC with
6 our facilities. We've had cases -- and this varies all
7 over the map, in terms of the response that we get from
8 IXCs. Some IXCs, we've had cases where they say "Sure,
9 Southern Bell, come in and put your facilities in here at
10 no cost. We'll give you the space, because we want --"

11 COMMISSIONER CLARK: Okay. You would go to an
12 IXC's POP?

13 WITNESS DENTON: I guess it would be a POP. If
14 you ask too many questions you're going to go beyond my
15 high technical ability, but I know we've had cases where
16 one IXC will say, "Yes, come and put your facilities in
17 here because we want to be a part of serving this
18 customer, too. And we'll do it for nothing." We've had other
19 IXCs who would say, "Yes, you can locate your facilities in
20 our office. We're going to charge you for it. We want to
21 have this customer, too, but go ahead." And we've had one
22 other IXC where it made business very difficult in terms of
23 trying to negotiate a contract with us.

24 So we've experienced a whole range of
25 receptivity to mutual interconnection, from very

1 positive to very negative.

2 COMMISSIONER CLARK: But you have had instances
3 where you wanted to interconnect with another carrier's
4 facilities?

5 WITNESS DENTON: Yes.

6 COMMISSIONER CLARK: Okay.

7 WITNESS DENTON: So what we find is that when we
8 go out trying to do the same role that others want to, we
9 meet all kinds of different degrees of receptivity. And
10 if the whole thing is to benefit the consumers, they're
11 the ones that are being knocked around by this, not us so
12 much.

13 COMMISSIONER CLARK: What if we handled that by
14 a complaint, where you didn't get -- they didn't negotiate
15 in good faith and you could complain. Is that sort of too
16 little too late? By the time you came to the Commission
17 the client would have decided on another means to get
18 their service?

19 WITNESS DENTON: I would hate to say the
20 complaint process doesn't work because I've recommended
21 that route in the past, and it's available to us, but it
22 might be too little too late in many cases.

23 Q (By Mr. Canzano) If Southern Bell is refused
24 reciprocal interconnection with an AAV, would the
25 Commission's complaint process be an adequate way to

1 resolve disputes between the parties?

2 A It might be too little too late.

3 COMMISSIONER CLARK: I just asked that, Donna.

4 MS. CANZANO: Well, we were --

5 COMMISSIONER CLARK: You were talking to Staff.

6 I just asked that.

7 WITNESS DENTON: I stick to my previous answer.

8 (Laughter)

9 MS. CANZANO: It's getting to be that time.

10 Q (By Mr. Canzano) Mr. Denton, assume that the
11 Commission mirrors the FCC's order requiring mandatory
12 virtual collocation with the LEC option of providing
13 physical collocation, if the LEC chooses to provide
14 physical collocation, should it be required to tariff
15 floor space for physical?

16 A No. We still insist that floor space is a
17 real estate transaction, it's not communication service.

18 Q Should any elements of physical collocation be
19 tarified under that scenario?

20 A Cross-connect would be because that is a
21 communication service. Floor space is not.

22 COMMISSIONER CLARK: What is "cross-connect?"
23 Is that the wire going from one side -- from their piece
24 of real estate to your piece of real estate?

25 WITNESS DENTON: Their piece of equipment to our

1 piece of equipment; that's basically at the wires that
2 connect them together.

3 COMMISSIONER CLARK: While she is doing that,
4 let me ask you another question. On Page 5 you mention an
5 impact on separation. Is there a potential for more cost
6 to be required to be covered through local exchange rates
7 or intrastate as opposed to interstate?

8 WITNESS DENTON: I can't answer that. I know
9 this was never my issue and I've never been able to figure
10 out what the potential impact was. Other witnesses have
11 thought there was some. I think at one point we thought
12 if there was no intrastate collocation there may be some
13 misreporting and shifting stuff to the interstate. That
14 would be a separations impact. I know there's been some
15 speculation that if there is less intrastate interexchange
16 traffic, that means more of the common cost would go back
17 to the local; that would be a separations impact. We have
18 not tried to study what the impact would be and I can't
19 tell you what it might be.

20 COMMISSIONER CLARK: Well, that's important to
21 me. I mean, I'm concerned that as a result of this
22 expanded interconnection more costs are being pushed off
23 on intrastate as opposed to interstate. Can you tell
24 generally which way the allocation is going to go? Are we
25 going to get more or is the FCC going to get more?

1 WITNESS DENTON: I, frankly, don't know why it
2 would have any impact, and we haven't -- we couldn't find
3 a reason to -- we couldn't find a good basis for
4 estimating any impact. So we didn't.

5 COMMISSIONER CLARK: So you don't know, you
6 can't conclude that there will be an impact.

7 WITNESS DENTON: Right.

8 COMMISSIONER CLARK: Okay.

9 Q (By Ms. Canzano) Mr. Denton, have you
10 received copies of Staff's proposed exhibits?

11 A Yes.

12 Q And have you reviewed them?

13 A Yes, I have.

14 Q And was this information prepared by you or
15 under your supervision?

16 A Yes.

17 Q And to the best of your knowledge, is this
18 information accurate?

19 A Yes.

20 MS. CANZANO: At this time, we'd like to have
21 these exhibits marked for identification.

22 CHAIRMAN DEASON: The deposition transcript and
23 Late-Filed Exhibits 1 and 2 will be identified as Exhibit
24 No. 23. Responses to Staff Interrogatories 21 through 30,
25 45 through 55, and 57, along with annual report schedules

1 will be identified as Exhibit 24. And the tariffs, which
2 copies can be obtained on request, will be identified as
3 Exhibit No. 25.

4 (Exhibit No.s 23, 24 and 25 marked for
5 identification.)

6 MS. CANZANO: That concludes Staff's questions.

7 CHAIRMAN DEASON: Commissioners?

8 I have a question concerning Issue 6.

9 Earlier today, I asked Mr. Beauvais about the
10 legality according to Chapter 364 and GTE's position on
11 that issue in comparison to the other LECs, and he said
12 it was the same and your counsel said it was the same;
13 but just reading the simple language of the positions
14 there seems to be a difference. Is there a difference?
15 And if there is a difference, what is the difference in
16 the positions?

17 WITNESS DENTON: Difference between what?

18 CHAIRMAN DEASON: Mr. Beauvais' position
19 concerning the legality of the provisioning of expanded
20 interconnections.

21 WITNESS DENTON: I heard the questions, and I
22 heard my attorney agree. And at that point I was in the
23 back agreeing that I agreed with both of them.

24 CHAIRMAN DEASON: Well, everybody agrees, but I
25 read the language in the prehearing order and it seems to

1 be different. Is it the same? Are you saying the same
2 thing in different words? GTE is saying no; you're saying
3 yes. Now, If that's the same, you need to explain that to
4 me.

5 WITNESS DENTON: Well, maybe I didn't read
6 Dr. Beauvais' testimony. What we're saying is that we
7 don't see anything in the chapter that would prohibit you
8 from ordering expanded interconnection; but the statute
9 does prohibit some people from taking advantage of that
10 opportunity, like AAVs.

11 CHAIRMAN DEASON: So we could order it but then
12 nobody could use it.

13 WITNESS DENTON: Well, the IXC's could use it.

14 CHAIRMAN DEASON: The IXC's could use it?

15 WITNESS DENTON: Sure. They're potentially our
16 biggest interconnectors.

17 CHAIRMAN DEASON: So you're saying that the AAVs
18 could not utilize the expanded interconnect?

19 WITNESS DENTON: That's my understanding of the
20 statute today. So, you could order it, the IXC's could use
21 it but I don't think the AAVs could at this point.

22 CHAIRMAN DEASON: Okay. And why is it then that
23 the IXC's could and the AAVs could not?

24 WITNESS DENTON: Because I don't think the
25 statute prohibits them providing service between

1 nonaffiliated entities. That's what they do. That's what
2 their toll service is.

3 CHAIRMAN DEASON: So you think that that's the
4 key difference between the IXC's and the AAV's is the
5 nonaffiliated?

6 WITNESS DENTON: I think so.

7 CHAIRMAN DEASON: All right. Redirect.

8 MR. CARVER: I just have a couple of questions
9 on redirect.

10 REDIRECT EXAMINATION

11 BY MR. CARVER:

12 Q Mr. Denton, is it your position that the LEC's
13 should have the choice as to whether they should offer
14 physical or virtual collocation?

15 A Yes, it is. That's been our position all
16 along.

17 Q If a LEC -- well, with Southern Bell, for
18 example -- elected not to offer physical collocation,
19 what would happen to the physical collocation tariff?

20 A If we chose not to provide physical
21 collocation, we would withdraw our tariff or we would
22 not have a tariff.

23 MR. CARVER: Thank you. That's all I have.

24 CHAIRMAN DEASON: Exhibits.

25 MS. CANZANO: Staff would like to move into the

1 record Exhibit Nos. 23, 24 and 25.

2 CHAIRMAN DEASON: Without objection, Exhibits
3 23, 24 and 25 are admitted.

4 (Exhibit Nos. 23, 24 and 25 received in
5 evidence.)

6 CHAIRMAN DEASON: Thank you, Mr. Denton.

7 WITNESS DENTON: Thank you.

8 (Witness Denton excused.)

9 CHAIRMAN DEASON: We will recess for the
10 evening. We will reconvene tomorrow at 9:30.

11 (Thereupon, the hearing adjourned at 5:00 p.m.
12 to reconvene at 9:30 a.m., Tuesday, August 23, 1994, at
13 the same address.)

14 (Transcript continues in sequence in Volume
15 4.)

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