

ORIGINAL



GTE SERVICE CORPORATION

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January 6, 1998

Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket Nos. 960847-TP and 960980-TP
Petitions by AT&T Communications of the Southern States, Inc.,
MCI Telecommunications Corporation and MCI Metro Access
Transmission Services, Inc. for arbitration of certain terms and conditions
of a proposed agreement with GTE Florida Incorporated concerning
interconnection and resale under the Telecommunications Act of 1996

Dear Ms. Bayo:

ACK — Please find enclosed for filing in the above matters an original and fifteen copies of the
AFA — Direct Testimonies of Mark S. Calnon and Laura Brevard on behalf of GTE Florida
APP — Incorporated. Service has been made as indicated on the Certificate of Service. If
CAF — there are any questions regarding this filing, please contact me at (813) 483-2617.

CMU — Very truly yours,

CTR —
EAG —
LEG — *Kimberly Caswell*
LIN — 57 218
OPC —
RCH —
SEC — 1
WAS — A part of GTE Corporation
OTH —

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

Calnon
DOCUMENT NUMBER-DATE
00159 JAN-6 88
FPSC-RECORDS/REPORTING

Brevard
DOCUMENT NUMBER-DATE
00160 JAN-6 88
FPSC-RECORDS/REPORTING


CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Direct Testimonies of Mark S. Calnon and Laura Brevard in Docket Nos. 960847-TP and 960980-TP were sent via U. S. mail on January 6, 1998 to the parties listed below.

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Division of Legal Services
Florida Public Service Commission
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Tallahassee, FL 32399-0850

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AT&T
101 North Monroe Street, Suite 700
Tallahassee, FL 32301

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123 South Calhoun Street
Tallahassee, FL 32314



Kimberly Caswell

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GTE FLORIDA INCORPORATED
DIRECT TESTIMONY OF MARK S. CALNON
DOCKET NOS. 960847-TP AND 960980-TP

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is Mark S. Calnon and my business address is 600 Hidden Ridge, Irving, Texas, 75015.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR CURRENT POSITION THERE?

A. I am employed by GTE Telephone Operations as the Director of Pricing and Tariffs.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a B.A. in economics in 1978 from St. Michaels College in Winooski, Vermont. I also earned M.A. and Ph.D. degrees in economics from the University of Colorado. While completing my education I worked as a research assistant for the General Services Administration (GSA) in Washington D.C. and the Solar Energy Research Institute in Golden, Colorado. In 1984, I began my career with GTE. From 1984 until 1993 I worked in the areas of forecasting, market planning, pricing, and pricing policy for GTE Service Corporation in Stamford, Connecticut (1984-1987), General Telephone of Florida in Tampa, Florida (1987-1989), and GTE

1 Telephone Operations in Dallas, Texas (1989-1993). From 1993 until
2 April of this year, I worked in the electric power industry as the Pricing
3 Policy Manager for Electrotek Concepts Inc. and as the Pricing
4 Director for Niagara Mohawk Power Corporation. In April of 1997, I
5 returned to GTE Telephone Operations in my current position.

6

7 **Q. HAVE YOU PREVIOUSLY TESTIFIED ON BEHALF OF GTE**
8 **TELEPHONE OPERATIONS?**

9 A. Yes. I have presented testimony on behalf of GTE Telephone
10 Operations before the Public Service Commissions of New Mexico,
11 Wisconsin, Pennsylvania and South Carolina.

12

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. My testimony proposes prices for the following items, in accordance
16 with the Commission's January 17, 1997 order in these dockets:
17 operator systems, directory assistance service, 911 service, AIN
18 capabilities, loop feeder, loop distribution and 4-wire analog port.

19

20 **Q. WHAT IS THE BASIS FOR THE PROPOSED PRICES?**

21 A. The proposed prices are based on the direct cost estimates
22 presented in the direct testimony of Ms. Laura Brevard, plus a
23 reasonable allocation of common costs.

24

25

1 **Q. HOW DOES GTE PROPOSE TO RECOVER ITS COMMON COSTS**
2 **THROUGH PRICING?**

3 A. GTE proposes to use a fixed allocator approach. This approach
4 assigns a fair share of common costs to the direct costs of the
5 unbundled network elements (UNEs) by an equal, fixed percentage,
6 i.e., that percentage needed to fully recover common costs assuming
7 all services were sold as UNEs. As presented in the testimony of Mr.
8 Steele and Mr. Trimble in the arbitration in these dockets, GTE's
9 wholesale common costs are 47% percent of its wholesale direct
10 costs, computed as forward-looking common costs less avoided retail
11 costs. The 47% percent figure represents the fixed allocator. If
12 applied across the board, GTE would, in theory, recover all of its
13 wholesale common costs. The fixed allocator method is
14 straightforward and ensures the Company the opportunity to recover
15 all its wholesale common costs.

16
17 **Q. WHY DOES GTE PROPOSE TO BASE ITS PRICING POLICY ON A**
18 **FIXED ALLOCATOR METHODOLOGY?**

19 A. While there are many pricing methods often discussed as appropriate
20 when prices must be set in excess of incremental costs to allow for
21 recovery of common costs, the fixed-allocation method contains many
22 attractive attributes, including:

23 (1) It is consistent with the pro-competitive goals of the
24 Telecommunications Act of 1996 ("Act"),

25

1 (2) It is visibly fair in that it assigns an equal percentage for
2 common cost recovery to all services; that is, it does not
3 disproportionately burden those elements or services that
4 currently may be price-inelastic, i.e., those items for which the
5 consumer more readily will accept a higher price. The prices
6 for more competitive services include the same percentage of
7 common cost recovery as the prices of less-competitive
8 services,

9 (3) This method was addressed by the FCC, which discussed the
10 fixed-allocation procedure as an appropriate pricing
11 methodology in paragraph 696 of its Local Competition First
12 Report and Order:

13 “We conclude that forward-looking common
14 costs shall be allocated among elements and
15 services in a reasonable manner, consistent with
16 the pro-competitive goals of the 1996 Act. One
17 reasonable allocation method would be to
18 allocate common costs using a fixed allocator,
19 such as a percentage markup over the directly
20 attributable forward-looking costs.”

21 (4) This method increases economic efficiency by moving the
22 Company's retail rates to what the Company believes are
23 competitive-market-price (“CMP”) levels (i.e., price levels that
24 would be observed in a fully competitive marketplace),
25

1 (5) When employed in the development of both retail and
2 wholesale rates, this method assures rational consistency
3 between both sets of rates, and

4 (6) This method is easily understood and easily implemented.
5

6 **Q. ARE ALL THE PROPOSED PRICES BASED ON THE FIXED**
7 **ALLOCATOR DISCUSSED ABOVE?**

8 A. No. In certain situations, components of a service utilize functionality
9 for which prices already exist under tariff or contract. In these
10 situations, GTE would propose to utilize these existing prices. For
11 example, 911 services utilize private line components which are
12 functionally equivalent to the voice grade private line service offered
13 in GTE's tariff.
14

15 **Q. WHAT ARE THE SPECIFIC PRICES GTE IS PROPOSING IN THIS**
16 **PROCEEDING?**

17 A. The specific prices are presented in MSC Exhibit No. 1. Column "B"
18 of the exhibit contains the direct costs presented in Ms. Brevard's
19 testimony. Column "C" contains the common cost component based
20 on applying the fixed allocator of 47% to the direct cost estimates.
21 The proposed prices are presented in column "D".
22

23 **Q. YOU HAVE INDICATED THAT THE LOOP FEEDER AND LOOP**
24 **DISTRIBUTION ARE PRICED ON AN INDIVIDUAL CASE BASIS**
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(ICB). WHY HAS GTE USED THIS METHOD OF PRICING FOR THESE ELEMENTS?

A. Because the actual costs for these items will depend on where and in what particular situation the customer requests them. That is, these items are not expected to be demanded ubiquitously, and the costs will vary substantially. Therefore, it is more appropriate to offer these items on an ICB basis.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

GTE'S PROPOSED PRICES FOR TBD ITEMS FROM FPSC ORDER NO. PSC-97-0064-F0F-TP IN DOCKET NOS. 960847-TP AND 960980-TP			
ITEMS "A"	DIRECT COST "B"	COMMON COST "C = B x .47"	PROPOSED PRICE "D = B + C"
Loop Feeder			Individual Case Basis
Loop Distribution			Individual Case Basis
4-Wire Analog Port	\$11.69	\$5.49	\$17.18
Directory Assistance Service			See page 2
Operator Systems			See page 3
911 Services			See page 4
AIN Capabilities			See page 5

**GTE'S PROPOSED PRICES FOR TBD ITEMS FROM FPSC ORDER NO.
PSC-97-0064-F0F-TP IN DOCKET NOS. 960847-TP AND 960980-TP**

Directory Assistance Service

ITEMS "A"	DIRECT COST "B"	COMMON COST "C = B x .47"	PROPOSED PRICE "D = B + C"
per DA call handled	\$0.2377	\$0.1117	\$0.3494
per directory Connect Plus (DCP) call handled	\$0.3059	\$0.1438	\$0.4497

GTE'S PROPOSED PRICES FOR TBD ITEMS FROM FPSC ORDER NO. PSC-97-0064-F0F-TP IN DOCKET NOS. 960847-TP AND 960980-TP			
Operator Systems			
ITEMS "A"	DIRECT COST "B"	COMMON COST "C = B x .47"	PROPOSED PRICE "D = B + C"
STATION TO STATION			
oper assisted calling card	\$0.2100	\$0.0987	\$0.3087
collect	\$0.1500	\$0.0705	\$0.2205
paid	\$0.2000	\$0.0940	\$0.2940
third number	\$0.3200	\$0.1504	\$0.4704
PERSON TO PERSON			
oper assisted calling card	\$0.4500	\$0.2115	\$0.6615
collect	\$0.2700	\$0.1269	\$0.3969
paid	\$0.3700	\$0.1739	\$0.5439
third number	\$0.6800	\$0.3196	\$0.9996
Busy verification	\$0.3200	\$0.1504	\$0.4704
Busy interrupt	\$0.3800	\$0.1786	\$0.5586
Mechanized calling card	\$0.0013	\$0.0006	\$0.0019
operator transfer to DA	\$0.1700	\$0.0799	\$0.2499

GTE'S PROPOSED PRICES FOR TBD ITEMS FROM FPSC ORDER NO. PSC-97-0064-F0F-TP IN DOCKET NOS. 960847-TP AND 960980-TP 911 Services			
ITEMS "A"	DIRECT COST "B"	COMMON COST "C"	PROPOSED PRICE "D = B + C"
E911 Trunk¹			
fixed rate - NRC	n/a	n/a	\$89.00
fixed rate - MRC	\$23.10	\$2.90	\$26.00
per airline mile-NRC	n/a	n/a	n/a
per airline mile - MRC	\$0.03	\$1.47	\$1.50
E911 Selective Routing			
per trunk - NRC	\$260.00	\$0.00	\$260.00
per trunk - MRC	\$23.46	\$6.54	\$30.00
ALI Entry Software			
per pkg - NRC	\$209.35	\$40.65	\$250.00
per pkg - MRC	\$9.33	\$1.67	\$11.00
ALI Ent. User Guide - per copy (NRC)	\$25.47	\$4.53	\$30.00
SR Bndry maps - per map	\$86.62	\$38.38	\$125.00
MSAG Copies - per county			
diskette or mag tape	\$44.32	\$0.68	\$45.00
paper	\$109.28	\$0.72	\$110.00

¹ Proposed Price is current private line tariff.

GTE'S PROPOSED PRICES FOR TBD ITEMS FROM FPSC ORDER NO. PSC-97-0064-F0F-TP IN DOCKET NOS. 960847-TP AND 960980-TP AIN Capabilities			
ITEMS "A"	DIRECT COST "B"	COMMON COST "C = B x .47"	PROPOSED PRICE "D = B + C"
Service Creation Environment			ICB
Certification Testing	\$111,128.26	\$52,230.28	\$163,358.54
Service Analysis / Service Mgmt. (Hourly rate by labor type)			
INCTF test engineer	\$54.26	\$25.50	\$79.76
AIN NOC Staff Admin	\$48.24	\$22.67	\$70.91
Network Dim. Engin.	\$43.46	\$20.43	\$63.89
NOC AIN Admin	\$39.20	\$18.42	\$57.62
SCP/SLP access & storage			
AIN call unit w/o IP	\$0.0003450	\$0.0001622	\$0.0005072
AIN call unit w/ IP	\$0.0005560	\$0.0002613	\$0.0008173
per byte stored	\$0.0000185	\$0.0000087	\$0.0000272
SSP Access			
per call	\$0.0008364	\$0.0003931	\$0.0012295
SS7 Network Elements			
24 hour cost per call	\$0.0019130	\$0.0008991	\$0.0028121
Billing & Collection	\$55.78	\$26.22	\$82.00