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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF AT&T COMMUNICATIONS OF)
OHIO, INC.'S PETITION FOR ARBITRATION OF)
INTERCONNECTION RATES, TERMS AND) CASE NO. 96-832-TP-ARB
CONDITIONS AND RELATED ARRANGEMENTS)
WITH GTE NORTH INCORPORATED.)

PREFILED DIRECT TESTIMONY
OF
PATRICK MERRICK

ON BEHALF OF
AT&T COMMUNICATIONS OF OHIO, INC.

COSTS / PRICE

FILED: SEPTEMBER 30, 1996



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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2
3 A. My name is Patrick Merrick. My business address is 222 W. Adams, Suite 1360,
4 Chicago, Illinois 60606.

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

7
8 A. I am employed by AT&T Corp. as a Manager in the State Government Affairs
9 organization. I am responsible for cost analysis and related state advocacy and support in
10 Illinois, Wisconsin, Indiana, Ohio and Michigan.

11
12 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

13
14 A. I earned a Bachelor of Science Degree in Business Administration from Northern
15 Arizona University, a Masters of Business Administration Degree with an emphasis in
16 Finance from Illinois Benedictine College, and a Juris Doctor degree from DePaul
17 University College of Law. I am also licensed to practice law in Illinois.

18
19 Q. PLEASE DESCRIBE YOUR RELEVANT WORK HISTORY WITH AT&T.

20
21 A. I began my employment with AT&T in 1984 as a budget coordinator for AT&T's
22 Computer Systems Division (CSD). During my six years with CSD I held a variety of
23 positions with numerous responsibilities; including internal financial analysis, sales
24 support, contract negotiations and finally product management for asynchronous terminal
25 and printer parts. In 1990, I transferred to AT&T Financial Regulatory Matters where I
26 was responsible for analysis and financial regulatory results reporting for Illinois,
27 Minnesota and North Dakota. In 1993, I transferred to the Law and Public Policy

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1 organization responsible for supporting AT&T's advocacy of access services issues with
2 the FCC and state commissions. I assumed my current position in May of this year.

3
4 **Q. HAVE YOU APPEARED OR FILED TESTIMONY IN CASES BEFORE ANY**
5 **STATE REGULATORY COMMISSION?**

6
7 **A. Yes. I testified in the AT&T Access Complaint against Ameritech in Michigan - MPSC**
8 **Case No. U-10852.**

9
10 **PURPOSE OF TESTIMONY**

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

12
13 **A. The purpose of my testimony is to describe the pricing AT&T's believes is appropriate for**
14 **(1) resale services, (2) unbundled network elements, (3) mutual compensation**
15 **arrangements and (4) physical and virtual collocation. My testimony addresses the role of**
16 **service costs in supporting and setting prices and proposes specific prices for these items.**
17 **I will also address the pricing and cost issues related to (1) access to poles, ducts,**
18 **conduits and rights-of-way and (2) local number portability.**

19
20 **SUMMARY OF RECOMMENDATIONS**

21 **Q. PLEASE STATE YOUR RECOMMENDATIONS.**

22
23 **A. With respect to resale, all services that GTE¹ offers to its end user customers must be**
24 **available at wholesale prices. The wholesale prices must be structured identically to the**
25 **corresponding retail rates, i.e., the wholesale rate structure must mirror the retail**

¹ Throughout this testimony I will refer to GTE North Incorporated as "GTE".

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1 structure. Wholesale prices must be discounted and set at a level to fully reflect GTE's
2 avoidable costs associated with retailing activities. Finally, GTE's wholesale rates going
3 forward must be adjusted to reflect changes in its retail rates. The specific price
4 recommendations for wholesale services contained in Attachment 14, Appendix 1 of
5 AT&T's proposed Interconnection Agreement are summarized on Exhibit PHM-1.

6
7 For unbundled network elements, prices must be based on total element long run
8 incremental cost ("TELRIC")². They must provide adequately for network disaggregation
9 and be available in any combination. Until Commission approved TELRIC cost studies
10 for GTE are available, prices should be set in accordance with the proxies set forth by the
11 FCC in its Order. My specific price recommendations for Unbundled Network Elements
12 are set forth in Attachment 14, Appendix 2 of AT&T's proposed Interconnection
13 Agreement and are summarized on Exhibit PHM-2. Similarly, prices for mutual
14 compensation and collocation must be based on TELRIC. AT&T's recommended proxy
15 prices for these services (described in Attachment 14, Appendix 3 and 4 of AT&T's
16 proposed Interconnection Agreement) are listed on Exhibits PHM-3 and PHM-4
17 respectively. Also, prices for access to rights-of-way, conduits and pole attachments
18 should also be based on TELRIC and be non discriminatory to AT&T vis-à-vis GTE.

19
20 For local number portability, the costs for both interim and permanent solutions should be
21 recovered in a competitively neutral manner from all providers.

22
23
24

² The FCC's First Report and Order in CC Docket Nos. 96-98 and 95-185, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, August 8, 1996, (the FCC Order), describes Total Element Long Run Incremental Cost ("TELRIC") at considerable length. For purposes of this testimony I will generally use TSLRIC and TELRIC interchangeably.

PRICING RECOMMENDATIONS FOR SERVICES AVAILABLE FOR RESALE

Q. PLEASE IDENTIFY THE ORDER IN WHICH YOU WILL DISCUSS AT&T'S PRICING REQUIREMENTS FOR WHOLESALE SERVICES.

A. I will start by discussing general recommendations related to the services to be made available for resale at wholesale prices. This will be followed by a description of the required wholesale price structure as well as the pricing and costing calculations to be used in setting prices. Finally, procedures for keeping wholesale prices current and setting prices for new services will be described.

Q. WHAT SERVICES MUST BE MADE AVAILABLE FOR RESALE AT WHOLESALE PRICES?

A. Essentially, all services that are available at retail to end user customers who are not telecommunications carriers must be made available on a wholesale basis. The Telecommunications Act of 1996, ("the Act") in §251(c)(4)(A), specifies that incumbent local exchange carriers have the duty "to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers..." (Emphasis added). The FCC found that, "[A]n incumbent LEC [such as GTE] must establish a wholesale rate for each retail service..."(FCC Order, ¶871) AT&T, accordingly, has requested that GTE make each of its end user services available on a wholesale basis. The list of specific services requested is reflected in Attachment 14, Appendix 1, Annex 1 of AT&T's proposed Interconnection Agreement and also Exhibit PHM-1. This list should not be considered either all-inclusive or immutable.

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1 Services available for resale must include "grandfathered" and "sunsetted" services, and
2 "promotions" exceeding 90 days and service "packages."³ Neither the Act nor the FCC
3 Order make any exception for these kinds of services and they should be available like
4 any other service.

5
6 Available services must also include contract as well as general tariff services. Also
7 included should be services that allow for aggregation of usage from various customer
8 accounts and locations such as CENTRANET and certain Optional Calling Plans.
9

10 **Q. HOW SHOULD THE PRICES FOR SERVICES AVAILABLE FOR RESALE BE**
11 **STRUCTURED?**

12
13 **A.** Prices must be set so that each and every retail rate has a corresponding wholesale
14 counterpart. No individual rates should be averaged or modified in any way before
15 setting wholesale prices. For example, message rated and flat rated services must be
16 made available on the same basis they are offered at retail – in no event should such
17 services be converted into a per minute wholesale offering. All discounts (e.g., volume
18 and time of day discounts) available at retail shall be equally applicable to wholesale
19 rates.

20
21 **Q. WHY IS IT INAPPROPRIATE TO ESTABLISH WHOLESALE RATES BASED**
22 **ON AVERAGE RETAIL RATES?**

³ This list of services is in conformance to the FCC Order. Promotions are defined as not exceeding 90 days, in light of the definition contained in the FCC Order.

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1
2 A. Averaging would deny certain consumers the full benefits of competition and, indeed,
3 gives rise to the possibility that wholesale rates can actually exceed retail rates. If, for
4 example, retail usage rates contain time of day and volume discounts while wholesale
5 rates are set on an average basis with some assumed time of day distribution and
6 customer volume, a *retail* usage rate for a high volume customer who places a call during
7 the off-peak rate period could actually be below the average *wholesale* usage rate
8 calculated on an average basis.

9
10 This type of averaging would introduce a systematic bias against resellers marketing to
11 high-volume retail customers. If wholesale rates are set individually for each retail rate,
12 the lower retail rates paid by high-volume customers would serve as the basis for
13 calculating wholesale prices. If, on the other hand, some assumed average is used to set
14 wholesale rates, the wholesale price for services offered to such customers would be too
15 high and could potentially even exceed the retail rate. The same type of bias against
16 resellers marketing to high-volume retail customers would occur if GTE were permitted
17 to charge a per minute rate for a service which is billed on a per message (untimed) retail
18 rate.

19
20 GTE acknowledged that averaging could have an adverse economic impact on
21 consumption in its discussion of volume discounts (p.17) in its Petition for Waiver of Part
22 69 of the Commission's Rules to Geographically Deaverage Switched Access Services,

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1 dated November 27, 1995. In that Petition, GTE stated that, "If customers were forced to
2 pay an averaged rate for every unit purchased, consumption would be artificially
3 repressed."

4
5 **Q. HOW SHOULD PRICES BE SET FOR WHOLESALE SERVICES?**

6
7 **A. All wholesale prices should be set in accordance with the "avoided cost" standard set**
8 **forth in the Act. Specifically, §252(d)(3) ["Wholesale Prices for Telecommunications**
9 **Services"] states that for purposes of resale, "a State commission shall determine**
10 **wholesale rates on the basis of retail rates charged to subscribers for the**
11 **telecommunications service requested, excluding the portion thereof attributable to any**
12 **marketing, billing, collection, and other costs that will be avoided by the local exchange**
13 **carrier." The language "costs that will be avoided" requires an identification of all**
14 **retailing costs that will be avoided from now on into the future, i.e., "long run" avoidable**
15 **retailing costs, not some near-term shedding of costs. Moreover, the proper approach is**
16 **to determine the reduction in total LEC costs that would be experienced if GTE withdrew**
17 **entirely from the retail service business, whether those costs are being incurred efficiently**
18 **or inefficiently. AT&T proposes that wholesale prices be calculated by adjusting retail**
19 **prices for avoided costs based, in part, on the AT&T Simplified Avoided Cost Study**
20 **described in detail in the testimony of AT&T witness Taylor.**

1 Q. PLEASE DESCRIBE HOW THE RESULTS OF THE AT&T SIMPLIFIED
2 AVOIDED COST STUDY WERE USED IN THE DETERMINATION OF
3 WHOLESALE PRICES?
4

5 A. The AT&T Simplified Avoided Cost Study identifies all direct and indirect avoided costs
6 resulting from conversion of a service from retail to wholesale. As Mr. Taylor describes
7 in detail, this cost model indicates a required wholesale discount for wholesale services
8 equal to 24.40%. Exhibit PHM-1 shows the service-specific wholesale discounts
9 proposed by AT&T.
10

11 The results of the AT&T Simplified Avoided Cost Study were used as a consideration in
12 proposing wholesale discounts; however, they were not used in any mechanical way to
13 specify the exact level of the wholesale discount. Proposed baseline discounts were
14 developed for all services to be made available for resale at wholesale prices. AT&T
15 proposes baseline discounts of 25% for most services. For local services, individual
16 subcategories such as line charges, features, etc., were adjusted to recognize the fact that
17 some services are more profitable than others. However, the weighted average of these
18 proposed subcategory discounts is also 25%.
19

20 This 25% discount is consistent with the position AT&T is taking in Illinois, Indiana,
21 Michigan and Wisconsin, and it conforms to the default range set by the FCC (although
22 AT&T is proposing permanent wholesale rates in this proceeding). The 25%

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1 recommendation is also in the same order of magnitude as the weighted average 22.05%
2 discount ordered for Ameritech by the Illinois Commerce Commission in the Illinois
3 resale docket.⁴
4

5 **Q. HAS GTE PROVIDED ANY AVOIDED COST STUDIES TO AT&T?**
6

7 **A.** Yes, GTE provided an avoided cost study to AT&T during the negotiation sessions;
8 however, the study provided was described by GTE as a "national" study, not a study
9 specific to Ohio. Also, on September 10, 1996, GTE filed an avoided cost study in its
10 response to AT&T's Arbitration Petition that looks to be essentially the same as the study
11 provided during negotiations.
12

13 **Q. IN YOUR OPINION, DOES THIS GTE AVOIDED COST STUDY FOLLOW THE**
14 **GUIDELINES SET FORTH IN THE FCC ORDER?**
15

16 **A.** No, a very cursory review of the GTE study provided to AT&T during national
17 negotiations shows two very apparent inconsistencies between the FCC Order and the
18 GTE study. First, the GTE study did not include any indirect avoided costs. Second, the
19 study was based on a managerial reporting process that does not compare in any way to
20 the actual booked costs available on the ARMIS reports filed by GTE with the FCC. This
21 directly violates the FCC Order. The FCC Order requires that "[A]n avoided cost study
22 must include indirect, or shared, costs as well as direct costs" (FCC Order, ¶912). The

⁴ Order, ICC Docket Nos. 95-0458/95-0531 (Consol.), p.76.

1 Order also implicitly requires that avoided costs be identified through the use of
2 accounting categories, as it identifies certain accounts that are presumptively avoided
3 (FCC Order, ¶917).
4

5 **Q. HAS GTE PRODUCED ANY STUDY THAT FOLLOWS THE GUIDELINES SET**
6 **FORTH IN THE FCC ORDER?**
7

8 A. In its recent Response to AT&T's Petition, GTE produced what they call a "Modified
9 Avoided Cost Study." GTE claims that this model is a modified version of the MCI
10 model provided in the FCC's Order; however, witness Wellemeyer admits that many of
11 the accounts that the FCC has presumed avoided are not considered avoided in this new
12 study. Also, witness Wellemeyer states that he offers this model, "as an alternative to be
13 used only if the FCC's rules on avoided costs are held to be lawful" (emphasis added).
14

15 **Q. DOES THIS MODEL CONFORM TO THE FCC ORDER?**
16

17 A. Again, I have not had time to do an extensive analysis of the model. However, Mr.
18 Wellemeyer admits that GTE's modified model treats many of the expenses in account
19 6623, Customer Services, account 6611, Product Management, as well as Operator
20 Services expenses as not avoidable. The FCC Order states that these accounts are
21 "presumed to be avoidable" (FCC Order, ¶ 917), although the ILEC may rebut this
22 presumption. GTE has provided no evidence or rationale that these expenses are not

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1 avoidable, other than they do not choose to avoid these expenses. Neither the Act nor the
2 FCC Order allows an incumbent LEC to choose what costs it wishes to avoid, thus,
3 enabling the LEC to, in essence, set wholesale prices at whatever level they desire. The
4 FCC, in discussing this issue specifically, stated that, "We do not believe that Congress
5 intended to allow incumbent LECs to sustain artificially high wholesale prices by
6 declining to reduce their expenditures to the degree that certain costs are readily
7 avoidable. We therefore interpret the 1996 Act as requiring states to make an objective
8 assessment of what costs are reasonably avoidable when a LEC sells its services
9 wholesale." (FCC Order, ¶911, emphasis added).

10
11 **Q. DOES AT&T'S PROPOSED INTERCONNECTION AGREEMENT PROVIDE**
12 **FOR TERM AND VOLUME DISCOUNTS?**

13
14 **A.** Yes. The proposed agreement also contains a provision for a combined term and volume
15 discount. In GTE's November 27, 1995 petition for Waiver of Part 69 of the
16 Commission's Rules to Geographically Deaverage Switched Access Services, GTE
17 praised volume discounts (p.17) stating that "[V]olume discounts stimulate usage to
18 efficient levels by allowing customers to pay rates, at the margin, which more closely
19 reflect incremental cost..." and "[T]hese volume discount structures help customers to
20 make efficient economic choices among the different service options available to them."

21
22 AT&T's revised Interconnection Agreement filed with the panel on September 30, 1996
23 provides for a combined term and volume discount if AT&T agrees, (1) to an Initial

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1 Commitment Period of five contract years and (2) to a volume discount schedule that is a
2 function of the number of combined business and residential lines AT&T acquires from
3 GTE. This volume discount equals 8% when 21,000 lines are resold and increases with
4 additional volumes up to a maximum of 14% at 46,000 lines. These discount levels are
5 entirely appropriate in light of the results of the further decline of costs and risk GTE will
6 experience with term and volume commitments in a wholesale environment, and also
7 represent a substantial change in AT&T's initial proposed contract submitted with its
8 petition, in that the discount schedule begins at a much higher level, 21,000 lines instead
9 of 2,400 lines.

10
11 **Q. HOW SHOULD RETAIL PRICE UPDATES AND THE INTRODUCTION OF**
12 **NEW SERVICES BE HANDLED?**

13
14 **A.** Wholesale prices for existing services should be adjusted each time retail prices are
15 changed. Wholesale and retail prices need to be changed concurrently.

16
17 New services should be introduced with both retail and wholesale prices available at the
18 time of introduction. To the extent that a new service wholesale cost study cannot be
19 completed in time to meet this requirement, GTE could have the option of setting the new
20 service wholesale price on an interim basis at a discount equal to the weighted average of
21 its existing wholesale services, to be followed up with a service-specific cost-supported
22 wholesale price within 45 days of the introduction of the new service. The cost studies

1 should be made available to interested parties under reasonable and customary proprietary
2 arrangements.

3
4 **PRICING REQUIREMENTS FOR UNBUNDLED ELEMENTS**

5 **Q. HOW SHOULD UNBUNDLED NETWORK ELEMENTS BE PRICED?**

6
7 A. The Act sets forth pricing requirements for unbundled network elements. Specifically,
8 §252(d)(1) states that rates for network elements shall be "based on the cost (determined
9 without reference to a rate-of-return or other rate-based proceeding) of providing the
10 ...network element...and nondiscriminatory, and...may include a reasonable profit." In
11 order to compete, AT&T (or any other competitor) must be able to acquire the use of
12 unbundled network elements at a cost equal to that incurred by GTE when it provides
13 such elements to itself. This requirement exists because unbundled elements are
14 concurrently: (1) capabilities purchased by AT&T from GTE, and (2) essential inputs
15 required by AT&T to compete with GTE for other services.

16
17 **Q. WHAT IS TSLRIC AND HOW DOES IT RELATE TO UNBUNDLED**
18 **NETWORK ELEMENTS?**

19
20 A. TSLRIC of an unbundled network element is the forward-looking additional cost(s)
21 incurred by GTE to provide the entire output of that service or element, including
22 additional resources such as labor, plant and equipment at least cost, given that all other

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1 services and elements of GTE are being produced. TSLRIC includes an appropriate risk-
2 adjusted return on capital for the service or element. The TSLRIC of a group of services
3 or elements includes the costs that are common to (i.e., shared by) that particular group.
4 Because TSLRIC is a long run methodology, virtually all costs are variable and are
5 included in the cost calculation (including costs that are "fixed" in the short run).

6
7 It appears that TSLRIC and TELRIC are essentially the same concept.⁵ TELRIC is the
8 term the FCC Order applies to the cost methodology applicable to network elements. The
9 FCC requires that prices based on TELRIC include a "reasonable allocation of forward-
10 looking joint and common costs." As the FCC has stated, however, the amount of joint
11 and common costs that must be allocated among separate offerings is likely to be much
12 smaller using a TELRIC methodology applied to network elements as compared to a
13 TSLRIC approach applied to services.⁶

14
15 **Q. WHAT SUPPORT DO YOU HAVE FOR THE STATEMENT THAT "TELRIC,"**
16 **THE TERM COINED BY THE FCC, IS ESSENTIALLY THE SAME IN**
17 **CONCEPT AS "TSLRIC?"**

18
19 **A.** The FCC, in discussing its pricing standard for interconnection and unbundled elements,
20 states that, "[i]n practice, this will mean that prices are based on the TSLRIC of the

⁵ GTE is in agreement with this interpretation. In its September 10, 1996 Arbitration Brief GTE states that, "There is no meaningful distinction between TSLRIC and Total Element Long Run Incremental Cost (TELRIC) approach adopted by the FCC." (p11, n.7.)

⁶ Referring to TELRIC, the FCC stated that, "...we expect that common costs should be smaller than common costs associated with long-run incremental cost of a service" (FCC Order, ¶695).

1 network element, which we will call Total Element Long Run Incremental Cost
2 (TELRIC),..."⁷ In other words, when the FCC talks about "TELRIC" it is referring to the
3 TSLRIC of a network element. It is the item being studied, rather than the overall study
4 approach, which causes variation between a TSLRIC and a TELRIC study. The FCC also
5 states that, "[w]hile we are adopting a version of the methodology commonly referred to
6 as TSLRIC as the basis for pricing interconnection and unbundled elements, we are
7 coining the term 'total element long run incremental cost' (TELRIC) to describe our
8 version of this methodology. The incumbent LEC offerings to be priced using this
9 methodology generally will be 'network elements' rather than 'telecommunications
10 services,' as defined by the 1996 Act."⁸ Once again, the FCC draws the distinction
11 between the two terms on the basis of what is being studied. Finally, the FCC Order
12 states that, "if a state has approved or conducted an economic cost study, prior to this
13 Order, that complies with the methodology we adopt is this Order, the state may continue
14 to apply the resulting rate even when not consistent with our default proxies."⁹ Implicit
15 in this statement is the fact that traditional TSLRIC methodologies did not undergo some
16 major transformation with the issuance of the FCC Order. It is entirely possible that a
17 TSLRIC study done prior to the FCC Order, if it had been applied to a network element,
18 would fully comply with the FCC's requirements for costing and pricing.

19
20 **Q. DOES GTE SHARE YOUR VIEWS WITH RESPECT TO PRICING**
21 **UNBUNDLED NETWORK ELEMENTS BASED UPON TSLRIC?**

⁷ FCC Order, ¶672.

⁸ Id., ¶678.

⁹ Id., ¶770

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1

2 A. No. GTE advocates the use of what they call a "Market-Determined Efficient Component
3 Pricing Rule."

4

5 **Q. DOES THE DISCUSSION THAT FOLLOWS CONSTITUTE A**
6 **COMPREHENSIVE ANALYSIS OF GTE'S COST STUDIES?**

7

8 A. No. A cost study supplied by GTE for unbundled network elements and interconnection
9 has only been available since September 10, 1996. A through assessment of GTE's cost
10 studies will require additional detail beyond that already provided and, of course, more
11 time. A more comprehensive list of problems may well result from additional review and
12 analysis of GTE's studies.

13

14 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO PRICING FOR**
15 **UNBUNDLED ELEMENTS?**

16

17 A. I recommend that proxy prices be adopted until GTE's TELRIC studies are approved by
18 this Commission. This approach is provided for in the FCC Order and indeed was
19 recognized by the Ohio Commission in its September 26, 1996 Entry granting AT&T's
20 motion to sever the TELRIC cost issues from this case. As I will explain subsequently, I
21 will recommend specific price points that conform to the ceilings specified in the FCC
22 Order.

1

2 **Q. WHAT COSTS WERE USED TO DEVELOP THE ATTACHED PRICE POINTS**
3 **FOR GTE UNBUNDLED ELEMENTS?**

4

5 **A. Ameritech Ohio TSLRIC studies were used as proxies to develop all of the prices.**

6

7 **Q. WHY WERE AMERITECH COSTS USED?**

8

9 **A. A comprehensive pricing proposal for unbundled elements requires that TSLRIC studies**
10 **be performed. Although GTE did provide certain unbundled element cost studies to**
11 **AT&T for the states of California, Florida, Hawaii and Texas, no Ohio specific study was**
12 **provided until to September 10, 1996.**

13

14 **Q. HAVE YOU REVIEWED THE TSLRIC STUDY PROVIDED BY GTE ON**
15 **SEPTEMBER 10, 1996?**

16

17 **A. Only very briefly, however, upon this cursory examination, the study seems to be very**
18 **similar to the studies provided to AT&T during the national negotiations sessions and the**
19 **study GTE filed in California Case R.93-04-003 and I.93-04-002.**

20

21 **Q. DO YOU HAVE ANY REASON TO BELIEVE THAT A OHIO SPECIFIC**
22 **TSLRIC STUDY FROM GTE WOULD BE FLAWED?**

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A. Yes. If GTE's California TSLRIC study (filed in California in Case R.93-04-003 and I.93-04-002) is any indication of the type of study GTE has provided in Ohio, I believe it would be greatly flawed.

Q. WHAT TYPES OF FLAWS WERE DISCOVERED IN THE CALIFORNIA STUDY?

A. The California Telecommunications Coalition (The Coalition members include AT&T Communications of California, Inc.; California Association of Long Distance Telephone Companies; California Payphone Association; ILG Access Services, Inc.; MCI Telecommunications Corp.; Sprint Communications Co., L.P.; and Toward Utility Rate Normalization.), highlighted numerous problems with the GTE TSLRIC study, such as the use of embedded costs instead of forward-looking costs, improper cost of capital and failure to use least-cost technology in its unbundled loop studies.

Q. HAS THE CALIFORNIA PUBLIC UTILITIES COMMISSION ISSUED AN ORDER IN THIS CASE?

A. Yes. In an interim order issued on August 2, 1996, the Public Utilities Commission of the State of California required GTE to adjust its current TSLRIC studies for pricing unbundled network elements and services to reflect certain aspects of Pacific Bell's cost

1 studies as proxies until such time that GTE can correct its own studies. In its Conclusions
2 of Law, the Interim Order states that,

3 "29. In part because they do not reflect forward-looking adjustments, GTEC's
4 [GTE's] cost studies do not adequately conform with the TSLRIC principles
5 adopted in D.95-12-016.

6 30. If they are adjusted to use certain aspects of Pacific's cost studies as proxies,
7 GTEC's cost studies can be used as a basis for setting prices for unbundled BNFs
8 and services.

9 31. GTEC should be required to submit within one year from the effective date of
10 this order, new cost studies that conform with our adopted TSLRIC principles."
11

12 **Q. WHAT DEFICIENCIES DID THE COMMISSION SPECIFICALLY CITE IN**
13 **THE ORDER?**

14
15 **A.** The order stated the following problems with the GTE TSLRIC study:

16
17 (1) The study did not contain enough forward looking adjustments.

18 "As the above-quoted material suggests, GTEC chose not to make enough
19 forward-looking adjustments to its models and data bases to conform its studies to
20 the Consensus Costing Principles." (Order at 70)
21

22 (2) The cost of capital used by GTE (11.51%) was excessive.

23 "GTEC's use of 11.51% as its cost of capital is not appropriate. While that figure
24 is indeed the last cost of capital we formally adopted for GTEC, it is not realistic
25 in today's market." (Order at 71)
26

27 (3) GTE's method of computing volume-insensitive costs is flawed.

28 "...we believe that GTEC's method of computing volume-insensitive costs is
29 more consistent with an embedded cost study than a TSLRIC study." (Order at
30 75)
31

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1 (4) GTE's rearrangement prices were deemed excessive and ordered to be reduced.

2 " ...we have concluded that most of the rearrangement expenses shown by Pacific
3 (Telesis) should be eliminated. To ensure that GTEC is treated similarly, we will
4 calculate the percentage of Pacific's total maintenance and repair costs that are
5 accounted for by rearrangement. Using this percentage, we will then reduce
6 GTEC's maintenance and repair account." (Order at 76)
7

8 (5) GTE's loop costs (those over 12,000 feet) were deemed excessive due to the fiber
9 feeder computations.

10 "This methodology essentially costed out loops longer than 12kft as if they only
11 contain 12kft of fiber and the rest is copper. Since the per unit cost of copper
12 facilities is higher than fiber facilities, this methodology overestimates the BNF
13 cost of longer loops." (Order at 77)
14

15 (6) GTE's costs for ILNP must be adjusted to account for excessive SCP charges.

16 "We have concluded that the Coalition's criticism of GTEC's proposed monthly
17 SCP charge has merit. The cost studies of the two LECs show that their methods
18 of initiating RCF-based ILNP service are very similar, yet they propose to allocate
19 very different costs to them. We believe this is unreasonable, and that GTEC
20 should be required to allocate costs for SCPs in the same way that Pacific does."
21 (Order at 80)
22

23 (7) GTE failed to use least-cost technology in its unbundled loop studies.

24 "By failing to assume deployment of NGDLC [Next Generation Digital Loop
25 Carrier], GTEC's cost studies are not in compliance with Consensus Cost
26 Principle No. 6, which requires the use of least-cost technology in the deployment
27 of TSLRIC cost studies." (Order at 81)
28

29 Q. WHAT ADVANTAGES RESULT FROM PRICES BASED UPON TSLRIC OR
30 TELRIC?
31

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1 A. From an economic standpoint, prices set at TSLRIC result in an optimal consumption of
2 resources. At this price level, the price paid for the use of a resource is equal to the actual
3 cost incurred. Perhaps more important is the competitive neutrality inherent in such
4 pricing. An unbundled network element used by either GTE or AT&T results in identical
5 (and thus nondiscriminatory) economic circumstances. Either firm incurs the same
6 burden to be recovered by the retail price of the service using the unbundled network
7 element. In short, the use of TSLRIC methodology is economically sound. To the extent
8 that TELRIC-based pricing includes common cost loadings above those in a TSLRIC
9 study, it departs from maximum economic efficiency. For this reason, these common
10 cost loadings should be kept as small as possible on these network elements that are
11 critical to the development of competition for local services.

12
13 Q. DO YOU KNOW IF GTE SHARES YOUR VIEWS WITH RESPECT TO
14 PRICING UNBUNDLED NETWORK ELEMENTS BASED UPON TSLRIC?

15
16 A. It appears that GTE has a different philosophy with respect to how unbundled network
17 elements should be priced. In GTE's Arbitration Brief (P.20) filed in Ohio on September
18 10, 1996, GTE states that "Another flaw in AT&T's TELRIC approach is that it does not
19 allow GTE to recover that portion of its prudently incurred embedded costs not already
20 recovered." (emphasis added)

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1 Also, in GTE's May 16, 1996 Comments in FCC CC Docket No. 96-98, In the Matter of
2 Implementation of the Local Competition Provisions in the Telecommunications Act of
3 1996, GTE made the following statement:

4 "Telephone companies, like all firms, have joint and common costs that must be
5 recovered on a going forward basis in order to remain in business. In light of the
6 presence of substantial joint and common costs, the requirement that rates be
7 based on cost precludes use of LRIC or TSLRIC as a prescriptive maximum price
8 because the carrier, by definition, would be prevented from recovering all of its
9 costs, in particular, its joint and common costs." (emphasis added)

10
11 GTE provides the following definitions in Attachment 2 of its Comments,
12

13 "Total Service Long Run Incremental Cost ("TSLRIC") identifies the forward-
14 looking cost for an entire service offering. TSLRIC is the cost added (or avoided)
15 by offering (or discontinuing) the total service or group of services, holding
16 constant the production of all other services offered by the company. TSLRIC can
17 be thought of conceptually as the difference in the firm's total costs with and
18 without the service. For a single service, TSLRIC consists of the volume-
19 sensitive and volume-insensitive costs.

20
21 Shared (or Joint) Costs are costs incurred by two or more services (but not the
22 collection of all the firm's services) that are not incremental to any individual
23 service. These costs are fixed with respect to changes in output. They may also
24 be referred to as volume-insensitive shared costs or fixed shared costs.

25
26 Common Costs are a special case of shared costs. Common costs or general
27 overheads, are costs incurred for the benefit of the company as a whole. These
28 costs are those that are neither incremental to any individual service nor joint or
29 shared by any group of services. Thus, common or overhead costs can only be
30 avoided by shutting down the entire firm.

31
32 Residual Costs are caused, for example, by assets that remain on its books even
33 though they have no economic value. For example, if an asset is depreciated on
34 the firms books more slowly than its economic depreciation, it will remain as a
35 cost even though it cannot produce any positive cash flow."

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1 Q. DO YOU AGREE WITH GTE'S POSITION ON THE PRICING
2 STANDARD FOR NETWORK ELEMENTS, INTERCONNECTION,
3 AND COLLOCATION?
4

5 A. No. Pricing unbundled elements based upon embedded costs is in direct
6 contradiction to the FCC Order. The FCC Order requires unbundled network
7 element prices be based on a TSLRIC (forward-looking) based pricing
8 methodology. In describing TELRIC, the FCC stated that, "Adopting a pricing
9 methodology based on forward-looking, economic costs best replicates, to the
10 extent possible, the conditions of a competitive market. In addition, a forward-
11 looking cost methodology reduces the ability of an incumbent LEC to engage in
12 anti-competitive behavior."(FCC Order, ¶679, emphasis added)
13

14 Not only does the FCC adopt a forward-looking pricing methodology, the FCC
15 prohibits the use of embedded costs in setting prices. Again, the FCC stated
16 that, "We therefore decline to adopt embedded costs as the appropriate basis of
17 setting prices for interconnection and access to unbundled elements. Rather, we
18 reiterate that the prices for the interconnection and network elements critical to
19 the development of a competitive local exchange should be based on the pro-
20 competition, forward-looking, economic costs of those elements..." (FCC Order,
21 ¶705, emphasis added) Additionally, the FCC stated that, "Moreover, contrary

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1 to assertions by some incumbent LECs, regulation does not and should not
2 guarantee full recovery of their embedded costs." (FCC Order, ¶706)

3
4 I have already discussed the economic benefits associated with prices set at
5 TSLRIC for individual services. Generally, joint costs are considered to be
6 relevant when studying a group or family of services to which the joint costs
7 belong and should be incorporated into the prices for that family of services.

8
9 There is no economic basis for including residual costs in the prices for network
10 elements, collocation or interconnection. These costs do not vary with
11 production of additional units of the service. The FCC Order properly excludes
12 such from consideration (¶704 - ¶707). TSLRIC already includes "reasonable
13 profit" as the return required to fully compensate investors for the provision of
14 the capital needed to provide the service. This is the profit level which will
15 allow the firm to operate in steady state indefinitely. The FCC Order concluded
16 that its TELRIC pricing methodology provides for a reasonable profit and thus,
17 no additional profit is justified under the statutory language (¶699).

18
19 Furthermore, adding all of GTE's joint, common and residual costs into the
20 prices of competitive inputs will virtually ensure the failure of competition.
21 Competitive firms have their own common overheads to cover through the

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1 prices of retail services. Competitively set market prices will simply not sustain
2 any provider required to cover two sets of overhead costs.
3

4 **Q. DO YOU HAVE ANY ADDITIONAL GENERAL OBSERVATIONS WITH**
5 **RESPECT TO HOW THE PRICES FOR UNBUNDLED NETWORK ELEMENTS**
6 **SHOULD BE CALCULATED?**
7

8 **A.** Yes. When GTE calculates the TSLRIC or TELRIC of each unbundled network element
9 it should take into consideration all possible uses of that element by GTE, AT&T or any
10 other provider. This approach works to GTE's advantage because the more broadly a
11 service or group of services is defined, the more shared and joint costs the TSLRIC
12 methodology includes in the cost calculation.
13

14 After a TSLRIC or TELRIC is established for an unbundled network element, no pricing
15 distinction should be made among the various uses for that element. The price should be
16 the same regardless of the application because the cost is the same.
17

18 **Q. SHOULD UNBUNDLED NETWORK ELEMENT PRICING BE TREATED ANY**
19 **DIFFERENTLY IF MORE THAN ONE TYPE OF ELEMENT IS ORDERED AT**
20 **THE SAME TIME?**
21

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1 A. No. It is extremely important that GTE not be permitted to impose reintegration charges
2 for combinations of unbundled elements. No such charges are applicable to GTE's own
3 operations and competitive parity requires that AT&T not be burdened with such charges.
4 Similarly, ordering more than one type of element in a combination must not be permitted
5 to introduce any delay in the availability of the network functionality.

6
7 There should also be no limitation on the degree to which unbundled network elements
8 can be ordered in combinations, including the full set of network elements comprising
9 GTE's local exchange network. Any suggestions that unbundled elements must be
10 combined with AT&T's own facilities, i.e., they cannot all be ordered in one combination
11 to provide services, is unsupported by the Act and the FCC Order. Ms. Conway discusses
12 this in more detail in her testimony.

13
14 **Q. WHAT NETWORK ELEMENTS ARE BEING REQUESTED BY AT&T AND**
15 **WHAT PRICES DOES IT PROPOSE?**

16
17 A. The network elements and combinations of elements that AT&T is requesting are
18 described in the testimony of AT&T witness Conway. The default prices proposed for
19 those elements are included in Attachment 14, Appendix 2 of AT&T's proposed
20 Interconnection Agreement and are reflected in Exhibit PHM-2.

1 Q. WHAT OBSERVATIONS DO YOU HAVE WITH RESPECT TO THE
2 DEVELOPMENT OF SPECIFIC DEFAULT PRICE POINTS THIS SOON
3 AFTER THE ISSUANCE OF THE FCC ORDER?
4

5 A. AT&T has not yet thoroughly analyzed GTE's cost data filed on September 10, 1996. A
6 full and comprehensive review of the range of cost study issues discussed in the FCC
7 Order (and the myriad of associated implementation issues) cannot be accomplished in a
8 short period of time. The numbers that AT&T presents here, and those that GTE has
9 introduced in its testimony, should be viewed as approximations usable for present
10 purposes of the positions of the parties.
11

12 Q. HOW WERE THE SPECIFIC PRICES CALCULATED FOR UNBUNDLED
13 NETWORK ELEMENTS SHOWN ON EXHIBIT PHM-2?
14

15 A. Due to the unavailability and possible unreliability of GTE cost information, AT&T's
16 proposed default unbundled element prices were calculated through the use of the FCC
17 proxy ceilings provided in the recent FCC Order and Ameritech unbundled element cost
18 study results provided informally to AT&T during interconnection negotiations. This
19 Ameritech information, while helpful, consisted only of the final cost results for a
20 collection of unbundled network elements and services. It did not include any cost study
21 workpapers or other underlying detail. Needless to say, AT&T has not audited any of
22 those cost studies in order to assess their accuracy.

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1
2 One of Ameritech's witnesses clarified during cross examination in Indiana that
3 Ameritech's TELRIC costs were marked up 60% to account for joint and common
4 costs.¹⁰ AT&T has adjusted Ameritech's numbers to remove a portion of these joint and
5 common costs as well as to restore the TSLRIC study assumptions to those used when
6 Ameritech studies its own retail services. Individual network elements not specifically
7 studied by Ameritech were calculated by disassembling larger network components into
8 piece parts based on the type of cost relationships typically found among such piece parts.
9 AT&T's proposed prices were subjected to a "sum-of-the-parts test" which required that
10 the prices of the unbundled network elements needed to provide local exchange service
11 not exceed the corresponding prices for Ameritech's retail exchange service. In no case,
12 however, was any proposed price established at a level below TELRIC.¹¹

13
14 **Q. WHY WERE A PORTION OF AMERITECH'S JOINT AND COMMON COST**
15 **LOADINGS REMOVED?**

16
17 **A.** The FCC states that the amount of joint and common costs that must be allocated among
18 separate offerings is likely to be much smaller using a TELRIC methodology than a
19 TSLRIC approach. Furthermore, it requires that these loadings be forward-looking. The
20 FCC also states that one reasonable allocation method could allocate only a small share of

¹⁰ Indiana Transcript (Palmer), at F-28. This overhead factor compares unfavorably with the 10% "reasonable contribution" for the recovery of common costs prescribed by the Ohio Rules in Case No. 95-845-TP-COI (at p. 39).

¹¹ The FCC Order, ¶620, provides that, "states may not set prices lower than the forward-looking incremental costs directly attributable to provision of a given element. They may set prices to permit recovery of a reasonable share of forward-looking joint and common costs of network elements." (Emphasis added, footnote omitted.)

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1 common costs to certain critical network elements. During the negotiations, Ameritech
2 admitted using 1997 budget data. Ameritech's use of 1997 budget data is certain to
3 overstate the joint and common costs that will be experienced in a competitive
4 environment. For these reasons, AT&T believes that a lower loading of joint and
5 common costs than Ameritech used is appropriate.

6
7 **Q. DO YOU HAVE ANY INDICATION THAT YOUR ADJUSTED NUMBERS ARE**
8 **A REASONABLE APPROXIMATION OF THE RESULTS AMERITECH**
9 **WOULD GET IF IT PERFORMED THE STUDY USING ITS CONVENTIONAL**
10 **ASSUMPTIONS?**

11
12 **A.** Yes. In Michigan Public Service Commission (MPSC) Case No. U-10852, AT&T's
13 access complaint case, Ameritech provided a study of 1996 statewide average bundled
14 access line monthly costs (business and residence combined including Touch Tone). The
15 non-proprietary result was \$9.49 per line per month. This is very close to the weighted
16 average of the prices proposed by AT&T on Exhibit PHM-2 for an unbundled network
17 platform, the collection of unbundled elements required to provide local exchange
18 service. The method used to calculate prices for Ohio is the same as that used in
19 Michigan and can be expected to yield similarly consistent results.

20
21 **Q. HOW WERE THE OTHER PRICES SHOWN ON EXHIBIT PHM-2**
22 **CALCULATED?**

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1
2 Local usage charges were set on the basis of publicly available Michigan cost information
3 modified to reflect differences in cost levels between Michigan and Ohio. The starting
4 point was the tariff rates filed by Ameritech Michigan on July 5, 1996 as required by the
5 Commission Order in the generic interconnection case (U-10860). These Michigan data
6 were adjusted to reflect the difference in overall cost levels between Michigan and Ohio.
7 In proposing this price, AT&T has assumed that Ameritech used conventional cost study
8 assumptions in calculating these numbers. AT&T also assumed that these prices
9 represent TSLRIC numbers because that is what the MPSC Order directed Ameritech to
10 provide. To the extent that it is determined that Ameritech added inappropriate overhead
11 loadings or used its new "competitor-specific" TSLRIC assumptions, a downward
12 adjustment would be required.

13
14 Nonrecurring charges were calculated by adjusting Ameritech-provided numbers for
15 service ordering and line connection activities. Proposed prices for "change" and
16 "record" orders were set equal to the tariffed miscellaneous service charge in Michigan,
17 adjusted for the difference in cost levels between Michigan and Ohio.

18
19 **PRICING REQUIREMENTS FOR MUTUAL COMPENSATION**

20 **Q. WHAT PRICING AND COST PRINCIPLES APPLY TO MUTUAL**
21 **COMPENSATION?**

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1 A. Prices for mutual compensation arrangements must be set at levels which do not provide
2 an inappropriate barrier to entry and do not discriminate against AT&T relative to GTE.
3 This result can be accomplished only if use of a facility by either GTE or AT&T has
4 identical economic consequences.

5
6 **Q. WHAT IS THE PRACTICAL RESULT OF THIS REQUIREMENT?**
7

8 A. Competitive parity can be achieved only when prices for mutual compensation are based
9 on TSLRIC. Exhibit PHM-3 sets forth the price elements for mutual compensation.
10 AT&T's requirements with respect to mutual compensation are provided in Attachment
11 14, Appendix 4 of AT&T's proposed Interconnection Agreement.

12
13 **Q. HOW DID YOU SET THE PRICES SHOWN ON EXHIBIT PHM-3?**
14

15 A. I am recommending the adoption of proxy prices that conform to the FCC Order until
16 such time as GTE presents a suitable TELRIC study for mutual compensation. In order to
17 recommend specific price points, Ameritech Michigan costs (modified to reflect Ohio
18 specific cost levels) were used. The starting point was the price for local usage contained
19 in Ameritech Michigan's tariff filing for unbundled elements dated July 5, 1996. This
20 filing was made in response to the Michigan Commission's Opinion and Order in Case
21 No. U-10860. This tariff contains local usage prices of \$.0065/initial minute or fraction
22 and \$.0022/additional minute or fraction. These prices are required to be set at TSLRIC

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1 according to the Commission Order¹². The price for an initial minute contains costs
2 related to call set-up which are not incurred in terminating a local call. However, the
3 additional minute cost is a good proxy for the cost of terminating a local call.
4

5 This price per additional minute represents a blend of end office and tandem routed calls.
6 Cost ratios among end office routed, tandem office routed, and transit switched calls were
7 developed from cost information provided informally to AT&T by Ameritech during
8 negotiations. These ratios were used in conjunction with the tariff price for processing a
9 local call and an adjustment for Ohio specific cost levels, to develop unique end office
10 routed, tandem office routed and transit switched calls. However, because the Ameritech
11 end office rate (\$.0014) fell below the FCC proxy range of \$.0020 - \$.0040, AT&T
12 increased the end office rate to \$.0020. The tandem office routed rate of \$.0023 was set
13 by adding additional tandem switching and transport costs to the end office rate. These
14 proposed prices are shown on Exhibit PHM-3.
15

16 **Q. DO YOU HAVE ANY INDEPENDENT VERIFICATION OF THE**
17 **TERMINATING TRAFFIC PRICES YOU ARE RECOMMENDING?**
18

¹² As was the case with unbundled network elements, it is likely that Ameritech's TSLRIC cost studies, which predate the FCC Order, include the full amount of joint costs and no common costs. For the reasons enumerated in the unbundled network elements section of this testimony, this existing cost number represents a usable approximation of the cost that would result if both joint and common costs were rigorously studied on a forward-looking TELRIC basis and allocated to network elements by a method that reflects the competitive sensitivity of the traffic termination function.

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1 A. Yes. In MPSC Case No. U-10852, the AT&T access complaint case, Ameritech
2 Michigan provided non-proprietary costs of \$0.0140 and \$0.0103 for competing a local
3 residence and business call respectively. If these call costs are adjusted to remove call
4 set-up and converted to a per minute rate, the result is consistent with the numbers on
5 Exhibit PHM-3. To the extent that the average call length exceeds the assumed three
6 minutes, the numbers on Exhibit PHM-3 are even more conservative (i.e., they are not
7 understated). As before, AT&T has assumed that the price for local usage contained in
8 Ameritech Michigan's tariff was calculated using traditional TSLRIC assumptions
9 without additional overhead loadings. To the extent that this is not the case, AT&T's
10 proposed prices would need to be adjusted downward. Also, in an April 5, 1996 Florida
11 Public Service Commission Staff Recommendation in Docket No. 950985-TP, Staff
12 stated, "Based on GTEFL's cost study, GTEFL's witness Menard agreed that the
13 Company's cost of terminating a local call was less than two-tenths of a cent per minute
14 of use. This cost includes the LRIC for tandem switching and transport and an estimate
15 of the TSLRIC for the end office switch." The Florida Commission Staff went on to
16 conclude that "if a MOU rate is required, Staff would recommend a per minute of use rate
17 of \$.0025..." for interconnection and that Staff "believes that this rate level would be
18 sufficient to cover the greater of TSLRIC or LRIC in addition to possibly providing some
19 contribution to common costs."

PRICING RECOMMENDATIONS FOR COLLOCATION

Q. PLEASE DESCRIBE THE GENERAL PRICING APPROACH THAT SHOULD BE TAKEN WITH RESPECT TO COLLOCATION.

A. For all the same reasons discussed in connection with unbundled network elements and mutual compensation, prices for physical and virtual collocation must be set based upon the associated TSLRIC. In the case of physical collocation, the costs to be studied include those associated with physical central office space and "connections" to GTE's equipment. In the case of virtual collocation, the costs relate to the equipment GTE maintains on behalf of AT&T and its connection to GTE's network. In both of these situations, the guiding principle should be that charges imposed on AT&T should not exceed the cost GTE would incur if it provided these same functionalities to itself. This is the only manner in which a competitively neutral business opportunity can exist. AT&T's requirements with respect to collocation are described in Attachment 14, Appendix 3 of AT&T's proposed Interconnection Agreement.

Q. PLEASE DESCRIBE AT&T'S PRICING RECOMMENDATIONS WITH RESPECT TO COLLOCATION.

A. Again, AT&T recommends the adoption of proxy prices for use until the Commission approves GTE's TELRIC studies of collocation. AT&T's proposed price points for

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1 collocation are provided on Exhibit PHM-4. These prices were established after
2 examining cost support filed by GTE with the FCC supporting collocation rates. This
3 cost support provides "direct costs," a markup factor and prices which are set by
4 multiplying direct costs by the markup factor. Because direct costs are essentially
5 TSLRIC costs, these costs were used to develop the proposed prices.

6
7 Because it is not clear how much joint cost is included in the direct cost of collocation,
8 and because no common costs are included, AT&T increased direct costs by 10%. This
9 adjustment was made to provide a reasonable loading of forward-looking joint and
10 common costs required under the TELRIC pricing approach.

11
12 **ACCESS TO RIGHTS-OF-WAY, CONDUITS AND POLE ATTACHMENTS**

13 **Q. WHAT ARE AT&T'S RECOMMENDATIONS WITH RESPECT TO THE**
14 **PRICING OF RIGHTS-OF-WAY, CONDUITS AND POLE ATTACHMENTS?**

15
16 **A.** Like unbundled network elements, mutual compensation and collocation, these essential
17 facilities must be priced in a manner that does not create a barrier to entry or discriminate
18 against AT&T vis-à-vis GTE. The testimony of AT&T witness Puljung on this subject
19 describes why it is imperative that AT&T have equal access to such facilities. It is
20 equally important that prices be based on TSLRIC. AT&T's specific recommendations
21 related to rights-of-way, conduits, ducts and pole attachments are outlined in Attachment
22 14, Appendix 8 of AT&T's proposed Interconnection Agreement.

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22

Q. WHAT PRICING PRINCIPLES SHOULD APPLY TO ACCESS TO RIGHTS-OF-WAY, CONDUITS AND POLE ATTACHMENTS?

A. First and foremost, prices should be set as close as possible to the level GTE essentially charges itself, i.e., TSLRIC. All costs should be assessed in a competitively neutral and proportional manner on all providers of competitive services (including GTE's retail operations and any of its affiliates). Costs for unusable space should be proportionately allocated based on each carrier's share of usable space.

GTE must be required to impute to its costs of providing retail services an amount equal to the price it charges other competitive providers for such access. It must also charge a like amount to any affiliate, subsidiary or associate company providing competitive telecommunications services. Essentially, all costs must be assessed in a competitively neutral and non-discriminatory manner.

All prices related to these items must be comprehensively identified in order to enhance competitive neutrality. AT&T expects to receive detailed estimates and bills that reflect the time and material associated with all key functions. AT&T should be required to pay only for work needed to condition capacity for its exclusive use. It further expects GTE to provide an auditable process that insures proper allocation of costs.

1 AT&T intends to advocate the appropriateness of TSLRIC-based pricing in the
2 subsequent rulemaking planned by the FCC. In the interim, the lowest existing tariff or
3 contract prices applicable to any provider could be used. In any event, the existing menu
4 of potential charges, terms and conditions should be critically reviewed to assure
5 competitive neutrality. This includes prices that are not excessive and reflect an
6 economic impact that GTE can and will comprehensively impute into its retail rates.
7

8 **LOCAL NUMBER PORTABILITY**

9 **Q. WHAT IS LOCAL NUMBER PORTABILITY?**

10
11 A. Local number portability is a method by which customers can change their local service
12 provider and retain their existing telephone number. The testimony of AT&T witness
13 Evans on this subject provides a comprehensive discussion of the topic. This network
14 capability can be provided on an interim basis by using existing network features.
15 Ultimately, local number portability will be provided by a database solution referred to as
16 Location Routing Number ("LRN").
17

18 **Q. HOW SHOULD THE COSTS OF INTERIM LOCAL NUMBER PORTABILITY**
19 **ARRANGEMENTS BE RECOVERED?**
20

21 A. The costs associated with interim local number portability should be recovered in a
22 competitively neutral manner. The FCC has recently provided guidance on this issue.

1 The FCC adopted its First Report and Order and Further Notice of Proposed Rulemaking
2 In the Matter of Telephone Number Portability, CC Docket No. 95-116, RM8535. At
3 Paragraph 121 of the Order, the FCC recognizes that it must adopt cost recovery
4 principles for interim solutions which ensure that costs are recovered on a competitively
5 neutral basis. The FCC concluded that a variety of approaches comply with the
6 requirement for competitive neutrality.

7
8 Until such time as the Ohio Commission establishes a specific cost recovery mechanism,
9 it is not appropriate for any provider to charge any other provider for interim number
10 portability. However, all providers should track the incremental costs incurred in
11 providing interim number portability and a reconciliation can occur when a specific cost
12 recovery mechanism is established. This cost tracking should be fully documented and
13 provide full detail of the types of component costs included. This will assure that only
14 the specific types of costs designated as recoverable will be included in any subsequent
15 reconciliation.

16
17 AT&T's requirements regarding interim local number portability are outlined in
18 Attachment 14, Appendix 5 of AT&T's proposed Interconnection Agreement.

19
20 **Q. HOW SHOULD THE COSTS OF THE LONG RUN DATABASE SOLUTION BE**
21 **RECOVERED?**
22

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1 A. All providers, including new entrants, will incur costs associated with implementing long
2 run number portability. Any regime which requires new entrants to pay their own costs
3 plus those of GTE would be detrimental to the competitive process. For this reason, a
4 cost recovery approach should be implemented which requires individual providers to
5 assume responsibility for their own costs.

6
7 The database solution requires network upgrades over time and the establishment of a
8 service database referred to as the Service Management System ("SMS"). The costs of
9 network upgrades should be borne by each carrier for its own network, as would be the
10 case with any other type of network upgrade. This is appropriate because local number
11 portability is an integral part of the public switched network and the provision of
12 telecommunications services. Such costs are expected to be incurred over time and
13 should therefore be manageable.

14
15 Costs associated with the SMS relate to hardware and software, computer systems
16 operations, maintenance and administrative expenses. These costs should be recovered
17 from users of the database; for example, by developing a charge for establishing accounts
18 and maintaining numbers in the database (which is a requirement of all carriers).

19
20 It is important to note that the Act mandates the competitively neutral recovery of local
21 number portability costs, and these recommendations are consistent with that
22 requirement.

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1
2 **Q. ARE THERE ANY OTHER PRICING RELATED CONTRACT ISSUES YOU**
3 **WISH TO DISCUSS?**

4
5 A. Yes, AT&T has provided clarifying language where appropriate in the contract to assure
6 that nonrecurring prices that are charged track with the cost characteristics of the
7 activities being performed. Specifically, AT&T is clarifying the fact that existing
8 customers who switch local service providers must be processed using "record" or
9 "change" orders. In this situation, the corresponding prices for such orders, as presented
10 in Exhibit PHM-2, would be billed to AT&T.

11
12 A related, yet different, situation occurs when service is provided by way of the Local
13 Switch Platform. If an existing customer changes to a new local service provider that
14 provides platform-based service, a "record" or "change" order charge should be billed to
15 the new provider. This charging approach properly recognizes that the conversion should
16 be accomplished without modifying or disrupting the customer's service.

17
18 **Q. WHAT RECOMMENDATION DO YOU HAVE FOR THE COMMISSION ON**
19 **THESE ISSUES?**

20
21 A. With respect to the pricing of wholesale services, I recommend that the Commission
22 order GTE to provide wholesale services in the manner described earlier in this testimony

1 and at prices discounted, on average, 25% from retail levels. Sufficient information has
2 been presented for the Commission to make a final decision in this matter, without the
3 need to use proxy rates.

4
5 With respect to interconnection and unbundled elements, I recommend that the prices
6 presented on Exhibits PHM-2, PHM-3 and PHM-4 be used as proxy prices until a final
7 resolution of the pricing and cost issues related to TELRIC can be fully considered by this
8 Commission. All prices presented on these Exhibits are within the FCC prescribed
9 ranges or below the ceiling.

10
11 **CONCLUSION**

12 **Q. DO YOU HAVE ANY CONCLUSIONS ON THE PRICING AND COST ISSUES**
13 **DISCUSSED IN THIS TESTIMONY?**

14
15 **A.** Yes. In order to allow for viable entry by AT&T into the local service market, several
16 pricing requirements must be met. These requirements have appeared as common themes
17 throughout this testimony. Included are prices that:

- 18 • are consistent with the requirements of the Act and FCC Order
- 19 • impose the same economic impact on AT&T as GTE incurs when it uses the same
- 20 facilities
- 21 • do not discriminate against AT&T vis-à-vis GTE

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- 1 • are competitively neutral among providers whether they be AT&T, GTE, other
- 2 new entrants or independent telephone companies
- 3 • do not constitute a barrier to entry
- 4 • are free of inappropriate averaging
- 5 • are sufficiently unbundled to allow AT&T to purchase only what it needs
- 6 • recognize that all customers benefit from competition, not just customers of
- 7 AT&T and other new entrants

8 The recommendations made in this testimony meet these requirements and should be

9 adopted.

10

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

12 A. Yes. It does.

Schedule of Baseline Wholesale Service Discounts - Ohio

1.	Basic Local Service (Residence and Business)	
	• Line Charges	20%
	• Usage Charges	25%
	• Features	50%
	• Listing Charges	55%
	• Non-Recurring Charges	25%
2.	Toll Services	
	• Usage	25%
	• Non-Recurring	25%
	• Listing Charges	25%
3.	Operator Services	25%
4.	Directory Assistance Services	25%
5.	Business Trunks and Service Arrangements	25%
6.	ISDN Services	25%
7.	CENTRANET Services	25%
8.	Private Line Services	25%
9.	Inbound Services	25%
10.	All Other Services not specifically identified above	25%

Schedule of Unbundled Element Prices - Ohio

<u>Unbundled Network Elements</u>	<u>Access Areas</u>	<u>Rate/Rate Increment Per Line*</u>
Unbundled Loop	B	\$ 5.58
	C	7.48
	D	8.86
Local Switching	B	.52
	C	.52
	D	.52
Operator Systems	B	.05
	C	.05
	D	.05
Common Transport	B	.0003/min.
	C	.0003/min.
	D	.0003/min.
Dedicated Transport	B	.78
	C	.78
	D	.78
Tandem Switching	B	.0004/min.
	C	.0004/min.
	D	.0004/min.
Signaling:		
SS7 Message Transfer		
Signaling Link Transport		
SCPs/Databases	B	.21
	C	.21
	D	.21

* Except where indicated to be per minute.

Schedule of Unbundled Element Prices - Ohio

<u>Unbundled Network Elements</u>	<u>Access Areas</u>	<u>Rate/Rate Increment Per Line*</u>
Unbundled Element Platform	B	\$ 7.37
	C	9.27
	D	10.64
Unbundled Element Platform Without Operator Systems	B	7.32
	C	9.22
	D	10.59
Loop/Network Combination	B	6.80
	C	8.70
	D	10.07
Switching Combination #1	B	1.22
	C	1.22
	D	1.21
Local Usage (Initial Min.)		0.0043/min.
Local Usage (Addl. Min.)		0.0015/min.
<u>Non-Recurring Charges</u>		
Establish New Service	All	25.19
Provision Change **	All	6.83
Record Change	All	6.83
Line Connection Charge	All	25.02

* Except where indicated to be per minute.

** Applicable to conversions of existing
customers to platform-based local service

PRICES FOR MUTUAL COMPENSATION - OHIO

End Office Rate

\$.0020 per minute

Tandem Routed Rate

\$.0023 per minute

Transiting Service Charge:

\$.0010 per minute

BLV/BLVI Traffic:

To be provided following review of GTE cost data.

SCHEDULE OF COLLOCATION PRICES - OHIO

EXHIBIT PHM - 4

Collocation Rate Categories		Total Price Non-recurring	Total Price Recurring
1	Cross Connect DS1		\$2.85
2	Cross Connect DS3		\$26.26
3	DC Power		\$9.64
4	Partition Space		\$2.12
5	Office Arrangement	\$903.25	
6	Engineering Fee	\$7,124.70	
7	Building Modification	\$18,220.07	
8	Cable Space		\$21.31
9	Cable Pull	\$1,183.24	