

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Pricing Proceeding )	
for Interconnection, Unbundled Elements, )	<b>DOCKET NO. UT-960369</b>
Transport and Termination, and Resale )	
)	
In the Matter of the Pricing Proceeding )	
for Interconnection, Unbundled Elements, )	<b>DOCKET NO. UT-960370</b>
Transport and Termination, and Resale for )	
U S WEST COMMUNICATIONS, INC. )	
)	
In the Matter of the Pricing Proceeding )	
for Interconnection, Unbundled Elements, )	<b>DOCKET NO. UT-960371</b>
Transport and Termination, and Resale for )	
GTE NORTHWEST INCORPORATED )	
_____ )	

**REBUTTAL TESTIMONY OF**

**TERRY R. DYE**

**ON BEHALF OF**

**GTE NORTHWEST INCORPORATED**

**SUBJECT: PRICING POLICY**

**FEBRUARY 7, 2000**

**I. INTRODUCTION**

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**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.**

A. My name is Terry R. Dye. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75015. I am employed by GTE Service Corporation as Manager - Pricing Policy and am representing GTE Northwest Incorporated (“GTE”) in this proceeding.

**Q. ARE YOU THE SAME TERRY DYE WHO PREVIOUSLY FILED DIRECT AND RESPONSIVE DIRECT TESTIMONIES IN THIS DOCKET?**

A. Yes.

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

A. My testimony (1) presents GTE’s alternative UNE rate deaveraging proposal, and (2) responds to claims made by other parties that universal service support and retail rate rebalancing are not required for efficient competition.

1       **Q.    ARE OTHER GTE WITNESSES ALSO SUBMITTING REBUTTAL**  
2       **TESTIMONY?**

3       A.    Yes.   David G. Tucek describes several errors in the deaveraging  
4       calculations of Mr. Denney and Mr. Spinks. In addition, Rodney Langley  
5       responds to Mr. Montgomery's testimony on implementation issues.

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7                               **II. GTE's ALTERNATIVE PROPOSAL**

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9       **Q.    WHAT DEAVERAGED UNE RATES DID GTE PROPOSE IN ITS INITIAL**  
10       **TESTIMONY?**

11       A.    In my Direct Testimony, I proposed the following rates, based on the cost  
12       information on record in this case, as presented in Mr. Tucek's December 15,  
13       1999 testimony.

	High	Medium	Low
	<u>Density</u>	<u>Density</u>	<u>Density</u>
14	2-Wire Unbundled Loop	\$22.92	\$22.49
15	4-wire Unbundled Loop	\$34.38	\$33.74
16			\$30.51
17			\$45.77
18			

19       **Q.    WHAT ALTERNATIVE RATES DO YOU PROPOSE HERE?**

20       A.    GTE's alternative proposal is as follows:

	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>
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1	2-Wire Unbundled Loop	\$21.36	\$31.52	\$37.89
2	4-wire Unbundled Loop	\$32.04	\$47.28	\$56.84
3				

4 These rates were developed and explained on pages 31 and 32 of Mr.  
5 Tucek's Responsive Direct Testimony.

6

7 **Q. WHY IS GTE NOW PROPOSING THESE RATES INSTEAD OF THE**  
8 **RATES PROPOSED IN YOUR DIRECT TESTIMONY?**

9 A. We believe these alternative rates better reflect the underlying cost  
10 differences among GTE's wire centers in Washington. The rates are based  
11 on GTE wire center costs, as explained in Mr. Tucek's Responsive Direct  
12 testimony. As further demonstrated in both his responsive and rebuttal  
13 testimonies, the GTE wire center cost estimates are clearly superior to either  
14 the HM 3.1 or HAI 5.0a estimates for the development of deaveraged loop  
15 rates.

16

17 **Q. MR. SPINKS PROPOSES TO DEAVERAGE UNE SWITCHING RATES.**  
18 **DOES GTE AGREE WITH THIS PROPOSAL?**

19 A. No. As I indicated in my responsive direct testimony, Mr. Spinks'  
20 deaveraged switching proposal is not likely to result in any significant social  
21 gains due to price deaveraging. Other parties to this proceeding also agree

1 with me that deaveraging UNE switching at this time is not necessary. (See,  
2 for example, Montgomery, January 18, 2000 testimony, page 17; Thompson  
3 December 15, 1999, testimony page 10 and January 18, 2000 testimony,  
4 page 7; Denney December 15, 1999, testimony, page 3.)  
5

6 **III. USF & RETAIL RATE DEAVERAGING**  
7

8 **Q. IN YOUR PREVIOUS TESTIMONY, YOU ASKED THE COMMISSION TO**  
9 **REFRAIN FROM ADOPTING DEAVERAGED UNE RATES UNTIL IT**  
10 **ADDRESSES EXPLICIT UNIVERSAL SERVICE SUPPORT AND RETAIL**  
11 **RATE STRUCTURES. DOES AT&T SUPPORT GTE'S POSITION?**

12 A. AT&T witness Denney appears to agree that retail rates and wholesale rates  
13 should be aligned,<sup>1</sup> but he also suggests that ILECs should continue to use  
14 implicit supports contained in their toll rates and rates for other services to  
15 subsidize high cost rural areas.<sup>2</sup> These two positions are contradictory -- the  
16 purpose of aligning wholesale and retail rates is to remove implicit supports,  
17 not perpetuate them.  
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<sup>1</sup>Denney, January 18, 2000, testimony page 16, lines 12-13.

<sup>2</sup>Denney, January 18, 2000, testimony page 16, lines 19-22.

1 And the evidence is clear that GTE's current retail rates contain significant  
2 implicit supports. For example, GTE's residential local exchange rate in its  
3 Skykomish exchange is \$13.50<sup>3</sup> per month, whereas Mr. Denney himself has  
4 proposed a "cost-based" loop rate of \$58.91 for that exchange. It is obvious  
5 that GTE's revenue from this service does not recover even Mr. Denney's  
6 estimate of cost.

7  
8 **Q. DO MR. DENNEY OR MR. KNOWLES BELIEVE THAT CLECS SHOULD**  
9 **CONTRIBUTE TO UNIVERSAL SERVICE ON A COMPETITIVELY**  
10 **NEUTRAL BASIS?**

11 A. No. The CLECs appear to argue that ILECs should bear the full cost of  
12 universal service unless and until the ILECs are financially crippled. For  
13 example, Mr. Knowles states:

14 Neither U S WEST nor GTE has ever claimed in this proceeding that  
15 they do not generate sufficient revenues from existing rates to earn  
16 their authorized rates of return while fully funding *their* universal  
17 service obligations.<sup>4</sup> (Emphasis added)

18  
19 And Mr. Montgomery makes a similar claim:

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<sup>3</sup>One-party premium calling local exchange rate in the Skykomish exchange, including the \$3.50 Interstate End-user common line charge.

<sup>4</sup>Knowles, January 18, 2000 testimony page 3, lines 10-13.

1                   “Universal Service” is a policy concern only if and to the extent that  
2                   ILECs might have to raise prices for customers who have no  
3                   competitive alternatives, in order to prevent the incumbent’s financial  
4                   performance from being significantly harmed.<sup>5</sup>  
5

6                   In sum, the CLECs want the ILECs to maintain implicit supports as long as  
7                   possible so that the CLECs can capture this support and thereby realize  
8                   higher profits. In sharp contrast, GTE proposes to remove implicit supports  
9                   on a competitively neutral, dollar-for-dollar basis and make such support  
10                  portable. As I explained in my earlier testimony, making implicit supports  
11                  explicit promotes efficient competition.  
12

13               **Q.   MR. DENNEY STATES ON PAGE 16 THAT “SINCE RURAL AREAS TEND**  
14               **TO MAKE MORE TOLL CALLS THAN END USERS IN URBAN AREAS, IT**  
15               **IS QUITE LIKELY THAT THE AVERAGE REVENUE PER LINE FOR THE**  
16               **RURAL CUSTOMER IS GREATER THAN THE AVERAGE REVENUE PER**  
17               **LINE FOR THE URBAN CUSTOMER.” IS THIS ASSERTION CORRECT**  
18               **OR RELEVANT?**

19               A.   No. First, Mr. Denney provides no evidence to support his claim. In fact,  
20               since GTE’s intraLATA toll market share in Washington is only about 27%,  
21               the majority of the toll revenue generated in GTE’s rural areas is not being

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<sup>5</sup>Montgomery, January 18, 2000 testimony, page 2.

1 used to support below cost local exchange rates. Second, and most  
2 important, Mr. Denney's claim is based on the erroneous assumption that  
3 implicit support can (and should) remain in the ILECs toll rates.  
4

5 **Q. MR. DENNEY ALSO STATES THAT GTE SEEKS TO PROTECT FROM**  
6 **COMPETITION CURRENT REVENUES IN EXCESS OF FORWARD-**  
7 **LOOKING ECONOMIC COSTS. PLEASE COMMENT.**

8 A. GTE does not seek "artificial protection" from competition through Universal  
9 Service support. Indeed, GTE believes that universal service support should  
10 be portable and made available to CLECs that provide supported services.  
11 Contrary to AT&T's assertion, this mechanism does not "protect" revenue  
12 from competition -- it simply makes the implicit support competitively neutral.  
13

14 **Q. DO ANY OF THE NON-ILEC WITNESSES ACKNOWLEDGE THE FACT**  
15 **THAT DEAVERAGING OF THE UNBUNDLED LOOP RATE MAY**  
16 **INCREASE A CLEC'S ARBITRAGE OPPORTUNITIES?**

17 A. Yes, Mr. Montgomery states that:

18 Although there may be hypothetical concerns that loop deaveraging  
19 will increase CLEC arbitrage opportunities, the actual data suggests  
20 these opportunities are quite constrained by market conditions.<sup>6</sup>

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<sup>6</sup>Montgomery, January 18, 2000 testimony, page 14.



1 Mr. Montgomery never describes how future market conditions will  
2 “constrain” the arbitrage opportunities created by deaveraged UNE rates.

3 But he then goes on to dismiss ILEC deaveraging concerns by stating:

4 What the ILECs will experience – at worst – is what firms subject to  
5 competition confront all the time, i.e., a gradual erosion of some of  
6 their relatively more profitable services.<sup>7</sup>  
7

8 I agree with Mr. Montgomery that the ILECs will experience an erosion of  
9 profitable services. But Mr. Montgomery ignores that fact that the ILECs  
10 depend on the revenues from these “more profitable services” to achieve the  
11 goals of universal service, that is, to provide support for services which are  
12 priced below cost.  
13

14 In sum, the CLECs’ objectives are clear: (1) they want to cream-skim the  
15 implicit supports typically generated in high-density, high-value areas, and  
16 therefore they object to (or wish to delay) any mechanism that would remove  
17 such supports; and (2) they want low UNE prices to help increase the profits  
18 they realize from cream-skimming.  
19

20 What is most telling in the CLECs’ testimony is that no CLEC has  
21 complained that it cannot compete in our high-cost, more rural exchanges.

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<sup>7</sup>ebid.

1           As noted above, AT&T proposes a “cost-based” loop rate of \$58.91 for  
2           GTE’s least-dense area, but GTE’s current price for basic service in that area  
3           is only \$13.50. No CLEC filing testimony in this docket has complained  
4           about this disparity, because we believe these CLECs are not interested in  
5           fair competition -- rather, the CLECs are interested only in competing in the  
6           low cost areas of the state.

7

8           **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

9           A. Yes.