Rebuttal Testimony of David A. Kunde
ATTI/GTE Interconnection Arbitration
Docket No. UT-990390

Q: Please state your name, position, employer, and business address for the record.

A: My name is David Kunde. I am employed by Advanced Telecommunications, Inc. ("ATI") as Vice President of Technical Planning, Operations, and Administration. My business address is 720 Second Avenue South, Suite 1220, Minneapolis, MN 55402.

Q: Have you previously filed direct testimony in this proceeding?

A: Yes, I have.

Q. What is the purpose of your rebuttal testimony?

A: I am responding to the direct testimony of GTE's witness, Mr. R. Kirk Lee, specifically with regards to GTE's position on the allocation of costs associated with the general conditioning of central office space to accommodate collocation.

Q. What is GTE's position with respect to the allocation of costs associated with the general conditioning of central office space to accommodate collocation?

A: As Mr. Lee testified, GTE determines the total extraordinary costs associated with conditioning office space on an individual case basis ("ICB"). Then, according to Mr. Lee, GTE pro-rates these costs among the carriers collocating equipment within GTE's office, including GTE.

Q: What general concerns does ATTI have about GTE's approach to this issue?

A: GTE's approach, while appearing to be reasonable on its face, offers GTE the opportunity to impose another barrier to entry for its competitors and could result in new market entrants being forced to reimburse GTE for its ordinary costs for doing business or for complying with the requirements of the Telecommunications Act of 1996.

Q: Please elaborate.

A: A competitive local exchange carrier ("CLEC") faces high hurdles to enter the local market, as contrasted to a carrier entering into the long distance market on a resale basis. CLECs must make major capital investments in switching and transmission equipment and operations support systems ("OSS"), for example. On the other hand, a carrier can resell long distance capacity, which is available from a large number of facilities-based carriers, without making any major capital investments. Since we are already faced with a high cost for market entry, ATTI is very concerned that GTE and other incumbent carriers can easily erect additional market entry barriers, such as high fees for collocation.

Further, because GTE is the market incumbent that is price-cap regulated by the Federal Communications Commission ("FCC") and many state PUCs, GTE has an economic incentive to avoid or postpone network upgrade projects that do not directly result in additional revenues or major cost savings. For example, GTE may be able to gain new revenues by upgrading its central office switch generic software, but probably does not gain new revenues from supplementing the AC power equipment in its central offices. GTE may, therefore, elect to invest in new software, while postponing an addition to its AC power supply plant, during any given budget cycle.

As CLECs enter the market and make collocation requests, they will place some new demand for AC power on GTE. GTE can take this additional, albeit relatively minor, demand for electrical power as a reason to supplement its AC power supply plant and, left to its own devices, recover much of the costs for this equipment as an extraordinary charge to collocating CLECs.

Q: Can you give an example?

A: Yes. If we assume that power plant additions cost $600,000 and five CLECs will be collocated with GTE, GTE's methodology would require each of the CLECs to pay GTE $100,000. GTE's cost for this power plant upgrade would be only $100,000 even though GTE will continue to use the overwhelming amount of electricity for the foreseeable future because GTE will continue to be the dominant provider of local exchange services. In addition, as CLECs' market share grows they are likely to migrate from collocating equipment in GTE's central office to their own networks. GTE's approach simply is not fair or even based on sound economics.

Q: Mr. Lee states that fill factors have been relied upon by state regulators "in situations where it is not possible to accurately predict the usage level of a discrete asset or the number of customers that will take service in a small geographic area." Do you have any concerns with Mr. Lee's recommendation to use fill factors for the allocation of costs?

A: Yes. ATTI's concern with GTE's shared cost proposal is largely concerned with resources whose usage level can be determined quite accurately - specifically HVAC and electric power. ATTI's collocated equipment has readily obtainable power consumption and heat dissipation characteristics. Although fill factors may be appropriate as fall back allocation methods when no objective use criteria are available, they should not be used when such criteria are readily available. For example, if ATTI were to use six percent of the total floor space in a GTE central office, ATTI should be required to pay for six percent of the HVAC costs for the office, including any reasonable costs to provide additional HVAC capacity.

Q: GTE's next argument relates to the timing of the occurrence of network upgrade costs. GTE states that collocation requests will result in GTE losing control over the timing of its facility investments. Is this a reasonable position from your perspective?

A: No. As I've already discussed, price-cap regulation provides GTE with a financial incentive to delay facility investments, especially those that do not result in new revenue or dramatic cost savings. Thus, GTE has more control over its facility investments than Mr. Lee suggests. Further, even if GTE did not have substantial control over its facilities investments, GTE does obtain the lion's share of any benefits (*e.g.*, more reliable commercial power). While the addition of added commercial power would benefit ATTI, so long as GTE continues to be the largest LEC operating within its central office, GTE will receive the greatest share of the added benefits from the additional power equipment. It would not be fair for GTE to enjoy the bulk of the benefits from a new power plant while paying only an equal share of the costs. GTE's position is really a request for a subsidy from collocating CLECs and another barrier to market entry.

Q: Do you have further concerns about GTE's proposal?

A: Under GTE's proposal, collocating CLECs have no control over either the timing or nature of GTE's investments in its facilities. ATTI is given no say in determining whether upgrades are necessary and the nature and extent of any upgrade. For example, the near-term electric power needs for GTE and all collocating CLECs might be satisfied with a small, low-cost project. Yet, GTE may decide that a complete power reengineering project that doubles GTE's commercial power capacity is appropriate because GTE can pass along many of its additional costs to all collocating CLECs and the additional power might be used by GTE's expansion of its deregulated Internet access business. Alternatively, GTE may have postponed needed commercial power upgrades in a particular central office simply to increase its earnings, as discussed above. In either event, GTE should not be permitted to make CLECs into unwilling investment partners. Although GTE claims that it has no control over the timing of an upgrade, upgrades can vary in scale, scope, timing and cost, all of which GTE controls under its proposal. GTE's proposal allows it to seek to recover substantial costs of upgrades which primarily benefit GTE from CLECs like ATTI. ATTI's proposal equitably requires beneficiaries of an upgrade to share in its costs in proportion to the benefit derived from the upgrade.

GTE's fill-factor methodology is not the picture of fairness that Mr. Lee has painted. In high-demand collocation centers with a higher than average number of collocating CLECs, a statewide fill-factor will allow GTE to recover total costs which could be double or triple the actual cost incurred by GTE for upgrades. In turn, GTE's maximum cost exposure will at all times be less than the full cost of upgrades, with its greatest exposure being the rare situation in which there is only one collocated CLEC in a wire center to apportion costs.

Q: From a public policy perspective, how would ATTI characterize GTE's costs for upgrading its network to accommodate collocation?

A: A better view is that GTE incurs these costs simply to comply with the Telecommunications Act of 1996, which introduced local competition as a new public policy. GTE also gained a substantial benefit from the passage of that law, which it removed GTE's consent decree, thus, enabling GTE to provide interLATA services immediately and directly to its customers. GTE readily accepted those benefits, as it should have. However, it is unfair and unreasonable for GTE, having accepted the benefits of the Telecommunications Act of 1996, to attempt to avoid the costs that the Act mandated for incumbent local exchange carriers ("ILECs"). As part of its bargain for new regulatory legislation, GTE is required to bear some new costs, including the costs for accommodating collocation in its central offices. The Commission should reject GTE's attempt to foist the bulk of these compliance costs on CLECs.

Q: Does this conclude your testimony?

A: Yes.

CERTIFICATE OF SERVICE

I hereby certify that on October 19, 1999, a copy of the Rebuttal Testimony of David A. Kunde in Docket No. UT-990390 was sent to the following individual by fascimile and federal express:

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