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SECRETARY

December 2,1997

David Waddell
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: *Universal Service Generic Contested Case*
Docket No. 97-00888

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of AT&T's Rebuttal Testimony of Joseph Gillan.

Sincerely,

Jim Lamoureux

Jim Lamoureux

cc: all parties of record

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

Nashville, Tennessee

In Re:	)	
	)	**Docket No. 97-00888**
Universal Service Generic	)	
Contested Case	)	

Rebuttal Testimony of

Joseph Gillan

December 2, 1997

1 **Q. Please state your name and business address.**
2

3 A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando,
4 Florida 32854.
5

6 **Q. What is your occupation?**
7

8 A. I am an economist with a consulting practice specializing in telecommunications.
9 My clients span a range of interests and have included state public utility
10 commissions, consumer advocate organizations, local exchange carriers,
11 competitive access providers, and long distance companies.
12

13 **Q. Please briefly outline your educational background and related experience.**
14

15 A. I am a graduate of the University of Wyoming where I received B.A. and M.A.
16 degrees in economics. From 1980 to 1985, I was on the staff of the Illinois
17 Commerce Commission where I had responsibility for the policy analysis of issue
18 created by the emergence of competition in regulated markets, in particular the
19 telecommunications industry. While at the Commission, I served on the staff
20 subcommittee for the NARUC Communications Committee and was appointed to
21 the Research Advisory Council overseeing NARUC's research arm, the National
22 Regulatory Research Institute.
23

24 In 1985, I left the Commission to join U.S. Switch, a venture firm organized to
25 develop interexchange access networks in partnership with independent local
26 telephone companies. At the end of 1986, I resigned my position of Vice President-
27 Marketing/Strategic Planning to begin a consulting practice. Over the past decade, I

1 have provided testimony before more than 25 state commissions, four state
2 legislatures, and the Commerce Committee of United States Senate. I currently
3 serve on the Advisory Council to New Mexico State University's Center for
4 Regulation.
5
6 **Q. On whose behalf are you testifying?**
7
8 A. I am testifying on behalf of AT&T Communications of the South Central States,
9 Inc. (AT&T).
10
11 **Q. What is the purpose of your rebuttal testimony?**
12
13 A. The purpose of my rebuttal testimony is two-fold. My rebuttal testimony first
14 addresses the appropriate calculation of the "revenue benchmark" used to determine
15 the subsidy payment. The central conclusion of my rebuttal testimony is that the
16 Tennessee Regulatory Authority (TRA) need not, and should not, establish a system
17 which provides carriers a subsidy to serve customers that are already profitable to
18 serve. Consequently, the revenue benchmark should include *all* revenues typically
19 associated with the provision of local exchange service because it is these aggregate
20 revenues which determine customer-profitability.
21
22 Second, my rebuttal testimony responds to BellSouth witness Daonne Caldwell's
23 claim that different cost methodologies should be used to establish network element
24 prices and calculate the universal service subsidy. As my testimony shows, Ms.
25 Caldwell's explanation for BellSouth's position does not answer the fundamental