

FLORIDA PUBLIC SERVICE COMMISSION

In re: Expanded Interconnection)
Phase II and Local Transport)
Restructure)
DOCKET NO. 921074-TP
DOCKET NO. 930955-TL
DOCKET NO. 940014-TL
DOCKET NO. 940020-TL
DOCKET NO. 931196-TL
DOCKET NO. 940190-TL

THIRD DAY - MORNING SESSION

VOLUME 6

PAGES 643 through 833

PROCEEDINGS:

HEARING

BEFORE:

J. TERRY DEASON, CHAIRMAN
SUSAN F. CLARK, COMMISSIONER
JULIA L. JOHNSON, COMMISSIONER

DATE:

Wednesday, August 24, 1994

TIME:

Commenced at 9:00 a.m.

PLACE:

FPSC Hearing Room 106
101 East Gaines Street
Tallahassee, Florida

REPORTED BY:

LISA GIROD JONES, RPR, CM

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER-DATE

09236 SEP-78

FPSC-RECORDS/REPORTING

I N D E X

Name:Page No.

FRED I. ROCK

| | |
|------------------------------------|-----|
| Direct Examination by Ms. Bryant | 647 |
| Prefiled Direct Testimony inserted | 649 |
| Cross Examination by Ms. Peed | 663 |
| Cross Examination by Ms. Caswell | 674 |
| Cross Examination by Mr. Tye | 691 |
| Cross Examination by Mr. Wiggins | 700 |
| Cross Examination by Ms. Canzano | 703 |

STEVEN C. ANDREASSI

| | |
|--|-----|
| Direct Examination by Ms. Marrero | 706 |
| Prefiled Direct Testimony inserted | 708 |
| Prefiled Supplemental Testimony inserted | 726 |
| Cross Examination by Mr. Carver | 732 |
| Cross Examination by Mr. Fons | 748 |
| Cross Examination by Ms. Caswell | 763 |
| Cross Examination by Mr. Wiggins | 767 |
| Cross Examination by Ms. Canzano | 768 |
| Redirect Examination by Ms. Marrero | 773 |
| Recross Examination by Mr. Carver | 778 |

F. BEN POAG

| | |
|--|-----|
| Direct Examination by Mr. Fons | 779 |
| Prefiled Direct Testimony inserted | 782 |
| Prefiled Supplemental Testimony inserted | 801 |
| Cross Examination by Ms. Canzano | 807 |
| Redirect Examination by Mr. Fons | 825 |
| Recross Examination by Ms. Canzano | 830 |

| | EXHIBITS | Identified | Admitted |
|----|---|------------|----------|
| 1 | Number: | | |
| 2 | | | |
| 3 | 18 - (Revised) | | 647 |
| 4 | 27 - | | 647 |
| 5 | 40 - (Rock) Sprint's Responses to | | |
| 6 | Staff Interrogatory Nos. 1-18 | 704 | 706 |
| 7 | 41 - (Andreassi) Teleport's Responses to | | |
| 8 | Staff Interrogatory Nos. 1-18 | 768 | 777 |
| 9 | 42 - (Late-filed) (Poag) Expanded Inter- | | |
| 10 | connection for the Access Tandem | 815 | |
| 11 | 43 - (Late-filed) (Poag) United's Cost Data | | |
| 12 | for DS1 and DS3 | 821 | |
| 13 | 44 - (Poag) Deposition Transcript and | | |
| 14 | Errata Sheet | 824 | 833 |
| 15 | 45 - (Poag) (Confidential) Response to | | |
| 16 | Staff POD Nos. 4 and 8 | 824 | 833 |
| 17 | 46 - (Poag) End Report Schedules in | | |
| 18 | Response to IAC Interrogatories | 824 | 833 |
| 19 | 47 - (Poag) Response to Staff Inter- | | |
| 20 | rogatories 1-9, 3, 12-15, and 50-85; | | |
| 21 | Responses to IAC Interrogatories 3-7, | | |
| 22 | 10, 15, 16 and 19; selected end report | | |
| 23 | schedules | 824 | 833 |
| 24 | 48 - (Poag) Illustrative Tariffs | 824 | 833 |
| 25 | 49 - (Poag) Centel's Intrastate Local | | |
| 26 | Transport Restructure Tariff | 824 | 833 |
| 27 | 50 - (Poag) United's Intrastate Local | | |
| 28 | Transport Restructure Tariff | 824 | 833 |
| 29 | 51 - (Poag) Centel's Special Access and | | |
| 30 | Private Line Tariffs, and Tariff 94-409 | | |
| 31 | in Response to Staff POD No. 20 | 824 | 833 |
| 32 | 52 - (Poag) United's Tariffs T-94-196 & | | |
| 33 | T-94-410 in response to Staff POD No. 13 | 824 | 833 |

PROCEEDINGS

(Hearing reconvened at 9:00 a.m.)

(Transcript continues in sequence from Volume 5.)

CHAIRMAN DEASON: Call the hearing to order.

Any preliminary matters?

MS. KAUFMAN: Mr. Chairman, I have one preliminary matter. Yesterday Staff entered as Exhibit 37, Mr. Gillan's deposition and I just received his errata sheet and I have let Staff know that, and I believe they have no objection to making that part of the exhibit.

CHAIRMAN DEASON: Very well. The errata sheet will be incorporated then into Exhibit 37.

MR. FONS: And Mr. Chairman, I have now had an opportunity to review the numbers that are included in the corrected Exhibit No. 18, which was a Late-filed Exhibit No. 1 to Mr. Gillan's deposition, and having seen those numbers I have no objection to its admission into the record.

CHAIRMAN DEASON: Revised Exhibit 18 without objection will be admitted.

MS. PEED: And Mr. Chairman, as to Exhibit 27, which is the letter from Quinton Sanders to Bill West of AT&T, I am going to withdraw my objection so there won't be any need to put any additional transcript into the record.

1 CHAIRMAN DEASON: Very well. Any other
2 objection to the admittance of Exhibit 27? Hearing none,
3 Exhibit 27 is admitted.

4 (Exhibit Nos. 18 and 27 received into evidence.)

5 MR. HOFFMAN: Mr. Chairman, I would also like to
6 sponsor, under Rule 25-22.008(2)(B), Ms. Teresa Marrero to
7 participate in the remainder of this proceeding.
8 Ms. Marrero is in-house regulatory attorney with Teleport
9 Communications Group. She is licensed to practice in the
10 state of New York and was previously Staff with and has
11 practiced before the FCC.

12 CHAIRMAN DEASON: Very well. That will
13 certainly be fine, and we will welcome Ms. Marrero to
14 these proceedings.

15 Ms. Bryant, I believe your witness is scheduled
16 next.

17 MS. BRYANT: Yes, Mr. Chairman, Sprint calls
18 Fred Rock to the stand, and he has not be sworn,
19 Mr. Chairman.

20 FRED I. ROCK

21 was called as a witness on behalf of Sprint Communications
22 Company, and having been duly sworn, testified as follows:

23 DIRECT EXAMINATION

24 BY MS. BRYANT:

25 Q Please state your name and business address for

1 the record.

2 A Name is Fred I. Rock. My address is 7171 West
3 95th Street, Overland Park, Kansas 66212.

4 Q Mr. Rock, by whom are you employed and in what
5 capacity?

6 A Sprint Communications Company, Limited
7 Partnership, where I am the manager of regulatory access
8 planning.

9 Q Are you the same Fred Rock that caused to be
10 prefiled in this proceeding 12 pages of direct testimony?

11 A Yes, I am.

12 Q Do you have any changes or corrections to make
13 to your testimony?

14 A No, I do not.

15 Q So if I asked you the same questions today that
16 are contained in your prefiled testimony, your answers
17 would be the same?

18 A Yes.

19 MS. BRYANT: Mr. Chairman, I move for the
20 admission of Mr. Rock's testimony into the record as if
21 read.

22 CHAIRMAN DEASON: It will be so inserted into
23 the record, without objection.

24

25

SPRINT COMMUNICATIONS COMPANY LIMITED

PARTNERSHIP

TESTIMONY OF FRED I. ROCK

DOCKET NO. 921074-TP

MAY 23, 1994

Q. Please state your name, business address and occupation.

A. My name is Fred I. Rock and my business address is 7171 W. 95th Street, Overland Park, KS 66212. I am employed by Sprint Communications L.P. (Sprint) as Manager - Regulatory Access Planning.

Q. Will you briefly state your educational background?

A. I received a Masters in Business Administration from Rockhurst College, Kansas City, Missouri in 1993 and a Bachelor of Science Degree in Accounting from Kansas State University in 1983. I am a Certified Public Accountant in the state of Kansas.

Q. Please state your previous work experience in telecommunications.

A. I began working for Sprint Communications Co. in July, 1992. Since that time, I have had the responsibility of monitoring state and federal regulatory activity relating to access services in the BellSouth (BellSouth) region, including Florida. Prior to my current position, I was employed by United Telephone - Midwest for four years. At United, my responsibilities included revenue budgets, financial analysis, and service costing and pricing.

1 **Q. What is the purpose of your testimony?**

2 **A. I will discuss the benefits of expanded interconnection for switched**
3 **local transport services ("switched interconnection") and urge this**
4 **Commission to order the same policies and prices that have been adopted**
5 **by the FCC in Docket 91-141, In the Matter of Expanded Interconnection**
6 **with Local Telephone Company Facilities.**

7
8 **With the adoption of switched interconnection, I support the LECs'**
9 **restructuring of local transport services in Florida as long as an appropriate**
10 **cost-based pricing methodology is used in developing rates for direct**
11 **trunked transport.**

12
13 **Q. Is expanded interconnection for switched access in the public**
14 **interest?**

15 **A. Yes, switched interconnection is designed to encourage competitive**
16 **entry in the provision of switched access services, which today in Florida is**
17 **exclusively provided by local exchange companies ("LECs"). Switched**
18 **interconnection will provide several benefits including accelerated**
19 **deployment of new and advanced technologies and services, alternatives to**
20 **LEC switched local transport services allowing route diversity, increased**
21 **access providers' responsiveness to customers in the provision of existing**
22 **services and movement of prices of the affected services closer to the cost**
23 **of providing the services.**

24 **Q. Will switched interconnection result in material LEC revenue**
25 **shortfalls?**

1 A. No. Other things being equal, if a LEC loses one minute of switched
2 transport demand, it will realize a decrease in switched transport revenue.
3 However, if Florida adopts the FCC's new switched transport structure, the
4 interconnection charge will be applied to all switched access demand. This
5 includes traffic transported by an interconnector. The interconnection
6 charge is a new rate element created to insure that the local transport
7 restructure is revenue neutral to the LEC.

8
9 A general analysis of the potential impact for Southern Bell reflects that
10 approximately 27% of its current intrastate switched access revenue comes
11 from the local transport element. Southern Bell's revised switched
12 transport filing proposes an interconnection rate that is approximately 85%
13 of the current 1.54 cents per minute of use rate for local transport, leaving
14 15% of the current transport revenue at risk. Thus, I conclude that only
15 4% of Southern Bell's total switched access revenue is at risk (15% of
16 27%). However, switched interconnection results in a new revenue source
17 for the LEC in the form of monthly and nonrecurring charges associated
18 with interconnection which will offset some portion of the lost transport
19 revenue, resulting in a maximum net revenue loss for Southern Bell of less
20 than 4%. This assumes that Southern Bell loses 100% of its current
21 transport demand to interconnectors which is unrealistic. In fact, a loss of
22 25% of its current transport demand would decrease Southern Bell's
23 current switched access revenues less than 1%. Though this analysis is
24 specific to Southern Bell, I cannot see any material LEC revenue shortfall
25 as a result of switched interconnection.

1 **Q. Please discuss the appropriate architecture, availability,**
2 **standards, rate structure and pricing for switched interconnection**
3 **offerings in Florida.**

4 **A. The Florida PSC should embrace the same switched interconnection**
5 **policies and prices that were adopted by the FCC in Docket 91-141. This**
6 **is not to imply that the FCC preempts the Florida PSC's authority in this**
7 **matter. However, given that the same collocated facilities would be used**
8 **to interconnect both interstate and intrastate traffic, it is appropriate that**
9 **the interconnection requirements and prices are the same for interstate and**
10 **intrastate switched interconnection. In addition, this would be consistent**
11 **with this Commission's decision in Phase I of this proceeding where the**
12 **federal policies and prices were generally adopted for expanded**
13 **interconnection for special access.**

14
15 **Q. Should the LECs be granted additional pricing flexibility? If so,**
16 **what should it be?**

17 **A. Yes. Sprint urges the Commission to allow the LECs density zone**
18 **pricing for switched access services, including switched transport. The**
19 **cost of providing access is largely determined by end office demand**
20 **density, and associated cost differences should be reflected in access prices.**
21 **Density zone pricing gives the LECs an opportunity to tailor rates more**
22 **closely to underlying costs regardless of whether a competitive access**
23 **provider ("CAP") or another entity has interconnected with the LEC.**
24 **Although density-based pricing should facilitate fair competition between**
25 **the LECs and CAPs, once CAP entry has occurred, it is even more**

1 important that the LECs' access prices currently reflect their underlying
2 costs so that interconnectors can determine whether entry would even be
3 economic. Allowing the LECs to price access by density zones will send
4 the right economic signals and should facilitate sound entry decisions.

5
6 **Q. How is local transport structured and priced today?**

7 **A. The current pricing structure for local transport in Florida is known as**
8 **an "Equal Charge per Unit of Traffic" structure. More specifically, LECs**
9 **in Florida charge access customers the same per minute of use rate to**
10 **transport traffic between the LEC end office and the access customer's**
11 **premises.**

12
13 **Q. Should the Commission modify its pricing and rate structure**
14 **regarding switched transport service?**

15 **A. A restructure of switched transport should be pursued only if switched**
16 **interconnection is adopted. The rate structure proposed by Southern Bell,**
17 **GTE and United/Centel is the same structure adopted by the FCC in**
18 **Docket 91-213, In the Matter of Transport Rate Structure and Pricing.**
19 **This new federal structure allows the LEC to price dedicated transport**
20 **facilities on a flat-rated basis which is how a CAP prices its transport**
21 **facilities. Without flat-rated transport, the LEC would be disadvantaged**
22 **vis-à-vis the CAP. However, without switched interconnection the LEC**
23 **will not face any effective competition for its switched transport services.**
24 **Indeed, there would be no need to restructure the pricing for switched**
25 **transport services.**

1 **Q. If the Commission changes its policy on the pricing and rate**
2 **structure of switched transport service, which of the following should**
3 **the new policy be based on: a) The intrastate pricing and rate**
4 **structure of local transport should mirror each LEC's interstate filing,**
5 **respectively. b) The intrastate pricing and rate structure of local**
6 **transport should be determined by competitive conditions in the**
7 **transport market. c) The intrastate pricing and rate structure of local**
8 **transport should reflect the underlying cost based structure. d) The**
9 **intrastate pricing and rate structure of local transport should reflect**
10 **other methods.**

11 **A. The Commission should adopt the federal rate structure for switched**
12 **transport. Again, the federal structure allows the LEC to price dedicated**
13 **transport facilities on a flat-rated basis which is appropriate with switched**
14 **interconnection. However, the rate levels for transport facilities should**
15 **closely reflect the underlying costs of the service, i.e., cost-based rates.**
16 **Specifically, the rates for direct trunked transport services should be cost-**
17 **based, resulting in a price relationship for DS1 and DS3 direct trunked**
18 **transport which is the same as the cost relationship between the two**
19 **services.**

20
21 **Q. What are Sprint's recommendations with regard to the**
22 **appropriate direct trunked transport price relationships to be**
23 **incorporated into Florida switched transport charges?**

24 **A. Sprint recommends that direct trunked transport rates reflect a**
25 **DS3:DS1 price relationship of 22:1.**

1 **Q. What current underlying LEC switched interoffice transport**
2 **network cost characteristics support Sprint's direct trunked transport**
3 **price relationship recommendation?**

4 **A. Sprint believes that a DS3:DS1 direct trunked transport price**
5 **relationship of 22:1, more closely reflects the current fiber optic technology**
6 **and the shared use nature of its interoffice transmission network. The**
7 **LEC's network used to provide local transport service is utilized to provide**
8 **traffic for all carriers, including the LEC's intralATA toll and, in many**
9 **cases, local service. Any individual customer's usage represents a small**
10 **fraction of the total traffic riding the transport facilities at any point in time.**
11 **LEC transmission facilities are typically run at DS3 levels or higher so that**
12 **very low unit costs can be achieved. Because these low unit costs are**
13 **essentially a function of total traffic, all users of the network should share**
14 **in the economies derived from the total usage. In fact, a DS1 direct**
15 **trunked transport customer is purchasing 1 of the 28 available timeslots on**
16 **a particular DS3 system. The DS1 is provisioned over the same optronics**
17 **and fiber optic cable as the remaining timeslots on the DS3. Given that a**
18 **DS1 is simply one timeslot on a DS3 interoffice transmission system**
19 **utilizing common optronics and fiber cable, it would seem reasonable that**
20 **the cost of providing DS1 direct trunked transport would be 1/28th of the**
21 **DS3 direct trunked transport cost, if the DS3 system was being utilized at**
22 **full capacity. However, Sprint realizes that the LECs normally do not**
23 **operate their DS3 transmission systems at 100% capacity, but rather an**
24 **average of 79%. Using a 79% average DS3 capacity utilization rate would**

1 yield a DS1 cost that would be 1/22nd of the DS3 cost (79% times 28).
2 Using this 22:1 DS3:DS1 cost relationship, the appropriate price
3 relationship should also be 22:1. By requiring the LECs to reduce its
4 intrastate DS1 direct trunked transport rates to be used in Florida to
5 achieve Sprint's recommended 22:1 DS3:DS1 price relationship, the
6 Commission will come nearer to establishing rates which are more cost-
7 based and which promote competition by avoiding volume based discounts.
8 Given that all LECs failed to make any cost showing to justify their existing
9 interstate DS3:DS1 direct trunked transport price relationships at the
10 federal level, it is appropriate for Florida to adopt Sprint's
11 recommendation, unless the LEC can make the proper cost showing to
12 justify some other price relationship. It should also be noted, that Sprint
13 filed for reconsideration of this issue in FCC Docket 91-213. The FCC has
14 yet to rule on Sprint's Petition.

15
16 **Q. Why does Sprint recommend lowering the DS1 direct trunked**
17 **transport rate to achieve the 22:1 DS3:DS1 rate relationship?**

18 **A.** When the industry speaks of increased competition for LEC access
19 services, it is primarily speaking of competition for DS3 level service. In
20 the near term, CAPs are looking to provide DS3 service to its customers.
21 In fact, though Sprint uses CAP provided transport services on a very
22 limited basis, 100% is at the DS3 level. Sprint supports market-based
23 pricing by the LECs for the increasingly competitive DS3 level service.
24 However, because IXCs that purchase DS1 level service, primarily the
25 smaller IXCs, remain a "captive customer" without viable alternatives, they

1 should not be burdened with prices for DS1 level service that recover more
2 common costs than prices for DS3 level service.

3
4 While IXC's should be willing to pay for higher access costs which they
5 themselves impose upon the LEC, IXC's should not pay a higher transport
6 price simply on the basis of their volumes of traffic. This is particularly
7 important, since most IXC's did not grow their marketshare under a
8 monopoly structure. The carrier which does have an entrenched
9 marketshare should not receive pricing for access which is more favorable,
10 and which is available as a result of a marketshare obtained while operating
11 as a monopolist. DS1 special access rates largely reflect the higher cost of
12 copper technology that was in use at the time DS1 service was first
13 offered, whereas the DS3 rates reflect the far lower unit costs of current
14 fiber optic technology. In Southern Bell's original filing to restructure
15 switched transport in Florida, it was revealed that 91.8925%¹ of its
16 interoffice network consists of fiber technology. Thus, it is clear that the
17 use of the existing interstate or intrastate DS1 special access rates do not
18 adequately take into account the extensive fiber deployment that has taken
19 place and will continue to take place in the near term.

20
21 It should be noted that LEC's will adjust the interconnection charge to
22 recover the decreased facility revenue resulting from reduced DS1 direct
23 trunked transport rates.

24

¹ Southern Bell Proposed Tariff Filing to Restructure Local Transport in Florida, Workpaper FL.LTR-H, Line 3. September, 1993.

1 **Q. By maintaining a low DS3:DS1 price relationship, what**
2 **implications does this have on the LEC's interoffice transport network**
3 **utilization and overall cost efficiency?**

4 **A. By maintaining a DS3:DS1 price relationship below 22:1, the LEC is**
5 **encouraging access customers to purchase DS3 service at a point when**
6 **that customer will only be utilizing a fraction of the available capacity of**
7 **the DS3. This ultimately leads to underutilization of the LEC's interoffice**
8 **DS3s, accelerated interoffice route facility exhaust requiring investment in**
9 **additional capacity, and higher overall costs in the provision of interoffice**
10 **transport service. It should be noted that one of the FCC's local transport**
11 **restructure policy goals in docket 91-213 was to encourage more efficient**
12 **use of LEC transport facilities by requiring LECs to price access services**
13 **in a manner that best reflects the way costs are incurred. Sprint believes**
14 **that such a policy goal is appropriate for the Florida Commission to adopt.**
15 **An extremely low DS3:DS1 price relationship encourages access**
16 **customers to act in a manner that runs counter to the FCC stated policy**
17 **goal, leading to inefficient use of the interoffice transport network assets,**
18 **which is not in the public interest.**

19
20 **Q. If Sprint's recommendation with regard to the DS3:DS1 direct**
21 **trunked transport price relationship is adopted, what should happen**
22 **to the LEC's corresponding tandem switched transport rates?**

23 **A. If Sprint's recommendation with regard to the DS3 DS1 direct trunked**
24 **transport price relationship is adopted, then corresponding tandem**
25 **switched transport rates should be recalculated to reflect the cost-based**

1 DS3 and DS1 prices. Again, this revision would appropriately reflect the
2 underlying costs of the LEC's shared use network.

3
4 **Q. Are there any components of the LEC switched transport network**
5 **that are not shared by all carriers?**

6 **A. Yes.** The entrance facility is generally provisioned by the LEC for the
7 **exclusive use of a single access customer** and as such, that access customer
8 **should be willing to pay any extra costs imposed upon the LEC for the**
9 **provision of these facilities.** Without detailed cost studies of entrance
10 **facilities, it is unclear as to the appropriateness of the rates filed by the**
11 **LECs.** Currently, Sprint has no objections to the entrance facility rates as
12 **filed.**

13
14 **Q. Are there any additional changes that should be made to the**
15 **LEC's proposed switched transport rate filings?**

16 **A. Once appropriate direct trunked transport rates and tandem switched**
17 **transport rates are developed as described previously, the LECs should**
18 **recalculate the projected facility based revenue.** This result should be
19 **subtracted from the current local transport revenue to determine the**
20 **revenue to be recovered from the interconnection charge.** This will allow
21 **the LEC to remain revenue neutral.**

22
23 **Q. Would you please summarize your testimony?**

24 **A. Yes.** Sprint believes it is in the public interest for the Florida
25 **Commission to allow competition in the switched transport market.** The

1 opportunities resulting from competition appear to be many while the risk
2 to the LEC revenue base appears low. Sprint proposes adoption of the
3 federal policies and price levels. With the implementation of switched
4 interconnection, Sprint recommends that the PSC allow the proposed
5 restructure of local transport charges with the provision that all LECs
6 adopt a cost-based DS3:DS1 direct trunked transport price relationship.

7
8 **Q. Does this conclude your testimony?**

9 **A. Yes, it does.**

1 Q (By Ms. Bryant) Mr. Rock, have you prepared a
2 summary of your testimony?

3 A Yes.

4 Q Would you please give it at this time?

5 A Good morning. The Florida PSC has the
6 opportunity to foster competition for intrastate switched
7 transport services. Without a rule for intrastate --
8 without a rule for intrastate pricing similar to that
9 established by the FCC, and it's Docket 91141, the Florida
10 market could potentially fall behind other jurisdictions
11 which have adopted the FCC's policies.

12 Competition into the switched transport market
13 contains many benefits, and Sprint maintains that these
14 benefits to the industry and to end users far outweigh the
15 potential costs. To initially minimize these costs of a
16 competitive access environment, provide for a level
17 playing field, LECs should have the opportunity to
18 restructure the way local transport service is offered in
19 Florida, similar to the local transport structure adopted
20 by the FCC in 91213. However, this Commission must assure
21 itself that the rates established for unbundled switched
22 transport are fair to all customers that purchase access,
23 and to provide end user telecommunications services.

24 If the local exchange carriers attempt to place
25 the burden of common cost recovery on access customers

1 with no or minimal access alternatives due to their size,
2 in excess of common cost recovery from access customers
3 with many alternatives, the benefits of the current level
4 of competition in the interexchange market could be
5 greatly jeopardized. Absent any cost support at the time
6 of the LEC's filing, Sprint developed an appropriate
7 standard by which to compare the LEC proposed rates to the
8 theoretical underlying costs of providing unbundled
9 transport services. Specifically, the LEC interoffice
10 transmission facilities share the same interoffice
11 facilities. To reflect this shared LEC network, Sprint
12 proposed the DS3/DS1 price relationship at a level of
13 22-to-1. Sprint proposes this relationship be
14 accomplished by lowering DS1 facility rates contrary to
15 Southern Bell's statement that access customers want
16 facility rates increased. To the degree that any actual
17 cost information is available, it should be used in place
18 of this standard to establish the appropriate rate
19 relationship.

20 Same caution is warranted in relation to
21 increasing the level of pricing flexibility for LEC
22 switched access services. Any proposals for LEC pricing
23 flexibility must be based only on the differences and the
24 underlying costs of providing the service.

25 This standard is in no way attempting to force

1 LECs to price services non-competitively, but purely to
2 ensure non-discriminatory recovery of common costs.
3 Again, one group of IXC's should not be required to
4 contribute more to the recovery of the LEC common costs,
5 than another group of IXC's, which would be the results of
6 most volume discounts and customer serving arrangements.
7 The best and most equitable opportunity for LECs to meet
8 competitive pricing requirements is density zone pricing.
9 That concludes my summary.

10 MS. BRYANT: Thank you, Mr. Rock. Mr. Chairman,
11 Mr. Rock is now available for cross examination.

12 CHAIRMAN DEASON: Ms. Peed?

13 MS. PEED: Thank you, Mr. Chairman.

14 CROSS EXAMINATION

15 BY MS. PEED:

16 Q Thank good morning, Mr. Rock.

17 A Good morning.

18 Q I understand from your testimony that you are
19 currently responsible for costing tariffs and regulatory
20 matters for Sprint; is that correct?

21 A I review LEC tariff filings, LEC proposals for
22 pricing access services.

23 Q Does that include all of the BellSouth states?

24 A Yes, it does.

25 Q And does Sprint provide interexchange services

1 in all of the BellSouth states?

2 A Yes, they do.

3 Q And do they purchase access services in all of
4 the BellSouth states from BellSouth?

5 A Yes, they do.

6 Q And were you aware that BellSouth has filed the
7 same intrastate local transport tariffs in all of the
8 BellSouth states?

9 A Certainly.

10 Q And are you aware that those tariffs are
11 identical to the one that was filed here, with the
12 exception of the interconnection charge?

13 A Yes, I am. I think it's correct that they are
14 identical for the facility rates. I believe that's true.

15 Q Okay. Is it true that Sprint has not
16 participated in any of the other state proceedings
17 regarding this matter?

18 A Well, Sprint has certainly been involved in
19 discussions with Southern Bell, BellSouth corporate policy
20 makers, trying to determine why BellSouth is interested in
21 offering services in a potentially discriminatory manner.
22 The fact is Sprint has limited resources. We have
23 targeted certain states throughout the country, not just
24 in BellSouth's territory, and Florida is obviously one of
25 our key states. And so we've concentrated our efforts

1 here in Florida.

2 Q So you have not filed testimony or advocated the
3 22-to-1 ratio in any of the other BellSouth states?

4 A We have to BellSouth and to the other local
5 exchange carriers within those states, but not in front of
6 the commissions, no.

7 Q On Page 3 of your testimony at Lines 16 through
8 19, you state here that switched interconnection results
9 in a new revenue source for the local exchange company.
10 Do you see that part of your testimony?

11 A Yes.

12 Q Isn't it true that those revenues will be offset
13 by the costs associated with offering switched
14 interconnection service?

15 A Well, I have no ability to know how much
16 contribution is built into the rates that have been filed
17 at the FCC. I do know that the rates that were filed for
18 interconnection at the federal level were quite high and
19 this has basically been a barrier to much entry into that
20 service.

21 Q But isn't it true that there will be costs
22 associated with the offering of switched interconnection?

23 A Certainly.

24 Q Now, this 22-to-1 ratio that you have
25 recommended for the DS1 to DS3 service, this 79% figure

1 that you use in your testimony, is that your attempt to
2 accommodate for the fill factor?

3 A Exactly.

4 Q Does your 22-to-1 ratio take into account that
5 for a DS1 interoffice service there will have to be some
6 multiplexing costs?

7 A The assumptions made were that DS3 and DS1 are
8 provided over the same facilities, and that any addition
9 to multiplexing that is required for DS1, as opposed to
10 DS3, is a by-product of the LEC's decision to use a DS3
11 highly efficient network. In actuality, if you purchase
12 the DS1 service, it actually travels at DS3 speeds within
13 the interoffice network. And the LEC's decision to use a
14 DS3 network creates that need for the additional
15 multiplexer to get traffic down to a DS1 speed.

16 It's not clear to me whether or not that
17 additional multiplexer is a common cost to the total
18 network, to the total interoffice network, or if it is
19 specifically designated -- or should be designated to a
20 DS1. I didn't attempt to make that decision. The basis
21 for the 22-to-1 was a completely shared network, and based
22 on the differences in capacity of DS3 and DS1 service, I
23 came up with the 28-to-1, and then utilizing the fill
24 factor, came up with the 22-to-1.

25 Q So is it your testimony here today that your

1 22-to-1 ratio may be inaccurate because you didn't
2 consider multiplexing?

3 A No, that is not my testimony. I am saying that
4 nobody has presented information to me that says that this
5 DS1 multiplex -- DS3/DS1 multiplexer should be or should
6 not be.

7 Q Did Sprint file any interrogatories or requests
8 for production of documents to ask those types of
9 questions of BellSouth?

10 A No, we did not.

11 Q Is it your testimony here today that if there is
12 a cost of multiplexing in providing DS3 -- DS1 service,
13 that Southern Bell ought to bear the cost of that the cost
14 of that?

15 A I think any costs that are related to DS1
16 specifically, or DS3, should be included in the cost
17 study, or should be included in a relationship that is
18 developed. I think that the most accurate way of getting
19 this -- it's not my 22-to-1 ratio or any other proposal
20 that may have been made in some other state, or at the
21 FCC, but the best way to get the information is to
22 actually produce the cost studies, produce the cost study
23 for DS3 direct-trunked transport and DS1 direct-trunked
24 transport and let the information speak for itself. I
25 have only attempted here to make a proposal to attempt to

1 speed this thing along. If the information is now
2 available, that's the best we can work with.

3 Q So is it your testimony here today that your
4 recommendation of a 22-to-1 ratio for DS3-to-DS1 should
5 not be adopted by this Commission?

6 A Certainly if there is accurate information, that
7 should be used over and above my proposal. The
8 information that I think is out there is confidential. I
9 haven't had the opportunity to review it. So I can't tell
10 for myself whether -- how accurate I believe it is. But
11 if it is, that is what should be used.

12 Q Is it your testimony that if in fact this cost
13 information shows that multiplexing is necessary to offer
14 a DS1 service, that it ought to be included?

15 A Certainly. Hopefully BellSouth and the other
16 LECs would provide accurate cost studies which would
17 reflect the appropriate functions and facilities that are
18 used to provide the service. If there is additional
19 multiplexing, it should be included.

20 Q And is it your testimony that the fill factor --
21 in the case of your testimony you used a 79% -- is also an
22 important component in the cost of providing DS1 or DS3
23 service?

24 A Again, I think your accurate cost study is going
25 to reflect that sort of information. I do know that,

1 having been involved in a proceeding in another state,
2 that we have been quite conservative toward the side of
3 the local exchange carriers with that 79%. In fact, in
4 Texas, if I may, GTE filed that their utilization was 95%,
5 and Southwestern Bell, whether it's relevant or not, said
6 that their interoffice network was completely utilized,
7 because the interoffice network not only supplies the
8 medium for local transport for access services, but it's
9 also the medium used for transporting intraLATA toll, and
10 in some cases local exchange service. So utilization is
11 probably much higher than 79%, given the evidence that
12 I've seen in other states.

13 Q But it is your testimony that utilization, or
14 the level of utilization, is something that ought to be
15 considered?

16 A I believe so, yes.

17 Q Now, on Page 8 of your testimony at Line 21, you
18 state that, "Sprint uses CAP provided transport services
19 on a very limited basis, 100% is at the DS3 level." Is
20 that correct?

21 A Yes. Specifically what I am talking about here
22 is -- would you like to know what I'm talking about here?

23 Q Of course.

24 A Talking about special access. In all areas of
25 the country except for -- I believe it's New York where

1 expanded interconnection was allowed two to three years
2 ago, and that's what we're talking about there, that we
3 used CAPs for expanded -- for transporting services, in
4 New York for switched access, and a few other places for
5 special access type services.

6 Q Is this particular example that you have
7 included in your testimony, is this service that's being
8 provided to you in Florida?

9 A I'm not aware of any use of CAPs, certainly not
10 for switched access. There may be some special access
11 type arrangements in Florida, but I am not familiar
12 specifically with Florida.

13 Q And those special access arrangements would be
14 going from a large end user to Sprint's point of presence,
15 or how would that be utilized?

16 A If there were some, that's the only arrangement
17 that I'm aware of today that -- prior to special access
18 interconnection, that would have been the only arrangement
19 that would have been allowed, if it was interstate type
20 services. I just can't answer for sure.

21 Q Is that kind of arrangement a substitute for the
22 provision of switched access from the local exchange
23 company?

24 A Probably not, because the end user customer has
25 already -- has probably already made the decision to use

1 -- at one time, to use LEC provided special access
2 because LEC provided special access on a per unit basis is
3 incredibly cheaper than using the switched network.

4 Q Prior to CAPs coming into the market, how would
5 that have been provided to Sprint, this arrangement, how
6 would it have been provided to Sprint?

7 A The special access connection would have been
8 provided by the local exchange company.

9 Q Now, on Page 10 of your testimony you speak to
10 one of the goals of the FCC in its local transport
11 restructure docket was to encourage more efficient use of
12 the LEC transport facilities. Do you see that, starting
13 on Line 10 of your testimony?

14 A Yes, I do.

15 Q Okay. And it is true that one of the goals of
16 the FCC in its local transport restructure docket was to
17 encourage more efficient use of LEC transport facilities;
18 is that correct?

19 A That's correct.

20 Q Now, you say that a low DS3-to-DS1 price
21 relationship encourages inefficient use; is that correct?

22 A Yes.

23 Q Now isn't it true that the FCC determined that
24 if the local exchange companies had a DS3-to-DS1
25 relationship of greater than 9.6-to-1, that their rates

1 were presumed to be reasonable?

2 A Yes, that's correct.

3 Q And isn't it true that BellSouth proposed a
4 ratio that was higher than 9.6-to-1; in fact, isn't it
5 15-to-1?

6 A In the interstate or intrastate?

7 Q Well, we mirrored the rates.

8 A The answer is yes.

9 Q So if the FCC had a goal of promoting efficient
10 use of the local exchange network and found that 9.6-to-1
11 ratio was reasonable, then how does a ratio -- do you
12 consider that to be a low ratio?

13 A The 15-to-1?

14 Q The 9.6-to-1.

15 A Certainly.

16 Q Well, how then did the FCC find that their goal
17 of promoting efficient use of the network was furthered by
18 adopting such a ratio?

19 A Well, I think probably the best way to respond
20 to that is I think that the conclusion that was reached by
21 the FCC was flawed, that if you take facilities which
22 provide different capacities, or services that provide
23 different capacities, and put those over the same
24 facilities, the interoffice network, you -- they have a
25 DS1 service which is 1:28 of DS3 on a per unit of capacity

1 basis. If it's priced so outside of -- so much outside of
2 that ratio, you get into a situation where you're ordering
3 DS1s, or you're ordering DS3s when you can't even fill
4 half of that DS3. So the LEC has to reserve that full DS3
5 capacity for that interexchange carrier, but it's only
6 being utilized at a -- if you assume the 9.6 level, that's
7 somewhere in the neighborhood of one-third of capacity.
8 So that's the inefficiency that I'm talking about.

9 Q But it is true that BellSouth's ratio is -- far
10 exceeds the 9.6 and is actually 15-to-1?

11 A That's correct. So you're looking at a
12 crossover that just barely fills half of that DS3
13 capacity.

14 Q And it's your recommendation before this
15 Commission that it be 22-to-1?

16 A That's correct.

17 Q But you've testified here today that that may
18 not be accurate because you haven't included any
19 multiplexing costs?

20 A And I think it's clear that my proposal is an
21 estimate of the LEC network and that actuals should be
22 used, if made available.

23 MS. PEED: That's all I have.

24 MR. FONS: I have no questions.

25 CHAIRMAN DEASON: Questions?

1 MS. CASWELL: I do have some questions.

2 CROSS EXAMINATION

3 BY MS. CASWELL:

4 Q Good morning, Mr. Rock. My name is Kim
5 Caswell. I'm with GTE. Has Sprint engaged in any
6 activity to reconfigure its network in response to the
7 intrastate transport restructure?

8 A Yes, we have.

9 Q And does Sprint intend to continue this
10 activity?

11 A Yes. At Sprint we see it as an ongoing need.
12 Even prior to the adoption of local transport, we have
13 been grooming and trying to make our network more
14 efficient.

15 Q And would Sprint generally support LEC actions
16 that would reduce your access costs?

17 A Yes.

18 Q And the RIC would be part of those access costs,
19 wouldn't it, under the proposed local transport
20 restructure?

21 A Yes.

22 Q And if GTE's use of reconfigured demand to set
23 transport rates produced a lower RIC than would use of
24 existing demand, would you then support GTE's use of
25 reconfigured demand?

1 A I take it this is a hypothetical that -- I don't
2 understand how reconfiguration could create more
3 facilities revenue to lower your RIC.

4 Q Were you here during the examination of AT&T's
5 Mr. Guedel?

6 A No, I was not.

7 Q Okay. If GTE's use of reconfigured demand would
8 in fact produce a relatively lower RIC, would you support
9 that use of reconfigured demand?

10 A Assuming that all the facility rates are
11 appropriate, which in GTE's case, I don't agree that they
12 are, but if they were, I don't oppose that, I wouldn't
13 oppose that.

14 Q Would you characterize Sprint as a medium-sized
15 IXC?

16 A Well, given what happened a couple of days ago,
17 I'm not sure where we stand now. Within the definitions
18 provided, or within the analysis created by the FCC, for
19 the FCC, our designation was as a medium-sized IXC.

20 CHAIRMAN DEASON: What happened a couple days
21 ago?

22 WITNESS ROCK: The WilTel LDDS.

23 CHAIRMAN DEASON: Oh. It didn't involve Sprint,
24 it's just one of your other IXC --

25 WITNESS ROCK: Right, they became a bigger

1 player.

2 Q (By Ms. Caswell) GTE in this proceeding has
3 submitted data showing that its local transport
4 restructure proposal will reduce medium to small IXC's
5 costs. Are you familiar with that evaluation?

6 A I'm sorry, I completely missed it.

7 Q GTE submitted data in this proceeding that shows
8 its proposed local transport structure will reduce medium
9 and small IXC's costs. Are you familiar with that
10 evaluation?

11 A Well, I did see that, and I saw some numbers.

12 And in my view, there is no theoretical -- there
13 is no way that that can be theoretically supportive. I
14 don't know how GTE came up with that information. And the
15 basis of local transport restructure, the way facility
16 rates are produced and are applied, I don't understand how
17 that result would come about.

18 Q But assuming the data are reliable and your
19 costs would go down under GTE's local transport
20 restructure, would you support the restructure? I'm not
21 asking you to assume they are reliable, but assuming that
22 they are.

23 A Well, I think --

24 Q Hypothetically.

25 A Well, I think the use -- when it comes to the

1 facility rates within local transport and its restructure,
2 I don't think you can really look at, you know, impacts.
3 Again, I'll say that theoretically there is no way that a
4 small -- let me clarify. There's no way that the
5 average/small and small to medium/large-sized IXC can
6 experience a reduction in costs unless -- well especially
7 in Florida where there's no distance sensitivity to the
8 current local transport rate. So -- could you help me
9 with your question again?

10 Q I guess my only question is, again, if your
11 costs went down as a result of local transport
12 restructure, would you support it?

13 A Well, okay, I'll go back to the rates. I can't
14 out and out say that I would because it's really the
15 underlying rates that are at issue, and the impact of one
16 versus another, and the ability to prove that, I think, is
17 a very limited, on our -- for us, internally, as well as
18 the LECs within their systems, to be able to really show
19 what the impact is.

20 CHAIRMAN DEASON: Would it be fair to say that
21 you don't oppose your rates going down, but you don't want
22 your competitors going down more than yours go down?

23 WITNESS ROCK: I think --

24 CHAIRMAN DEASON: Is that too simplistic?
25 That's what I hear you saying.

1 WITNESS ROCK: I think it is. It's fair to say
2 that -- or my position is if there is a cost basis for a
3 lower rate for one IXC or one customer versus another,
4 that I don't have a problem with that. I don't like it.
5 I would like to be in that position myself. But what I do
6 oppose is the additional contributions to common costs
7 being put on the smaller carrier, or the carrier without
8 an alternative, essentially the captive customer.

9 Q (By Ms. Caswell) I think we've gotten a little
10 bit away from my original question, and I think it's very
11 simple: Would you like your access costs to go up or
12 down?

13 A Down.

14 Q Mr. Rock, at Page 9, Lines 21 to 23 of your
15 direct testimony, you state that the "LECs will adjust the
16 interconnection charge to recover the decreased facility
17 revenue resulting from reduced DS1 direct trunked
18 transport rates" that would occur under Sprint's
19 proposal. What this means is that the RIC would increase
20 under Sprint's proposal, wouldn't it?

21 A Theoretically, yes.

22 Q We've heard substantial testimony in the past
23 couple of days that indicates the RIC will generally be
24 phased down and eventually eliminated. Would you agree
25 what that conclusion?

1 A Well, I think that's the feeling of a lot of
2 people. I think it's up to this commission though to make
3 that decision for Florida, and I don't see that really as
4 an issue that's being debated here. It's not an issue for
5 me at this point in time. I think initially that there
6 should be revenue neutrality for the LECs. But I think
7 like any large contribution source within the pricing of
8 access services, it should be continually monitored, and
9 not just the RIC, but the RIC is no different to me than
10 the carrier common line charge or the subsidies, the
11 excess subsidies built into local switching or any of the
12 other access services.

13 Q So you don't have an opinion as to whether it
14 should be phased down or eliminated?

15 A No, that's -- I would like to see all access
16 rates go down.

17 Q Do you think it makes sense to increase an
18 element that is not cost based, assuming it will
19 eventually be phased out or eliminated?

20 A Well, the increase to the RIC would not be
21 anymore non-cost based than what's already there. What
22 you're doing is putting the additional contribution that
23 the proposed rates pull from DSL services and putting it
24 into the RIC and putting it into an equally spread
25 element, whereas if you're just receiving that

1 contribution from DS1 customers, it's the small to medium-
2 sized customer that's going to pay that additional
3 contribution.

4 Q I think that may not have answered my question.
5 Let me ask it a different way. You have a proposal for
6 so-called cost-based prices. Doesn't increasing a
7 non-cost-based element, isn't that inconsistent with your
8 so-called cost-based pricing proposal?

9 A No. What -- and I'll answer the question
10 basically the same way, that the facility rates that you
11 propose are not cost based. Your -- without any -- using
12 my 22-to-1, or using something higher than that, or
13 something in the neighborhood of -- just use 22-to-1, the
14 additional rate or the excess price that you have for your
15 DS1 service today is contribution in excess of what you're
16 receiving from your DS3 customer. You take that
17 contribution out of your DS1 rate and you put it into your
18 residual interconnection charge. You're just shifting the
19 subsidy to be recovered on an equal basis and you're
20 making your facility rates cost based.

21 Q Do you believe that GTE's rates cover their
22 incremental costs?

23 A I have no proof that they do or don't.

24 Q Do you know if there's been any allegation in
25 this proceeding that their rates don't cover their costs?

1 Is that an issue?

2 A I don't believe that's at issue here.

3 Q Mr. Rock, although the DS3-to-DS1 rate ratios
4 you derive are somewhat different than those that
5 Mr. Gillan has advocated, your local transport restructure
6 pricing proposal and Mr. Gillan's are conceptually the
7 same; are they not?

8 A Well, I'll agree with the last part, that we
9 believe in the same cost-based approach. I took the step
10 to offer up a proposal. He seems to have taken a step to
11 really dig in and go after the actual cost information.

12 Q Right, and you've said that if we got the actual
13 cost information we can use that. So essentially you
14 would support Mr. Gillan's proposal?

15 A Assuming I agree with his methodology.

16 Q And that's the same proposal that Sprint and
17 ComTel made at the FCC, isn't it?

18 A I'm sorry.

19 Q That's the same proposal that Sprint and ComTel
20 made at the FCC, isn't it?

21 A Which proposal?

22 Q The DS3-based pricing proposal that you've
23 advanced here.

24 A Yes, I think theoretically it is.

25 Q And that was rejected by the FCC; wasn't it?

1 A I would say that in the first round, the FCC
2 made the decision. The FCC didn't -- doesn't really have
3 the avenue to go and get cost studies and make sure that
4 rates are cost based and that there is more or less
5 contribution being recovered from one service or another.

6 Q Are you claiming that the FCC doesn't have the
7 authority to conduct a cost investigation of LEC's rates?

8 MS. BRYANT: Mr. Chairman, I'm going to object
9 to that question. I don't believe the witness stated that
10 the FCC did not have the authority.

11 MS. CASWELL: He said that the FCC --

12 CHAIRMAN DEASON: I'm going to cut through
13 this. I'm going to allow the question. We'll just get it
14 clarified exactly what he did mean.

15 WITNESS ROCK: I am saying that the FCC does not
16 have the avenue to really go out and get the information;
17 and given all the circumstances, given the pressures on
18 both sides, I think they decided to go forward with
19 special access rates as they existed in 1992.

20 Q (By Ms. Caswell) Did you read the FCC's local
21 transport order?

22 A Yes, I did.

23 Q So you would be aware, would you not, that the
24 FCC stated that it could have conducted a cost
25 investigation if it wanted to?

1 A Subject to check, I'll accept that.

2 Q In your direct testimony at Page 8, Lines 22 to
3 23, you state that Sprint supports market-based pricing
4 for the increasingly competitive DS3 level service. Under
5 your proposal, though, wouldn't a LEC need to reduce all
6 of its switched transport prices even if it wanted to
7 reduce only the DS3 price?

8 A I didn't catch the question, the correlation of
9 what you were saying. Please restate it.

10 Q Wouldn't your proposal require the LEC to reduce
11 all of its switched transport prices, DS1, tandem-switched
12 transport, even if it only wished to reduce the DS3 price?

13 A I think the assumption that I'm making here in
14 my testimony is that the LECs have already priced their
15 DS3 service at some hypothetical market level.

16 Q And you believe that level should continue
17 forevermore? Your proposal isn't an interim proposal,
18 it's a permanent proposal, isn't it?

19 A I think from an IXC perspective -- I'm being
20 quite generous with the statement I'm making here on DS3,
21 and yet we -- do we support market-based pricing? No, we
22 do not, not at this time. But what I am saying here is go
23 ahead and price your DS3 at what you think is the market
24 level, but go back to the standard which says there should
25 not be discrimination between one IXC and another in the

1 amount of contribution on a per unit of capacity basis.

2 Q Right, and consistent with your recommendation,
3 if I reduce my DS3 prices, I've got to reduce DS1 and
4 tandem switched prices as well; isn't that true?

5 A I'm saying you leave your DS3 where it is and
6 lower your DS1, and the impact on your tandem switched
7 would be -- should be a decrease, and it would be a pretty
8 small decrease because of the fiber -- the fiber/copper
9 ratio that's implemented into your -- is included in your
10 tandem-switched rates.

11 Q Maybe I'm not being clear here.

12 CHAIRMAN DEASON: Mr. Rock, I'm going to ask you
13 to listen very carefully to the question and if you can
14 answer it yes or no, I'm going to ask you to give a yes or
15 no answer, and if you need to explain it, do so, but you
16 two are not communicating, or at least I don't think you
17 are.

18 Q (By Ms. Caswell) Okay, under your pricing
19 proposal, if I reduce my DS3 rate, do I need also to
20 reduce my DS1 and tandem-switched transport rates at the
21 same time and at the same level?

22 A Yes. If you reduced your DS3 rate, but I am not
23 proposing that here.

24 Q You're not proposing what, I'm sorry?

25 A I'm not proposing that you reduce your DS3 rate.

1 Q Right, but your proposal wouldn't stop the LEC
2 from reducing its DS3 rate or its DS1 or its transport
3 rates; is that true?

4 A No.

5 Q So is it fair to say that you support market-
6 based pricing for DS3 and non-market-based pricing for DS1
7 and tandem-switched transport?

8 A I do not oppose -- I support DS3, more
9 specifically, a competitive service being considered for
10 some sort of market pricing.

11 Q And that competitive service would be the DS3 in
12 this case?

13 A In this case, I believe DS3 is really the only
14 potentially competitive service that we're talking about.

15 Q So you don't think DS1 or tandem-switched
16 transport will ever become competitive?

17 A Not in the near future.

18 Q So you would agree that you support market-based
19 pricing for DS3 but not for the lower capacity services?

20 A That's correct, because DS1 and tandem-switched
21 transport will be purchased by the captive customer, which
22 doesn't have the alternatives, and it wouldn't be --
23 wouldn't be appropriate to allow the LEC to recover more
24 of those joint common costs from that customer.

25 Q Okay, and again, your proposal is a permanent

1 proposal; it's not an interim proposal. Is that true?

2 A The 22-to-1?

3 Q Yes, your DS3 based proposal.

4 A It's permanent.

5 Q Right, okay. So regardless of market conditions
6 for lower capacity service like DS1 and tandem-switched
7 transport, the LEC would be forced to reduce those if it
8 wished to meet competition in the DS3 market; isn't that
9 right?

10 CHAIRMAN DEASON: Ms. Caswell, I believe you've
11 asked that question.

12 Q (By Ms. Caswell) Do you think Sprint, or for
13 that matter, any IXC or AAV would ever freely engage in
14 such across-the-board rate reductions independent of
15 competitive conditions?

16 A No.

17 Q And don't you think requiring the LECs to reduce
18 prices for DS1s and tandem-switched transport at the same
19 level and at the same time as DS3s would discourage any
20 price reductions at all?

21 A No. If the local exchange company really felt
22 like they needed to adjust the rates to meet the market, I
23 think they would find a way to do that, meet that need.

24 Q Mr. Rock, I don't see anything in your testimony
25 about the specific effects of your proposal on the

1 ultimate consumer of long distance services. Is that
2 because that end user isn't likely to benefit from your
3 proposal?

4 MS. BRYANT: Mr. Chairman, I'm going to object
5 to that question. I think Ms. Caswell is going beyond the
6 scope of his testimony, and that is not an issue in this
7 docket.

8 CHAIRMAN DEASON: You may respond to the
9 objection.

10 MS. CASWELL: I just want to establish that
11 whether or not Mr. Rock believes that the consumer effects
12 of his proposal is an issue in this docket or not.

13 CHAIRMAN DEASON: I'll allow the question.

14 WITNESS ROCK: I think in the long term you're
15 looking at a situation where competition in the IXC
16 business would be jeopardized and that in the long run the
17 end user would be the loser.

18 Q (By Ms. Caswell) And how would that occur,
19 exactly?

20 A As if -- not just with local transport, but with
21 -- as pricing flexibility is -- if it's allowed to go in
22 in a discriminatory way, to where eventually the carrier
23 with the most traffic is far and away the most -- the
24 lowest cost provider, they'll be able to eventually --
25 theoretically they will be able to eventually force out

1 its competitors, or the majority of its competitors, the
2 end user is going to have fewer choices and we'll be back
3 to where we were -- or close to where we were ten, 11
4 years ago.

5 Q So are you saying that solely as a result of the
6 LECs' proposed local transport restructure companies like
7 Sprint will be forced out of business?

8 A No. What I am saying is this mentality of going
9 forward with this discriminatory pricing, not just for
10 local transport -- local transport will not drive many
11 businesses out of the market. But if this type of pricing
12 continues and these proposals keep coming up, eventually
13 that will be the end result.

14 Q Okay, but all we're talking about here is local
15 transport; isn't that correct?

16 A I think we're also setting a policy, not only
17 for now but in the future, as to how prices are set for
18 LEC services.

19 Q Mr. Rock, won't the degree of consumer choice in
20 a particular area remain a function of population density,
21 customer characteristics and the like?

22 A That's probably true.

23 Q And is it likely that Sprint will stop serving
24 any areas it now serves, solely as a consequence of the
25 LECs' proposed local transport restructure?

1 A We would not.

2 Q I believe you stated that you believe the
3 transport restructure rates proposed by the LECs are
4 discriminatory; is that true?

5 A They are potentially discriminatory.

6 Q And are you aware that discrimination has a very
7 specific meaning in common carrier law?

8 A Well, I guess I know the meaning for me, which
9 is forcing one party to pay more for an identical service
10 than another party.

11 Q Okay, but under the local transport restructure,
12 won't parties be paying the same rates for DS1, among
13 themselves, for DS3 service, for DS1 service, for
14 tandem-switched transport service? In other words, no
15 party is going to be charged more or less under the tariff
16 for DS3 as another party would?

17 A Well, that's correct. You have tariffs for DS1
18 and DS3 service. From an IXC perspective, DS1 and DS3 is
19 a medium used to transport traffic, and they are not
20 different services. They provide the same -- get my
21 traffic from point A to point B, and it's all put over the
22 same LEC interoffice network going at typically DS3 speeds
23 anyway. So the only difference is the amount of traffic
24 that I can put over that service.

25 Q But they have traditionally been considered

1 different services and been provided under different
2 tariffs; isn't that true?

3 A As some witnesses have said, the market is
4 changing. The view is changing. It's not changing from
5 my perspective, but from yours it may be. Transport is
6 transport. Whether I purchase a DS3 to get 672 voice
7 grade equivalence, whether I purchase a DS1 to get 24
8 voice grade equivalence, it doesn't matter. We're talking
9 -- from our perspective, it's volume.

10 Q Can you give me a yes or no answer to my
11 question of whether DS1, DS3 and tandem-switched transport
12 have traditionally been considered different services
13 provided under different tariffs? Just a yes or no
14 answer.

15 A Within the special access tariff, yes, they are
16 different.

17 Q So your discrimination argument is more of a
18 policy argument rather than a legal argument; is that fair
19 to say?

20 A Certainly.

21 Q Okay.

22 MS. CASWELL: Thank you, Mr. Rock. That's all I
23 have.

24 CHAIRMAN DEASON: Mr. Tye?

25

CROSS EXAMINATION

1
2 BY MR. TYE:

3 Q Thank you, Mr. Chairman.

4 Mr. Rock, did I understand you to say in
5 response to one of Ms. Caswell's questions that you
6 consider the DS3 to be competitive but not the DS1?

7 A That is Sprint's view of the competitive market.

8 Q By "competitive market" you mean that the
9 carriers have an alternative to the LEC for obtaining a
10 DS3 but not a DS1; is that correct?

11 A What I am saying is that -- no, that's not
12 correct. What I am saying is that the alternative
13 providers are looking for large volumes, similar to when
14 the Bell System first started -- and I'm not a historian,
15 but where is Southern Bell located? Where is Southwestern
16 Bell located? They're primarily in the major cities.
17 That's where they started, and that's the same approach
18 that I think the alternative vendors are taking. It seems
19 reasonable to me that that's what they would do, going for
20 volume. And DS3 customers provide the volume that they're
21 looking for.

22 Q Now, let me ask you this. Isn't it a fact that
23 one can obtain a DS1 from an AAV as easily as one can
24 obtain a DS3?

25 A I disagree.

1 Q So it's your testimony that AAVs will not be
2 providing DS1 circuits if a customer asks for them?

3 A I don't agree with that either.

4 Q Is it your testimony that Sprint, if it wanted
5 to obtain a DS1 circuit from an AAV that was already
6 providing service in a given location, could not obtain
7 such a circuit?

8 A That's not correct. The key to your question
9 right there was where their --

10 Q Yes or no will do, Mr. Rock.

11 CHAIRMAN DEASON: Well, I have instructed the
12 witness to answer yes or no, but he does have the latitude
13 to explain his answer, and I will give him that
14 opportunity.

15 WITNESS ROCK: What you have said, Mr. Tye, is
16 where they are already providing service. And I think
17 those locations are somewhat limited. Where we may want
18 DS1 level service, they may not be providing service
19 today. They may not have put in their facilities. They
20 would not come out and put in facilities for a DS1
21 customer.

22 Q (By Mr. Tye) But, in a location where an AAV is
23 already active, you could probably obtain either a DS1 or
24 a DS3; is that correct?

25 A That is probably correct.

1 Q Now, Mr. Rock, does Sprint provide private line
2 services?

3 A Yes.

4 Q Does Sprint provide both T1 and T3 services?

5 A Yes.

6 Q And does Sprint charge different rates for those
7 services?

8 A Yes, I assume so. I'm not familiar with our
9 rates.

10 Q And in fact, doesn't Sprint charge -- or doesn't
11 Sprint provide a T1 circuit at a higher margin than it
12 provides a T3 circuit?

13 A I don't know.

14 Q Are you aware of the fact that Sprint on
15 occasion quotes different rates to different customers for
16 the same type facility, based on the customer's usage?

17 A Again, I'm not familiar with the way we price
18 our services, how we offer it. I do know that we -- that
19 the customer that we approach is the same customer that
20 AT&T, MCI, LDDS and the rest of the IXC industry would
21 like to go after, and so that customer has many, many
22 choices. And the market truly does affect the prices that
23 we charge, or AT&T charges, or MCI charges. And that's
24 not -- it's not the same as what we're dealing with here.

25 MR. TYE: Mr. Chairman, the answers are getting

1 way beyond my questions. I would appreciate another
2 instruction to the witness if it's in order.

3 CHAIRMAN DEASON: Mr. Tye, this is a complex
4 subject matter. And I am going to give the witness the
5 opportunity to explain his answers. I don't think he's
6 deviating too far, and when he does, I'll instruct him to
7 do differently.

8 Q (By Mr. Tye) Mr. Rock, is it your understanding
9 that in the market that Sprint operates, customers often
10 get different prices based on the volume that they can
11 provide to a carrier?

12 MS. BRYANT: Mr. Chairman, I believe that
13 question has been asked and answered.

14 MR. TYE: I'll get more specific, Mr. Chairman.

15 Q (By Mr. Tye) Mr. Rock, does Sprint provide a
16 service to the federal government known as FTS 2000?

17 A Yes.

18 Q And FTS 2000 is composed of a number of
19 different services, including T1s, T3s, Megacom type
20 services and some switched services; is that correct?

21 A I assume so.

22 Q And the general service -- and Sprint has in
23 fact -- Sprint in fact provides that service on an
24 intrastate basis in Florida; isn't that correct?

25 A I assume so.

1 Q And the rates which the federal government
2 enjoys for those services are different than the rates
3 that Sprint would charge other customers for the same
4 services; is that correct?

5 A I have no idea. I have no idea how we price our
6 services and what prices we offer it to one customer
7 versus another.

8 Q Mr. Rock, now you testify on Page 6 of your
9 direct testimony that the DS3/DS1 price relationship ought
10 to be 22-to-1; is that correct?

11 A That's correct.

12 Q And then over on Page 7 you say that that
13 relationship would be 28-to-1 but for the fact that
14 there's an additional cost with respect to the fill
15 factor; is that correct?

16 A That's correct.

17 Q Now, sir, the FCC recognizes that cost
18 difference in determining prices for dedicated transport
19 services; doesn't it?

20 A No.

21 Q It's your testimony that the FCC did not
22 recognize any difference in the DS1/DS3 fill factor in
23 determining the price differences?

24 A I don't know what -- I don't know what factors
25 the FCC used in determining their crossover, their

1 methodology of the 9.6 to determine their -- the
2 reasonableness at the federal level.

3 Q The FCC did make reference to the fill factor in
4 its order; is that correct?

5 A It could be.

6 Q Have you reviewed the FCC's order in preparation
7 of these hearings?

8 A To be honest, it has been some time since I have
9 read the full order cover to cover.

10 Q Let me hand you a copy of it. And ask you --
11 (Pause) Mr. Rock, I'm going to hand you a copy of the
12 FCC's order 92-442, FCC Docket 91-213, which was adopted
13 September 17, 1992 and released October 16, 1992. Does
14 that appear to be what you've got there?

15 A It's a lot smaller than the one I have.

16 Q Does it appear to be excerpted pages from the
17 order?

18 A I'll take your word for it that it is.

19 Q Would you look at the area that's highlighted on
20 Page 27 and read those two sentences for me, please?

21 A Starting with "Third"?

22 Q Yes.

23 A "Third, DS1 circuits riding on a DS3 facility
24 will generally not fill the DS3 facility. There will
25 often be fewer than 28 DS1s in use on the DS3. While

1 customers that purchase a DS3 facility pay for the full
2 capacity of the DS3, DS1 rates are set to recover on
3 average the full cost of the DS3 spread among all DS1s,
4 even when it is not fully utilized by DS1 customers."

5 Q Now, sir, were there -- were there some
6 additional costs -- or excuse me, some additional cost
7 differences that the FCC referenced in providing DS1 and
8 DS3 services?

9 A I believe they -- I believe they used the
10 multiplexing.

11 Q And in fact the FCC -- the FCC considered
12 multiplexing to be an additional DS1 cost; is that
13 correct?

14 A I don't recall specifically how they proposed to
15 handle it, you know, what -- I don't remember. Do you
16 have something I can read?

17 Q Yes, sir, let me hand you the order again.
18 Would you read to us the part on Page 26? (Pause)

19 Would you look at Page 26 of the order, please,
20 sir, and read the sentence there that starts with "First"
21 to the end of the paragraph?

22 A Do you mind if I read, so I know what this is in
23 context with?

24 Q Go ahead. (Pause)

25 A Okay.

1 Q Is it your understanding from reading that
2 language, Mr. Rock, that the FCC considered multiplexing
3 to be a cost of DS1?

4 A It doesn't say that. Let me read what --

5 Q Go ahead and read --

6 A "First, in order to carry an IXC's DS1 level
7 traffic over a DS3 facility in the interoffice network,
8 the DS1 circuit must be multiplexed up to a DS3 at the
9 serving wire center and back down to a DS1 at the end
10 office."

11 Q Could you read the next sentence?

12 A "The additional multiplexing costs" -- you
13 didn't have that marked.

14 Q I'm sorry.

15 A "The additional multiplexing costs at the
16 serving wire center are properly included in the
17 nondistance-sensitive charge of the DS1 interoffice rate."

18 Q So then the FCC concluded that the additional
19 multiplexing costs were in fact properly included in the
20 DS1 cost; is that correct?

21 A Well, that's what they're saying here. But
22 since they didn't have any cost studies, I don't know how
23 they know what costs are included in the old DS1 rates and
24 the somewhat newer DS3 rates.

25 Q Sir, you would agree that's what they said in

1 their order, though; would you not?

2 A Yes.

3 Q Mr. Rock, did the FCC also conclude that DS1
4 could be offered over copper or microwave technology,
5 whereas DS3 is almost always offered over fiber?

6 A That's correct.

7 Q Now, sir, wouldn't the utilization of different
8 technology mixes also contribute to cost differences
9 between the DS1 and DS3 services?

10 A The long run incremental cost study of a DS1 and
11 a DS3 using the forward looking least-cost technology,
12 which is appropriate in determining long-run incremental
13 cost, would, in most cases, use fiber technology.

14 Q Mr. Rock, if that answered my question I'm not
15 sure I understand it.

16 A It does.

17 Q I asked: Wouldn't the use of different
18 technologies contribute to cost differences between DS1
19 and DS3, sir?

20 A No, no. Long run incremental cost studies
21 performed for DS1 and DS3 would be performed using the
22 least-cost technology.

23 Q So what you would do -- excuse me, I didn't mean
24 to cut you off, sir. So your testimony is, then, if we
25 ignore what the FCC found to be the case, which is that

1 DS1 can be offered over copper and microwave, whereas DS3
2 is always offered over fiber, if we ignore that and do a
3 cost study assuming that they're both offered over fiber,
4 the cost would be the same; is that what you just told me?

5 A I'm trying to figure out what you said.

6 Q Maybe I can break it down. Would you assume it
7 would be more costly to offer service over copper than
8 over fiber?

9 A I think that's a good assumption.

10 Q Is it also a valid assumption that it's more
11 costly to offer service over microwave than fiber?

12 A I'm not that familiar with microwave technology,
13 but I would say yes.

14 MR. TYE: Thank you, sir. I have no further
15 questions, Mr. Chairman.

16 CHAIRMAN DEASON: Mr. Wiggins.

17 CROSS EXAMINATION

18 BY MR. WIGGINS:

19 Q Just a couple, Mr. Chairman. Mr. Rock, the
20 cross examination questions by Mr. Tye and Ms. Caswell
21 relate to how the LEC is going to charge IXCs for
22 transport services; is that correct?

23 A That's correct.

24 Q Okay. I would like -- and that's the transport
25 restructure part of this docket, correct?

1 A That's correct.

2 Q I would like to bring the focus back to
3 Intermedia's perspective on this, because we did file the
4 initial petition. With expanded interconnection, Sprint,
5 if it chose to, could collocate with an end office of the
6 LEC; is that correct?

7 A That's correct.

8 Q And in so doing, Sprint could avoid paying the
9 LEC for the dedicated transport of switched access
10 traffic, as well as a local channel charge; is that
11 correct?

12 A That's correct. We would incur the cost of
13 collocating, but we would -- could avoid the transport
14 charges.

15 Q Okay, and in incurring the cost of collocating,
16 that would include an interconnection charge which would
17 be the functional equivalent of a local channel charge; is
18 that correct?

19 A Are you speaking of the cross connect?

20 Q Yes, sir, the cross connect, I'm sorry.

21 A Yes. One other charge would be the residual
22 interconnection charge, the RIC that we're talking about
23 here.

24 Q Were you here for Mr. Gillan's testimony
25 yesterday?

1 A Most of it.

2 Q All we're talking -- let me reframe that. All
3 we're talking about in terms of what you are potentially
4 avoiding paying the LEC are the charges for the dedicated
5 transport and the local channel office. We're not talking
6 about minute-of-use charges for switching, the RIC, or any
7 of that stuff.

8 A Okay.

9 Q And I believe it's your testimony that in the
10 scheme of things, that's a fairly small percentage, for
11 intrastate, at least; is that correct?

12 A Yes.

13 Q Now, when you collocate -- if you collocate with
14 the LEC central office, end office, excuse me, that could
15 be either physical or virtual, correct?

16 A That's my understanding, yes.

17 Q Once you do that, you then have to take your
18 traffic from that collocated point of presence to your
19 other major POP, or point of presence; is that correct?

20 A Yes.

21 Q Now you could do that over you own facilities,
22 correct?

23 A If we had facilities between those two points.

24 Q If you did not have facilities there, you could
25 purchase those facilities or lease those facilities from

1 another IXC; is that not true?

2 A That's correct.

3 Q Or from an AAV?

4 A Technically, that's correct, yes.

5 Q In fact, isn't POP-to-POP transport being done
6 today for intrastate purposes within Florida?

7 A Yes, I believe so.

8 MR. WIGGINS: I have no further questions,
9 Mr. Chairman.

10 CHAIRMAN DEASON: Staff?

11 CROSS EXAMINATION

12 BY MS. CANZANO:

13 Q Good morning, Mr. Rock.

14 A Good morning.

15 Q Have you received a copy of a document
16 distributed by Staff earlier consisting of Sprint's
17 Responses to Staff Interrogatories Nos. 1 through 18?

18 A Yes, I have.

19 Q Was the information in this document prepared by
20 you, or someone under your supervision?

21 A Yes.

22 Q Have you had a chance to review it?

23 A Yes.

24 Q Are there any corrections to be made, or is it
25 accurate?

1 A On Item No. 13, there is a correction.

2 Q What is that?

3 A We incorrectly stated that LECs should not be
4 required to offer interconnection, and the response should
5 be, "Interconnectors should not be required to offer
6 interconnection." So it should read "interconnectors."

7 MS. CANZANO: Chairman Deason, Staff would ask
8 that this be marked for identification as an exhibit at
9 this time.

10 CHAIRMAN DEASON: It will be identified as
11 Exhibit No. 40.

12 (Exhibit No. 40 marked for identification.)

13 Q (By Ms. Canzano) Mr. Rock, assume that the
14 Commission mirrors the FCC's July 25th order requiring
15 mandatory virtual collocation with the LEC option of
16 providing physical collocation. If the LEC chooses to
17 offer physical collocation, should it still be required to
18 tariff floor space for physical collocation?

19 A Yes, I think if any deal is struck between the
20 LEC and another party for physical collocation, that that
21 opportunity should also be made available to all parties
22 at the same rates, through tariff.

23 Q Should any other elements of physical
24 collocation be tariffed if the Commission mirrors the
25 FCC's order?

1 A I'm sorry, could you --

2 Q For anything besides tariffing for floor space,
3 if they operate under this scenario?

4 A I think all services which are included should
5 be provisioned in a tariff.

6 Q Assume the Commission allows the LECs and AAVs,
7 or anyone else, to negotiate the type of collocation
8 arrangement. Should any element of physical or virtual
9 collocation be tariffed if the Commission allows
10 negotiated collocation arrangements?

11 A Yes. Yes.

12 Q What type of elements?

13 A Well, I guess I'm hearing this question as being
14 very similar to your first question.

15 Q Well, it's similar, but this would be for just
16 negotiating any type of collocation, whether it's
17 mandatory -- whether it's virtual or physical. So it's
18 completely negotiated, not --

19 A Yes, I think any arrangements for collocation
20 should be made public, and should be tariffed, whether
21 it's mandatory or a negotiated arrangement.

22 MS. CANZANO: Staff has no further questions.

23 CHAIRMAN DEASON: Commissioners? Redirect?

24 MS. BRYANT: No redirect, Mr. Chairman.

25 CHAIRMAN DEASON: Exhibits?

1 MS. CANZANO: Staff moves No. 40.

2 CHAIRMAN DEASON: Without objection. Exhibit
3 No. 40 is admitted. Thank you, Mr. Rock.

4 (Witness Rock excused.)

5 * * *

6 CHAIRMAN DEASON: And Ms. Marrero, I believe
7 your witness is next.

8 MS. MARRERO: Teleport Communications calls
9 Steven Andreassi. Mr. Chairman, Mr. Andreassi has not
10 been sworn in.

11 CHAIRMAN DEASON: Very well.

12 STEVEN C. ANDREASSI
13 was called as a witness on behalf of Teleport
14 Communications Group, and having been duly sworn,
15 testified as follows:

16 DIRECT EXAMINATION

17 BY MS. MARRERO:

18 Q Please state your name and business address.

19 A My name is Steven C. Andreassi. My business
20 address is Two Teleport Drive, Staten Island, New York.

21 Q By whom are you employed, and what is your
22 position?

23 A I am employed by Teleport Communications
24 Group, TCG, as a regulatory analyst.

25 Q Have you prepared and caused to be filed

1 prefiled direct and supplemental direct testimony in this
2 proceeding?

3 A Yes, I have.

4 Q Do you have any changes or revisions to your
5 prefiled direct or supplemental direct testimony?

6 A No, I do not.

7 Q So that if I asked you the same questions
8 contained in your prefiled direct and prefiled
9 supplemental direct testimony, your answers would be the
10 same?

11 A Yes, they would.

12 MS. MARRERO: Mr. Chairman, I would like that
13 Mr. Andreassi's prefiled direct and supplemental direct
14 testimony be inserted into the record as though read.

15 CHAIRMAN DEASON: Without objection they will be
16 so inserted.

17

18

19

20

21

22

23

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **In re: Expanded Interconnection)**
3 **Phase II and Local Transport) Docket No. 921074-TP**
4 **Restructure) Docket No. 930955-TL**
5 **Docket No. 940014-TL**
6 **Docket No. 940020-TL**
7 **Docket No. 931196-TL**
8 **Docket No. 940190-TL**
9

10 **TESTIMONY OF STEVEN C. ANDREASSI**
11 **ON BEHALF OF TELEPORT COMMUNICATIONS GROUP, INC.**
12

13 Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

14 A. **My name is Steven Andreassi. My business address**
15 **is Teleport Communications Group, Inc. (TCG), Two**
16 **Teleport Drive, Suite 300, Staten Island, New York**
17 **10311.**

18 Q. **WHAT IS YOUR CURRENT POSITION AT TCG?**

19 A. **I am a Regulatory Analyst in TCG's Regulatory and**
20 **External Affairs Department. I work closely with**
21 **our sales and marketing departments to tariff TCG's**
22 **interstate services with the Federal Communications**
23 **Commission and its intrastate services with the**
24 **state commissions. I monitor rates filed by other**
25 **carriers for their impact on TCG's service**
26 **offerings. I also advise TCG's regulatory**

1 attorneys on general state and federal policy
2 proceedings in which TCG is participating.

3 Q. WHAT IS YOUR BACKGROUND PRIOR TO JOINING TCG?

4 A. From 1991 to 1993, I worked for Rochester Telephone
5 Corporation as a Network Planner and Marketing
6 Analyst. I was responsible for projects related to
7 pricing and products provided by Rochester's long
8 distance affiliate, RCI. From 1989 to 1991, I
9 worked as a Budget Forecaster and Financial Planner
10 for Highland Telephone Company, another Rochester
11 Telephone subsidiary. I received a Master of Arts
12 in Economics from Pennsylvania State University in
13 1989. I received my Bachelor's degree in Economics
14 from Indiana University of Pennsylvania in 1987.

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
16 PROCEEDING?

17 A. I will address the issues related to expanded
18 interconnection for switched access set out in the
19 order establishing issues in these dockets. I will
20 testify that expanded interconnection for switched
21 access is in the public interest and that the
22 potential revenue impact on the local exchange
23 companies ("LECs") should not be serious. I will
24 also outline certain items of concern to TCG in the
25 LECs' special access expanded interconnection
26 tariffs filed in Phase I of Docket 921074-TP.

1 Q. PLEASE DESCRIBE TCG'S INTEREST IN THIS PROCEEDING.

2 A. TCG's affiliate, TCG America, is certified to
3 operate as an Alternative Access Vendor ("AAV") in
4 Florida. It therefore has a significant interest
5 in having the opportunity to interconnect with the
6 LECs to carry interexchange carrier ("IXC")
7 intrastate traffic from the LEC's switch to the IXC
8 point of presence ("POP") in addition to carrying
9 interstate traffic from the LEC switch to the IXC
10 POP as mandated by the Federal Communications
11 Commission ("FCC").

12 Q. IS THE FLORIDA COMMISSION PROPOSING FULL SWITCHED
13 ACCESS COMPETITION IN THIS PROCEEDING?

14 A. No. Like the FCC's order implementing switched
15 access expanded interconnection, an order in this
16 docket will open up only a fraction of the
17 intrastate switched access market to competition.
18 Because of this, the LECs will not lose significant
19 revenues and should not receive excessive pricing
20 flexibility.

21 Q. PLEASE EXPLAIN WHAT YOU MEAN.

22 A. The LECs charge IXCs for switched access service
23 based on three rate elements. The Carrier Common
24 Line ("CCL") element recovers the non-traffic
25 sensitive costs associated with the LEC's local
26 exchange loop between the customer and the LEC

1 central office. The Local Switching element
2 recovers the traffic sensitive costs associated
3 with the LECs' switch. The Local Transport element
4 recovers the LEC's costs for carrying the IXC's
5 traffic from the central office to the IXC's POP.
6 Local Transport consists of two different types of
7 facilities: "Direct Trunked" services, which use
8 dedicated facilities that run from the IXC POP
9 directly to the final end office, and "Tandem
10 Trunked" services, which use dedicated facilities
11 that run from the IXC POP to the tandem switch, and
12 then shared transport facilities that run from the
13 tandem switch to the final end offices. The local
14 transport rate element also includes costs
15 associated with the tandem switch. It is important
16 to note that the only piece of switched transport
17 AAVs can provide are the dedicated trunk portions
18 of local transport. Additionally, at the FCC, the
19 local transport component of switched access also
20 includes a "Residual Interconnection Charge" which
21 recovers, through a usage sensitive charge that is
22 applied much like the local switching element, a
23 substantial portion of local transport revenues.

24 Q. CAN YOU MORE SPECIFICALLY DESCRIBE DIRECT TRUNKED
25 LOCAL TRANSPORT?

26 A. Yes. Direct trunked local transport switched

1 access facilities are simply dedicated point to
2 point high volume facilities. Although telephone
3 companies offer these services within "switched
4 access" service categories, the economic and
5 technical nature of direct trunk local transport
6 circuits are really indistinguishable from special
7 access/private line services. Like special
8 access/private line services, direct trunked local
9 transport is provided between two discrete points,
10 the IXC POP and the telephone company central
11 office. There is actually no "switching" or call
12 routing involved in direct trunked local transport.
13 Moreover, IXCs need the quality, reliability and
14 diversity of competitive alternatives for these
15 critical facilities. Therefore, opening the local
16 transport market to competition by permitting AAVs
17 to interconnect to the LEC facilities at its
18 central office is in the public interest.

19 Q. WILL THE LECS FACE SERIOUS FINANCIAL HARM IF THE
20 COMMISSION PERMITS AAVS TO PROVIDE THIS PIECE OF
21 SWITCHED ACCESS?

22 A. I do not believe so. The LECs should not be
23 seriously harmed financially if AAVs interconnect
24 to provide the local transport piece of switched
25 access because, as I explained above, it is just
26 one piece of the switched access market. After

1 charging CCL, local switching, transport and the
2 Residual Interconnection Charge ("RIC"), the LECs
3 earn annual revenues exceeding \$11 billion in the
4 interstate switched access market. The dedicated
5 trunk portion of the local transport segment of
6 interstate switched access accounts for
7 approximately \$418 million of this \$11 billion
8 market or 3.8%. The impact of intrastate Local
9 Transport Restructuring ("LTR") may be even smaller
10 than that of interstate LTR. BellSouth's
11 intrastate local switched access rate is \$.0544 per
12 minute of use on an originating call. This is
13 comprised of a carrier common line charge of \$.0260
14 per minute, a local switching charge of \$.0130 per
15 minute and a local transport charge of \$.0154 per
16 minute. Thus carrier common line accounts for
17 47.79% of switching revenues, local switching
18 accounts for 23.90% of switching revenues and local
19 transport accounts for 28.31% of total switching
20 revenues. So as a starting point, less than a
21 third of all switched access revenues even fall
22 under the heading local transport. Of course, not
23 all local transport revenue will be open to
24 competition under LTR. As an example, a typical
25 DS0 can carry 9000 minutes of use per month. A DS1
26 can carry 24 DS0 channels or 216,000 minutes of use

1 a month and a DS3 can carry 672 DS0 channels, or
2 6,048,000 minutes of use per month. Total monthly
3 switching revenues generated by a DS1 and a DS3
4 would be \$11,750.40 and \$329,011.20 respectively.
5 Of that, the local transport charge accounts for
6 \$3,326.40 of the DS1's revenues and \$93,139.20 of
7 the DS3's revenues. The only portion of local
8 transport that would be open to competition,
9 however, is the dedicated facility between the LEC
10 end office and the IXC POP. Currently, BellSouth
11 charges \$140.90 for an intrastate special access
12 DS1 and \$2800.00 for an intrastate private line
13 DS3. These changes represent the only revenue at
14 risk to the LECs. Put in its proper perspective,
15 the DS1 charge equates to a mere 1.2% of total
16 switching revenue and only 4.24% of local transport
17 revenue attributable to that facility. Similarly,
18 the DS3 rate accounts for .85% of total switching
19 revenue and 3.01% of the local transport revenue
20 generated by such a facility. These results assume
21 that the remaining Local Transport revenues are
22 recovered through a RIC charge or tandem switching
23 charge as is the case with the FCC's local
24 transport restructuring.

25 Q. SHOULD THE COMMISSION IMPOSE THE SAME OR DIFFERENT
26 FORMS AND CONDITIONS OF EXPANDED INTERCONNECTION

1 THAN THE FCC?

2 A. The Commission should simply order the LECs to use
3 for switched access expanded interconnection the
4 rates and rate structures they established for
5 their interstate switched tariffs, which were in
6 turn structured on their interstate special access
7 interconnection tariffs, and to mirror any changes
8 in those interstate rates. The rate elements for
9 switched access interconnection are the same as the
10 rate elements for special access interconnection.
11 These same rate elements apply whether the AAV is
12 interconnecting with the LEC to provide interstate
13 or intrastate services. This makes sense since the
14 same LEC facilities are used for both interstate
15 and intrastate services. These elements for the
16 collocation space are the cross-connect, floor
17 space, power, cable and conduit, and various non-
18 recurring charges. The elements for the local
19 access service, itself, consist of interoffice
20 mileage and a charge for the entrance facility to
21 the IXC POP (The LECs referred to this element as a
22 channel termination in their interstate special
23 access interconnection tariffs). It is unnecessary
24 and inefficient to re-litigate a rate structure
25 which has already been implemented.

26 Q. IS THE OFFERING OF DEDICATED AND SWITCHED SERVICES

1 BETWEEN NON-AFFILIATED ENTITIES BY NON-LECs IN THE
2 PUBLIC INTEREST?

3 A. Yes. In order to bring the benefits of competition
4 to Florida telecommunications users, the Commission
5 should permit AAVs to offer these services. TCG is
6 not prohibited from providing dedicated service
7 between affiliated entities in any state in which
8 it currently operates. TCG is authorized to
9 provide intraLATA toll and Centrex via resold local
10 exchange facilities in multiple jurisdictions. In
11 Illinois, TCG cannot switch local calls between
12 unaffiliated users since this would constitute
13 local exchange service. TCG, instead, hands the
14 local call off to the LEC for completion. While
15 TCG supports the removal of restrictions on an
16 AAV's ability to provide all services, including
17 local exchange service, it believes that
18 immediately permitting AAVs to provide dedicated
19 private line service between unaffiliated users,
20 intraLATA toll (which the Commission already
21 permits) and Centrex via resold local exchange
22 company facilities will greatly enhance the
23 competitive environment in the state. The
24 Commission should also consider opening a generic
25 docket to investigate local exchange competition.
26 Authorization of AAVs to provide these services

1 will bring real benefits to Florida
2 telecommunications users. First, TCG and other
3 AAVs will build the local fiber optic
4 infrastructure without the need for any special
5 incentives which may be sought by the incumbent
6 LECs and which transfer risks to ratepayers.

7 Second, even where competition has already
8 encouraged the telephone companies to match AAV
9 reliability, diversity and other service factors,
10 AAVs still offer what the telephone company cannot
11 -- operational and strategic security. Operational
12 security for telecommunication users, including
13 large and small businesses, means having the
14 ability to acquire diverse, redundant routing and
15 switching service from two independent local
16 networks as insurance against network failure or
17 disaster. Businesses also use the services of AAVs
18 to gain the strategic security which comes from
19 using a telecommunications provider which does not
20 compete in their core business. AAVs provide these
21 same benefits to customers purchasing both private
22 line and competitive switched services.
23 Authorizing AAVs will bring these competitive
24 benefits to Florida, which by definition cannot be
25 provided by the incumbent LEC.

1 Q. THE COMMISSION HAS ESTABLISHED PRELIMINARY ISSUES
2 REGARDING WHICH LECs SHOULD PROVIDE SWITCHED ACCESS
3 INTERCONNECTION, FROM WHAT FACILITIES AND TO WHOM.
4 DOES TCG HAVE A POSITION ON THESE ISSUES?

5 A. TCG believes the Commission should order the LECs
6 which filed intrastate special access
7 interconnection tariffs to simply mirror these
8 tariffs by filing tariffs offering switched access
9 interconnection at the same facilities, available
10 to the same entities. The Commission must also
11 require these LECs to provide switched access
12 interconnection at their tandem facilities.

13 Q. PLEASE DESCRIBE TANDEM INTERCONNECTION.

14 A. TCG believes the purpose of interconnection is to
15 bring the benefits of competition and choice to a
16 wide number of telecommunications users. Because
17 interconnectors will not be able to establish
18 collocation arrangements in every end office, they
19 need to collocate at LEC tandem facilities in order
20 to handle traffic to end offices where they are not
21 collocated. The LEC should be required to unbundle
22 tandem signalling and permit competition for tandem
23 routed traffic. LECs should provide two types of
24 tandem interconnection with the appropriate
25 signalling. In one type of tandem interconnection,
26 the interconnector would use its own switching

1 facilities to replace the LEC tandem switch. The
2 interconnector needs tandem-type signalling at the
3 end office, so that it can carry calls of multiple
4 carriers over a single trunk group -- the
5 equivalent of the LECs' common transport element.
6 This will permit direct tandem competition only for
7 the limited number of end offices where the
8 interconnector has a presence.

9 The second form of tandem competition involves the
10 interconnector locating facilities in the LEC
11 tandem office, thereby replacing the dedicated
12 facility from the IXC POP to the LEC tandem. This
13 provides for direct competition for this dedicated
14 link. From a signalling perspective this should be
15 no different than an ordinary "direct trunk"
16 connection to an end office since TCG would use
17 separate trunks for each IXC connection at the
18 tandem.

19 To the extent that there is a rate difference
20 between tandem switched transport, DS1 trunked
21 transport and DS3 trunked transport, the difference
22 should be limited, starting at the existing price
23 floor, to the rate differences already existing in
24 the LECs' interstate tariffs for these services.

25 Q. DOES CHAPTER 364, FLORIDA STATUTES, ALLOW THE
26 COMMISSION TO REQUIRE EXPANDED INTERCONNECTION FOR

1 SWITCHED ACCESS?

2 A. Yes. Chapter 364 allows the Commission to require
3 expanded interconnection for switched access for
4 the same reasons it allowed the Commission to order
5 special access interconnection. It directs the
6 Commission to encourage cost-effective innovation
7 and competition in the telecommunications industry
8 if so doing will benefit the public by making
9 modern and adequate telecommunications services
10 available at reasonable prices. Collocation and
11 interconnection are essential elements of full and
12 effective competition in local telecommunications
13 markets and they will bring the benefits of
14 competition to the public which I discussed above.

15 Q. SHOULD THE COMMISSION REQUIRE PHYSICAL AND/OR
16 VIRTUAL COLLOCATION FOR SWITCHED ACCESS EXPANDED
17 INTERCONNECTION?

18 A. The Commission should require physical collocation,
19 or if it permits virtual collocation, require that
20 it be provided in a manner that is the technical,
21 economic and operational equivalent of physical
22 collocation. Moreover, the availability of
23 physical collocation is essential to promoting a
24 competitive market, and unless LECs are obligated
25 (or volunteer) to provide reasonable physical
26 collocation, the Commission should provide no

1 pricing flexibility for them.

2 Q. SHOULD COLLOCATORS BE REQUIRED TO ALLOW LECs AND
3 OTHER PARTIES TO INTERCONNECT WITH THEIR NETWORKS?

4 A. No. TCG takes the same position on this issue that
5 it took in Phase I of this docket. As monopoly
6 providers of essential bottleneck facilities, LECs
7 need to be required to provide physical collocation
8 to interconnectors. However, non-dominant,
9 competitive carriers need no such requirement. As
10 competition for switched services develops, a
11 competitor would be foolish to reject a collocation
12 request and the associated revenues. The potential
13 interconnector will simply move on to the next
14 provider. For this reason, a requirement that
15 collocators should provide interconnection to the
16 LECs and other parties is unnecessary, a
17 determination which the FCC also found to be true.
18 Q. SHOULD THE PROPOSED INTRASTATE PRIVATE LINE AND
19 SPECIAL ACCESS EXPANDED INTERCONNECTION TARIFFS BE
20 APPROVED?

21 A. To the extent that these tariffs mirror the LECs'
22 interstate tariffs, they should be approved,
23 subject to future modification as the FCC completes
24 its investigation. However, BellSouth's tariff
25 does not comply with the Commission's order in
26 Phase I of 921074-TP because the company does not

1 tariff a DS0 interconnection service. This service
2 must be included before the Commission approves
3 BellSouth's tariff.

4 The Commission must also ensure that the LECs'
5 tariffs do not contain unreasonable warehousing
6 provisions. BellSouth's tariff is also not in
7 compliance on this issue since the company must
8 give an interconnector at least 60 days before
9 requiring it to forfeit space. TCG believes the 60
10 day provision to be unreasonable and believes it
11 will permits the LECs to force collocators to order
12 connections, thus triggering pricing flexibility.
13 TCG has asked for reconsideration of this
14 provision. In any case, BellSouth indicates the
15 collocator must place equipment in its space within
16 30 days of being notified to do so by the company.
17 See Section E & B 20.1.5(C)(3)(g). GTE reserves
18 the right to require collocators to relinquish
19 space which it has not used "within a reasonable
20 time." Section 17.7.2(E). BellSouth must change
21 its 30 day provision to 60 days and GTE should
22 specify, "within a reasonable time, to be no less
23 than 60 days from the notification date" in order
24 to bring both tariffs into compliance with the
25 existing order.

26 Q. SHOULD THE LECS' PROPOSED INTRASTATE SWITCHED

1 ACCESS INTERCONNECTION TARIFFS AND LOCAL TRANSPORT
2 RESTRUCTURE TARIFFS BE APPROVED?

3 A. These tariffs should be approved to the extent that
4 they mirror the LECs' interstate tariffs.

5 Q. SHOULD THE LECs BE GRANTED ADDITIONAL PRICING
6 FLEXIBILITY?

7 A. No. The pricing flexibility granted to the LECs by
8 the FCC is adequate. The LECs should not be
9 permitted excessive pricing flexibility. At the
10 interstate level, the RIC is expected to be about
11 80% of the LECs' local transport revenue, which has
12 totaled over \$4 billion annually. Given the
13 substantial RIC revenues guaranteed to the LECs,
14 the risk of anti-competitive pricing on the
15 remainder of the local transport circuit is high.
16 A LEC could choose to price its transport services
17 at a small fraction of their true cost, hold on to
18 100% of the market, and suffer a very small decline
19 in revenues. This same scenario is true at the
20 state level again, assuming the existence of an
21 intrastate RIC. Giving the LECs additional
22 pricing flexibility will substantially increase the
23 risk of these pricing abuses.

24 Q. SHOULD THE COMMISSION MODIFY ITS PRICING AND RATE
25 STRUCTURE REGARDING SWITCHED TRANSPORT SERVICE?

26 A. As I explained above, the Commission should mirror

1 the FCC's rate structure for switched access
2 expanded interconnection at the interstate level.
3 Different rate levels for interstate and intrastate
4 transport are appropriate only to the extent that
5 different interstate and intrastate tariff rates
6 apply for equivalent DS1 and DS3 special access
7 services.

8 Q. SHOULD THE COMMISSION'S IMPUTATION GUIDELINES BE
9 MODIFIED TO REFLECT A REVISED TRANSPORT STRUCTURE?

10 A. The Commission should apply its imputation
11 guidelines to the LECs' local transport rates since
12 the local transport portion of switched access
13 service will be competitive once switched access
14 interconnection is implemented. The goal of
15 imputation is logical, the cost to the AAV to
16 collocate with the LEC cannot be more than what the
17 LEC would charge the IXC customer for the end-to-
18 end service, including the LEC's own costs for
19 central office space and power, intraoffice cross
20 connections, electronics, and space.

21 The difference between what an AAV has to pay the
22 LEC and what the LEC would charge the customer for
23 end-to-end service represents the margin available
24 to an interconnector to pay for its electronics,
25 network, administrative and overhead costs. This
26 difference is the key measure of whether the LECs'

1 switched access interconnection tariffs present a
2 realistic market opportunity, and whether they will
3 permit a competitive market to develop. An
4 effective imputation policy would require LECs to
5 impute to their end-to-end service the costs they
6 impose on interconnectors to collocate in their
7 bottleneck facilities.

8 Q. SHOULD THESE DOCKETS BE CLOSED?

9 A. Once expanded interconnection for special and
10 switched access services is fully implemented
11 through reasonable, economically viable tariffs,
12 the Commission can permit these dockets to become
13 inactive. It should not close them, however, but
14 leave them open for parties to raise
15 interconnection problems.

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes.

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Steven Andreassi. My business address
3 is Teleport Communications Group, Inc. (TCG), Two
4 Teleport Drive, Suite 300, Staten Island, New York
5 10311.

6 Q. DID YOU FILE DIRECT TESTIMONY IN PHASE II OF THIS
7 DOCKET?

8 A. Yes.

9 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT
10 TESTIMONY?

11 A. I will address certain policy issues raised by the
12 D.C. Circuit Court of Appeals' decision vacating
13 the Federal Communications Commission's ("FCC")
14 requirement that Tier I local exchange carriers
15 ("LECs") allow interconnectors to physically
16 collocate transmission equipment at the LECs'
17 central offices. The Court also remanded the issue
18 of virtual collocation back to the FCC for further
19 proceedings. As a general matter, TCG believes
20 that the Court decision actually simplifies this
21 docket to the extent that appeals at the federal
22 level are complete and final interstate tariffs for
23 special access and switched transport services will
24 be in place to be used as a guide at the intrastate
25 level.

1 Q. SHOULD FLORIDA MOVE FORWARD WITH EXPANDED
2 INTERCONNECTION FOR SWITCHED ACCESS SERVICES IN
3 LIGHT OF THIS COURT DECISION?

4 A. Yes. Expanded interconnection is in the public
5 interest. The Commission already confirmed this in
6 its order approving interconnection for special
7 access services. As I explained in my direct
8 testimony, virtual collocation provided by the LECs
9 in a manner which is technically, economically and
10 operationally equivalent to physical collocation is
11 workable.

12 Q. CAN YOU EXPLAIN THIS VIRTUAL COLLOCATION STANDARD?

13 A. Yes. TCG believes the Commission can take this
14 opportunity to adopt a clear and definite standard
15 for virtual collocation. Florida should adopt the
16 standard put in place in New York which requires
17 that interconnection provided through virtual
18 collocation must be technically and economically
19 comparable to physical collocation. New York also
20 requires that the terms of virtual collocation be
21 reasonable, thereby preventing the LEC from
22 imposing inefficient administrative processes and
23 requirements.

24 This standard ensures that the form of collocation
25 does not affect the critical competitive technical,

1 operational and financial characteristics of
2 the interconnector's services. Physical
3 collocation thus becomes not the means to
4 interconnection, but simply the standard against
5 which virtual collocation is to be measured to
6 determine if it is adequate to satisfy this
7 Commission's policy objective of expanding
8 competition. The Commission must not allow the
9 LECs to use the Court of Appeals' decision to delay
10 the benefits of competition by over-focusing on the
11 interconnection arrangement, itself. The
12 Commission already stated in the Phase I order that
13 interconnectors were free to choose virtual
14 collocation. Therefore, by now specifically
15 defining a collocation standard, the Commission
16 will have made the adjustment necessary to ensure
17 that its expanded interconnection policy remains
18 intact.

19 Q. WILL THE LECS HAVE AN INCENTIVE TO OFFER A VIABLE
20 VIRTUAL COLLOCATION ARRANGEMENT IN THE ABSENCE OF A
21 WELL-DEFINED STANDARD PUT INTO PLACE BY THIS
22 COMMISSION?

23 A. No. In Phase I, the Commission established
24 physical collocation as the mandatory means for
25 accomplishing interconnection. Virtual collocation

1 was only to be implemented if chosen by the
2 interconnector as the optimum arrangement. Under a
3 physical mandate, the LEC had a natural incentive
4 to make virtual collocation attractive or else the
5 interconnector would simply opt for a physical
6 arrangement. Physical collocation thus served as a
7 "check" on the adequacy of expanded interconnection
8 offered through virtual collocation. Since
9 physical collocation can no longer be relied upon,
10 the Commission should develop a standard which
11 meets the interconnector's needs.

12 Q. HOW DOES THE COURT DECISION IMPACT PHASE I OF THIS
13 PROCEEDING?

14 A. The Court decision does not materially impact this
15 Commission's special access expanded
16 interconnection policy which it determined to be in
17 the public interest in Phase I. The Commission
18 need only mandate in Phase II that LECs offer
19 expanded interconnection for special access and
20 switched transport services through virtual
21 collocation arrangements which are technically,
22 economically and operationally equivalent to
23 physical collocation.

24 Q. SHOULD THE COMMISSION MOVE FORWARD WITH LOCAL
25 TRANSPORT RESTRUCTURING ("LTR") ISSUES?

- 1 A. Yes. There has been no suggestion that the local
2 transport issues should be delayed, and
3 parties have already filed rebuttal testimony
4 addressing these issues. To the extent that
5 resolution of LTR issues should occur
6 simultaneously with implementation of switched
7 transport expanded interconnection, the
8 Commission should resolve these issues on
9 schedule.
- 10 Q. HOW DOES THE FCC'S REMAND ORDER ADOPTED ON JULY 14,
11 1994 IMPACT THIS PROCEEDING?
- 12 A. The FCC order confirms that this Commission should
13 move forward with an intrastate expanded
14 interconnection policy for switched transport and
15 should confirm its special access interconnection
16 policy. Stating that expanded interconnection
17 absolutely continues to be in the public interest,
18 the FCC implemented a mandatory requirement for
19 virtual collocation, with physical collocation as
20 an option.
- 21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 22 A. Yes.

1 Q (By Ms. Marrero) Mr. Andreassi, have you
2 prepared a brief summary of your direct and supplemental
3 direct testimony?

4 A Yes, I have.

5 Q Please provide your summary.

6 A TCG believes this expanded interconnection for
7 local transport is in the public interest and will provide
8 significant benefits to consumers in Florida.

9 CHAIRMAN DEASON: Mr. Andreassi, if you could
10 slow down just a little bit.

11 WITNESS ANDREASSI: I'm sorry. TCG and other
12 AAVs, for example, will build the local fiber optic
13 infrastructure without any risk to ratepayers. More
14 importantly, AAVs offer what the telephone company cannot,
15 operational and strategic security. Therefore TCG urges
16 the Commission to adopt switched access interconnection
17 within the state of Florida. TCG recommends that an
18 interconnection arrangement mirror the expanded
19 interconnection policy developed by the FCC with certain
20 improvements. First, if the Commission mandates virtual
21 collocation, TCG recommends that the standard for such
22 interconnection meet a physical collocation standard.
23 Therefore TCG believes that virtual collocation should be
24 technically, operationally and economically comparable to
25 physical collocation.

1 Second, TCG recommends that the Commission grant
2 the LECs pricing flexibility only to the extent granted by
3 the FCC for interstate switched access services. As I
4 stated in my testimony, switched access expanded
5 interconnection will open up only a fraction of the
6 intrastate switched access market to competition, the
7 local transport portion.

8 An order implementing competition for expanded
9 interconnection for local transport will not significantly
10 erode LEC revenues. In addition, the Commission should
11 apply its imputation guidelines not only to its end-to-end
12 services, but also specifically to the local LEC transport
13 rates.

14 And finally, the Commission should allow
15 competitors to provide switched access services between
16 non-affiliated entities in order to bring the benefits of
17 competition to additional Florida telecommunications
18 users. This concludes my summary statement. Thank you.

19 MS. MARRERO: Mr. Chairman, the witness is
20 available for cross.

21 CHAIRMAN DEASON: Mr. Carver?

22 CROSS EXAMINATION

23 BY MR. CARVER:

24 Q Good morning, Mr. Andreassi.

25 A Good morning.

1 Q Did I pronounce your name correctly, by the way?

2 A You did, thank you.

3 Q My name is Phil Carver and I represent Southern
4 Bell.

5 A Hi, Phil.

6 Q First of all, let me ask you about your position
7 on DS0 level interconnection.

8 A Okay.

9 Q Teleport is in favor of that; is that correct?

10 A Yes, we are.

11 Q Could you please explain what you mean when you
12 refer to DS0 level interconnection?

13 A DS0 level interconnection is simply deriving a
14 DS0 circuit for cross connect and the LEC. I think there
15 was some confusion in my testimony that we were proposing
16 to bring copper facilities into a central office. TCG
17 will only bring fiber optics into the central office. It
18 really comes down to a multiplexing question. If we
19 cannot derive a DS0 cross connect, that means that if a
20 customer of ours would like to get a DS0 service, they
21 will have to buy DS0 and that will have to be muxed up to
22 a DS1 and cross connected to TCG's collocation
23 facilities. We would like to be able to have the direct
24 DS0 cross connect on to our multiplexer.

25 Q So in other words what you're saying is you

1 would bring fiber into the central office, but you want to
2 be able to cross connect with LEC facilities at the DS0
3 level?

4 A That is correct.

5 Q And are you aware of Southern Bell's position on
6 this, or would you like for me to summarize it?

7 A I believe Southern Bell would prefer to handle
8 DS0's on a bona fide request basis, central office by
9 central office.

10 Q Well, Southern Bell has also filed testimony to
11 the effect that we would be willing -- we would like not
12 to tariff it, but we would be willing to tariff it if
13 there is a request to DS0 level interconnection. Would
14 that be acceptable to Teleport?

15 A By tariffing, do you mean you will tariff it as
16 a generally available service in all central offices?

17 Q Well, I mean if there is a request, then there
18 would be a tariff filed in response to that request.

19 A But that tariff would be applicable to all your
20 central offices?

21 Q I think it would be central office by central
22 office.

23 A I think we would prefer to have it as a
24 generally available service through all BellSouth central
25 offices.

1 Q Do you anticipate that you're going to have any
2 substantial volume of need for DSO level interconnection?

3 A I really can't speak to any kind of forecast of
4 what we think our accepted levels are going to be.

5 Q Well, my question is basically --

6 COMMISSIONER CLARK: Wait a minute. Why not?
7 You don't want to divulge that information?

8 WITNESS ANDREASSI: I'm sorry, I simply don't
9 know. I'm sorry.

10 Q (By Mr. Carver) My question is if you don't
11 know whether or not you're going to need it, then why do
12 you object to our not tariffing it unless you need it?

13 A We would just like to have that service
14 available to customers and we would like to be able to
15 provide it in what we feel would be the most cost
16 efficient manner, and we feel we could do that if we could
17 provide our own multiplexing.

18 Q Okay, again, my question, though, is not -- I am
19 saying we would make it available, but it would be
20 tariffed only once you ask for it. And if you didn't need
21 it, there would be no tariff. What we're trying to avoid,
22 basically is the cost and time involved in filing a tariff
23 for a service that maybe nobody will want, and what I'm
24 trying to find is practically speaking, if we don't tariff
25 it until there is a request, will that cause some

1 detriment to your business, and if so, what?

2 A I think we would be open to once it's tariffed,
3 after a request, that that tariff is applicable to all
4 central offices, because I think once -- if you say you
5 don't want to go through the trouble of tariffing again,
6 once it is tariffed once and it's applicable to all
7 central offices, then it's over and done with.

8 Q Let's shift gears here for a second and talk a
9 little bit about virtual collocation.

10 A Okay.

11 Q I believe your position, if I understood it
12 correctly, is that if this commission mandates virtual
13 collocation you would want it to be, I believe you said,
14 technically, economically and operationally equivalent to
15 physical collocation; is that correct?

16 A That is correct.

17 Q And didn't Teleport advance that same position
18 at the FCC for interstate purposes?

19 A Yes, we did.

20 Q And the FCC rejected that request; did they not?

21 A Yes, they did.

22 Q Do you know what they ordered as the appropriate
23 standard instead of what you requested?

24 A They ordered -- they addressed each of the
25 issues and they said that the LECs were -- I mean, for

1 instance, a repair time, that the LECs had to repair in
2 accord with their own standards. I think what we're
3 trying to push with our standard is we want to be -- we
4 want to determine what our standards are, and that's an
5 essential competitive piece of our network, and that's why
6 we push for a much more thorough standard. I think the
7 FCC outlines -- put down some guidelines as far as how the
8 collocation rates should be structured and how the terms
9 and conditions should be handled. But I think there is
10 also some latitude for interpretation by the LECs.

11 Q Well, if I understand your testimony correctly,
12 you're saying that the FCC order for interstate purpose is
13 that the LECs would maintain your equipment as well as
14 they maintain their own and that they would repair it as
15 quickly?

16 A That is correct, they do.

17 Q And your position is you think this Commission
18 should order more than that; in other words LECs should be
19 required to maintain your equipment better than they
20 maintain their own?

21 A We would like to be able to offer a product to
22 our customers that is driven by what we feel our quality
23 standards are. I'm not saying our quality standards are
24 any better or any worse than what the LEC offers. We feel
25 that in the competitive environment we should be free to

1 decide what those quality standards are, and that's what
2 we want to take to market and offer to our customers.

3 Q So that's a yes? Would you like to hear the
4 question again?

5 A Please.

6 Q The question is: The FCC has ordered LECs to
7 maintain your equipment under a virtual collocation
8 arrangement in the same way they maintain their own; and
9 your position before this commission is that you want
10 different or better standards that the LECs would apply to
11 your equipment over what they would apply to their own?

12 A Yes.

13 Q Mr. Andreassi --

14 COMMISSIONER CLARK: Would you pay more for it?

15 WITNESS ANDREASSI: We would pay a cost-based
16 rate for that service.

17 COMMISSIONER CLARK: Right, if you wanted
18 service restored, say within a half hour, and their
19 standard was an hour, you would pay more for it, right?

20 WITNESS ANDREASSI: I think that would be
21 reasonable. But if I may add that if -- given the choice,
22 that's why we really prefer the physical model because we
23 can go in and do that to our own standards. We have
24 access to our facilities, they are our facilities, we can
25 configure, we can test and we can repair at our will, and

1 we feel the market demands that.

2 COMMISSIONER CLARK: Thank you.

3 Q (By Mr. Carver) Mr. Andreassi, I would like to
4 read you something from the FCC order that was released
5 July 25, 1994 --

6 A I have that with me. Could you refer to the
7 paragraph?

8 Q Sure. It is paragraph 44?

9 A Okay.

10 Q No, I'm sorry, it's paragraph 43.

11 A Okay.

12 Q And I'm starting at -- on the second line with
13 the word "at." Where the FCC is talking about virtual
14 collocation arrangements and what they were requested to
15 consider.

16 A Okay.

17 Q And it reads: "At one extreme, we could adopt
18 the CAPs' proposal to require virtual collocation
19 offerings to be technically and economically comparable to
20 physical collocation, from the perspective of the
21 interconnector. In our view, this standard would impose
22 burdens on the LECs that are unnecessary to protect
23 interconnectors' interests, and in some cases may be
24 unenforceable." Then it continues. "Moreover, a court
25 applying the Bell Atlantic v. FCC decision could construe

1 mandatory virtual collocation under this standard to be an
2 unauthorized taking of property, because this standard
3 would appear to impose requirements that, in practice, are
4 equivalent to mandatory physical collocation." Do you
5 have an opinion about either aspect of what I've just said
6 there, the first being -- and you can take these one at a
7 time if you like -- the first being whether it imposes
8 unnecessary burdens, and the second whether it would be a
9 legal problem?

10 A I have no opinion on whether it would be
11 unnecessarily burdensome. Again, with regard to the legal
12 point, and as far as the taking, it's my understanding
13 that the mandate said that -- or the court said that it
14 was not within the power of the FCC to do so, to order
15 this. I don't know that it's been determined that it's
16 outside the range of the Florida's commission, within
17 their authority to provide -- and again, I'm talking in
18 the context of collocation. I don't know that that legal
19 matter has been settled.

20 Q Let me try my question again, because I don't
21 think you have answered it exactly.

22 A Okay.

23 Q The FCC is expressing -- is stating a fact here,
24 which is that their physical collocation mandate was
25 stricken down, and they're saying that if their standards

1 for virtual are precisely the same as physical, they would
2 be concerned that those would be stricken down also, and
3 I'm asking you if you have an opinion about that.

4 A I'm reading through it again.

5 CHAIRMAN DEASON: While he's reading that,
6 Mr. Carver, how much more do you have for this witness?

7 MR. CARVER: Let's, see, I've got two more lines
8 of questioning. I've got five or six questions in each.

9 CHAIRMAN DEASON: Okay, as soon as he answers
10 this question we're going to take a recess.

11 WITNESS ANDREASSI: It is TCG's opinion that a
12 strict virtual collocation standard does not constitute a
13 taking of the property. So I guess we may have a
14 difference of opinion with the FCC here.

15 MR. CARVER: Okay, thank you.

16 CHAIRMAN DEASON: Very well. We're going to
17 take a 15 minute recess.

18 (Recess)

19 CHAIRMAN DEASON: Call the hearing back to
20 order. Mr. Carver.

21 Q (By Mr. Carver) Mr. Andreassi, let me ask you,
22 currently, what services, what interstate services, does
23 Teleport offer that compete with the local exchange
24 company's access services?

25 A Interstate?

1 Q Yes.

2 A In Florida?

3 Q Yes.

4 A TCG has the ability to, or the authority to, and
5 I believe we are providing these services, interstate
6 private line, dedicated services, DS1, DS3s, DS0's.

7 Q If Teleport collocates in a particular LEC
8 central office for interstate services, is that going to
9 allow you to offer more services or better quality
10 services?

11 A It will allow us to offer our services to a
12 wider range of customers. And pending this proceeding, it
13 may allow us to provide more services.

14 Q Any particular services that you know of that
15 you will be able to offer that you wouldn't otherwise, or
16 can't currently?

17 A On an interstate basis?

18 Q Yes.

19 A No.

20 Q Recently the FCC required the local exchange
21 companies to provide signaling information at the tandem
22 on a tariff basis so that vendors can carry comparable
23 services. Does Teleport have any current plans to utilize
24 that to offer any new competitive service?

25 A Not to my knowledge.

1 Q On Page 13 and 14 of your direct testimony, you
2 state that Chapter 364 allows this Commission to order
3 expanded interconnection for switched access; is that
4 correct?

5 A Page 13 and 14?

6 Q Yes. Or to put it another way, that's
7 Teleport's position?

8 A That is Teleport's position.

9 Q Does Teleport contend that under Chapter 364
10 alternate access vendors are allowed to interconnect for
11 switched access purposes?

12 A Teleport is -- under Chapter 364 Teleport is
13 allowed to provide that dedicated facility that carries
14 local transport. And I want to make the distinction, we
15 view it as a private line, technically and economically
16 equivalent to private. So we're not offering a switched
17 service.

18 Q So it's your position then that if the
19 telecommunications path carries switched traffic, that
20 your piece of it is dedicated, then that's not carrying a
21 switched service?

22 A It's carrying switched minutes, but it's not
23 performing a switching service. That path between the LEC
24 central office and the IXC's POP is essentially a
25 dedicated facility.

1 Q So I just want to be clear, it's Teleport's
2 position that you can carry switched traffic as long as
3 you don't do the switching yourself? Is that the bottom
4 line?

5 A It's our position that we can provide the local
6 transport portion of switched access, yes.

7 Q Currently, what are the intrastate services that
8 Teleport offers that competes with the LEC special access
9 services? And again, I'm talking intrastate now.

10 A Intrastate?

11 Q Yes.

12 A That would be dedicated, high capacity
13 facilities, DS0, DS1, DS3.

14 Q And assuming that -- I asked you the question
15 about opportunities that expanded interconnection would
16 create for interstate services. Would your answer for
17 intrastate be the same?

18 A Yes, it would.

19 Q I would like to talk to you a little bit about
20 reciprocal interconnection. I believe it's Teleport's
21 position that interconnectors should not be ordered to
22 allow LECs to reciprocally interconnect; is that correct?

23 A Should not be required.

24 Q Should not be required.

25 A That is our position.

1 Q But you also testified on behalf of Teleport,
2 didn't you, that Teleport would be willing to allow LECs
3 to reciprocally interconnect?

4 A Yes, we would.

5 Q Would you be willing to allow them to
6 reciprocally interconnect under the same terms and
7 conditions as any that are ordered to be applied to the
8 LECs?

9 A Yes.

10 Q Would you allow them to reciprocally
11 interconnect at rates that are comparable to any that are
12 required of the LECs?

13 A If Teleport had the facilities in place that
14 allow for interconnection, then we would certainly make --
15 we would not deny collocation to anyone that made a bona
16 fide request for it.

17 Q And when you say you would not deny collocation,
18 do you mean you would give them collocation at the same
19 rates, terms and conditions as the LECs would be required
20 to offer it to interconnectors?

21 A They would be comparable, yes.

22 Q Let me ask you from a practical standpoint, if
23 you're willing to offer reciprocal interconnection on
24 exactly the same basis, or at least on a comparable basis
25 to what the LECs are required, why would you oppose an

1 order that all interconnectors do what you've just said
2 you're willing to do anyway?

3 A Let me try and paint this picture as practically
4 as I can. And I think I really want to draw to the
5 conclusion that right now we can't offer the service that
6 we are asking the ability to collocate for. What we are
7 at this proceeding about is local transport tied in with
8 switched access collocation. As an AAV, I can't have one
9 without having the other. That is, I can't provide a
10 local transport without actually collocating at -- and
11 this is the crucial part -- at your switch. Now what
12 local transport does is it carries switched minutes of use
13 that have been switched by the LEC who has a switch in
14 their end office and has a lot of end users hanging off of
15 it. So I collocate in that office to carry those minutes
16 to an IXC, who is my customer.

17 Now a collocator, if Teleport has a facility
18 somewhere, under current law I can't have a switch there.
19 Therefore, I can't have end users hanging off it,
20 therefore I can't generate switched minutes of use. So
21 practically speaking, I can't provide the service of which
22 I may be required to file a tariff for under current state
23 law.

24 Q I don't think you answered my question, so let
25 me try again. You've already said that you're willing to

1 offer reciprocal collocation on comparable terms,
2 conditions and at comparable rates. And my question is if
3 you're willing to offer to do it anyway, then why are you
4 opposed to the Commission ordering you and other
5 interconnectors to do what you've said you'll do? Why are
6 you opposing their ordering you to do what you've said you
7 will do?

8 A Primarily because I can't provide the service to
9 which you wish to collocate for. Therefore I see it as
10 unnecessary to tariff that. I can't provide switching,
11 therefore I can't provide -- I can't generate switched
12 minutes of use at a TCG facility, therefore there's no
13 reason to collocate there for local transport.

14 Q So you would be willing to provide reciprocal
15 collocation, but you don't want it to be ordered because
16 you don't think we've got any purpose in being at your
17 POP; is that what you're saying?

18 A I don't see a market need for it, and until the
19 time that I -- hypothetically, if I could provide switched
20 services, which is what -- which is the first end of local
21 transport, then I think that should be addressed in this
22 proceeding. Not here. I'm sorry if I'm confusing you.
23 What I am saying is I don't see a demand to provide
24 switched access collocation at a TCG facility when in fact
25 I cannot provide switched services. So to tariff that is

1 to putting something in a tariff which is a burden on me
2 for something I cannot yet provide. That's why I say I
3 shouldn't have to tariff it.

4 Q Well, then would you be opposed if the
5 Commission ordered you to provide reciprocal collocation
6 and the order provided that it would be on comparable
7 rates, terms and conditions, but you didn't have to file a
8 tariff? Would that be okay with you?

9 A If we were ordered by the Commission, I think
10 that would be an acceptable standard, if -- on bona fide
11 request for collocation at a facility, to do it at rates
12 and terms and conditions that are comparable to what you
13 have to provide it on, I think that's acceptable, yes.

14 MR. CARVER: Thank you. I have no further
15 questions.

16 CHAIRMAN DEASON: Mr. Fons?

17 MR. FONS: Yes, sir. Thank you, Mr. Chairman.

18 CROSS EXAMINATION

19 BY MR. FONS:

20 Q Mr. Andreassi, my name is John Fons and I
21 represent United Telephone Company of Florida and Central
22 Telephone Company of Florida.

23 A Hello, John.

24 Q Good morning. In your testimony you make a
25 point at several places that granting authority to provide

1 switched -- or having expanded interconnection for
2 switched services does not appear to be of much interest
3 to Teleport; is that a fair characterization?

4 A I'm sorry, I didn't understand what you just
5 said.

6 Q In your testimony you make a point that granting
7 expanded interconnection for switched access is not --
8 does not appear to be a big business for Teleport; it will
9 not enhance your presence in the market.

10 A I don't think that was the implication of my
11 testimony.

12 Q Well, let me ask you, on Page 7 of your
13 testimony --

14 A Okay.

15 Q -- on Line -- starting on Line 4 you have a
16 sentence that reads, "The dedicated trunk portion of the
17 local transport segment of interstate switched access
18 accounts for approximately 418 million of this 11 billion
19 market or 3.8%?"

20 A That's right.

21 Q Am I correct that it's your position that
22 opening the switched access -- or granting expanded
23 interconnection for switched access only makes
24 \$418 million worth of potential revenue available to
25 Teleport and other AAVs?

1 A Let me clarify what I was saying there, and then
2 I'll directly answer your question. I wanted to show that
3 the impact of offering switched access interconnection as
4 compared to the total switched access market is very
5 small. So given my estimate -- estimation, 418 million of
6 that \$11 billion market, under 5%, is all that's going to
7 become competitive. So yes, what you said is correct.

8 Q What would it take for you to get the total
9 \$11 billion?

10 A The total \$11 billion? I would have to be
11 authorized to be able to compete effectively as a local
12 exchange carrier and offer switched access services, and I
13 am not here today to ask to be able to do that.

14 Q On an interstate level are you able to do that?

15 A No, I am not.

16 Q Why are you not on an interstate level
17 authorized to provide switched access?

18 A Because it's a local switching issue.

19 Q So it's up to the states; is that correct?

20 A That's my understanding.

21 Q And if the statute were changed in Florida
22 whereby local competition was no longer forbidden, you
23 could get into that business?

24 A We would get into that business if -- we usually
25 look at a three-pronged market test: Is it legal? It

1 would be legal. Is it technically available? It would be
2 technically available because we have a 5E switch
3 probably, at our Northern Telecom, just like the LEC has.
4 Is it economically viable? I don't know. Would we look
5 at it? Most likely.

6 Q You're certainly looking at the market that has
7 been opened to you, the 3.8%; isn't that correct?

8 A Well, on an interstate level it has been opened
9 to us, yes.

10 Q But assuming that this Commission would grant
11 expanded interconnection for switched access purposes, you
12 would certainly look at that in Florida, wouldn't you?

13 A We would look at it.

14 Q And I'm sure your competitors would do as well?

15 A I don't doubt that.

16 Q I take it from your testimony that because of
17 your responsibilities, that you're familiar with the
18 markets in which Teleport operates, the services that
19 Teleport provides and the prices that you'd charge for
20 those services; is that correct?

21 A From a regulatory standpoint, certainly.

22 Q Pardon me?

23 A From a regulatory standpoint, yes.

24 Q That's what you said in your Page 2, "I work
25 closely with our sales and marketing departments to tariff

1 TCG's interstate services with the FCC and its intrastate
2 services with state commissions. I monitor rates filed by
3 other carriers for their impact on TCG's service
4 offerings." Isn't that correct?

5 A Yes, I do.

6 Q TCG offers DS1 and DS3 services on an interstate
7 and intrastate basis?

8 A On an interstate basis, and in states where we
9 have authority, we do.

10 Q Without revealing any confidential information,
11 can you tell me whether or not TCG sets the prices for its
12 DS1 and DS3 based upon market concerns?

13 A I believe that that is one input that they do
14 look at. That is not the sole input, and I can't speak to
15 every piece of data that marketing analyzes to set prices.

16 Q Do you know whether the DS1 and DS3 rates that
17 TCG offers the services on an intrastate basis in Florida
18 provide any profit margin?

19 A I do not know, but I assume that they do.

20 Q Do you know whether the profit margin for DS1
21 and DS3 are the same?

22 A No, I do not.

23 Q Do you know what ratio the rates are for DS1 and
24 DS3 for the intrastate services that TCG offers in
25 Florida?

1 A Not off the top of my head, I don't.

2 Q Pardon me?

3 A No.

4 Q On Page 17 of your testimony -- well, let me ask
5 you --

6 A I'm sorry, I would like to put in one final
7 comment on that last question. TCG doesn't file tariffs.
8 It is not required to file tariffs in Florida.

9 Q Thank you. Do you have to file tariffs on the
10 interstate basis?

11 A Yes, we do.

12 Q So if I were to refer to your interstate
13 tariffs, I could see the ratios?

14 A Yes, you could.

15 Q I could develop ratios? But you don't know what
16 those ratios are?

17 A No.

18 Q Do you have those tariffs with you?

19 A The interstate tariffs?

20 Q Yes.

21 A No. I am sorry, I do not.

22 Q Do you know offhand whether or not the ratio is
23 28-to-1?

24 A No, I don't know.

25 Q Do you expect that it's less than 28-to-1?

1 A I expect that it is less than 28-to-1, yes.

2 Q Do you expect that it's probably more like
3 9-to-1?

4 A I can't speak to that. I don't know.

5 Q Let's turn to Page 17 -- oh, before we go to 17,
6 I've got another question on Page 7.

7 A Okay.

8 Q On Line 4, that sentence that has the
9 \$418 million in it, you indicated that the dedicated trunk
10 portion of local transport segment accounts for
11 approximately \$418 million. Was your use of the dedicated
12 trunk portion, was that intentional?

13 A That's the only part that we could provide.

14 Q You cannot provide common; is that correct?

15 A Common, under my understanding, would be between
16 a LEC central office and a LEC tandem, I don't think a LEC
17 would choose TCG to carry that traffic.

18 Q But could a customer ask to provide that
19 service?

20 A Could we technically provide it?

21 Q Yes.

22 A I assume that would be multiple customers?

23 Q Yes.

24 A I don't think from a technical standpoint we
25 couldn't provide that.

1 Q That you could?

2 A I think we could.

3 Q How would you do that, technically?

4 A Technically?

5 Q Yes.

6 A We would ride, I assume, multiple circuits on
7 one particular circuit, multi DS1s on a DS3.

8 Q So you could technically provide that?

9 A We could technically. I don't know that we
10 could legally.

11 Q Not at this point in time, but if the
12 restrictions were lifted you certainly could; couldn't
13 you?

14 A If they were removed and there was a market for
15 it.

16 Q You don't think that there's a market for that?

17 A I haven't looked at it.

18 Q Let's now go to the Page 17 of your testimony.

19 The question on Line 5 is: "Should the LECs be granted
20 additional pricing flexibility?" And your answer is
21 "No."

22 A That's correct.

23 Q And then you go on to say that -- you start
24 giving some reasons why. And one of the reasons that you
25 give is, "At the interstate level, the RIC is expected to

1 be about 80% of the LEC's local transport revenue, which
2 has totaled over \$4 billion annually." What has totaled
3 over \$4 billion annually, the local transport revenue or
4 what the RIC produces?

5 A What the RIC produces.

6 Q And the RIC is a -- as you've heard others
7 testify over the last day and a half that you've been
8 here, the RIC is a pricing element that is to substitute
9 for the prices for the local transport that previously
10 were in existence. And this is a charge that is applied
11 at the switch?

12 A Its charge is applied at the switch whose
13 intention was to keep the LECs revenue neutral regarding
14 the restructuring of local transport.

15 Q And this is about \$4 billion annually on an
16 interstate basis?

17 A Yes.

18 Q Do you know what it is on an intrastate basis?

19 A No, I don't.

20 Q You go on to say that the RIC revenues are
21 guaranteed to the LECs. Guaranteed by whom?

22 A It is an allowable charge that they can assess
23 at their switch, given that an IXC must pass traffic to a
24 switch to reach an end user, or an end user must pass
25 traffic through that switch to get to an IXC. In that

1 sense it's a chargeable item that they by law can charge
2 and are guaranteed.

3 Q Isn't that switching, that element, bypassable?

4 A Technically bypassable?

5 Q Yes.

6 A Yes.

7 Q And as a practical matter, can't an AAV provide
8 facilities from the IXC's POP to the LECs -- or to the end
9 user?

10 A The AAV can do this in two ways: They can do it
11 in the way you said. We could run a high capacity service
12 from an end user to an IXC's POP. We can always
13 effectively collocate and use the LEC's loop and then take
14 the traffic from that point, thereby keeping a fair
15 portion, a great portion of the revenue on the LEC's
16 network. So there are two ways.

17 Q But under one form of it, the RIC would not be
18 applied; isn't that correct?

19 A If a large customer made a choice to use, or any
20 customer made a choice to use a dedicated facility, then
21 the RIC would not be there.

22 Q Certainly the IXCs are not happy about the RIC,
23 are they?

24 A I can't speak for the IXCs.

25 Q You weren't here when AT&T testified on Monday?

1 A I was not.

2 Q If I were to tell you that AT&T has proposed the
3 elimination of the RIC, would that surprise you?

4 A I guess not.

5 Q So this guaranteed \$4 billion, just how long do
6 you think that's guaranteed under even your scenarios?

7 A I am aware of no proceeding that is underway on
8 the state or federal level to phase out the RIC.

9 Q What about at the FCC level?

10 A I am not aware of it.

11 Q The FCC has indicated that the RIC was not going
12 to be maintained for a long period of time; isn't that
13 correct?

14 A The FCC having said that, I don't think they've
15 said any mechanism for how it's going to be done or what a
16 long period of time constitutes. I don't know what a long
17 period of time is.

18 Q If the IXCs are opposed to it, don't you think
19 that that will bring pressure on the FCC to eliminate it?

20 A I think there are a lot of people who are also
21 in favor of it, and that will bring pressure on the FCC to
22 keep it.

23 Q Who might be in favor of it?

24 A Those who are getting the revenue from it, the
25 LECs. I would assume the LECs are in favor of the RIC.

1 **COMMISSIONER CLARK:** Mr. Andreassi, how long did
2 can the LECs be in favor of the RIC if competition is
3 introduced into the local exchange market and you are
4 allowed to switch? In effect, you have a rate that is not
5 cost based, it's an added charge to whoever might use it.
6 And when you have competitors who don't have to charge or
7 don't charge that rate, it puts them in a better position
8 to take customers, right.

9 **WITNESS ANDREASSI:** I agree, to the extent that
10 a potential competitor would not be subject to those
11 rules. If there is some form of regulation on the
12 switching, then I think there will be parity. If there is
13 not, then the RIC certainly has to be addressed,
14 especially since it's not cost based. I agree with you
15 there.

16 **Q** (By Mr. Fons) In that same sentence,
17 Mr. Andreassi, you go on to say that, "Given the
18 substantial RIC revenues guaranteed to the RICs, the risk
19 of anti-competitive pricing on the remainder of the local
20 transport circuit is high." Are you speaking from -- in
21 that situation, speaking from any actual evidence of
22 anti-competitive pricing by the LECs?

23 **A** No, I am not.

24 **Q** This is just a theoretical?

25 **A** It's sort of a means by which to safeguard

1 against potential, and I think the LECs have certainly
2 faced some things, I think Mr. Hendrix addressed
3 yesterday, for the potential abuses of a PIU, and maybe
4 something should be put in place to safeguard against that
5 arbitrage. What we're saying here is as a collocator, if
6 we're going to provide that circuit, there are still
7 pieces of the LEC's network that we have to buy from the
8 LEC, we can only buy from the LEC, the only collocation
9 facilities. We think there should be some logic, some
10 reasonable relationship between those two. So to the
11 extent that the LEC has the ability to price collocation
12 facilities, subject to their cost studies, I think that
13 puts us -- there may be a potential for shifting of cost.

14 Q Shifting costs from what to what?

15 A Allocation of the costs across the network to
16 its the various elements, say from the local transport to
17 the charges that are applied to a collocator.

18 Q How would they allocate these costs?

19 A Via the charges that are assessed for
20 collocation.

21 Q The cost for collocation. I am confused. Now
22 your statement says that "the risk of anti-competitive
23 pricing on the remainder of the local transport circuit is
24 high." I'm not --

25 A I think -- let me take a step back. I think the

1 point I want to make is if you can effectively shield the
2 vast majority of your revenues at one point, it leaves
3 you, I think, more ability, or potentially more ability,
4 to price -- I'm not making myself very clear.

5 Q I'm not sure how the LEC is going to shield its
6 revenues --

7 A Not shield, but they're guaranteed. They're not
8 put at risk. That total part of local transport revenues,
9 of that, the vast majority of it are kept where the LEC
10 has their monopoly element, namely the switch.

11 Q But that assumes that the LEC is able to
12 maintain its monopoly?

13 A It does assume that.

14 Q And you're aware that throughout the nation
15 there is action ongoing to remove the local monopoly
16 restriction; isn't that correct?

17 A I think once that is removed, then these other
18 issues need to be addressed again.

19 Q So it's just a matter of time?

20 A It is a matter of time.

21 Q You go on to say that, "A LEC could choose to
22 price its transport services at a small fraction of their
23 true cost." Do you have any evidence that the LECs in
24 Florida are pricing their transport services at a small
25 fraction of their true cost?

1 A No, I do not.

2 Q Are you aware of the requirements of this
3 commission that price changes by LECs require cost
4 studies?

5 A Yes, they do. And I am also aware that the cost
6 studies are generated by the LECs.

7 Q But everyone has an opportunity to look at those
8 cost studies under confidentiality?

9 A You are correct. Yes, they do have an
10 opportunity to review them.

11 Q And those are subject to challenge?

12 A Yes, they are.

13 Q So it would be very silly for a LEC to, as you
14 say, choose to price its transport services at a small
15 fraction of their true cost and hope to get away with it?

16 A For -- I think they are open, your cost studies
17 are open to consideration, but I don't doubt that there's
18 never been a point where some of the methodology has been
19 disputed, and you've come to a resolution that may not be
20 -- make both parties very happy. Would a LEC be silly to
21 do that? Sure they would.

22 MR. FONS: I have no further questions.

23 CHAIRMAN DEASON: Ms. Kaufman?

24 MS. KAUFMAN: I have no questions,
25 Mr. Chairman.

1 MS. CASWELL: I do have a few questions.

2 CROSS EXAMINATION

3 BY MS. CASWELL:

4 Q Good morning, Mr. Andreassi. I'm Kim Caswell
5 with GTE.

6 A Good morning, Kim.

7 Q Does Teleport today provide, on an intrastate
8 basis, any portion of what's today considered to be
9 switched access transport?

10 A No, they do not.

11 Q And why don't they?

12 A It's not allowed.

13 Q And why isn't it allowed?

14 A We have not been given authority by the
15 Commission.

16 Q And --

17 A You're talking -- I'm sorry, you're talking
18 intrastate?

19 Q Yes, I'm talking intrastate.

20 A Yes.

21 Q And did the Commission find that that
22 restriction was based in statute?

23 A Not that I'm aware of. I believe the -- this is
24 the reason for the proceeding, to see if it is allowed.

25 Q So you believe if the Commission approves

1 expanded interconnection for switched access services, you
2 will then have the ability to provide some portion of
3 switched access transport; is that true?

4 A The transport portion, yes.

5 Q And you believe you can't provide that portion
6 of transport today solely because of regulatory
7 restrictions; is that true?

8 A Yes. It's strictly a legal matter, authority.

9 Q You said it's strictly a legal matter, but I'm
10 making a distinction between law and regulatory policy.
11 Do you believe --

12 A You'll have to excuse my words. It is a
13 regulatory policy that we cannot.

14 Q Okay, okay. And you also recommend that the
15 Commission should allow AAV's to offer both special and
16 switched services between unaffiliated entities; is that
17 correct?

18 A Yes.

19 Q And do you believe that restriction on service
20 between unaffiliated entities is a matter of regulatory
21 policy, or is it based in statute?

22 A I believe it's a matter of regulatory policy.

23 Q Do you know if this Commission has made any
24 findings with regard to its ability to take property, in a
25 constitutional sense?

1 A Under Phase I of this proceeding, the Commission
2 ruled that it did have the authority to mandate or to
3 require physical collocation. I know that's been put on
4 stay, given what's happened at the FCC.

5 Q So are you testifying that this Commission has
6 found that it has the ability to take the LEC's property?

7 A I don't think it's the question -- I don't think
8 our interpretation of it is it is a taking of property. I
9 think the arguments of the FCC, and the argument the FCC
10 put forth was, was the LEC being compensated for that
11 space? Yes, they were. Therefore it was not a taking. I
12 don't consider it a taking.

13 Q Do you know whether this Commission has found
14 that whether or not it has the ability to take the LEC's
15 property, just that simple finding?

16 A I just have a problem with the term "taking of
17 property." I think the Commission has found they have the
18 ability to require a use of LEC property that is properly
19 compensated for.

20 Q Mr. Andreassi, at Page 11, Lines 3 and 4 of your
21 direct testimony, you state that AAVs will build the local
22 fiber optic infrastructure without the need for any
23 special incentives that might be sought by the LECs.
24 Isn't it true though that interconnecting with the LEC's
25 network relieves you of the need to build extensive

1 network facilities to reach customers that you might want
2 to serve?

3 A It relieves us of the need to build that last
4 portion, that the LECs have the ubiquitous network already
5 built. It does not relieve us of the need to build the
6 network.

7 Q Right, but by interconnecting with the LEC, you
8 can reach any customer on the LEC's network, without the
9 need --

10 A Any customers served by that central office.

11 Q And in your direct testimony at Page 11, you
12 indicate that AAVs provide the insurance against network
13 failure or disaster that LECs alone cannot. But when an
14 AAV interconnects with a LEC network, and that LEC's
15 network goes down, doesn't the AAV service also go down?

16 A It depends where it goes down. If it goes down
17 on the other side of our collocation facilities, then,
18 yes, that place is not redundant, but any point after that
19 where you've got a circuit coming from the LEC and a
20 circuit going to us, then that's redundant. If the LEC
21 goes down, ours is still up; if our goes down, the LEC's
22 is still up. That's where the redundancy comes in.

23 Q Okay, but in at least in some instances if our
24 service goes down, yours does too?

25 A On the portion between the customer's premises

1 and your central office, yes.

2 MS. CASWELL: That's all I've got, thank you.

3 CHAIRMAN DEASON: Mr. Tye.

4 MR. TYE: No questions.

5 CHAIRMAN DEASON: Mr. Wiggins.

6 CROSS EXAMINATION

7 BY MR. WIGGINS:

8 Q Just a couple. Mr. Andreassi, are you an
9 attorney?

10 A No, I am not.

11 Q Congratulations.

12 A Great pride in saying that.

13 Q But you're still an economist, aren't you?

14 A Yes.

15 Q You've been asked some questions about what you
16 can and cannot do under Florida law. I would like to
17 address what it is -- what it is exactly you would plan to
18 do. In transporting switched traffic from a collocated
19 point to an IXC's POP, your customer would be the IXC; is
20 that correct?

21 A Yes, it would.

22 Q Is that a point-to-point service?

23 A Yes, it is.

24 Q Is that for a telecommunication purpose?

25 A It sure is.

1 Q Is it exclusively to the use of that customer?

2 A Yes, it would be.

3 MR. WIGGINS: I have no further questions.

4 CHAIRMAN DEASON: Staff.

5 CROSS EXAMINATION

6 BY MS. CANZANO:

7 Q Good morning, Mr. Andreassi.

8 A Hi.

9 Q Have you received a document prepared by Staff
10 consisting of Teleport's responses to Staff
11 Interrogatories Nos. 1 through 18?

12 A Yes.

13 Q Have you had a chance to review this document?

14 A Yes, I have.

15 Q Was this information prepared by you or under
16 your supervision?

17 A Yes, it was.

18 Q Are there any corrections to that document?

19 A No, there are not.

20 MS. CANZANO: We would ask that this be marked
21 for identification as an exhibit at this time.

22 CHAIRMAN DEASON: It will be identified as
23 Exhibit No. 41.

24 (Exhibit No. 41 marked for identification.)

25 Q (By Ms. Canzano) Mr. Andreassi, the FCC

1 requires Teleport to file interstate tariffs; is that
2 correct?

3 A For particular services, yes, they do.

4 Q What type of services?

5 A DS1, DS0, DS3, high capacity services.

6 Q I'm sorry?

7 A DS1, DS3, DS0, all types of high capacity
8 services, pretty much everything we've been given
9 authority to provide.

10 Q Do these tariffs contain all the rates and terms
11 and conditions of Teleport service offerings?

12 A Yes, they do.

13 Q Has Teleport always been required to file
14 interstate tariffs?

15 A For those services. Well, no, as a matter of
16 fact, originally we were not. I'm sorry, strike that.
17 Yes. Yes, I am sorry. Yes. I was confused.

18 Q Why did the FCC require Teleport to file
19 tariffs?

20 A I believe there are common carrier regulations
21 for providing those services.

22 Q Assume the Commission mirrors the FCC's July
23 25th order requiring mandatory virtual collocation with
24 the LEC option of providing physical collocation. If the
25 LEC chooses to offer physical collocation, should it still

1 be required to tariff floor space for physical
2 collocation?

3 A Yes.

4 Q Why is that?

5 A Pretty much any element of physical collocation
6 that's made available should be done -- that's generally
7 available, should be done via tariff by a LEC.

8 Q Do you have a reason for that?

9 A I think it's to ensure that anyone who wants to
10 interconnect knows what the price is, pays the same price.

11 Q What if the Commission were to allow the LECs
12 and the interconnectors to negotiate the type of
13 collocation agreement?

14 A Physically?

15 Q Physically or virtually.

16 A Yes.

17 Q Your response would be the same?

18 A Yeah, and I think that's what the FCC has said
19 in their order, that once a deal has been negotiated, it
20 should be tariffed and made available generally.

21 Q What are the benefits of extending
22 interconnection to the DS0 level?

23 A It's a benefit in that, again, it allows another
24 element of our network to be utilized, in this case a
25 multiplexer. Right now if I don't have a DS0 interconnect,

1 I have to purchase multiplexing from the LEC and drive a
2 DS1 cross connect. If I had a DS0 cross connect, I could
3 cross connect at that the level, quote, into my
4 collocation facilities and use my multiplexer.

5 Q Will smaller businesses benefit if the
6 Commission orders DS0 interconnection?

7 A I believe so.

8 Q Does Teleport currently have any DS0
9 interconnection arrangements in any of the states in which
10 it operates?

11 A I believe we've negotiated some, primarily I
12 think in the AmeriTec region.

13 Q In what region?

14 A AmeriTec.

15 Q What state is that in?

16 A Illinois. If they haven't been implemented,
17 they're under negotiation, I'll put it to you that way.

18 Q GTE Florida's witness, Mr. Beauvais, on Page 38
19 of his testimony, of his direct testimony, states that
20 "However, practical considerations with regard to space
21 constraints, particularly in vault space and entrance
22 facilities to LEC central offices, implies strongly that
23 expanded interconnections should be limited, only to fiber
24 optic technology." Do you believe that expanded
25 interconnection to the DS0 level will accelerate space

1 exhaustion in the central office?

2 A No, and I think that was a point of confusion in
3 my testimony. We never advocated pulling copper into the
4 cable vault over risers and racks. We said, we are going
5 to bring fiber in the central office. The DSO
6 interconnections we want to the other side. We want that
7 circuit derived from the switch, and we don't think it's
8 going to accelerate space exhaustion.

9 Q Did the FCC require LECs to file DSO
10 interconnection in their interstate tariffs?

11 A No, they did not.

12 Q And why not? Do you know?

13 A I believe they left it up to a bona fide request
14 from an interconnector to a LEC.

15 MS. CANZANO: Staff has no further questions.

16 CHAIRMAN DEASON: Commissioners?

17 COMMISSIONER CLARK: I have one. Mr. Andreassi,
18 I didn't understand the sentence beginning on Page 11,
19 Line 17. Would you explain that more? It starts,
20 "Businesses also use the services of AAVs..."

21 WITNESS ANDREASSI: Strategic security?

22 COMMISSIONER CLARK: Yes. I don't understand
23 that.

24 WITNESS ANDREASSI: Well, given the way the
25 communications market is evolving today, you may have a

1 competitor, say it's an information service provider, and
2 say a LEC also provides similar services. Now that
3 information service provider can only get their local
4 telecommunications need from their main competitor. What
5 we could offer to them, as well as having a redundant
6 network which we call on operational security, strategic
7 security also, which says you can get part of your
8 telecommunications needs from somebody who is other than
9 your competitor, simply put.

10 CHAIRMAN DEASON: Redirect?

11 REDIRECT EXAMINATION

12 BY MS. MARRERO:

13 Q Mr. Andreassi, concerning Teleport's FCC
14 tariffs, does Teleport file specific rates for its
15 services at the FCC or banded rates?

16 A Banded.

17 Q In Florida, does Teleport provide switched
18 access services?

19 A Absolutely not.

20 Q Does Teleport have a switch in Florida?

21 A No, they do not.

22 Q Given those facts, does it make sense for a LEC
23 to desire to collocate with Teleport for the provision of
24 local transport?

25 A No.

1 Q Therefore, is the issue of reciprocity -- does
2 not the issue of reciprocity, is inapplicable in this
3 proceeding?

4 A Yes.

5 Q Mr. --

6 CHAIRMAN DEASON: Let me ask a question. I'm
7 confused because I thought earlier you said that you do
8 have a switch.

9 WITNESS ANDREASSI: No.

10 CHAIRMAN DEASON: You do not have a switch in
11 Florida?

12 WITNESS ANDREASSI: No, we do not.

13 CHAIRMAN DEASON: You said something about you
14 have the same switches as the LECs have.

15 WITNESS ANDREASSI: If we were to provide -- if
16 we were allowed to provide local exchange services, the
17 point I was making is could we -- in my three-prong test,
18 economic, technical and legal, technically speaking we
19 probably utilize the same type of equipment that the LEC
20 does, therefore we think we could connect to them. So if
21 we were allowed to provide local exchange services, would
22 a technical issue arise? No, it wouldn't, because we have
23 the same switches, probably, that the LECs use.

24 CHAIRMAN DEASON: I misinterpreted your answer
25 then. I thought you said it was the three-prong test, one

1 was legal, and then there was technical and there was
2 economic, and that if the legal barrier were removed, that
3 you already had the technical capability to do that
4 because you had the same switches as the LECs, but you do
5 not have switches in place?

6 WITNESS ANDREASSI: We do not have any in
7 Florida.

8 Q (By Ms. Marrero) Mr. Carver asked you certain
9 questions concerning the FCC's virtual collocation
10 mandate, and Teleport's position that virtual collocation
11 mandate should include a requirement that the collocation
12 be technically, operationally and economically comparable
13 with physical collocation. Do you recall that?

14 A Yes, I do.

15 Q In your opinion, are there any benefits that
16 would be gained for carriers and customers if the
17 Commission adopts TCG's position rather than the FCC's
18 standard?

19 A Yes, I believe there would be. And I would fall
20 back to some collocation experience that TCG had in New
21 York in the late eighties. We had virtual collocation
22 setups. And without a clearly enunciated standard, you
23 were constantly on the phone bickering with New York Tel
24 as to getting circuits provision, getting them repaired,
25 et cetera, et cetera. It wasted their time and it wasted

1 our time. If there would have been a clearly defined
2 virtual collocation standard in place, I don't think that
3 would have happened. Furthermore, the end result of that,
4 NYNEX got fed up and we got fed up and they finally just
5 tariffed physical collocation. It was better for them and
6 it was certainly better for us.

7 Q Do the types of disputes that you entered into
8 and experienced in New York, do you believe they could be
9 avoided if TCG's virtual collocation standard were put in
10 place?

11 A Yes, I do.

12 MR. CARVER: Excuse me. I object for two
13 reasons: One, I think the witness is being led. I --
14 excuse me, I also object because I think at this point the
15 witness is supplementing his direct testimony. I think
16 this goes beyond the scope of cross examination, and if
17 he's going to supplement his direct, then I would like to
18 be able to recross him on the new testimony that he's
19 giving.

20 CHAIRMAN DEASON: Respond to the objection.

21 MS. MARRERO: Yes, I do. I believe that --

22 CHAIRMAN DEASON: First of all, I'm not
23 concerned if it's in his direct or not. I'm concerned
24 whether this matter was raised on cross examination.

25 MS. MARRERO: The issue of TCG's virtual

1 collocation standard was raised in cross.

2 CHAIRMAN DEASON: Mr. Carver --

3 MR. CARVER: It was raised in a very limited
4 fashion. The witness is now going on and talking about
5 their experience in New York which is something that
6 wasn't in the direct testimony.

7 CHAIRMAN DEASON: I'm going to allow the
8 questions. Mr. Carver, if you feel the necessity to
9 engage in further cross examination as a result of this
10 line of questioning, I will review that at the time. You
11 may proceed.

12 MS. MARRERO: I have no more questions.

13 CHAIRMAN DEASON: Mr. Carver, do you have any
14 questions?

15 MR. CARVER: No, sir.

16 CHAIRMAN DEASON: Exhibits?

17 MS. CANZANO: Staff requests that No. 41 be
18 moved into the record.

19 CHAIRMAN DEASON: Without objection, Exhibit 41
20 is admitted. Thank you, Mr. Andreassi.

21 (Exhibit No. 41 received into evidence.)

22 MR. CARVER: Mr. Chairman, I apologize. I do
23 have one question, one point of clarification on the new
24 matter that he raised, and I apologize for my tardiness,
25 but --

1 CHAIRMAN DEASON: Very well. Mr. Andreassi is
2 still at the stand.

3 WITNESS ANDREASSI: I should have moved faster.

4 RECROSS EXAMINATION

5 BY MR. CARVER:

6 Q What you've testified to just now was a problem
7 that you believe came about as a result of not having
8 standards; is that correct?

9 A Clearly defined virtual collocation standard.

10 Q Isn't it true, though, that the FCC did dictate
11 standards, but they are simply different standards than
12 the ones you want?

13 A Yes, they are.

14 Q So there are standards. They're just not the
15 ones you want?

16 A They're not as well defined as we would like,
17 yes.

18 MR. CARVER: Thank you.

19 CHAIRMAN DEASON: Ms. Marrero? Very well.

20 Thank you, Mr. Andreassi.

21 (Witness Andreassi excused.)

22 * * *

23 CHAIRMAN DEASON: Mr. Fons?

24 MR. FONS: Mr. Poag.

25

1 F. BEN POAG
2 was called as a witness on behalf of United Telephone
3 Company and Central Telephone Company, and having been
4 duly sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. FONS:

7 Q Mr. Poag, I believe you were present when all
8 the witnesses were sworn earlier; is that correct?

9 A Yes, that's correct.

10 Q Would you please state your full name and your
11 business address?

12 A My name is F. Ben Poag. My business address is
13 Box 165000 Altamonte Springs, Florida, zip 32716-5000.

14 Q And by whom are you employed and in what
15 capacity?

16 A I'm employed by Sprint/United and Centel
17 Telephone Company. I'm the director of tariffs and
18 regulatory.

19 Q And Mr. Poag, did you have cause to have filed
20 in this proceeding direct testimony consisting of 19 pages
21 of questions and answers on May 23rd, 1994?

22 A Yes, I did.

23 Q And are there any changes or corrections to that
24 direct testimony?

25 A Yes, there is, and I need to get that book. At

1 the bottom of Page 17 there is a question relative to the
2 proposed intrastate private line special access tariffs.
3 The answer at the top of Page 18 needs to be revised as a
4 result of what's happened at the interstate level, and the
5 answer, instead of being yes, would be no, and the reason
6 is is that the tariffs need to be modified to remove the
7 physical collocation requirement. And that would -- the
8 rest of that answer from Lines 1 through 7 should be
9 struck.

10 Q And substituted as you just indicated?

11 A Correct.

12 Q Any other changes?

13 A There was a rate reduction in our switched
14 access and special access charges, which would reflect a
15 very minor change in the percentage that was presented on
16 Page 9, and at that point in time we were showing for
17 United some \$315 million, or approximately 45% of total
18 United revenues are attributed to interstate and
19 intrastate access services. That 45% would decrease by
20 about a percent or a little less.

21 Q So you're talking about Line 6?

22 A Yes.

23 Q And then 45% should be something less than that?

24 A It was over -- it was spread over a base of
25 \$760 million and there was about a \$4 million annualized

1 reduction in 1994. So it's less than a percent.

2 Q Any other changes?

3 A No.

4 Q And if I were to ask you the same questions
5 today, would your answers be the same today with the
6 changes you've just outlined?

7 A Yes.

8 MR. FONS: I would ask that Mr. Poag's direct
9 testimony be inserted into the record as if read.

10 CHAIRMAN DEASON: Without objection, it will be
11 so inserted.

12 Q (By Mr. Fons) Mr. Poag, on July 15, 1994, did
13 you cause to have filed in this proceeding supplemental
14 direct testimony consisting of four pages?

15 A Yes, that's correct.

16 Q And are there any changes to that testimony?

17 A No.

18 Q If I were to ask you the same questions today,
19 would your answers be the same as set forth in that
20 supplemental direct testimony?

21 A Yes, they would.

22 Q I would ask that Mr. Poag's supplemental direct
23 testimony be inserted into the record as if read.

24 CHAIRMAN DEASON: Without objection it will be
25 so inserted.

UNITED TELEPHONE COMPANY
OF FLORIDA
CENTRAL TELEPHONE COMPANY
OF FLORIDA
DOCKET NO. 921074-TP, PHASE II
FILED: May 23, 1994

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

F. BEN POAG

Q. Please state your name, present position, and business mailing address.

A. My name is F. Ben Poag. I am employed as Director-Tariff and Regulatory Management for United Telephone Company of Florida. My business mailing address is Post Office Box 165000, Altamonte Springs, Florida 32716-5000.

Q. What is your business experience and education?

A. I have over 25 years experience in the telecommunications industry. I started my career with Southern Bell, where I held positions in Marketing, Engineering, Training, Rates and Tariffs, Public Relations, and Regulatory. In May 1985, I assumed a position with United Telephone Company of Florida as Director-Revenue Planning and Services Pricing. I held the position until February 1988, at which time I was appointed to the position of Director-Tariffs and Regulatory. In January 1990, the pricing and tariffs organizations were combined and I was

1 appointed Director-Revenue Planning and Regulatory. In
2 June 1993, in conjunction with a restructuring, I have
3 assumed new responsibilities and title. In my current
4 position, I am responsible for costing, tariffs and
5 regulatory matters. I am a graduate of Georgia State
6 University with a Bachelor's Degree in Business.

7
8 Q. What is the purpose of your testimony?

9
10 A. The purpose of my testimony is to address on behalf of
11 United Telephone Company of Florida ("United") and
12 Central Telephone Company of Florida ("Centel"),
13 collectively referred to as "the Companies," the several
14 issues that have been assigned to be decided in this
15 phase of the Expanded Interconnection docket. Because
16 Phase II is concerned with switched access
17 interconnection, my testimony will, necessarily, address
18 those issues that are switched access specific, such as
19 issues relating to local transport restructure (LTR) and
20 the tariffs which have been filed to make the price
21 structure of intrastate switched access consistent with
22 its interstate counterpart, as well as those issues which
23 are related to the implementation of special access,
24 including United's and Centel's proposed flexible pricing
25 plans.

1 It may appear that some of my testimony in Phase II is
2 repetitive of my testimony in Phase I; this is necessary
3 because many of the issues in Phase II are the same as
4 those in Phase I and deserve similar treatment. However,
5 even more so than in Phase I, the imposition of switched
6 access interconnection requirements on the LECs will
7 significantly impact United's and Centel's ability to
8 maintain the current pricing disparities between
9 intrastate and interstate switched access and the current
10 prices for basic residential local exchange service. I
11 address those situations in some detail in this
12 testimony.

13
14 **Q.** Under what circumstances should the Commission impose the
15 same or different forms and conditions of expanded
16 interconnection than the F.C.C.?

17
18 **A.** In view of the user's ability to send both intrastate and
19 interstate traffic across the same facility, the terms
20 and conditions for use of the facility should be the same
21 regardless of jurisdiction, to avoid forum shopping.
22 However, because the FCC's pricing flexibility plan does
23 not provide adequate flexibility for appropriate Company-
24 competitive responses, this Commission should not limit
25 the Companies' pricing flexibility. This action would be

1 consistent with the Commission's prior decision in Phase
2 I of this proceeding which did not adopt the FCC's
3 limiting requirements for initiating zone density
4 pricing. Although United and Centel believe that the
5 FCC's approach is too limiting, the Companies have filed
6 private line and special access flexible pricing plans
7 which mirror their interstate plans because that is what
8 this Commission ordered be done in its Phase I Final
9 Order (Order No. PSC-94-0285-FOF-TP, issued March
10 10, 1994).

11
12 In addition, as was stated in my Phase I testimony, the
13 price floor for the Companies' competitive access and
14 private line services should be incremental cost, rather
15 than the price floors imposed by the FCC. The approach
16 proposed by the Companies is similar to that contained in
17 the Companies' intrastate tariff for contract service
18 arrangements (CSAs). However, pricing flexibility for
19 switched access should be based on the customer's zone
20 and not limited to an individual case-by-case customer
21 basis.

22
23 As the Commission recognized in Phase I, with respect to
24 private line and special access flexible pricing
25 approaches, this Commission should also authorize

1 flexible pricing plans for switched access services that
2 go beyond CSAs. As I will discuss later in this direct
3 testimony, a different approach from CSA pricing is
4 warranted because CSAs were authorized by the Commission
5 at a time when access bypass by interexchange carriers
6 (IXCs) was prohibited - except in very narrow
7 circumstances - and the alternative access vendors (AAVs)
8 had not yet arrived on the scene in Florida.

9
10 Q. Is expanded interconnection for switched access in the
11 public interest?

12
13 A. United and Centel support expanded interconnection for
14 switched access, provided, however, that all parties are
15 given the same opportunities to compete on the basis of
16 price, quality and technology. This qualified support is
17 based on the premise that increased competition is
18 inevitable; the issue is not whether there should be
19 competition, but rather, whether the pace of competition
20 should be accelerated by allowing expanded
21 interconnection and what will be the terms of
22 competition. The Companies further believe that, in the
23 long run, the competitive provisioning of switched access
24 transport service is in the public interest and will
25 provide customers the benefits of product innovation,

1 higher quality service, network diversity, and lower
2 prices. These benefits will be extended to a larger set
3 of customers than just the "large volume" customers
4 exploring these alternatives today. However, end users
5 that are able to take advantage of the price benefits of
6 expanded interconnection alternatives will pay less,
7 while those customers who do not qualify for expanded
8 interconnection alternatives may pay more for their same
9 service.

10
11 **Q.** How will expanded interconnection affect the Companies'
12 revenues and the general body of ratepayers?
13

14 **A.** In its March 10, 1994, Order in Phase I of this
15 proceeding, the Commission stated that it shared
16 "United's concerns regarding the impact of cross
17 elasticity between switched and special access services
18 and how it will affect LEC revenues and the general body
19 of ratepayers." (Final Order No. PSC-94-0285-FOF-TP,
20 page 22.) The Commission also noted that switched access
21 will be addressed in Phase II. It is, therefore,
22 appropriate that the Commission now undertake a thorough
23 examination of how and to what extent these pro-
24 competitive policy decisions will impact traditional
25 residual ratemaking policies.

1 As I noted in my direct testimony in Phase I, this
2 Commission, in its comments provided in Docket No. 41-
3 141, dated August 5, 1991, with regard to switched
4 access, stated:

5 We believe that the transition to switched
6 access competition may be inevitable, however,
7 this change should occur with great caution.
8 The opening up of the switched network could
9 potentially have profound effects on the local
10 exchange companies and the local service
11 subscriber. Most of these impacts will result
12 from changes in historical pricing of services
13 and the change in local network usage as a
14 result. As regulators we created the economic
15 incentives that are currently present in the
16 telecommunications market, therefore, it is our
17 responsibility to mitigate any extreme effects
18 to the local exchange company or the local
19 service subscribers through prudent actions.
20 (Emphasis added.)

21
22 In these comments this Commission correctly recognized
23 the dilemma that results when competition is introduced
24 for services which historically have been priced to
25 provide contributions that support below cost basic

1 residential services. That is, as these historical price
2 supports are eroded by access competition, the prices of
3 subsidized services, such as local dial tone, will
4 necessarily have to be increased or other sources of
5 subsidy will have to be found. However, the true
6 economic benefits of competition will not be realized if
7 pricing supports are not removed and all competitors are
8 not allowed to price based on relative economic costs.
9 Commission-imposed, artificially high access rates serve
10 as a pricing umbrella for inefficient producers to enter
11 the market and be profitable. This profitability will,
12 in the long-run, be at the expense of the Companies'
13 customers for other services.

14
15 The FCC, recognizing the increasing competition
16 associated with its expanded interconnection order,
17 attempted to mitigate the potential loss of interstate
18 local transport access contributions to other services
19 through the imposition of the residual interconnection
20 change (RIC). The RIC pricing element, however, must be
21 eliminated in time. It is an artificial pricing element
22 that creates incentives for its avoidance and cannot
23 exist in a competitive environment.

24
25 The Companies' concerns are not significantly different

1 from those stated in the Commission's above-stated
2 comments and revolve around the amount of revenues at
3 risk due to expanded interconnection as proposed for both
4 special and switched access and the level of contribution
5 these services make to the coverage of the Companies'
6 overhead costs. Some \$315 million, or approximately ^{44 to} 45%,
7 of total United revenues are attributed to interstate and
8 intrastate special and switched access services.
9 Likewise, \$86.5 million, or 50%, of Centel's total
10 revenues are attributable to interstate and intrastate
11 special and switched access services.

12
13 The loss of even a small portion of such a significant
14 revenue source could place upward price pressure on the
15 Companies' other services, notably local exchange service
16 rates, and may impact the Companies' longer term
17 financial viability and plans to continue with planned
18 infrastructure improvements. The Companies' customers,
19 especially residential and single line business
20 customers, will be disadvantaged if the Companies are not
21 granted the pricing flexibility needed to meet the
22 competition fostered by expanded interconnection for both
23 special and switched access services.

24
25 Q. What conditions create the possibility that the

1 introduction of expanded switched and special access
2 interconnection will impact basic service prices?
3

4 A. In analyzing how the introduction of expanded switched
5 and special access has the potential for impacting the
6 price of basic telephone service, the concept of
7 "universal service" must be considered. The Federal
8 Communications Act of 1934 (47 U.S.C. § 1, et seq.) (the
9 "Communications Act") states as one of its goals, "to
10 make available, so far as possible, to all of the people
11 in the United States as rapid, efficient, Nation-wide .
12 . . communication service with adequate facilities at
13 reasonable charges" This goal is often referred
14 to as the "universal service" goal and has been
15 considered essential not only in recognizing the
16 importance of individual customers having access to a
17 telephone at affordable rates, but also the value to the
18 entire telephone system of each customer being able to
19 reach the largest possible number of other telephone
20 customers. In meeting this policy goal, it is considered
21 to be in the public interest to provide affordable rates
22 uniformly to all classes of customers rather than price
23 targeting of specific customer classes. In an
24 increasingly competitive environment, as the level of
25 subsidies decline, the remaining subsidies should be

1 targeted to only the economically disadvantaged that
2 require a subsidy.

3
4 The basis of the Companies' concern is that, in
5 competitive markets, the competitors will seek to attract
6 those customers who have the greatest potential for
7 generating the highest profit margin. In the context of
8 telephone service, this means that those entities, either
9 AAVs, cable companies or large customers, who will gain
10 direct access to the Companies' central offices, will
11 seek to serve themselves or customers who are being
12 charged access service rates substantially higher than
13 their costs. As contributions from access services to
14 the Companies' overhead costs are diminished, there will
15 be upward pressure on the rates of the Companies' other
16 services, including basic service.

17
18 Historically, the Companies' service rates have been
19 determined on the Companies' total revenue requirements
20 which include shared and common costs. However,
21 residential rates traditionally have been residually
22 priced. That is, the Companies' other rates have been
23 developed on a variety of ratemaking bases to recover an
24 unspecified portion of the total revenue requirement, and
25 what revenue requirement is left unrecovered is to be

1 recovered by basic telephone service rates. Residual
2 pricing of basic telephone service has avoided the
3 imposition of higher rates for those services. This is
4 because contributions from non-basic services, such as
5 switched and special access service, have helped to
6 defray a portion of shared or common costs which
7 otherwise might have to be recovered in rates for basic
8 telephone service.

9

10 Q. What are you asking this Commission to do in this docket?

11

12 A. My recommendation is that the Commission approve expanded
13 interconnection, but in order to mitigate the potential,
14 long-term impact on the rates of the Companies' other
15 services, the Commission should give the Companies as
16 much flexibility as possible to respond to competition.
17 To the extent the Companies can compete effectively,
18 their other customers will benefit from the contribution
19 received from the retained services and customers.

20

21 Q. Does a physical collocation mandate raise federal or
22 state constitutional questions about the taking or
23 confiscation of LEC property?

24

25 A. This is a legal issue that was addressed in Phase I, but,

1 based upon what has been filed by some of the LECs, it is
2 not an issue which has been permanently disposed of
3 either here or at the federal level. The FCC's
4 imposition of mandatory physical collocation is currently
5 on appeal on the basis of an unconstitutional taking of
6 the LEC's property. Until that appeal has been
7 concluded, the imposition of mandatory physical
8 collocation is still an open issue. It is also
9 potentially a matter that could be appealed to the
10 Florida Supreme Court.
11

12 Q. Should the Commission require physical and/or virtual
13 collocation for switched access expanded interconnection?
14

15 A. As I stated in my testimony in Phase I, United and Centel
16 are not opposed to providing physical collocation to any
17 qualified entity when it is demonstratively appropriate
18 to do so. The Companies are, however, opposed to being
19 unconditionally required to provide any specific form of
20 collocation, either physical or virtual.
21

22 United and Centel also believe that physical and virtual
23 collocation ought to be treated as a line of business.
24 Today, United has customers/IXCs physically collocated in
25 a number of its central offices. These collocations were

1 negotiated on an arms-length basis with the terms and
2 conditions which are mutually beneficial to both parties.
3 Based on this experience, United and Centel both believe
4 that rather than mandating any particular form of
5 collocation, the Commission ought to adopt rules and
6 regulations which permit and encourage the parties to
7 negotiate physical or virtual collocation arrangements on
8 a case-by-case basis with the same terms and conditions
9 available to all interconnectors.

10
11 **Q.** From what LEC facilities should switched access expanded
12 interconnection be offered?

13
14 **A.** Initially, expanded interconnection, on either a physical
15 or virtual basis, should be offered only in those serving
16 wire centers and central offices where it is most likely
17 to be demanded by interconnectors. Additional switched
18 access expanded interconnection locations should be made
19 available on a location-by-location basis when
20 interconnection is requested at locations other than
21 those initially specified.

22
23 For consistency purposes, central offices that are
24 designated for interstate expanded interconnection should
25 also be designated for intrastate expanded

1 interconnection. United's and Centel's proposed
2 intrastate tariffs for special access expanded
3 interconnection and illustrative tariff for switched
4 access expanded interconnection provide lists of offices
5 where collocation is proposed to be offered initially, as
6 well as contain provisions for expanding the number of
7 locations.

8
9 Q. Which entities should be allowed expanded interconnection
10 for switched access?

11
12 A. Expanded interconnection should be available to any
13 customer, i.e., IXCs, AAVs, cable television companies,
14 power companies, information service providers, and end
15 users, for the interconnection of transmission and
16 multiplexing equipment for those services as defined by
17 the FCC's Order in Docket CC 91-141. Requests for
18 expanded interconnection of other types of equipment are
19 not required by the FCC's action in the interstate arena,
20 nor should they be required in the intrastate
21 jurisdiction.

22
23 Q. Should the United and Centel proposed flexible pricing
24 plans for private line and special access be approved?

1 **A.** Yes. United's and Centel's proposed intrastate zone
2 density pricing plans essentially mirror the plans the
3 Companies filed in the interstate jurisdiction. Approval
4 of these plans will begin the necessary transition toward
5 market-based rates for the Companies' dedicated services.
6 As I noted earlier in this testimony, United and Centel
7 do not believe that the FCC approach is the appropriate
8 approach as far as flexibility is concerned, but the
9 Companies filed flexibility plans that mirror the
10 interstate plans because this Commission ordered them to
11 do so. We, of course, applaud this Commission's decision
12 to allow implementation of these pricing flexibility
13 plans upon implementation of expanded interconnection
14 which is essential if the Companies are to be able to
15 meet the rapidly developing competition.

16
17 While it is true that United and Centel currently have
18 CSAs for pricing flexibility, CSAs, which were designed
19 to address bypass by individual customers, are clearly
20 not the most effective alternative to meet the
21 competitive challenges posed by the AAVs. Geographic
22 price deaveraging in the context of the zone density
23 framework, which recognizes cost and market differences,
24 is clearly more effective than CSAs in terms of
25 addressing an entire geographic market area and of

1 providing workable flexibility while ensuring that
2 switched access service is not cross-subsidized. Without
3 the availability of zone density pricing, the AAVs will
4 be able to construct networks and price services that are
5 economically inefficient but still priced below United's
6 and Centel's tariffed switched access services. Not only
7 does this approach greatly enhance the AAV's chances of
8 snaring away the Companies' customers, it has the
9 perverse effect of preventing the customer from receiving
10 the full benefits of competition; namely, economically
11 efficient, cost-based prices.

12
13 In its Phase I Final Order (page 23), the Commission
14 required the LECs to file comments with their zone
15 density pricing plans and tariff filings addressing how
16 the CSA process can be improved. As was noted in
17 United's and Centel's March 31, 1994, filings, the most
18 important improvement in the CSA process will be to
19 eliminate the current requirement that the customer have
20 a pending competitive offer before the LEC can respond
21 with a CSA.

22
23 Q. Should United's and Centel's proposed intrastate private
24 line and special access expanded interconnection tariffs
25 be approved?

No. The tariffs need to be modified to remove the physical collocation requirement.

1 A. ~~Yes. United's and Centel's private line, special access~~
 2 ~~and switched access expanded interconnection tariffs~~
 3 ~~essentially mirror the tariff filed in the interstate~~
 4 ~~jurisdiction. The tariffs should be approved, provided~~
 5 ~~United and Centel are granted sufficient pricing~~
 6 ~~flexibility to deal with the increased level of~~
 7 ~~competition that accompanies expanded interconnection.~~

8
 9 Q. How should switched access local transport be structured
 10 and priced?
 11

12 A. The Commission should approve the local transport
 13 restructure proposed by United and Centel in their
 14 December 22, 1993, filings. The restructure of local
 15 transport has merit even if it is not in the context of
 16 expanded interconnection. However, it is critical that
 17 if switched access expanded interconnection is imposed on
 18 the Companies, local transport restructure must also be
 19 restructured. United and Centel will not be able to
 20 compete in the switched access transport market if they
 21 cannot structure and price their services in the same
 22 fashion as their competitors. For example, the Companies
 23 would be required to bill all usage on a usage-sensitive
 24 basis, whereas their competitors will be able to offer
 25 local transport on a flat-rate option with significant

1 volume discounts. For this reason it is a structure that
2 is incompatible with a policy change that is designed to
3 further competition in the switched transport market.
4 United's and Centel's local transport restructure filings
5 essentially mirror the tariffs filed in the interstate
6 jurisdiction.

7
8 Q. Should United's and Centel's proposed local transport
9 restructure tariffs be approved? If not, what changes
10 should be made to the tariffs?

11
12 A. United's and Centel's local transport restructure filings
13 should be approved. This restructure has already
14 occurred in the interstate jurisdiction, and is a natural
15 step in the evolution of switched access rates becoming
16 more competitive. Moreover, the local transport rate
17 structure that is in place today is incompatible with
18 attempts to further competition for switched transport
19 services, i.e., switched access expanded interconnection.

20
21 Q. Does that conclude your testimony?

22
23 A. Yes, it does.

24
25 utd\921074.tst

UNITED TELEPHONE COMPANY
OF FLORIDA
CENTRAL TELEPHONE COMPANY
OF FLORIDA
DOCKET NO. 921074-TP, PHASE II
FILED: July 15, 1994

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SUPPLEMENTAL DIRECT TESTIMONY

OF

F. BEN POAG

Q. Please state your name.

A. F. Ben Poag.

Q. Are you the same F. Ben Poag that has submitted prefiled direct testimony in Phase II of this proceeding?

A. Yes.

Q. What is the purpose of your supplemental direct testimony?

A. To respond to the new issue added to Phase II of this proceeding concerning the impact of the recent United States Court of Appeals decision on the Commission's Phase I order.

Q. Should the Commission modify the Phase I order in light of the decision by the United States Court of Appeals for the District of Columbia Circuit?

1 **A.** Yes, the United States Court of Appeals decision requires
2 that the Commission modify its Order No. PSC-94-0285-FOF-
3 TP. Not only does the Court of Appeals decision clearly
4 demonstrate that mandatory physical collocation
5 constitutes a taking of the LECs' property, it also
6 creates the potential for inconsistent federal and state
7 treatment. That potential has been taken a step further
8 with the FCC's order of July 14, 1994, directing the LECs
9 to provide expanded interconnection through virtual
10 collocation.

11
12 In addition to the legality issue and the practical
13 problems of a Florida Commission-mandatory physical
14 collocation requirement, there are significant economic
15 reasons for this Commission modifying that requirement.
16 This Commission approved competition by AAVs for LEC
17 services in Order No. 24877, issued August 2, 1991, in
18 Docket No. 890183-TL. That order provides these
19 competitors with the opportunity to physically bypass the
20 LEC's networks in competition with the LECs. Thus,
21 because the AAVs do not have to rely on any LEC-provided
22 facilities to compete, the LECs do not have a bottleneck
23 and have no way to hinder the AAVs from competing with
24 the LECs. With the implementation of expanded
25 interconnection, the AAVs now have an opportunity to

1 reach a larger customer base. At the same time, expanded
2 interconnection presents the LECs with a business
3 opportunity to lease available floor space to AAVS, IXC's
4 or any end user. There are, therefore, equal and
5 compelling incentives for the LECs and AAVs to negotiate
6 mutually advantageous collocation arrangements.

7
8 In these negotiations, both parties will recognize that
9 floor space is a valuable asset which should be priced
10 based on the market value to any of the potential
11 lessors. United and Centel should not be forced to make
12 this resource available to a specific class of customers
13 for specific purposes when there may be other potential
14 users. Each decision to lease or not lease a valuable,
15 limited asset should be decided on the unique
16 circumstances of the market place and considering all
17 possible opportunities.

18
19 In the increasingly competitive environment, United and
20 Centel cannot afford to waste valuable resources,
21 conversely they should not be mandated to a use which
22 does not reflect the proper market value of the resource.
23 To do otherwise produces a misallocation of valuable
24 resources.

1 Q. Has the Company leased floor space in its central offices
2 in the past?

3
4 A. Yes, as stated in my Phase I testimony in this docket,
5 the Company has leased floor space to IXCs, information
6 services providers and an AAV. These transactions were
7 negotiated and concluded without any regulatory
8 intervention or assistance. These business opportunities
9 have benefited the general body of ratepayers by
10 producing revenues that may not have otherwise been
11 possible if rates had been predetermined and published in
12 a tariff. Clearly, given the rapidly changing and
13 increasingly competitive marketplace, inflexible,
14 predetermined values are inappropriate.

15

16

17

18

19 utd\921074-2.txt

1 Q (By Mr. Fons) Would you please summarize your
2 testimony, Mr. Poag?

3 A Yes. Commissioners, this docket essentially
4 addresses expanded interconnection and also gets the local
5 transport restructure issue. And there are some related
6 issues, and I will basically give you the Sprint/United
7 position on the ones I believe are most pertinent to our
8 companies.

9 With regard to expanded interconnection, we
10 favor expanded interconnection. We think it's
11 appropriate. It will bring additional competition. The
12 only thing we ask is that we be allowed to have the
13 flexibility to compete with that additional competition as
14 we move into these new marketplaces. We don't believe
15 that you should mandate that collocation be physical or
16 that it be virtual. We believe that we should be able to
17 negotiate that and that it not be mandated.

18 An underlying issue is the pricing flexibility.
19 We believe that if the LECs are not allowed to have
20 pricing flexibility to respond to the competition, that
21 the benefits of competition will not flow to the end user
22 customers. In essence, what will happen is is you will
23 establish a pricing umbrella for competition to come in
24 and take the customers away from the LECs. They will not
25 be taking the customers away because they are necessarily

1 more efficient or lower cost, but only because you've
2 established an artificial barrier that keeps the LEC from
3 competing with the competition.

4 If you approve expanded interconnection for
5 switched access services, it's critical that you
6 restructure the local transport. The current structure is
7 not conducive to the -- the revised arena that you would
8 see with expanded interconnection. It allows more -- it
9 allows access to the LEC's facilities in a lot simpler and
10 easier method and it would allow the competition, again,
11 to take advantage of historical monopoly pricing
12 inequities which need to be removed. And local transport
13 restructure helps to do that.

14 The local transport should not only be approved,
15 but it must be approved, again, giving the local exchange
16 companies the opportunity to compete for those local
17 transport revenues. And ratio of the DS1 and the DS3 must
18 be market based. If I had a house that I bought and I
19 paid \$100,000 for it, there's no way that I can get that
20 \$100,000 if the market has changed. It's the market that
21 determines what the prices are. And the local exchange
22 companies must be allowed to price based on the market if
23 they're to effectively compete.

24 The other related issue is our tariffs, and we
25 have filed some tariffs. Those tariffs need to be revised

1 to reflect the FCC's decision on the virtual collocation
2 versus physical, mandatory collocation, with the
3 modification to change those tariffs. And they should be
4 approved for both the special and the switched access
5 services. That completes my summary.

6 MR. FONS: The witness is available for cross
7 examination.

8 CHAIRMAN DEASON: Mr. Carver?

9 MR. CARVER: No questions.

10 CHAIRMAN DEASON: Mr. Adams?

11 MR. ADAMS: No questions.

12 CHAIRMAN DEASON: Mr. Hoffman?

13 MR. HOFFMAN: No questions. Ms. Caswell?

14 Mr. Wiggins? Ms. Bryant?

15 MR. WIGGINS: No questions.

16 MR. POUCHER: No questions.

17 CHAIRMAN DEASON: Staff?

18 MS. CANZANO: Well, I'm going to break this
19 trend here.

20 CROSS EXAMINATION

21 BY MS. CANZANO:

22 Q Good morning, Mr. Poag.

23 A Good morning.

24 Q On Page 9 of your direct testimony, beginning at
25 Line 13, you state that, "The loss of even a small portion

1 of such a significant revenue source could place an upward
2 price pressure on the Companies' other services, notably
3 local exchange service rates." Then you continue on Page
4 18 -- no, continuing on Line 18, you state that, "The
5 Companies' customers, especially residential and single
6 line business customers, will be disadvantaged if the
7 Companies are not granted the pricing flexibility needed
8 to meet the competition fostered by expanded
9 interconnection for both special and switched access
10 services." How would the residential and single-line
11 business customers be disadvantaged if the companies are
12 not granted pricing flexibility?

13 A Basically, what I am trying to emphasize
14 there -- and excuse me, I am trying to do some volume
15 adjusting here. Basically, what I am trying to point out
16 to you is is that to the extent the local exchange
17 companies do not have pricing flexibility, and as a result
18 of not having that pricing flexibility, they're unable to
19 compete in the marketplace, then they will lose revenues
20 and services to the competition faster than would
21 otherwise be the case. To the extent that that occurs,
22 and to the extent that these services are producing
23 contribution and covering overhead and shared cost to the
24 corporation, then they're benefiting the small residential
25 and business customers whose rates may otherwise have to

1 go up.

2 Q Do you mean R1 rates?

3 A That would be one of them. That's correct.

4 Q And the other one or --

5 A Well, it would be basically any of the other
6 services. I don't want to limit it to just an R1 or a
7 B1. It could be other services as well. I guess what
8 we're saying is that to the extent that if these other
9 services cover some of the common and shared costs -- and
10 I don't want to be specific as to which ones are and which
11 ones aren't -- we could get into that, but it's a benefit
12 to keep their prices lower than would otherwise be the
13 case.

14 Q That doesn't just mean that the R1 rates would
15 just go up, other rates could go up instead; is that
16 correct?

17 A I don't want to attempt to reprice services
18 based on that comment. I would have to look at the
19 individual services, look at the market for the services,
20 and then try to identify how I would get back some of the
21 revenues that I had lost to the competition that were
22 being produced by these other services prior to the
23 competition taking it away.

24 Q We're going to next talk about reciprocal
25 interconnection. In Phase I the commissioners encouraged

1 rather than mandated collocators to allow LECs and other
2 parties to interconnect with their networks. Do you
3 believe the commissioners should change this decision?

4 A I am sorry. Would you repeat that, please? Are
5 you talking about mutual collocation or --

6 Q Reciprocal --

7 A Reciprocal collocation or interconnection?

8 Q Interconnection, and the Commission encouraged
9 rather than mandated such a situation. Do you believe
10 that the Commission should change its decision?

11 A Yes.

12 Q Why is that?

13 A I think it basically establishes an opportunity
14 for the LECs to take advantage of a collocator's or an
15 interconnector's facilities where in fact it may be an
16 advantage to them in the marketplace to utilize those
17 facilities in reaching a customer. And let me say this.
18 It is not uncommon today for local exchange companies to
19 interconnect with each other, in certain cases to share
20 facilities. I know through some of our service territory,
21 we have jointly put some facilities in with Bell, up
22 through I believe the Belleview area and it's the right
23 business thing to do. We both need some facilities up
24 that way and we've interconnected and we've shared. And I
25 think there's some -- at one time there was some statutory

1 requirements requiring the LEC companies interconnect. I
2 don't know the exact status of that today. But it just
3 seems to me there's an opportunity for some benefit with
4 end user customers reaping the benefits, and that it ought
5 to be required.

6 Q If you were to interconnect with an AAV, what
7 would you interconnect for? For what services or --

8 A Let me give you a hypothetical example. Let's
9 suppose that an AAV has facilities, a fiber facilities
10 directly to a large office building, and there's a
11 customer in that office building who would also like to
12 get some high capacity services, but they would like to
13 get them from the telephone company. Let's suppose I'm
14 serving that building with copper and that if I have to
15 put in fiber to get to that building, it's going to, you
16 know, duplicate what's already out there in terms of fiber
17 facilities. So it may be less expensive for me to go to
18 the alternative access vendor, lease that capacity from
19 them and provide that to the customer who wants to bring
20 that service to me. Now, the reason that that customer
21 might want to bring that service to me, rather than taking
22 it to the AAV, might be -- and this is very hypothetical
23 -- that I have the facilities, once I get it to a certain
24 point, to take it somewhere else that that customer wants
25 to get to. And it might be that they just like the good

1 quality of my service.

2 Q Would the Commission's complaint process be an
3 adequate way to resolve reciprocal interconnection
4 disputes among parties?

5 A It would probably be an adequate way to do it,
6 but on the other hand you may not need to go through that
7 if you would just require it. I think we've got enough
8 proceedings up here. I would like to eliminate a few.

9 Q Now we're going to switch gears to tariffing.
10 Do you believe that all tariff -- all switched transport
11 providers should be required to file tariffs?

12 A Yes.

13 Q What are the benefits of filing tariffs?

14 A It provides a way for me to know what my
15 competition is doing because they know what I am doing
16 because I have filed tariffs. There may be some benefits
17 to the customers. There may be some benefits to the
18 Commission in terms of complaints, and the fact that if
19 they do get a complaint or something like that, they've
20 got a tariff that they can turn to to determine the
21 validity of the complaint. There would be any number of
22 reasons that it could be beneficial.

23 Q Then Mr. Poag, why is your company proposing
24 that collocation arrangements be negotiated instead of
25 tariffed?

1 A In the case of the elements that we're
2 talking -- we're not talking about the collocation terms
3 of the electrical cross connect. What we're talking about
4 is floor space. And floor space, to us, is something
5 that's going to vary very greatly and it's going to vary
6 often and it's go going to vary by building, and there are
7 just so many different ways that you can come up with
8 different arrangements. I need the flexibility, when it
9 comes to floor space, to say that I am going to lease 50
10 square feet for five years, or I am going to lease 100
11 square feet for six months and it gets to be a process of
12 where tariffing is inappropriate, as well as the fact that
13 it ought to be driven by the market, and the market floor
14 space changes.

15 Q Does your company plan to offer expanded
16 interconnection service for switched access from access
17 tandems in Florida?

18 A Would you repeat that, please?

19 Q Certainly. Does the Company plan to offer
20 expanded interconnection service for switched access from
21 access tandems in Florida?

22 A Yes.

23 Q Are you aware that there are no provisions to
24 offer EIS for switched access from access tandems in your
25 interstate or proposed intrastate switched access EIS

1 tariffs?

2 A The wire centers that we have listed are in fact
3 access tandems as well. And my recollection is is that
4 there is some verbiage somewhere that addresses that, but
5 I don't know if it's in the tariff for sure.

6 Q I don't think that we have been able to find
7 that in the tariffs, or if it is in a tariff, we would
8 like that information.

9 A That was my understanding. And I will -- I may
10 have to backtrack on that one, but essentially it is my
11 understanding it would be available, and in fact we had
12 some discussions on one of the stipulations as to where it
13 would be available, and it was at that point in time in
14 checking with some of my people that we did in fact intend
15 it to be the access tandems. I will check on that and see
16 where it stands.

17 Q Well, at this time then I would like to request
18 a late-filed exhibit. We would like to call it something
19 basic, like Access Tandem and Tariff in Your Intrastate
20 Tariff.

21 A Expanded Interconnection for the Access Tandem?

22 Q Yes.

23 A In the Intrastate Tariff?

24 Q Yes.

25 CHAIRMAN DEASON: That would be identified as

1 Late-filed Exhibit No. 42.

2 (Late-filed Exhibit No. 42 identified.)

3 Q (By Ms. Canzano) Mr. Poag, assume that the
4 Commission mirrors the July 25th order requiring mandatory
5 virtual collocation with the LEC option of providing
6 physical collocation. In that case, should any elements
7 of physical collocation be tariffed if the Commission
8 mirrors the FCC's order, if the LEC chooses to offer
9 physical?

10 A Basically our corporate position is -- and we
11 have talked with the FCC on this -- is that if they're
12 going to require tariffing, if we do go to the physical
13 collocation on the floor space, that we're not going to
14 offer physical collocation under a tariffed basis. So my
15 position is the answer is no, and if in fact you say,
16 well, you've got to do it on an intrastate basis, then
17 we'll say, okay, on an intrastate basis, we'll do it for
18 intrastate facilities, but you're going to have to have
19 separate virtual collocation facilities for the interstate
20 side. So we have taken a very, I think, open and I
21 believe fair approach to trying to work to make expanded
22 interconnection an operable way, but we are solidly
23 against tariffing that floor space.

24 Q Mr. Poag, please describe your understanding of
25 the Modified Access Based Compensation plan and what it is

1 designed to accomplish.

2 A The Modified Access Based Compensation plan was
3 essentially a plan that was put together to have LECs pay
4 each other access charges for terminating traffic into a
5 different local exchange company's territory that was
6 somewhat similar to what the local exchange carriers were
7 paying for terminating that same type traffic. And I say
8 "somewhat" because there were some different elements
9 that were imposed on the LECs that were not imposed on the
10 interexchange carriers, such as the intertoll trunking and
11 intertoll switching.

12 Q You advocate that once a revised transport
13 structure is approved, the MABC plan should be modified to
14 reflect the new transport structure. Is that correct?

15 A I have no opposition to modifying the MABC. I
16 think there are some -- I am not sure it's an exact fit,
17 and it would seem to me that there's a possibility of some
18 sort of a surrogate that could be developed that would --
19 might be much more administratively simplistic, but it --
20 that whole area is somewhat complex. I have not studied
21 it recently. And I think that it may be appropriate to
22 look at that in a separate proceeding.

23 Q Are you aware of the Commission's access
24 imputation guidelines?

25 A Yes.

1 Q You advocate that imputation guidelines should
2 not be revised in this proceeding; is that correct?

3 A That's correct.

4 Q Could you please explain why not?

5 A Essentially, the same answer that I gave on the
6 ABC -- I'm sorry, the MABC. They're somewhat related.
7 And I think maybe that the two of those could possibly be
8 handled in a separate proceeding. But I want to comment,
9 though, that the guidelines were issued in April of '92
10 and we're into August of '94. And the existing guidelines
11 are, quite frankly, seriously outdated. And it seems to
12 me that the pace of change, the time-of-day discounts, the
13 BHMOC issues, there are some other issues with the way
14 that the original guidelines were implemented that don't
15 really give full credit to the local exchange company in
16 terms of what customers are paying for trunks, the cross
17 elasticity of trunks with special access services, that
18 really never got incorporated into those guidelines and
19 need to be.

20 Q In your opinion, if the Commission decides not
21 to revisit its policy until after the rest of the
22 decisions are made in this proceeding, would it be logical
23 to continue using the existing local transport rates in
24 the meantime?

25 A I have no objection to that. That would be

1 fine.

2 Q Mr. Poag, are you familiar with the cost data
3 submitted to Mr. Gillan for use in Exhibit No. 18, which
4 is that late-filed deposition exhibit?

5 A Yes.

6 Q You have not submitted cost data supporting the
7 intrastate rates in this docket, have you?

8 A We provided our switched link and Translink cost
9 studies, and those cost studies, I believe -- those cost
10 studies were not designed for interexchange carrier type
11 facilities. They were designed more for like end user
12 types of customers. And while there may be a lot of
13 similarities, I would like to revisit those. But we have
14 filed those studies, and the -- on a confidential basis
15 and they've been made available to some of the parties.

16 Q So you haven't -- so is the answer to my
17 question no?

18 A No, the answer is yes, we have filed studies.

19 Q Are those cost studies in support of local
20 transport?

21 A They're in support of the DS1 and the DS3
22 rates. I'm sorry, I used the wrong terms, a Lightlink is
23 the DS3, Translink is the DS1, and those are the studies
24 that we filed. But the names that I am giving you are
25 tariff names that will be used in our end user marketing

1 effort.

2 Q If this Commission decides to adopt Mr. Gillan's
3 proposal to use cost-based rates, would you object to the
4 use of the cost as calculated by Mr. Gillan in Exhibit
5 No. 18 as the cost basis for United's DS1 and DS3 rates?

6 A I need to review what Mr. Gillan has done. It's
7 not clear to me exactly that he is using appropriate
8 numbers, as has already been pointed out. Mr. Gillan was
9 trying to add the cost of multiplexing to the DS3. And
10 we've already determined that the FCC, based on Mr. Tye's
11 cross examination, determined that it actually should be
12 added to the DS1 and not the DS3. The facility from the
13 telephone company central office, serving the end user
14 customer, will transmit both DS1s and DS3s on a fiber
15 connectivity basis, essentially using the same terminal
16 equipment. However, when you get to the interexchange
17 carrier's POP, if they want that at the DS1 level, then
18 we've got to mux it down from the DS3 level. If they want
19 it at the DS3 level, we'll just give it to them at the DS3
20 level. So I need to revisit the elements underlying that
21 exhibit and determine what's appropriate.

22 Q At this time, Staff would like to ask for a
23 late-filed exhibit. Staff would like to request a
24 late-filed exhibit consisting of the following
25 information: It will be an analysis of the problems with

1 the cost data submitted by Mr. Gillan as -- what has been
2 identified as Exhibit 18. Please provide the relevant
3 cost components that should be included but which you
4 believe were omitted or that should be part of the
5 analysis. And that analysis should extend beyond just a
6 mere check of the arithmetic. And please include a
7 definition of cost based if you want to.

8 Also, we would like to see a statement of the
9 appropriate cost to use for the basis of a cost-based
10 rate, and we would ask that you include your work papers.

11 A Okay, now, I understand that Mr. Gillan is going
12 to bring a paper, or his work papers in so that we will
13 have the capability to review however it was that he
14 developed whatever it was he developed.

15 MS. CANZANO: Mr. Chairman, maybe this might be
16 the appropriate time to bring up how this affects all the
17 parties.

18 CHAIRMAN DEASON: Yes, let's go ahead and
19 hopefully take care of this matter.

20 MS. CANZANO: First, Mr. Gillan will submit his
21 work papers as Late-filed Exhibit 39 by September 2nd.
22 And that -- and he will provide them to the parties at
23 that time and to Staff. By September 23rd, United, GTE
24 and Southern Bell should file the late-filed exhibit I
25 have just requested of Mr. Poag. And then by October 7th,

1 Mr. Gillan will file a late-filed exhibit in response to
2 the LEC's statement of appropriate cost to use for the
3 basis of a cost-based rate and the work papers. So he
4 will only limit his response to that second portion that I
5 have just mentioned. And that is due October 7th. And
6 what we have all agreed to is to extend to October 12th
7 the filing by the parties of the briefs. And we will
8 revise the CASR.

9 CHAIRMAN DEASON: Are all parties in agreement
10 with what Staff counsel just described?

11 MS. KAUFMAN: Yes, Mr. Chairman.

12 MR. FONS: Yes, sir.

13 CHAIRMAN DEASON: Let's identify, so we're
14 abundantly clear as to the LEC exhibits, which will be
15 filed on September the 23rd by exhibit number -- would
16 that be 19, 30 and 43 that we are about to identify?

17 MS. CANZANO: Yes.

18 CHAIRMAN DEASON: Let's go ahead and identify
19 Mr. Poag's late-filed exhibit, which will be due September
20 the 23rd as Late-filed 43.

21 (Late-filed Exhibit No. 43 identified.)

22 CHAIRMAN DEASON: And short title for that,
23 please.

24 MS. CANZANO: Be United's Cost Data for DS1 and
25 DS3.

1 CHAIRMAN DEASON: That's the short title. We
2 understand it's going to encompass all that you've just
3 previously described.

4 Okay, I assume that we will identify
5 Mr. Gillan's responsive late-filed exhibit when he takes
6 the stand on rebuttal?

7 MS. CANZANO: Yes -- or do you object to doing
8 it now?

9 MS. KAUFMAN: Either way, or we can do it now.

10 CHAIRMAN DEASON: Let's just keep it clean.
11 Let's do it when he's on the stand.

12 Ms. Canzano, you mentioned that the CASR would
13 have to be revised. Is that going to change the
14 anticipated date of voting on this matter?

15 MS. CANZANO: No, absolutely not. We are only
16 going to extend by a few days the date for filing of
17 briefs. This way we're all accommodating each other.

18 CHAIRMAN DEASON: Very well.

19 Q (By Ms. Canzano) At this time Staff has
20 distributed a stack of documents. For the deposition --
21 one that's called deposition transcript; an errata sheet,
22 it's been brought to my attention that an errata sheet
23 needs to be added to that document which Lance will be
24 passing out right now. Do you have a copy of these
25 documents?

1 A I don't have the errata, but I did sign an
2 errata earlier and that's --

3 Q Lance will be passing one to you. Have you had
4 a chance to review this material?

5 A I have had, yes, a chance to review the exhibits
6 that y'all passed out.

7 Q Were they -- for the discovery responses, were
8 those prepared by you or under your supervision?

9 A Yes.

10 Q Are these materials accurate to the best of your
11 knowledge?

12 A Yes.

13 MS. CANZANO: Chairman Deason, I would like
14 these marked for identification at this time.

15 CHAIRMAN DEASON: The deposition transcript with
16 the errata sheet will be identified as Exhibit No. 44.
17 Response to Staff POD Nos. 4 and 8 will be identified as
18 Exhibit No. 45.

19 MS. CANZANO: Maybe I should make clear on that
20 that we have distributed only the redacted versions, and
21 it's the confidential material that's to be made as the
22 actual exhibit.

23 CHAIRMAN DEASON: Very well, is that understood
24 by everyone? So therefore, the Exhibit 45 will be the
25 actual responses that are confidential?

1 MS. CANZANO: That is correct.

2 CHAIRMAN DEASON: Response to Staff
3 Interrogatories 18 through 26, 27 through 54; End Report
4 Schedules in Response to IAC Interrogatories will be
5 identified as Exhibit No. 46. Response to Staff
6 Interrogatories 1 through 9, 3, 12 through 15, and 50
7 through 85, and Responses to IAC Interrogatories 3 through
8 7, 10, 15, 16 and 19, along with selected End Report
9 Schedules will be identified as Exhibit No. 47. The
10 illustrative tariffs will be identified as Exhibit No.
11 48. Centel's Intrastate Local Transport Restructure
12 Tariff will be identified as Exhibit No. 49. United's
13 Intrastate Local Transport Restructure Tariff will be
14 identified as Exhibit No. 50, and the Centel's Special
15 Access and Private Line Tariffs, and Tariff 94-409 in
16 Response to Staff POD No. 20, will be identified as
17 Exhibit No. 51. And United's Tariffs T-94-196 and
18 T-94-410 in Response to Staff POD No. 13 will be
19 identified as Exhibit No. 52.

20 MS. CANZANO: Thank you. Staff has no further
21 questions.

22 (Exhibit Nos. 44, 45, 46, 47, 48, 49, 50, 51 and
23 52 marked for identification.)

24 CHAIRMAN DEASON: Commissioners? Redirect,
25 Mr. Fons?

1 WITNESS POAG: I have a little bit of a concern
2 that I'm being asked to provide a late-filed exhibit for a
3 pricing structure which I disagree with very much, and
4 it's not clear to me that I had a chance to get into the
5 record some comments about that.

6 CHAIRMAN DEASON: Are you going to conduct your
7 own redirect then?

8 REDIRECT EXAMINATION

9 BY MR. FONS:

10 Q Mr. Poag, do you have any comments on the
11 late-filed exhibit you've been asked to provide?

12 CHAIRMAN DEASON: Please proceed if you do.

13 MR. FONS: This is your chance, Ben.

14 MS. KAUFMAN: Excuse me, Mr. Chairman. I think
15 I'm going to have to object to this. It was my
16 understanding that the parties had agreed to the
17 resolution of how these exhibits were going to be handled,
18 and I'm sure that most of the parties reached a
19 compromise, and I don't think it's appropriate for
20 Mr. Poag now to discuss why he thinks the compromise --

21 CHAIRMAN DEASON: Maybe we need to review the
22 agreement. It's my understanding the agreement is to
23 follow this procedure and format for filing the
24 information. And a lot of it is mathematical type
25 calculations. There is some analysis about the

1 appropriateness of the methodology, and I assume that what
2 Mr. Poag wants to do at this time is to express here on
3 the record when he's got the Commission to listen to him
4 what his problems are with the methodology. And I don't
5 see a problem with doing that here as opposed to putting
6 it in the exhibit or doing it both. I don't really
7 understand the objection is the problem.

8 MS. KAUFMAN: Mr. Chairman, the objection is
9 that the parties agreed to the compromise as to how these
10 exhibits are going to be handled, and we had extensive
11 discussion yesterday about IAC's problems, and I'll tell
12 you, IAC is not totally satisfied with this, but has
13 agreed to it, and now I think Mr. Poag is being given the
14 opportunity to express his opinion as to why he's not
15 happy with the compromise, and I guess if you want to hear
16 Mr. Poag's opinion on that, then Mr. Gillan probably has
17 some comments to offer as well. But I thought the idea of
18 this was to reach a compromise as how the exhibits were
19 going to be handled.

20 CHAIRMAN DEASON: And I think there is a
21 compromise on the way the exhibits are going to be
22 handled, but that's not going to stifle any party's
23 ability to express why the methodology is good or bad, and
24 I think that's all Mr. Poag is trying to do. And
25 Mr. Gillan, obviously, will have an opportunity on

1 rebuttal, when he's asked, to prepare a late-filed
2 responsive exhibit to express his concerns one way or the
3 other.

4 MS. KAUFMAN: I understand, Mr. Chairman.

5 CHAIRMAN DEASON: Now, in all seriousness,
6 Mr. Poag, you may respond to your concerns as part of your
7 redirect.

8 WITNESS POAG: Thank you, Chairman Deason.
9 First of all, I would like to point out that the rates
10 that were developed and filed by United and Centel were
11 not something that was developed, you know, specifically
12 just for the local transport restructure. The FCC, when
13 they came to a conclusion on what they were going to do
14 with the local transport restructure, said, we already
15 have special access rates on the interstate side for DS1
16 and DS3, and with some qualifications, essentially said,
17 local telephone companies, go use those rates. And those
18 rates were basically market based.

19 In United and Centel's filing in Florida, we
20 took essentially that same structure and proposed that
21 here within the state. And it is a market-based, not a
22 cost-based, approach to pricing, and that is the
23 appropriate approach to pricing.

24 An analogy that's very close to home here in
25 Florida is the way we've priced residential local exchange

1 service. Today, if we look at what it cost us to provide
2 local exchange service in some of the rural, low dense
3 areas, it probably is much higher than in the high dense
4 areas, but the pricing is in the opposite direction. In
5 the rural local areas with the smaller local calling
6 areas, the price is lower than it is in the high dense
7 areas where the cost is lower. And the rationale is that
8 because in the more rural areas there isn't as much demand
9 and there isn't as much penetration, therefore, in order
10 to further the universal service objective, you have a
11 lower price in those particular areas.

12 If you look at -- just real simple, if you think
13 through the logic of it, if you put a central office out
14 there to serve a thousand customers, and you have to dig a
15 trench and you're only putting smaller cables in those
16 trenches, versus in a more highly dense area, where you
17 have a lot more subscribers justifying the cost of that
18 building, justifying the cost of that switching equipment,
19 and a larger cable is going into those trenches, it's
20 pretty quickly obvious that the cost relationship with
21 regard to pricing is inverse. And the reason is that it's
22 not driven by cost. It's driven by market.

23 Similarly, if you look at how we price our
24 switched access services, our switched access services
25 today have very little, other than structure, to do with

1 cost. A typical example there is is that on the
2 intrastate side, our intrastate access charges are twice
3 -- nearly twice, not quite twice, what our interstate
4 access switched access charges are.

5 So we have got to do the pricing based on the
6 market. If we're not allowed to price these transport
7 services the same as our competitors are pricing them,
8 then we're going to lose that market. And to the extent
9 that we lose that market, I think the general body of
10 ratepayers will not benefit. And I can tell you that
11 there are -- got a list of them, of interexchange
12 carriers, and I would like to read to you what some of
13 their crossover points are for their DS1 and DS3
14 facilities.

15 MS. KAUFMAN: Excuse me, Mr. Chairman. I
16 recognize that we're on redirect. I think Mr. Poag is
17 going well beyond the question on redirect, reading
18 tariffs into the record.

19 CHAIRMAN DEASON: Perhaps Mr. Fons can help me.
20 Was there any question on direct examination as to the
21 crossover points of the various IXCs?

22 MR. FONS: There is not specifically, but
23 intrinsically in the questions that were asked by Staff on
24 the issue of the cost of providing cost-based DS1 and DS3,
25 that is what Mr. Poag is responding to, and he's trying to

1 indicate that it's market driven not cost driven.

2 COMMISSIONER CLARK: I think we understand that,
3 and I don't think there's any reason to go into a
4 discussion of what the IXC's are charging and what their
5 crossover point is. I really do think it's way beyond.

6 CHAIRMAN DEASON: It's almost 12:30. We haven't
7 had lunch yet either.

8 MR. FONS: I understand. I have no further
9 redirect questions.

10 MS. CANZANO: Commissioners, before we break --

11 MR. WIGGINS: Ben, do you have anymore?

12 MR. FONS: Does Ben? Yeah, Ben, do you have
13 anymore questions?

14 MS. CANZANO: Staff needs to add one more
15 exhibit, with indulgence.

16 RECROSS EXAMINATION

17 BY MS. CANZANO:

18 Q Mr. Poag, have you received -- are you familiar
19 with a document that was delivered this morning to this
20 Commission that is a confidential material that's in
21 response to Staff's Third Request for POD No. 10? It's, I
22 think, the corrected version, the selected pages.

23 MR. FONS: Yes, he's familiar with it.

24 CHAIRMAN DEASON: The attorney is answering the
25 questions and the witness is doing his own redirect.

1 MR. FONS: Isn't that the way it should be?

2 (Laughter)

3 CHAIRMAN DEASON: Mr. Poag, are you familiar
4 with that document or material?

5 WITNESS POAG: No, sir, I am not. I am sorry.
6 I may be, but I may not remember it by the number. How is
7 that?

8 Q (By Ms. Canzano) Would you like to see that
9 material?

10 CHAIRMAN DEASON: Is this something we can take
11 up when Mr. Poag takes the stand on rebuttal?

12 MS. CANZANO: He's not on rebuttal.

13 MR. FONS: His memory has been refreshed.

14 Q (By Ms. Canzano) Is this material accurate to
15 the best of your knowledge? (Pause)

16 A I was looking at it last night and there is a
17 possibility that there may be a change that I want to
18 make, but I am not positive until I meet with my costing
19 folks on it. But at the time that I did it, it was, to
20 the best of my knowledge, accurate.

21 MR. FONS: I think this is part of the whole
22 late-filed exhibit. I think we're getting -- Staff is
23 getting back into something I thought we had agreed on,
24 was that we would look at the numbers which Mr. Gillan is
25 using and indicate whether or not those are proper

1 numbers, and I think we're getting back into that again.
2 So this is part of the late-filed exhibit.

3 CHAIRMAN DEASON: This subject matter would then
4 be part of Late-filed 43?

5 MR. FONS: Yes, sir.

6 CHAIRMAN DEASON: Perhaps we'll just handle it
7 that way.

8 MS. CANZANO: Okay. Do we need to provide
9 redacted versions of this material to the parties?

10 MR. FONS: I think that they are being provided
11 by mail today as a result of us filing those revised --
12 once they see the redacted, they're not going to see
13 anything, so it's not going to make any difference.

14 MS. CANZANO: Thank you.

15 CHAIRMAN DEASON: Exhibits? Staff has
16 identified a number of exhibits. Two of them are
17 late-filed. The rest are Exhibits 44 through 52.

18 MS. CANZANO: That's correct.

19 CHAIRMAN DEASON: Do you move 44 through 52?

20 MS. CANZANO: Yes, I do.

21 CHAIRMAN DEASON: Without objection --

22 MR. FONS: I -- all right, I have no objection.

23 CHAIRMAN DEASON: Exhibits 44 through 52 are
24 therefore admitted and we will recess for lunch at this
25 time. We will reconvene at 1:30.

1 (Exhibit Nos. 44, 45, 46, 47, 48, 49, 50, 51 and
2 52 received into evidence.)

3 (Lunch recess from 12:30 until 1:30 p.m.)
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25