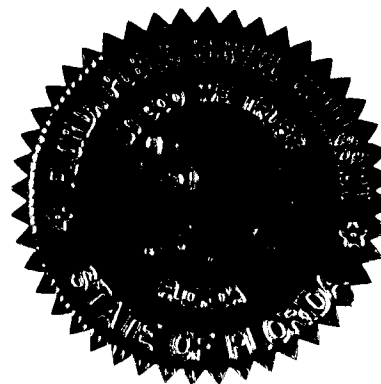


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030851-TP

In the Matter of

IMPLEMENTATION OF REQUIREMENTS  
ARISING FROM FEDERAL COMMUNICATIONS  
COMMISSION'S TRIENNIAL UNE REVIEW:  
LOCAL CIRCUIT SWITCHING FOR MASS  
MARKET CUSTOMERS.



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VOLUME 12

Pages 1771 through 1842

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ  
COMMISSIONER J. TERRY DEASON  
COMMISSIONER LILA A. JABER  
COMMISSIONER RUDOLPH "RUDY" BRADLEY  
COMMISSIONER CHARLES M. DAVIDSON

DATE: Wednesday, February 25, 2004

TIME: Commenced at 9:00 a.m.

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

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3 APPEARANCES: (As heretofore noted.)

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## P R O C E E D I N G S

(Transcript follows in sequence from Volume 11.)

CHAIRMAN BAEZ: Good morning everyone. We'll reconvene the hearing. Some quick details. I understand that Ms. Tipton's deposition ran a little late last night, so I'm going to relent and go ahead and drop her back down until right after the Verizon Hot Cut Panel. I understand that there's no objection from the parties.

MS. WHITE: Did you mean right before the Verizon?

CHAIRMAN BAEZ: Is it right before or right after?

MS. WHITE: I'd like her to be with the other BellSouth witnesses, if possible.

CHAIRMAN BAEZ: That, that was my interest in kind of keeping it all in order. Are you all all right with that?

MR. MAGNESS: Yes. I think she, she would come then after Mr. McElroy.

CHAIRMAN BAEZ: Right. After Mr. McElroy.

MR. MAGNESS: McElroy, I'm sorry. Yes, sir.

CHAIRMAN BAEZ: Very well. All right. So we'll be taking her out of order at that, at that time.

MR. MAGNESS: Thank you.

CHAIRMAN BAEZ: Secondly, Mr. Feil, I understand that you do have some questions of Witness Ainsworth.

MR. FEIL: Yes, sir.

CHAIRMAN BAEZ: And I understand that the impairment

1 parties also understand that you're on their dime.

2 MR. FEIL: I'm on their dime, yes.

3 CHAIRMAN BAEZ: Okay.

4 MR. FEIL: And it is their preference that I ask the  
5 questions rather than they.

6 CHAIRMAN BAEZ: Very well. Props to you, sir.

7 I think that's everything, Mr. Susac. That pretty  
8 much takes care of everything?

9 MR. SUSAC: That takes care of everything, Chairman.

10 CHAIRMAN BAEZ: All right. And Commissioner Davidson  
11 has informed me that by his count there's only three hours of  
12 cross left. Just a little morning joke to get started. Let me  
13 make sure that the other Commissioners -- we have Commissioner  
14 Jaber and Commission Bradley dialing in. Are you all there?

15 COMMISSIONER BRADLEY: I'm here

16 COMMISSIONER JABER: Yes. Thank you, Mr. Chairman.

17 CHAIRMAN BAEZ: All right. Good morning to you.

18 COMMISSIONER JABER: Good morning.

19 COMMISSIONER BRADLEY: Good morning.

20 CHAIRMAN BAEZ: And with that, I think we can take up  
21 Dr. Aron.

22 MS. AZORSKY: Good morning, Chairman, Commissioners.

23 CHAIRMAN BAEZ: Good morning.

24 DEBRA J. ARON

25 was called as a witness on behalf of BellSouth

1 Telecommunications, Inc., and, having been duly sworn,  
2 testified as follows:

3 CROSS EXAMINATION

4 BY MS. AZORSKY:

5 Q Good morning, Dr. Aron. I'm Tami Azorsky for AT&T.

6 A Good morning.

7 Q It's nice to see you in person, having seen you  
8 only on -- or not seeing you on the phone last time.

9 A And same here.

10 Q Dr. Aron, Mr. Stegeman yesterday said that BACE  
11 itself does not decide what an efficient CLEC is, that the  
12 users that provide the inputs do. Now you provided some of the  
13 inputs to BACE for use in this proceeding; correct?

14 A That's correct.

15 Q And you would agree that a properly structured  
16 business case model incorporates the cost streams and revenue  
17 streams that the efficient CLEC could expect to receive and  
18 incur over its lifetime given the technology available and  
19 given the market environment; correct?

20 A That's correct.

21 Q All right. And you would agree that it's important  
22 to quantify the expected value of a particular investment  
23 opportunity; correct?

24 A That's the way one would implement the requirement of  
25 the Triennial Review Order. Yes.

1 Q Okay. And in terms of the inputs, it's important to  
2 have realistic costs and realistic revenues for an efficient  
3 CLEC; correct?

4 A Yes.

5 Q Now among the inputs that you provided were three  
6 tables that were actually mentioned by Mr. Susac yesterday, I  
7 believe: The Baseline Product Price Table, the Baseline Demand  
8 Table and the Baseline Demographic Table; correct?

9 A That's right.

10 Q Now the Baseline Product Price Table gives a revenue  
11 figure for different categories of customers; correct?

12 A Yes.

13 Q And the Baseline Demand Table shows things, for  
14 example, how many lines a customer in a certain category might  
15 want to buy; correct?

16 A That's right.

17 Q Now what does the Baseline Demographic Table show?

18 A The Baseline Demographic Table is the way that the  
19 model implements the granularity of identifying market by  
20 market the kinds of customers that appear in that market. So  
21 what it will show is wire center by wire center how many  
22 customers are in each spending category for residential and  
23 business customers.

24 Q Okay. So the Baseline Demographic Table was the  
25 table that allowed you to put the customers, the residential



1 customers, for example, into the quintiles that you established  
2 for residential customers; is that correct?

3 A The demographic table reflects that, yes.

4 Q Okay. And we'll come back to those in a moment.

5 Now these tables, the Baseline Product Price Table,  
6 the Baseline Demand Table and the Baseline Demographic Table,  
7 were the tables that were discussed yesterday that were  
8 password protected when the model was given to CLECs until just  
9 recently; correct?

10 A I think I heard Mr. Stegeman say that.

11 Q Okay. And these three tables, they aren't actually  
12 created by the BACE model, are they?

13 A Did you say they were not?

14 Q They were not created by the BACE model.

15 A That's right. They were not.

16 Q They came out of a preprocessing program; correct?

17 A Right.

18 Q Okay. And you coordinated that preprocessing  
19 program; right?

20 A That's right.

21 Q And that effort, that preprocessing effort was  
22 created solely for the purpose of producing inputs for BACE;  
23 correct?

24 A Right. It was a process of taking wire center level  
25 data for the state of Florida and processing it so that we

1 could identify wire center by wire center how many customers  
2 are there in each spend category and what the spending  
3 characteristics are of the customers.

4 Q And this preprocessing effort you did to develop  
5 inputs for the BACE model, the only other use to which it's  
6 been put was to respond to some discovery in this proceeding;  
7 is that correct?

8 A That's right.

9 Q And now if I understand it correctly, CLECs can't go  
10 into BACE and modify the information that is in either the  
11 Baseline Product Price Table, the Baseline Demand Table or the  
12 Baseline Demographic Table; correct?

13 A That's a question you'd have to talk to Mr. Stegeman  
14 about.

15 Q Now one of the other inputs you provided was the  
16 percent of the market this efficient CLEC would capture;  
17 correct?

18 A Right. Over the ten years that we explicitly model  
19 its, its revenues and costs.

20 Q Okay. And you assumed that the efficient CLEC will  
21 have on average across all market segments 15 percent of the  
22 market; correct?

23 A Ultimately, yes.

24 Q At the end of the ten years.

25 A Right. Almost 15 percent. It would approach

1 15 percent.

2 Q And the reason it would approach 15 percent is  
3 because when you do, when you created the manner in which the  
4 customers capture market share, they capture half of what the  
5 ultimate market share is in the first year and then half of the  
6 remaining amount in each successive year; correct?

7 A That's roughly right. What we've modeled is a curve  
8 that rises and then flattens out. And in the first year the  
9 CLEC would capture half of its ultimate market share, but  
10 actually the way the model works is only half of those revenues  
11 would be attributable to the CLEC in the first year. So it's  
12 as if it's capturing a quarter of the market from a revenue  
13 perspective.

14 Q And that's because the model has this midyear booking  
15 convention; correct?

16 A That's right.

17 Q And what that means is the model assumes the CLEC  
18 captures half of that market share in the first year, but in  
19 terms of running the revenue, the point in time you pick to run  
20 the revenue is the middle of the year.

21 A That's right.

22 Q Okay. I want to ask some questions about -- well,  
23 actually let me ask a question first. One of the things you  
24 did as part of this preprocessing to create the, I think it was  
25 the Baseline Demographic Table was to divide the market into

1 segments for residential customers, for small office/home  
2 office and for enterprise customers; correct?

3 A We divided -- I'm not sure that's quite correct. We  
4 divided each of those groups into spending categories.

5 Q Okay. So, so, for example, when you divided the  
6 residential market into quintiles; correct?

7 A Right. Five segments.

8 Q Okay. So there are five segments and they're divided  
9 based on how much those customers spend on telecommunications  
10 services; right?

11 A Right.

12 Q And in determining which spend band a customer went  
13 into, you considered the total dollar amount that customer  
14 spent on telecommunications services without regard to whether  
15 they spent it on different services or just happened to be in  
16 an area where the price for an access line is high; is that  
17 correct?

18 A I think that's correct. We looked at the total  
19 telecommunications spent on local long distance and related  
20 services because the theory is that's what an efficient CLEC  
21 could go after, those are the revenues that an efficient CLEC  
22 would care about.

23 Q I'd like to hand out what will be marked as -- I  
24 believe it's Exhibit 81B because it is a confidential exhibit.  
25 I think it'll help to look at this as we talk through these

1 issues.

2 CHAIRMAN BAEZ: Ms. Kaufman, can you leave one for  
3 Commissioner Deason, if you didn't, just in case he gets here  
4 soon. Thank you.

5 Can I get a short title, Ms. Azorsky?

6 MS. AZORSKY: Excuse me?

7 CHAIRMAN BAEZ: A short title of what we're showing  
8 here marking.

9 MS. AZORSKY: Product curve table, does that seem  
10 like an appropriate title, Dr. Aron?

11 WITNESS ARON: The title of the table, I guess, would  
12 be Penetration Curves for Products.

13 MS. AZORSKY: That's an excellent title, Mr.  
14 Chairman.

15 CHAIRMAN BAEZ: Very well. Penetration Curves for  
16 Products; that'll be marked as confidential Exhibit Number 81.

17 MS. AZORSKY: Thank you.

18 (Exhibit Number 81 marked for identification.)

19 BY MS. AZORSKY:

20 Q Now this table, Penetration Curves for Products, is  
21 something that was printed out of the BACE model; is that  
22 correct?

23 A Yes, it appears to be.

24 Q Okay. Now we were talking about the division of  
25 customers into these, these spend bands. When you divided the

1 small office/home office into spend bands, was that also based  
2 just on the total amount the customer spent on  
3 telecommunication services?

4 A Yes.

5 Q And similarly for the enterprise market, was it also  
6 based on just the total amount spent on telecommunication  
7 services without regard to what that was spent on?

8 A That's right. And we divided up the enterprise  
9 market into three categories by line size. That's where you  
10 see on the table SME or small medium enterprise/A, B and C, and  
11 each of those is divided into spend bands.

12 Q Okay. Each A, B and C are divided into spend bands,  
13 is that what you're saying?

14 A Right.

15 Q Okay. So in addition to dividing the enterprise  
16 market into categories by number of lines, you divided each of  
17 those categories into spend bands.

18 A Right.

19 Q Okay. Where are those additional spend bands  
20 reflected?

21 A I think you'd have to look on the, what we've called  
22 the P-Table, the Price Table.

23 Q All right. Just to focus the Commissioners on what  
24 this table represents, if we look at the first five rows, those  
25 first five rows represent the five segments of the residential

1 market; correct?

2 A That's right.

3 Q And beginning with about halfway across the top where  
4 it says, "Penetration Percentage 1," going down the row, that  
5 reflects for each of those five segments the market penetration  
6 that you developed as an input for that quintile; correct?

7 A Yes. Those are the penetrations that would be  
8 achieved by quintile by the end of that year.

9 Q Okay. And then below those Q1, Q2, Q3, Q4, Q5 that  
10 represent the residential market, you have the top, middle and  
11 bottom for the small home/small office or small office/home  
12 office category; is that right?

13 A Right.

14 Q And what -- how many lines qualified an end-user for  
15 the small office/home office category?

16 A One to three.

17 Q And when it -- we look and it says top, middle and  
18 bottom, is top the one-to-three-line customers who spend the  
19 most on telecommunication services?

20 A Right.

21 Q So when we talked about 15 percent market penetration  
22 on average across all markets, that market penetration was not  
23 consistent in each market segment; correct?

24 A No, I don't think that's correct. If you look at,  
25 for example, the first five rows, the five quintiles, if you

1 average the penetration at the end of year ten of those five,  
2 you'll see it's about 14.9 or something like that. So within  
3 the residential segment it's ultimately 15 and within the SOHO  
4 it's ultimately 15 and so forth.

5 Q Point taken. That was not a very carefully worded  
6 question.

7 Within the residential market segment the average is  
8 15 percent market share, but within your quintiles in some of  
9 the spend bands you input the CLEC capturing more of the market  
10 by the end of ten years than the CLEC would in other spend  
11 bands; correct?

12 A That's right. That reflects the fact that CLECs have  
13 the ability and, in fact, do target customers more heavily at  
14 high spend levels. In fact, what we reflect here, as you can  
15 see, based on the data I've seen, CLECs are actually more  
16 successful at attracting the middle spend group than the  
17 highest spend group, and so that's what's reflected in my  
18 assumptions.

19 Q In the residential market you have the highest  
20 penetration rate in the middle spend group.

21 A Right. And the lowest at the lowest spend group.

22 Q Okay. Now in the small office/home office, one to  
23 three line, you have the highest penetration in the highest  
24 spend group; correct?

25 A That's right. That's what our data showed.



1 Q And that, that percentage of market penetration in  
2 that highest spend group is pretty significantly higher than  
3 the average across all market segments of 15 percent; correct?

4 A Yes. The data showed that CLECs were much more  
5 successful at attracting those higher spend customers. And  
6 really what was going on is that they were attracting more  
7 multiline than single line business customers.

8 Q Now these market share numbers that are represented  
9 on this table that we passed out are for a single efficient  
10 CLEC; is that correct?

11 A That's right.

12 Q Now you've reviewed what CLECs collectively have  
13 captured in the market in the state of Florida, haven't you,  
14 Dr. Aron?

15 A Yes, I have.

16 Q And that collectively is less than, for all of the  
17 CLECs, 15 percent, is it not?

18 A Well, I think the Florida report to the Legislature  
19 showed that the total CLEC penetration in the BellSouth  
20 territory in Florida significantly exceeds 15 percent.

21 Q The -- among the reports that are available to  
22 analyze what percent of market share CLECs have captured in  
23 individual states, information that is reported to the FCC, are  
24 semiannual reports which release data on local telephone  
25 competition nationwide; correct?

1 A Were you referring to the FCC report?

2 Q I'm asking if there are such reports or if you're  
3 familiar with such reports.

4 A I'm familiar with the FCC report.

5 Q Okay. Did you review those FCC reports for June 30  
6 of 2003?

7 A I've reviewed that report, yes.

8 Q Okay. And that report reflects that in Florida CLECs  
9 collectively have 13 percent of the market, does it not?

10 A I don't have it in front of me. It could. Those  
11 numbers from the FCC are statewide. They cover all of the  
12 territory. They're not limited to the BellSouth territory.

13 Q But you would agree that statewide CLECs have  
14 captured, according to the FCC, statewide CLECs have captured  
15 collectively only 13 percent of the market?

16 A No, I wouldn't agree with that, that that's accurate  
17 in that what the FCC reports is a minimum number because the  
18 FCC numbers are based on voluntary reporting for carriers below  
19 a certain line size threshold, and so they don't capture all of  
20 the carriers. It's understood that they don't capture all of  
21 the carriers in the state. So the number is a minimum, and  
22 it's well below the numbers reported in the Florida Commission  
23 report. So I would take the Florida Commission report to be  
24 more accurate.

25 Q And does that Florida Commission report have a single

1 CLEC who has captured 15 percent of the market in Florida?

2 A I don't believe that the Florida report identifies  
3 market share by CLEC.

4 Q And that Florida Commission report reveals, does it  
5 not, that CLECs collectively in 2003 have only 9 percent of the  
6 residential market; is that correct?

7 A The table that I'm looking at in front of me from the  
8 annual report on competition, telecommunications markets in  
9 Florida as of June 30th, 2003, in the BellSouth territory is  
10 showing a total of 21 percent CLEC share in Florida, 14 percent  
11 in the residential and 36 percent in the business market.

12 Q And, again, you're limiting that not across the  
13 entire state but just in the BellSouth territory; correct?

14 A Yes, although I would put it differently. I'd say  
15 that's over the entire BellSouth territory; whereas, my model  
16 only addresses the market share that would be achieved in a  
17 given limited geographic area.

18 So if a CLEC, for example, has 15 percent of the  
19 market in one geographic market and you ask what's the market  
20 share of that CLEC over the whole territory, it's going to be a  
21 much smaller number because you're averaging in all of the  
22 areas where they have no market share.

23 Q Again though, Dr. Aron, your numbers aren't across  
24 the entire state of Florida?

25 A Those numbers that I -- no. Those numbers that I

1 just gave you are in the BellSouth region.

2 Q All right. And those numbers do not reflect any  
3 individual CLEC that has 15 percent of the market; correct?

4 A That's correct. I'm aware of individual CLECs that  
5 have at least 15 percent in individual wire centers in the  
6 state of Florida, and I'm certainly aware of CLECs around the  
7 country who have 15 percent or more of the market in various  
8 markets in which they operate.

9 Q And those market shares that you're discussing are  
10 market shares that were gained by the CLECs using the unbundled  
11 network element platform; correct?

12 A No, not in all cases. In some cases that's true.

13 Q Of the -- according to the local competition report  
14 that you are discussing, the single most important mode of  
15 competition in the BellSouth area is the unbundled network  
16 element platform; is that true?

17 A Do you want to point me to a particular table in the  
18 report? I have the report here.

19 Q I actually will point you to the language at the top  
20 or the language on Page 14 in Figure 5 at the bottom of the  
21 page.

22 MR. SHORE: Mr. Chairman.

23 CHAIRMAN BAEZ: Yes, Mr. Shore.

24 MS. AZORSKY: You know, actually let me, since we're  
25 doing this, hand this out as another exhibit, Mr. Chairman.

1 MR. SHORE: That was going to be my request.

2 CHAIRMAN BAEZ: A step ahead of you then.

3 MS. AZORSKY: I would ask this be marked as Exhibit  
4 82, and it is not confidential.

5 CHAIRMAN BAEZ: We'll show the annual report marked  
6 as Exhibit 82, the 2003 Annual Report on Competition Markets in  
7 Florida.

8 (Exhibit 82 marked for identification.)

9 BY MS. AZORSKY:

10 Q Figure 6 reveals that in BellSouth's territory  
11 48 percent of the lines served by CLECs are served over UNE-P;  
12 correct?

13 A Yes, it does. These are very interesting figures.  
14 The Figure 5 right next to it shows that across the whole state  
15 more than half of the CLEC lines are facilities-based, but in  
16 the BellSouth territory 48 percent are UNE-P and 47 percent are  
17 facilities-based.

18 CHAIRMAN BAEZ: Ms. Azorsky, can you direct us to a  
19 page number?

20 MS. AZORSKY: I'm sorry. I apologize, Mr. Chairman.  
21 That was Page --

22 CHAIRMAN BAEZ: 14, did you say?

23 MS. AZORSKY: -- 14. And Dr. Aron was referring to,  
24 I believe, and she can correct me if I'm wrong, Figures 5 and  
25 6 on the bottom of the page, the pie charts.

1 CHAIRMAN BAEZ: Thank you.

2 BY MS. AZORSKY:

3 Q So, Dr. Aron, despite the availability of UNE-P,  
4 there is facilities-based competition to some extent in  
5 Florida; correct?

6 A Yes.

7 Q However, the CLECs have captured market share using  
8 at about a 50 percent rate UNE-P as a competitive tool;  
9 correct?

10 A They have, yes.

11 Q And prior to the availability of UNE-P, do you know  
12 what the market penetration numbers were in the state of  
13 Florida?

14 A No, I haven't looked at that. I have looked at  
15 across states the effect that the availability of UNE-P has had  
16 on the deployment of facilities-based competition and the fact  
17 that the availability of UNE-P, according to my research, has  
18 substantially dampened the investment in facilities.

19 Q I understand you're talking about the investment in  
20 facilities, but I was asking whether you had reviewed what the  
21 market penetration rate was for CLECs prior to the availability  
22 of UNE-P. Because the BACE model is evaluating, is it not, how  
23 much market share the CLECs will get in an environment that  
24 doesn't involve UNE-P?

25 A Right. And just to clarify, when I say investment in

1 facilities, what I actually looked at was facilities-based  
2 lines in different states. And going to what I think was the  
3 second part of your question which went to the idea that the  
4 BACE model models the ability of a switch-based CLEC to  
5 penetrate the market, one has to be mindful of the fact that  
6 the penetration of facilities-based CLECs is affected by the  
7 presence of and availability of UNE-P in markets because the  
8 availability of UNE-P harms the business case of  
9 facilities-based CLECs.

10 Q Let me come back to that, Dr. Aron. Let me ask you  
11 first, Florida had an environment where CLECs competed without  
12 UNE-P prior to the availability of UNE-P; correct?

13 A Yes, I would presume so.

14 Q Okay. And did you consider in developing your market  
15 penetration rates for a world without UNE-P the market share  
16 those CLECs were able to capture in Florida?

17 A No, I didn't look at that, and I'll tell you why.

18 For one thing, during that period of time when UNE-P  
19 was not available, a great deal of CLEC attention was focused  
20 on the regulatory arena to achieve the availability of UNE-P,  
21 and that prospect certainly affected the business models that  
22 CLECs were implementing at that time. Why make long-lived  
23 investments, why sink assets in the market when you are  
24 striving towards getting regulatory ability to serve the market  
25 via UNE-P, which does not require that kind of investment?

1           So, number one, I don't think that the viability of  
2 the UNE-loop-based business model was the same as it would be  
3 in an environment in which UNE-P is clearly not available in a  
4 given market.

5           In addition to that though, we're modeling the world  
6 today. We're modeling the world in which the fact is, in the  
7 state of Florida, well over 15 percent of the market has been  
8 captured by UNE-P -- by, pardon me, by CLECs in the BellSouth  
9 territory. That can't be ignored in a model. You can't  
10 develop a realistic model and ignore the fact that a  
11 substantial portion of customers in the state today have  
12 already announced their willingness to switch and have, in  
13 fact, already switched.

14           Q     A couple of things, Dr. Aron. Your -- the BACE model  
15 does not assume a customer base going in, does it? Isn't it  
16 based on an efficient start-up CLEC with zero customers?

17           A     Yes, it is in the sense, as I, as I mentioned  
18 yesterday, that each and every customer acquired by the CLEC  
19 causes the CLEC in the model to incur a full customer  
20 acquisition cost. So I impose on this business case the  
21 requirement of all of the customer acquisition costs, but I  
22 don't -- that doesn't require me to ignore the reality that  
23 real CLECs in the market today, in fact, have a large  
24 established base, base of thousands of customers.

25           Q     You, you talked about if there were -- the



1 environment could change and there would be potentially fewer  
2 competitors to capture this market share and that's why an  
3 efficient CLEC could capture a greater market share. Did I,  
4 did I get that right?

5 A Pretty much. Fewer competitors in a given market is  
6 what I said and the way I would characterize it. In a  
7 facilities-based world there are economies of scale that a real  
8 CLEC would choose and would be forced by the economic reality  
9 to capture. In a UNE-P-based world, there are very little  
10 scale economies, and that's a technology and a regulatory  
11 environment that promotes a very fragmented market with lots of  
12 very small players because you buy a UNE-P customer at a time.  
13 So there are very -- there's very little scale economies that  
14 would play out in the market structure.

15 Q So UNE-P allows more companies to compete; is that  
16 what I understood you to say?

17 A UNE-P -- that's not quite what I said. UNE-P  
18 promotes a more fragmented market structure in which you would  
19 tend to see, I believe, more very small carriers competing in a  
20 given market. In a UNE loop or facilities-based world, you may  
21 see many CLECs, but in any given market you would tend to see  
22 fewer more substantial carriers with an investment base.

23 Q Now you, you mentioned technology. The competition  
24 for these mass market customers is not just these wireline  
25 carriers; correct?

1           A       When you say these wireline carriers, are you  
2 thinking of particular carriers?

3           Q       Well, let me back up.

4                    We have been talking about competitive local carriers  
5 coming in, placing circuit switches and competing using UNE  
6 loops provided by the ILEC; correct?

7           A       That's what we model, yes.

8           Q       Okay. So that's what the BACE model addresses.

9           A       That's right. The BACE model is the business case  
10 for a CLEC that uses its own switching but the incumbent's  
11 unbundled loops.

12          Q       Now my question, Dr. Aron, is those aren't the only  
13 competitors competing for those mass market customers.  
14 Wireless carriers compete for mass market customers, don't  
15 they?

16          A       That's somewhat of a controversial question. I would  
17 say certainly to some extent there's no question that wireless  
18 carriers compete for the same set of customers, provide  
19 competitive service and are part of the bigger picture of the  
20 telecommunications market, and no doubt over the ten-year  
21 period that we explicitly model will be part of that picture.

22          Q       Okay. In fact, you told me in your deposition, did  
23 you not, that wireless carriers compete with local carriers in  
24 the local market?

25          A       I think what I told you is roughly what I just said.

1 Q I asked you the question, "Dr. Aron, has any of your  
2 consulting been for competitive local exchange carriers in the  
3 United States?" And your response was, "I have to think about  
4 that. I certainly consulted for wireless carriers which  
5 compete with local carriers in the local market." Do you  
6 recall that testimony?

7 A I do, and I think that's what I just -- consistent  
8 with what I just said, yes.

9 Q Now cable companies also compete with the local,  
10 competitive local carriers that will use circuit switches and  
11 unbundled local loops; correct?

12 A Absolutely.

13 Q And those cable carriers are also capturing market  
14 share; correct?

15 A Very successfully.

16 Q And in the Florida competition report that you  
17 referenced a few moments ago that we've marked as Exhibit 82,  
18 on Page 28 did you note the statement that "The survey results  
19 also reveal that 29 percent of Florida's residential telephone  
20 service subscribers are considering using wireless service in  
21 place of wireline service"?

22 A I see that. That doesn't surprise me.

23 Q Did you note the following sentence which says, "In  
24 an interesting contrast, only 17 percent of survey respondents  
25 reported that they are considering switching from an ILEC to a

1 CLEC"?

2 A So it says. Already more than 17 percent have  
3 switched.

4 Q So wouldn't you agree that at least according to this  
5 survey performed by this Commission more consumers in Florida  
6 are considering switching to wireless as a local provider than  
7 are considering switching local providers?

8 A I don't think that's quite what it says. It says  
9 more provider -- more customers are considering switching to  
10 wireless than switching to a CLEC.

11 Q From an ILEC to a CLEC?

12 A Right.

13 Q So 29 percent are considering switching to wireless,  
14 while only 17 percent are considering switching from an ILEC to  
15 a CLEC?

16 A That's what it says. I presume that means 17 percent  
17 more over and above the number that have already switched. And  
18 that's not inconsistent at all with the world that I'm  
19 modeling. Customers are considering switching. They're  
20 looking at different technologies, they're looking at different  
21 options, presumably they are going to consider the features and  
22 functionalities and prices and capabilities of those options,  
23 and they're going to move when they see something that's  
24 attractive to them.

25 Q And as you noted earlier when you were talking about

1 UNE-P, the more competitive providers there are in the market,  
2 the harder it is to capture a significant market share;  
3 correct?

4 A I don't think I said that. I think, in fact, in the  
5 dynamics of competition one may start, a market may start with  
6 many small carriers, and in a facilities-based world a couple  
7 or a few will emerge and grow and others will either be  
8 acquired or will wither. And in the case of UNE-P providers  
9 where there's essentially no investment, there's not much of an  
10 asset base to buy, so they may wither.

11 As the gentleman from FDN explained yesterday, in a  
12 facilities-based world the assets don't go away; when a carrier  
13 either consolidates with another or leaves the market, the  
14 assets are still there. And that's what I would expect to  
15 happen in a facilities-based world. There would be more  
16 consolidation, there would be fewer CLECs emerging as  
17 successful in a particular market.

18 Q My question was simpler than that, Dr. Aron. You  
19 said that in the UNE-P environment the market shares that CLECs  
20 could capture were relatively small because there were so many  
21 small, there were so many providers out there. Is there  
22 something different about these other markets where people are  
23 providing, where there are lots of options that will make it  
24 different and those people won't limit the market share any one  
25 competitor can get?

1           A       No. I don't think that's what I said. I didn't say  
2 that they can only capture a small market share because there  
3 are so many of them. I said that the UNE-P scenario, the  
4 availability of UNE-P, that business plan is conducive to a  
5 highly fragmented market. It's a reasonable business plan in a  
6 UNE-P world to try to go after a few customers in a very broad  
7 array of geographic markets all at once. And, in fact, I have  
8 seen UNE-P business plans that look just like that. That's not  
9 the business plan you would expect to see as a sound business  
10 plan for a UNE loop provider. A UNE loop provider would have a  
11 more focused strategy and seek to take advantage of to leverage  
12 the economies of scale in each market that are required to be  
13 taken advantage of in order to be an efficient economic player  
14 when you make an investment.

15           Q       Actually that's very interesting. Let's go back to  
16 the Exhibit 81 that we marked. You -- the average market  
17 penetration was 15 percent across all market segments; correct?

18           A       Across all market segments. Do you mean each -- by  
19 market segment, I'm sorry, do you mean residential, business --

20           Q       And enterprise.

21           A       -- and enterprise? Yes. Any given geographic market  
22 where the CLEC is operating.

23           Q       Okay. And, and you have in your high -- in your  
24 Quintiles 1, 2 and 3 for the residential market, you have  
25 higher market penetration than you have for market penetration

1 in the enterprise market, correct, at the end of the ten years?

2 A Right. Where enterprise market, you mean SME A, B  
3 and C?

4 Q Yes.

5 A That's right. And I think, as I said, I may have  
6 said yesterday, I think this is a highly conservative feature  
7 of this model. We assume a maximum market share penetration in  
8 the business market of 15 percent, and the fact is that CLECs  
9 have captured far more than that already in the state. And a  
10 higher market share assumption on the business side of the  
11 model would create more scale economies and potentially  
12 identify more unimpaired markets than we have.

13 Q I'm actually less concerned about underpredicting  
14 business in my question, Dr. Aron, than I am about  
15 overpredicting residential penetration.

16 In reviewing the local competition report from this  
17 Commission, did you note on Page 8 that currently in the  
18 Florida market only 9 percent of the CLEC customers for 2003  
19 are residential customers, and this percentage is the breakdown  
20 of the total percentage of customers that they have, but that  
21 breakdown is 29 percent business customers and 9 percent  
22 residential customers? Figure 2 on Page 8.

23 A That's right. And that's consistent with the table  
24 on the following page, Page 9, that shows the grand total  
25 market share in the state, which includes all the rural

1 territories, the Sprint territory and the Verizon territory.  
2 And so if you average together the BellSouth territory where  
3 there's substantial market share and all the other territories  
4 where the table shows there's very, there's almost no  
5 residential market share, you're going to get a low average  
6 number. But the table also shows that the residential market  
7 share over the BellSouth territory is 14 percent.

8 Q Dr. Aron, in the state of Florida the customers that  
9 CLECs have today, 9 percent of those customers are residential  
10 customers and 29 percent of those customers are business  
11 customers, is that correct, according to this Commission's  
12 local competition report?

13 A No, I don't think that just is an accurate statement  
14 of what these statistics are. I think what they are is that of  
15 the residential customers in the state of Florida, 9 percent  
16 are served by CLECs, and of the business customers 29 percent  
17 are served by CLECs across the whole state.

18 Q So the market penetration for residential customers  
19 has been significantly less even in a UNE-P environment?

20 A Less than the business penetration you mean?

21 Q Yes.

22 A Yes, it has. And, of course, by the way, this  
23 breakdown doesn't distinguish by mass market versus enterprise,  
24 but by residential versus business, which, just as an aside, is  
25 a different breakdown because the mass market includes small



1 business. So if we were to look at the market share of mass  
2 market, it would clearly be higher than the 14 percent in the  
3 BellSouth territory because it would include some of the  
4 business customers, the small business customers.

5 Q So you're talking about your one-to-three-line small  
6 home -- small office/home office customers?

7 A Right.

8 Q And you're saying this report does not reflect that?

9 A No. I'm saying that this report doesn't break out  
10 market share by mass market versus enterprise. It breaks it  
11 out by residential versus business.

12 Q Let's talk about prices for a minute, Dr. Aron. In  
13 the BACE model, the price input that you provided kept the  
14 prices from which the CLEC would draw revenue constant over the  
15 entire ten-year model run; correct?

16 A That's right. Although just to clarify, I provided  
17 many prices to the model, not just one price. I provided  
18 prices for bundled services, for a la carte services, for a  
19 variety of individual services. So just with that  
20 clarification, that's right. The prices were held constant per  
21 the instructions of the Triennial Review Order.

22 Q All, all those prices you provided were held  
23 constant?

24 A Over the --

25 Q Over the ten-year period of the model.

1           A       Yes.  With, with one nuance I should also mention,  
2  which is the terminal value of the model.  The way the model  
3  works is there's ten years that are explicitly modeled, and  
4  then, as with any business case, there's a terminal value to  
5  reflect the ongoing value of the business.  That terminal value  
6  is set to assume that from that point on the discounted present  
7  value of the firm is zero, meaning there are no profits going  
8  forward.  So that's equivalent to saying that the prices are  
9  equal to cost in a discounted present value sense from the  
10 tenth year on.

11           Q       Setting aside terminal value, Dr. Aron, can we come  
12 back to the prices?  The prices that you input at the beginning  
13 of the BACE model for the ten-year model run remained constant.  
14 Do I have that right?

15           A       Right.  For the ten years that are explicitly  
16 modeled.  And the reason I mentioned the terminal value is  
17 because it incorporates implicit assumptions about the prices.

18           Q       Now there are other industries that have had  
19 increased competition due to changes in regulation; correct?  
20 This isn't the first time this has ever happened.

21           A       That's right.

22           Q       Okay.  For example, the airlines were deregulated;  
23 correct?

24           A       They were.

25           Q       And there were real reductions in prices in the

1 airline industry over a ten-year period after that  
2 deregulation.

3           A       Yes, I think that's true. The price regulation of  
4 the airline industry -- and I was an economist at the Civil  
5 Aeronautics Board at the time of deregulation. The economic  
6 regulation of the airline industry was explicitly of the form  
7 that held prices up. It was not the kind of regulation that we  
8 see in this industry, for example, which was in the past  
9 intended to establish prices that are either establishing zero  
10 returns or even below cost for universal service reasons.

11           Q       Dr. Aron, the airline industry isn't the only  
12 industry. When the long distance industry changed, prices went  
13 down substantially over ten years, didn't they?

14           A       They did. Right. And during those ten years there  
15 was substantial access reform in which the cost, one of the key  
16 cost drivers of providing long distance service, which is the  
17 permanent price of access, went down substantially for  
18 regulatory reasons during that time.

19           Q       What about drugs that are patented? When their  
20 patents run out and all of the sudden there can be generic  
21 competitors with those same drugs, the prices generally go  
22 down, don't they?

23           A       Presumably they would, yes. Because the point of  
24 patent protection is essentially to permit the patent owner to  
25 maintain a monopoly price. As a society we established that

1 policy in order to trade off the, the short-run social costs of  
2 a monopoly price with the long-run benefits achieved by  
3 creating an opportunity for return to innovation. So we permit  
4 patents that permit the patent owner to perpetuate a monopoly  
5 price during the life of the patent, then the patent expires  
6 and the price goes down.

7 Q You would agree, wouldn't you, Dr. Aron, that as a  
8 basic economic principle if prices are at a level that firms  
9 are willing to compete or that induce the entry of competition,  
10 that the influx of competition will exert downward pressure on  
11 prices, won't it?

12 A Yes. I think all else equal, that's true. Although  
13 part of what we teach when we teach pricing strategy is that  
14 that's part of the business strategy response is to identify  
15 ways to provide better value to customers so that you can  
16 maintain value in your enterprise going forward and without  
17 necessarily having a downward spiral in prices. But certainly  
18 as a, as a general economic matter, all else equal, what you  
19 said is true.

20 MS. AZORSKY: I have no further questions.

21 CHAIRMAN BAEZ: Thank you.

22 Staff, how are your questions looking?

23 MR. SUSAC: Staff has no questions at this time.

24 CHAIRMAN BAEZ: Very well. Commissioners, do you  
25 have any questions?

1 MR. CRUZ-BUSTILLO: Mr. Chairman.

2 CHAIRMAN BAEZ: Yes.

3 MR. CRUZ-BUSTILLO: I have two questions.

4 CHAIRMAN BAEZ: Well, I think -- did, did we not have  
5 an agreement that there was just one lead attorney? I don't  
6 want to, I don't want to get outside the kind of format.  
7 Mr. Henry, help me out here.

8 MR. HENRY: Excuse me. Mr. Chairman, no, we never  
9 had that agreement where there was only one lead attorney on  
10 our side. I think I indicated I --

11 CHAIRMAN BAEZ: I'm sorry if that was the  
12 implication. That was my understanding. I'm not -- again,  
13 it's your dime. Go ahead, Mr. Cruz.

14 MR. CRUZ-BUSTILLO: Thank you, Mr. Chairman.

15 CROSS EXAMINATION

16 BY MR. CRUZ-BUSTILLO:

17 Q Good morning, Dr. Aron.

18 A Good morning, sir. Did I meet you on the phone?

19 Q Yes, you did.

20 A Nice to see you in person.

21 Q Thank you. Likewise. Could you tell me -- would you  
22 agree that two components of churn are the disconnection of a  
23 customer and migration to a competitive provider?

24 A Not quite. All of churn is disconnection of  
25 customer. One reason would be migration to another provider.

1 Q Okay. In your testimony, in your direct testimony on  
2 Page 30, Line 14 and 15, you state, "Churn refers to the  
3 frequency with which customers disconnect or change providers  
4 and is generally expressed as a percentage of subscribers that  
5 leave in a given -- who leave a given provider over a  
6 particular period of time"; is that correct?

7 A Yes.

8 Q Okay. Focusing simply on the, on the second reason  
9 for the migration of customers and the second reason for churn,  
10 would you agree, assuming all factors remaining unchanged, that  
11 as BellSouth increases its reacquisition of customers who have  
12 migrated to competitive voice providers, that the line loss  
13 rate for those same competitive voice providers correspondingly  
14 increases?

15 A What was the premise again? I'm sorry.

16 Q The premise is assuming -- focusing simply on the  
17 migration of customers.

18 A Okay.

19 Q All other factors remaining unchanged, remaining  
20 unchanged.

21 A Okay.

22 Q As BellSouth's reacquisition rate increases, would  
23 you agree that the line loss rate correspondingly increases for  
24 those competitive, for those same competitive voice providers?

25 A No. As a mathematical fact, that's not true. And

1 the reason is that over time as the ILEC loses more customers,  
2 there's a bigger pool of customers out there to be won back.  
3 And so as you win back more customers, it doesn't mean that the  
4 CLECs are losing a larger percentage of customers in each  
5 period because they have a bigger base that they're losing  
6 from. So there isn't the mathematical correlation that you  
7 just described.

8 Q Okay. Let me give you a hypothetical. Assume that  
9 in one month 100 BellSouth voice customers migrate to five  
10 competitive voice providers. Assume that BellSouth reacquires  
11 50 of those customers within two weeks of the conversion.  
12 Would you agree with me that the line loss due to migration for  
13 these five voice, for these five competitive voice providers  
14 would equal 50?

15 A Okay. So you started out by, in your hypothetical  
16 that the ILEC loses 100?

17 Q Loses 100 customers who migrate, then they lose them  
18 for the purpose of migrating to five competitive voice  
19 providers.

20 A Okay.

21 Q BellSouth reacquires 50 of those same customers  
22 within two weeks of conversion. Would you agree with me that  
23 the line loss due to migration for these five competitive voice  
24 providers equals 50?

25 A 50 percent or 50 lines?

1 Q 50 lines.

2 A Yes. Over the sum of the five carriers, I think in  
3 your hypothetical that's true.

4 Q Okay. Thank you. Let me ask you one other question.  
5 Now assume for that same month instead of reacquiring 50 of  
6 those customers, BellSouth reacquires 80 customers within two  
7 weeks of the conversion. Would you agree that the line loss  
8 due to migration for these five competitive voice providers  
9 increases to 80?

10 A I think that's true. Again, it's not a percentage.  
11 It's a number and it's your hypothetical, but I think that's  
12 right.

13 MR. CRUZ-BUSTILLO: Thank you. I have no further  
14 questions.

15 CHAIRMAN BAEZ: Thank you, Mr. Cruz.

16 Mr. Susac, you said staff had no questions?

17 MR. SUSAC: We have no questions at this time.

18 CHAIRMAN BAEZ: And do the Commissioners have any  
19 questions at this point?

20 COMMISSIONER JABER: No, Mr. Chairman.

21 COMMISSIONER DAVIDSON: I've actually got a couple of  
22 questions here.

23 CHAIRMAN BAEZ: Go ahead, Commissioner Davidson.

24 COMMISSIONER DAVIDSON: In your opinion, Dr. Aron,  
25 does the BACE model provide realistic modeling or unrealistic



1 modeling?

2 WITNESS ARON: In my opinion, we have worked very  
3 hard so that the BACE model provides realistic but conservative  
4 modeling of an efficient CLEC.

5 COMMISSIONER DAVIDSON: In what markets that you have  
6 studied have you seen the following: Capture of 50 percent  
7 market share during the first year after a firm enters the  
8 market?

9 WITNESS ARON: Sir, just to clarify, we're not  
10 assuming 50 percent market share, but rather 50 percent of the  
11 CLEC's ultimate market share. So in our case if the ultimate  
12 market share is 15 percent, then the penetration after one year  
13 would be half of that, 7.5 percent. That may not have been a  
14 confusion, but just to clarify.

15 COMMISSIONER DAVIDSON: I'm sure it was confusion on  
16 my end. But let me ask a follow-up to that. Was that  
17 assumption of obtaining in Year 1 50 percent of ultimate market  
18 share based on comparables in other markets? How did you  
19 arrive at that assumption?

20 WITNESS ARON: I arrived at that in -- through a  
21 number of avenues of research. One was we started by looking  
22 at the academic research in general on market entry and firm  
23 growth. And there is actually quite a long literature on this  
24 topic and it was something I studied in my own dissertation.  
25 And what the literature shows is that for successful firms the

1 speed of penetration and growth is very rapid at first and then  
2 flattens out. So that was one piece of information I had.

3 We also looked at the actual penetration of carriers  
4 in the BellSouth territory in Florida wire center by wire  
5 center and graphed, we made hundreds of graphs and looked at  
6 their shapes to look at the speed of penetration and the  
7 pattern of penetration. That was another piece of information.

8 Then what I did was I looked at the degree and speed  
9 of penetration around the country of actual competitive  
10 carriers, and I observed that among successful carriers, both  
11 UNE-P and facilities-based, there were many examples of  
12 carriers that had achieved well over 15 percent penetration in  
13 markets, and had done so, when they did that, very quickly.  
14 That success when it happens appears to happen very quickly.

15 For example, AT&T achieved over 15 percent  
16 penetration in New York in about three years. Cable providers  
17 have achieved 20 to 30 percent penetration in a variety of  
18 markets in just a matter of a few years.

19 Putting all of that information together, that's how  
20 I arrived at the 15 percent, that together with my  
21 understanding of economies of scale and my perspective on  
22 market structure, and that's how I also arrived at my  
23 assumption about the speed of penetration.

24 COMMISSIONER DAVIDSON: Thank you. How do you define  
25 investment risk or how is investment risk typically defined in

1 economic terms?

2 WITNESS ARON: Well, I think you're getting a little  
3 bit outside of my area of expertise, so I can give you a shot  
4 at it. But just so you know, it was Dr. Billingsley --

5 COMMISSIONER DAVIDSON: I'll tell you why I'm asking.  
6 Let me interrupt.

7 WITNESS ARON: Okay.

8 COMMISSIONER DAVIDSON: You had mentioned that the  
9 investment risk differed between types of providers, and I  
10 wanted an explanation, if you can, of what is investment risk  
11 and how does it differ between a UNE-P provider and a UNE-L  
12 provider.

13 WITNESS ARON: Oh, okay. Well, I'm not sure I meant  
14 to say, if I did, investment risk. What I was referring to is  
15 that a UNE-P provider, in fact, makes very little sunk  
16 investment relative to the investment necessary to be a  
17 switch-based or certainly a full facilities-based  
18 telecommunications provider.

19 And when I say sunk investment, what I mean is that  
20 when you invest in certain kinds of telecommunications assets,  
21 some of that investment is not transferrable easily to other  
22 markets, and the effect of that is to create both aggressive  
23 competition, aggressive competitors. Because when you've got  
24 sunk investment, you don't have a good exit strategy. You have  
25 to stay and compete. You've made a commitment to the market, a

1 commitment to the state and you've got real assets there. And  
2 even if you leave, they're going to stay, as the gentleman said  
3 yesterday. That's, that's one component of it.

4 COMMISSIONER DAVIDSON: How -- you had mentioned, you  
5 had talked about the business case of a UNE-L provider. How  
6 does the availability of UNE-P, and I believe you used the word  
7 "harm," harm the business case of CLECs that self-provision  
8 switching?

9 WITNESS ARON: In two ways, I would say.

10 One is that if a competitor can enter a market by  
11 making very little investment, taking very little of the risk,  
12 we could say, of sunk investment as I've just described it and  
13 wait and see how the market plays out, why would you make those  
14 sunk investments rather than waiting around and seeing how the  
15 market plays out, how the regulatory arena plays out? And so  
16 it creates what we call a free option. It's an option to wait  
17 and see how the market plays out while you can still be serving  
18 the market without making any investment. So it creates a  
19 bias, an uneconomic bias in favor of a failure to invest.

20 The other piece of it though is that in markets where  
21 the UNE-P price is actually below cost, and with all due  
22 respect to this Commission, I believe that's true here, I've  
23 studied the UNE-P prices and costs --

24 COMMISSIONER DAVIDSON: I didn't participate in those  
25 decisions, just for clarification.

1           WITNESS ARON: Duly noted. Then clearly if you can  
2 provide service without incurring the full cost of doing so and  
3 without making a sunk investment and effectively achieve a  
4 subsidy from the incumbent provider, there's an uneconomic bias  
5 to do so. And it harms the business case of those who would  
6 like to make investments because it's more difficult to  
7 compete. How can you compete with a carrier who's being  
8 subsidized when you have to pay full freight for your service?  
9 How can you compete on price? How can you compete with the  
10 rest of the economy for capital investment in that environment?  
11 You can't. It's -- I shouldn't say you can't. You can, it's  
12 being done, but it's very difficult and it harms your business  
13 case.

14           COMMISSIONER DAVIDSON: In general terms what does it  
15 mean to have a, quote, level playing field, close quote,  
16 amongst competitors in a market? And that is a commonly used  
17 term in economics, so hopefully you can address that.

18           WITNESS ARON: I think what that means is that each  
19 participant must bear the full cost of the services that they  
20 seek to provide, take the risk that is created by that business  
21 opportunity, and reap the rewards to the extent that they are  
22 forthcoming. It means that those with greater business acumen,  
23 those with a better business plan will be more successful, and  
24 those with an inferior business plan or weaker business acumen  
25 will be less successful. And fundamentally success will be

1 determined on the merits and not on the basis of regulatory  
2 distortions or other artificial distortions in the market.

3 COMMISSIONER DAVIDSON: I've got just two more  
4 questions. If -- we talked about UNE-P versus UNE-L in the  
5 business case and the different types of investment. If other  
6 types of providers such as wireless companies and cable  
7 companies are investing in their own facilities but UNE-P  
8 providers are not, would you conclude that there is a level  
9 playing field between UNE-P providers and those other providers  
10 or that there is not?

11 WITNESS ARON: I would conclude that there is not,  
12 and not only that there is not, but for the reasons that we  
13 talked about a moment ago, the presence of UNE-P in those  
14 settings, and in particular where UNE-P is set at  
15 uneconomically low prices, harms the business plans of those  
16 facilities-based alternatives. And it is not just harmful to  
17 them, but it's harmful to society and to the state because it  
18 depresses investment in real infrastructure and it depresses  
19 investment in services that can bring innovation at the network  
20 level.

21 You know, having diversity in technologies, having  
22 wireless diversity, having cable diversity, that's valuable to  
23 the state, that's valuable to consumers to have those  
24 opportunities to choose among those different options. And as  
25 we talked about earlier, looking at the Florida competition

1 report, consumers care about that. They want to consider other  
2 technologies.

3 COMMISSIONER DAVIDSON: One, one final question. You  
4 discussed the airline industry a bit with counsel. And my  
5 question is, did economic deregulation of the airline industry  
6 spur investment in new planes and equipment by competitive  
7 companies or were existing planes -- or were existing airlines  
8 required to provide their own planes and equipment to new  
9 entrants?

10 WITNESS ARON: In the airline industry there was  
11 certainly no analog to the unbundling regime that exists in the  
12 local telecommunications market that I'm aware of. So to the  
13 extent that deregulation not only deregulated prices but opened  
14 up markets for entry, which it did, part of the deregulation of  
15 the airline industry was opening markets for entry. Carriers  
16 had to make their own investments. They could lease planes  
17 from existing carriers if they wanted, but they had to do that  
18 on commercially negotiated rates on the basis of mutually  
19 agreed upon prices. And that market played out in the way it  
20 has as a result of the requirement for all carriers to make  
21 their own investments.

22 COMMISSIONER DAVIDSON: Thank you. I have no further  
23 questions, Chairman.

24 CHAIRMAN BAEZ: Thank you, Commissioner.

25 MR. SUSAC: Chairman, I do have two questions just

1 real quick.

2 CHAIRMAN BAEZ: Aha.

3 MR. SUSAC: Is that okay?

4 CHAIRMAN BAEZ: Go on.

5 CROSS EXAMINATION

6 BY MR. SUSAC:

7 Q How are you doing, Dr. Aron?

8 A Good morning.

9 Q Just to follow up on something Commissioner Davidson  
10 touched on, the 15 percent market share over three years that  
11 AT&T had in New York, I asked you a similar question during the  
12 deposition, and I'd like to see if we can, if we can flush that  
13 out here today.

14 What did AT&T achieve after their first year of  
15 business but before beginning their second year of business in  
16 New York?

17 A And I don't know. As I told you in my deposition, I  
18 haven't seen that information made public, so I don't know the  
19 answer. I do know that I've seen other reports where the  
20 15 percent actually was achieved in less than three years. So,  
21 you know, my assumption that from a revenue perspective you're  
22 getting a little less than 4 percent in the first year is  
23 pretty much on target.

24 Q Okay. And my last question is you said that the  
25 UNE-P rates in Florida are too low. What do you suggest they



1 should be at?

2 A I have -- I don't have an answer to that. What I've  
3 done is analyze ARMIS data, which are actual cost numbers for  
4 in this case BellSouth, and estimate the actual cost that in  
5 this case BellSouth has incurred to provide the UNE-P on its  
6 books, its booked cost. And that, I believe, is  
7 around \$30, \$29 or \$30 I recall off the top of my head.

8 I would not represent to you that I think that that's  
9 the proper estimate of forward-looking cost, so that's why I  
10 don't have an answer for you today.

11 MR. SUSAC: Thank you very much. That concludes our  
12 questions.

13 CHAIRMAN BAEZ: Thank you, Dr. Aron.

14 I'm trying to -- okay. Next we have -- is it Dr.  
15 Pleatsikas?

16 MR. LACKEY: Yes, sir.

17 WITNESS ARON: May I step down?

18 CHAIRMAN BAEZ: Yes. I'm sorry. You're excused.  
19 Thank you, Dr. Aron.

20 Good morning, Mr. Phillips.

21 MR. PHILLIPS: Good morning, Mr. Chairman. Let's  
22 give everybody a little bit of time to get settled, I think.

23 CHAIRMAN BAEZ: Good morning, Doctor. Are we ready  
24 to go?

25 MR. PHILLIPS: I'm ready, sir. Thank you.

1 CHRISTOPHER JON PLEATSIKAS

2 was called as a witness on behalf of BellSouth  
3 Telecommunications, Inc., and, having been duly sworn,  
4 testified as follows:

5 CROSS EXAMINATION

6 BY MR. PHILLIPS:

7 Q Good morning, Dr. Pleatsikas. How are you?

8 A Good morning. I'm fine.

9 Q It's good to finally put a face to a name.

10 Dr. Pleatsikas, you're testifying on behalf of  
11 BellSouth as to what the proper geographic region should be for  
12 evaluating impairment; is that correct?

13 A The geographic market? Yes, that is correct.

14 Q And according to your direct testimony at Page 4,  
15 Lines 21 through 25, your recommendation is the UNE zone within  
16 a component economic area or CEA, so, in other words, a UNE  
17 zone within a CEA; is that correct?

18 A Yes. I explained it slightly differently, but that's  
19 essentially correct.

20 Q And just so we all know what we're talking about  
21 here, that would mean that UNE Zone 1 in the Miami CEA is a  
22 market, but UNE Zone 2 in the Miami CEA is a separate market;  
23 is that correct?

24 A That's, excuse me, that's correct.

25 Q Okay. Just to clarify a little bit further,

1 UNE Zone 2 in the Miami CEA is a different market than UNE Zone  
2 2 in the Gainesville CEAs; is that correct?

3 A That's correct.

4 Q Okay. And as I read your direct testimony on Page 8,  
5 I believe you're right on that page, Page 8, Lines 14 through  
6 15, that, quote, using a CEA creates a community of interest,  
7 close quote. Did I read those words correctly out of your  
8 testimony?

9 MR. LACKEY: I'm sorry. Could I have that citation  
10 again, the page you cited?

11 MR. PHILLIPS: I'm sorry, Mr. Lackey. That is Page  
12 8, Lines 14 through 15.

13 MR. LACKEY: Of the direct testimony?

14 MR. PHILLIPS: Of the direct testimony. That is  
15 correct, sir.

16 MR. LACKEY: Is that what you have on those pages,  
17 Dr. Pleatsikas? I may have a bad copy.

18 WITNESS PLEATSIKAS: Yes. I have a sentence that  
19 reads, "Using a CEA creates a geographic area with a community  
20 of interest."

21 MR. PHILLIPS: Thank you.

22 MR. LACKEY: Sorry. I must have the wrong page  
23 numbers.

24 BY MR. PHILLIPS:

25 Q So generally a market should exhibit a community of

1 interest; is that correct?

2 A That's a hard question to answer.

3 Q Well, can you, can you give me a yes or a no first,  
4 and then explain?

5 A Well, I can't quite give you a yes or no. I think a  
6 community of interest is a, is a useful concept in defining a  
7 market.

8 Q Okay. Okay. Now I believe that you had attached to  
9 your direct testimony, there was, there was a map that was  
10 attached to an exhibit; is that correct?

11 A Yes. That's correct.

12 Q Okay. We don't, we don't need to go there. I just  
13 want to double-check and make sure that the map was attached  
14 and that it was attached as Exhibit CJP-2; is that correct?

15 A That's correct. I believe there was a corrected  
16 version that may have been supplied as part of the errata.

17 Q Okay. Very good.

18 Did you prepare or make that map personally?

19 A I did not.

20 Q You did not? That's fine. I really just want to  
21 establish that you did include the map in your testimony. So  
22 we can assume that you're at least fairly comfortable at  
23 looking at maps; is that correct?

24 A Yes.

25 Q Okay. Right now what I'd like to do is I'd like to

1 pass out an exhibit or a document that I intend to have marked  
2 and entered as an exhibit. It's of three maps that focused on  
3 a northeast section of Florida in the state of Florida. I'm  
4 going to wait until your counsel receives a copy of that.

5 MR. LACKEY: I'm fine. Thank you.

6 MR. PHILLIPS: All right. Thank you, Mr. Lackey.

7 BY MR. PHILLIPS:

8 Q In essence, what you have in front of you, Dr.  
9 Pleatsikas, is a series of three pictures that I'd like you to  
10 look at. And as I said, I have copies that have been given to  
11 everyone. You could call these maps in essence. They were  
12 made with a software known as MapInfo. Have you ever heard of  
13 that software, Doctor?

14 A No.

15 Q Okay. Well, you would agree, subject to check, that  
16 MapInfo is a reasonably well-known, reasonably accepted mapping  
17 software? I'm not asking for an endorsement in any way. I'm  
18 just asking if that's a pretty standard mapping software.  
19 Would you agree with that?

20 A Well, since I've never heard of it, I can't agree  
21 with it.

22 Q Fair enough. Thank you.

23 Now the very first picture or map you will see is a  
24 picture of the state of Florida. And as you can see, I have in  
25 essence highlighted an area of the northeast section. It's

1 sort of in a box, all right, or square, whatever you want to  
2 call it, because that's what we're going to be looking at. Is  
3 that okay so far?

4 A Yes.

5 Q Okay. And if you turn to the second page or the  
6 second map, you can see that I've zoomed in on that box and  
7 I've identified a few cities here that are probably familiar,  
8 that you're probably familiar with so you can see what's in the  
9 area. You can see I've placed Jacksonville here and I've also  
10 placed Gainesville and Daytona Beach. This is just to get your  
11 bearings. Is that okay?

12 A Yes.

13 Q All right. Now staying with the second map, take a  
14 look at where Jacksonville is in the northeast corner of the  
15 state of Florida, and you flip to the third map, you can see  
16 that I've kept Jacksonville there. So, again, you can, you can  
17 get your bearings straight. But I've also put in some  
18 different towns on this third map, and that's what I want you  
19 to focus on right now. Is that okay?

20 A Yes.

21 Q All right. Now I'm not interested in whether you're  
22 familiar with any of these towns. I just really want to talk  
23 about the markets that you proposed. Is that okay?

24 A Yes.

25 Q All right. And we're not going to talk about

1 Jacksonville. That's really just there for reference. Is that  
2 all right?

3 A Yes.

4 Q Thank you. Do you know off the top of your head if  
5 these five towns, aside from Jacksonville, of course, are  
6 located in the same market based on the way BellSouth defines a  
7 market?

8 A I don't specifically know.

9 Q Okay. It doesn't matter. I just really wondered if  
10 you knew.

11 We might get into that a little later. But if I  
12 understand it, you are testifying in this proceeding as an  
13 expert on what makes a market and what the right market  
14 definition should be. That's really not a question. I'm just  
15 sort of laying a foundation here.

16 I want to pose a hypothetical to you. Let's suppose  
17 hypothetically that based on the way BellSouth has defined the  
18 markets, four of these five towns, excluding Jacksonville, were  
19 in one market and one of these five towns was in a different  
20 market. Can you accept my hypothetical just for the purposes  
21 of this discussion today?

22 A Yes.

23 Q Okay. I don't need you to agree that it makes sense,  
24 but I just want you to be able to accept it. I appreciate it.

25 Let's just focus on two towns. Let me ask you, do

1 you think it makes sense in your opinion as an expert that  
2 Pomona Park and Horseshoe Beach would be in the same market?

3 A I think that's a question I can't answer in the  
4 abstract. But let me say this, that having used CEAs in the  
5 past, in fact, quite some time ago, starting quite some time  
6 ago, I'm comfortable with the way that the CEAs have been  
7 defined as markets and I understand how they've been defined as  
8 markets. And given the basis on which the CEAs have been  
9 defined, I'm comfortable if, if two of these towns are not in  
10 the same CEA, that they've been properly assigned to the  
11 economic node to which they're most closely related.

12 Q All right. Well, do you know how far apart  
13 Pomona Park is from Horseshoe Beach?

14 A No, I do not.

15 Q All right. If I were to tell you they were over  
16 130 miles apart, would that have any effect on any, on your  
17 answer?

18 A No.

19 Q And so it is your opinion -- well, let me back up.  
20 If Horseshoe Beach and Pomona Park were in the same  
21 community of interest, does that fit with your direct testimony  
22 on Page 8, Lines 14 through 15?

23 A No. I think you misunderstand my testimony.

24 Q Okay.

25 A Let me elaborate for a minute. A community of



1 interest can be created on many dimensions. And the CEAs  
2 created community of interest on particular dimensions, but  
3 they don't necessarily represent all dimensions that one can  
4 use to define a market.

5 Q Dr. Pleatsikas, that's really not the question I  
6 asked. But, you know --

7 MR. LACKEY: I object to his interrupting the  
8 witness. He asked the question, the witness started to answer  
9 with a no and then wanted to explain his answer, and I think  
10 he's entitled to do it.

11 CHAIRMAN BAEZ: Mr. Lackey, I don't -- I can check  
12 with the doctor to see if you're hearing the same thing. I  
13 think I heard you finish your answer.

14 WITNESS PLEATSIKAS: I did finish my answer.

15 CHAIRMAN BAEZ: Okay. But if you'll let him --

16 WITNESS PLEATSIKAS: I will.

17 CHAIRMAN BAEZ: Keep in mind to let him complete his  
18 answer. Are we all right?

19 MR. LACKEY: Yes, sir.

20 CHAIRMAN BAEZ: Thank you.

21 MR. PHILLIPS: Thank you, sir.

22 BY MR. PHILLIPS:

23 Q Are you -- did you want to continue or were you  
24 finished with your answer?

25 A I finished my answer. Thank you though.

1 Q Very good. Thank you, sir.

2 Okay. Let's switch gears here for a moment. In your  
3 opinion as an expert, do you think it makes sense that Micanopy  
4 and Fairbanks would be in the same market?

5 A Again, I will say that having used and studied the  
6 basis on which the CEA, CEAs are defined, that if they are in,  
7 and I don't know whether they are or they are not, but if they  
8 are in the same CEA, then I think they've been properly  
9 assigned based on the dimensions used by the Department of  
10 Commerce to tie each city or each locality to the economic node  
11 to which it's most closely related.

12 Q But, but you don't know if they are in the same CEA;  
13 is that correct?

14 A I do not.

15 Q Okay. If I were to tell you that based on the way  
16 BellSouth has defined the market in this proceeding, Micanopy  
17 and Fairbanks are not in the same market but that Micanopy and  
18 Lake City are in the same market, in your opinion as an expert  
19 on markets does that make sense?

20 A As I've said, based -- first --

21 Q Well, let's try to -- a yes or no, and then you can  
22 explain.

23 A Repeat the question for me, please.

24 Q All right. Let me, let me try that again.

25 If I were to tell you that based on the way that

1 BellSouth has defined the market in this proceeding that  
2 Micanopy and Fairbanks are not in the same market but that  
3 Micanopy and Lake City are in the same market, in your opinion  
4 as an expert and also looking at this map, in your opinion as  
5 an expert on markets does that make sense?

6 A Yes. Based on the criteria that have been used to  
7 define the CEAs, yes.

8 Q Okay.

9 A And let me just say one more thing. It's the way I  
10 defined the market.

11 Q Okay. So it's not BellSouth, it is the way you  
12 define the market?

13 A Well, it's the way I -- I defined the market.

14 Q Okay.

15 COMMISSIONER DAVIDSON: Well, can I jump in here  
16 before we move off this point? I want to ask a --

17 CHAIRMAN BAEZ: Go ahead, Commissioner Davidson.

18 COMMISSIONER DAVIDSON: Thank you, Chairman. I want  
19 to ask a question on this because it doesn't, that doesn't make  
20 sense to me, but I'm not the expert on the stand.

21 Help explain in lay terms how Micanopy and Lake City  
22 could be in the same market, but Micanopy and Fairbanks could  
23 not be, if, in fact, that's the case. And I'm accepting  
24 counsel's proposition for the purpose of this, but I just need  
25 to understand in real world terms how that could be without

1 regard to sort of the formalities of what economic node they're  
2 most closely associated with. Explain to me in terms of real  
3 market characteristics how you would actually evaluate the  
4 market, why that would make sense, if, in fact, that's the  
5 conclusion.

6 WITNESS PLEATSIKAS: Well, like many market  
7 conventions or like many market definitions that are used,  
8 geographic market definitions, this one is county based. And  
9 because it's county based, an entire county is assigned to an  
10 economic node based on the, the economic node to which the  
11 county generally is most closely related. And, you know, that  
12 doesn't mean, for instance, that there aren't parts of the  
13 county that might be more closely related to something else.  
14 But the county, the county overall is more closely related to a  
15 certain node and that's how the CEAs are defined. And,  
16 therefore, you know -- and not every community in that county  
17 may be as closely tied as some other communities, but the  
18 overall effect is to assign the county to the, to an economic  
19 node.

20 COMMISSIONER DAVIDSON: So in defining the relevant  
21 geographic market, your, your definition focuses more upon the  
22 economic node to which a county is assigned rather than the  
23 geographic proximity of counties to one another?

24 WITNESS PLEATSIKAS: That's correct.

25 COMMISSIONER DAVIDSON: Thank you.

1           COMMISSIONER DEASON: Let me ask a question at this  
2 point. I'm just overlaying Map 2 and Map 3, and it looks to me  
3 like Fairbanks is almost in Gainesville and Gainesville is Zone  
4 2. And if Fairbanks is that close to Gainesville, it would be  
5 considered as Zone 2; whereas, Micanopy and Lake City are Zone  
6 3 for that particular CEA. Is that possible?

7           WITNESS PLEATSIKAS: Well, that's possible. This map  
8 doesn't show the zones, in which case they would be, you know,  
9 the Zone 3 wire centers would be in a different market than  
10 those in Zone 2.

11           But, again, just like with any sort of geographic  
12 convention like MSAs or DMAs, these are county-based, these are  
13 county-based rules that are used to assign, to assign areas to  
14 particular nodes. And you look at the weight of the county  
15 more generally than you do to individual communities within the  
16 county.

17           COMMISSIONER DEASON: Do you know if Fairbanks is  
18 part of -- within Gainesville Zone 2?

19           WITNESS PLEATSIKAS: I don't know which zone or which  
20 CEA Fairbanks is in.

21           COMMISSIONER DEASON: Okay.

22           MR. PHILLIPS: Thank you, Commissioners. I  
23 appreciate the questioning.

24 BY MR. PHILLIPS:

25           Q     If I could continue. Dr. Pleatsikas, if I understand

1 what you're telling me, returning to the phrase "community of  
2 interest" that you use in your direct testimony, that Micanopy  
3 and Lake City represent a community of interest, but Micanopy  
4 and Fairbanks do not. That's a correct understanding; right?

5 A Along some dimensions, that's correct.

6 Q Okay. So if I were a UNE-L-based CLEC or I owned a  
7 UNE-L-based CLEC, let's say it that way, and I was going to put  
8 in a switch to serve mass market customers in Micanopy, you are  
9 saying it is your testimony that it makes sense to serve  
10 Micanopy and Lake City off the same switch, but not Fairbanks;  
11 is that correct?

12 A I wouldn't presume to say for any particular CLEC  
13 what their strategy might be. But in terms of marketing, it's  
14 likely that the counties in which they're in, you would market  
15 to those counties. Let's say that Lake City and Micanopy are  
16 in the same CEA. Then it's likely that, that a, a marketing  
17 campaign to both might be, might be both feasible and  
18 attractive.

19 Q But isn't that the same thing that occurs if they're  
20 in two different markets?

21 A I'm sorry. I may have missed something in the  
22 question.

23 Q All right. Well, if I understand you, what you're  
24 saying is that you would market to both of those cities or  
25 towns -- this CLEC, this UNE-L CLEC would market to both. And

1 what I was asking, doesn't that occur if they are in two  
2 different markets? So regardless of whether they're in one  
3 market or two markets, if you decide you're going to serve two  
4 markets, your strategy as far as how you approach advertising  
5 would be the same, would it?

6 A I'm not sure I understand your question, but let me  
7 try to answer it.

8 Q Well, I can simplify it. I thought I was pretty  
9 simple the first time, but sometimes maybe I'm just too darn  
10 simple. You know, let's just, let's just strike that one.  
11 Let's just move on.

12 So if, again, I owned a UNE-L-based CLEC and I was  
13 going to put a switch in to serve Pomona Park, it is your  
14 testimony that it's logical that I would also look at Horseshoe  
15 Beach to serve off that same switch.

16 A I don't think I said that.

17 Q Okay. So that's, that's a no then?

18 A Well, that's a no, I don't think I said that.

19 Q Okay. All right. Well, would I look at something in  
20 between, say, like Fairbanks instead?

21 A Would you look at something like Fairbanks instead?

22 Q Of Horseshoe Beach.

23 A To?

24 Q To serve.

25 A Well, as I said, I wouldn't presume to, to say what

1 any particular CLEC might do as its strategy. Now one thing,  
2 as I say, I don't know which zones these are in, firstly. But  
3 a CLEC might decide to market to any, any two of these towns as  
4 part of its strategy or it might not. Strategies differ from  
5 CLEC to CLEC for different reasons.

6 Q Well, and let me ask this last question. But what  
7 you're asking this Commission to do is to accept a geographic  
8 market that makes the decision for the CLEC in essence; is that  
9 correct?

10 A No. I don't think, I don't think that's the point of  
11 my market. The markets that I define are defined based on the  
12 FCC factors and based on economic factors which are economic  
13 substitutability, and that's what creates these as economic  
14 markets.

15 CLECs may, in fact, want to market all across a  
16 geographic, a geographic market or they may not. That's a  
17 strategy decision that can be independent of a market, of a  
18 geographic relevant economic market.

19 MR. PHILLIPS: All right. Well, I appreciate it,  
20 Doctor. I have no further questions. Thank you, sir.

21 Oh, and that's right. Thank you. Sometimes I forget  
22 where I am. If we could, Chairman, I would like to move the  
23 grouping of these maps into the record as Exhibit Number 84,  
24 and I believe we can call these Sprint MapInfo Maps of  
25 Northeast Florida.



1 CHAIRMAN BAEZ: Mr. Phillips, we're going to mark it  
2 as Exhibit 83, and I've been holding moving -- we're going to  
3 try and do this wholesale as much as possible.

4 MR. PHILLIPS: Right.

5 CHAIRMAN BAEZ: But show the maps of northeast -- is  
6 that Northeast Florida; right?

7 MR. PHILLIPS: Northeast Florida. That is correct.

8 CHAIRMAN BAEZ: Marked as Exhibit 83.

9 MR. PHILLIPS: Thank you, sir.

10 (Exhibit 83 marked for identification.)

11 CHAIRMAN BAEZ: Mr. Susac, do you have questions for  
12 this witness?

13 MR. HENRY: Mr. Chairman, AT&T had a few questions.

14 CHAIRMAN BAEZ: Oh, I'm sorry, Mr. Henry.

15 MR. HENRY: Mickey Henry with AT&T.

16 CROSS EXAMINATION

17 BY MR. HENRY:

18 Q Doctor, could you pronounce your last name for me?

19 A Pleatsikas.

20 Q Pleatsikas. Okay. I've butchered that throughout  
21 the entire time.

22 A Many people have.

23 Q Sorry. Dr. Pleatsikas, I'm Mickey Henry with AT&T,  
24 and I wanted to ask you a few questions about your component  
25 economic areas. I'll be quite frank. I've been in this

1 industry for the last 15, 18 years, and this is the first time  
2 I've ever heard this concept in a regulatory proceeding. Are  
3 you aware of any other telecommunications regulatory proceeding  
4 where the CEA has been used?

5 A Yes. As I -- I think in one of my testimonies, I  
6 think it was in my surrebuttal, they were used in the MVDDS FCC  
7 regulatory proceeding. Originally the FCC decided to use CEAs  
8 as the basis for licensing MVDDS. After some -- sometime later  
9 Neilson offered to provide its DMA market definitions or  
10 markets on a light, on a royalty-free basis, I think, to the  
11 FCC. And because certain types of, of video information was  
12 available by DMAs and not CEAs, the FCC decided later to switch  
13 to DMAs.

14 Q Is, is -- that's the only -- so -- could you give me  
15 that acronym again? Was it MDDS?

16 A No. MVDDS, multi, multichannel video data and  
17 distribution service, I believe.

18 Q Okay. And you would consider that to be a -- you  
19 would consider that to be a telecommunications service?

20 A I believe that that's -- that was used for, for data  
21 distribution. Data distribution can be considered to be a  
22 telecommunications service.

23 Q But have you ever seen it used in a state regulatory  
24 proceeding when we were talking -- when the issue was  
25 discussing wireline POTS telecommunications?

1           A       I have not seen it used for that purpose, no.  
2 Although I think it has lots of advantages for use in this kind  
3 of proceeding.

4           Q       Now let me ask you another question. The CEAs --

5           A       Let me add one thing. It was, it was originally  
6 designed by the U.S. Department of Commerce for regulatory  
7 purposes, among other things, as well as commercial purposes.

8           Q       That would be the Bureau of Economic Analysis with  
9 the Department of Commerce?

10          A       That's correct.

11          Q       And I'm looking at an article, I think it was  
12 attached to Mr. Gillan's testimony, JPG-5, which is a February  
13 1995 article "Survey of Current Business," and it's a -- the  
14 title to the article is "Redefinition of the BEA Economic  
15 Areas." Are you familiar with that?

16          A       I am.

17          Q       Is that -- is this basically where the CEAs were  
18 invented, in this 1995 paper?

19          A       No.

20          Q       Okay. Could you tell me --

21          A       They were invented in the late 1970s. I've actually  
22 used them since the 1970s. As I say, they were redefined in  
23 1995 based on new information from the Census Department.

24          Q       Okay. In reading that article, just a few selected  
25 portions I wanted to read to you, and you're welcome to, to

1 look at it and correct me if you think I'm misstating. It  
2 says, "The data may be used to analyze local area economic  
3 activity, local interindustry economic relationships and  
4 interarea population movements." Is that your understanding of  
5 what these CEAs were to be used for?

6 A Among other things.

7 Q Okay. There's nothing in this article that talks  
8 about these CEAs are -- would be a good, a good market  
9 definition for local wireline telecommunications services, is  
10 it?

11 A No.

12 Q Okay.

13 A It was designed -- they were designed more generally  
14 than just for telecommunications.

15 Q Right. And, in fact, the, the CEA is not even the  
16 final output of the analysis that the BEA uses, is it?

17 A I actually would disagree with that statement.  
18 It's -- they are not the final components used in most cases  
19 for economic projections because the areas are considered to be  
20 too small for, to develop reliable forecasts by the Department  
21 of Commerce. But they are -- they have been defined as  
22 stand-alone geographic market definitions for the purposes of  
23 commercial applications and regulatory applications.

24 Q Could you give me another regulatory application that  
25 it's used for?

1 A No, I can't actually.

2 Q Now reading again from this article, and you tell me  
3 if I'm misstating it; I want to ask you some questions about  
4 it. It says, "In general, the redefinition procedure," which  
5 in this 1995 article they were redefining the CEAs, correct,  
6 that you said had been basically developed in the 1970s?

7 A That's correct.

8 Q And it says, "In general, the redefinition procedure  
9 has three major elements. The first element is the  
10 identification of nodes. The second element is the assignment  
11 of counties to relatively small economic units known as  
12 component economic areas, CEAs." Then it talks, excuse me,  
13 "Each CEA consists of a single economic node in the surrounding  
14 counties that are economically related to the node." And then  
15 it says, excuse me, "The third element is the aggregation of  
16 the CEAs to larger economic areas"; correct?

17 A They certainly do produce larger economic areas.  
18 Some of them are aggregated, some of them are not.

19 Q So the CEAs are a middle step in defining the, the  
20 relevant economic area; correct?

21 A No. They're a middle step in defining economic areas  
22 which are used for forecast purposes. They're not a middle  
23 step for defining geographic markets. That's why there's only  
24 one economic node in each CEA. EAs have multiple, in many  
25 cases, economic nodes and, therefore, they aren't the same

1 thing as markets. They're aggregated areas for the purposes of  
2 the Department of Commerce's economic forecasts.

3 Q Doctor, reading later in the article, it says, "The  
4 348 CEAs were used as building blocks for the new 172 economic  
5 areas. The CEAs were aggregated to economic areas so that,  
6 one, each economic area includes, as far as possible, the place  
7 of work and the place of residence of its labor force; two,  
8 each economic area is economically large enough to be part of a  
9 BEA's local economic projection program." So, again, they're  
10 talking about the CEAs being the middle step into developing  
11 the 172 new economic areas; correct?

12 A They are the middle step. Yes, they are the middle  
13 step in developing the economic areas. But if you look further  
14 in the article, it says that the CEAs are designed for  
15 regulatory and commercial applications.

16 And the CEAs are, quite frankly, not as well promoted  
17 as the OMBs, MSAs, but they, they have, they have the same --  
18 the same factors are used to define them. They are just  
19 defined to include outlying counties which are not sufficiently  
20 urbanized but are closely related to the economic node. In  
21 fact, most of the CEAs are based on the nodes that are used for  
22 the MSAs.

23 Q Now is it your testimony that an efficient CLEC who  
24 has a prudent CEO or manager would basically go and dig out a  
25 1995 article of the Bureau of Economic Analysis of the

1 Department of Commerce and uncover these CEAs and decide that  
2 that's the market they wanted to enter?

3 A No. The CEAs though conform better than the MSAs to  
4 media markets, and the prudent CEO of an efficient, efficient  
5 CLEC would, you know, probably design part of his or her  
6 marketing campaign based on the media markets that they face.  
7 And as I say, these conform quite well to, to media markets.

8 Q To a telecommunications executive what value in  
9 developing his business plan would the local area economic  
10 activity, local interindustry economic relationships and  
11 interarea population movements have in his, in terms of his  
12 decision to invest in a local circuit switch or not?

13 A Well, I think you have to look at things somewhat  
14 differently. The relevant geographic markets are markets  
15 that -- no business that I know of actually goes around and  
16 says, okay, let me define the relevant economic market here and  
17 let me then, having defined that relevant economic market,  
18 think about my investment decisions.

19 Basically investment decisions are made in markets by  
20 people who have a feel for markets. And as I say, I think the  
21 CEAs, particularly in the way I recommend it, the UNE zones  
22 subdivided by CEAs, conform to the areas that, that executives  
23 would, would look at in terms of, of deciding to invest or not  
24 to invest in a particular area.

25 (Transcript continues in sequence with Volume 13.)

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CERTIFICATE OF REPORTER

I, LINDA BOLES, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 1ST DAY OF MARCH, 2004.

*Linda Boles*

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