

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 REBUTTAL TESTIMONY OF JERRY D. HENDRIX
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 JULY 10, 1995
6
7

ORIGINAL
FILE COPY

8 Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS
9 ADDRESS?

10

11 A. I am Jerry D. Hendrix. My business address is 675
12 West Peachtree Street, Atlanta, Georgia.

13

14 Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?

15

16 A. No, I did not.

17

18 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

19

20 A. I am employed by BellSouth Telecommunications,
21 Inc., d/b/a Southern Bell Telephone and Telegraph
22 Company (Southern Bell), as a Manager in Regulatory
23 and External Affairs.

24

25 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND

1 **AND EXPERIENCE.**

2

3 **A.** I was graduated from Morehouse College in Atlanta,
4 Georgia in 1975 with a Bachelor of Arts degree. I
5 began employment with Southern Bell in 1979, and
6 held various positions with the Company before
7 joining the headquarters Regulatory organization in
8 1985.

9

10 **Q.** **WHAT ARE YOUR JOB RESPONSIBILITIES?**

11

12 **A.** I am currently responsible for interstate and
13 intrastate switched access service issues
14 throughout the nine state BellSouth region. My
15 primary job responsibilities include handling
16 switched access tariffs and rate development as
17 well as resolving other switched access issues. I
18 handle specific toll issues as well.

19

20 In addition to daily management of issues connected
21 with my responsibilities, I have either testified
22 or participated in proceedings before each of the
23 nine BellSouth state Commissions regarding toll
24 and/or switched access matters and issues.

25

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

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3 A. The purpose of my testimony is to rebut certain
4 issues raised by Mr. Gillan on behalf of the
5 Florida Interexchange Carriers Association (FIXCA),
6 and by Mr. Guedel on behalf of AT&T.

7

8 First, I will rebut Mr. Gillan's allegation that
9 Southern Bell's proposed ECS (Extended Calling
10 Service) rates do not meet the imputation
11 requirements of the new Florida Statute section 364
12 et seq. Second, I will also briefly discuss the
13 issues of interconnection and resale.

14

15 Q. WHAT IS YOUR FIRST POINT OF REBUTTAL?

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17 A. At page 2, lines 20 through 21, and page 6, line 22
18 through page 8, line 18, Mr. Gillan argues that the
19 proposed ECS service rates fail the imputation
20 requirements of the new statute. Mr. Guedel
21 apparently agrees with Mr. Gillan. Mr. Gillan and
22 Mr. Guedel are both incorrect.

23

24 Q. WHAT IMPUTATION TEST DID MR. GILLAN USE?

25

1 A. Mr. Gillan's test is shown below.

2 -----

3 Average
4 Per Minute

5 Estimated Average ECS Revenue/Minutes | \$0.0642

6 -----

7 Estimated Access (Effective 10/1/95) | \$0.0745

8

9 Source: Average of Business and Residential ECS
10 Revenue Per Minute Calculated Using
11 Relative Business and Residence MTS
12 (Message Telecommunications Service)
13 Minutes (1st Q, 1994), Southern Bell's
14 Responses to FIXCA's First Set of
15 Interrogatories, No. 1, Docket No.
16 930330-TP.

17

18 This is not the appropriate test for the reasons I
19 mention later. Southern Bell's proposed ECS rates
20 satisfy the imputation requirements of the new
21 statute.

22

23 Q. HAVE YOU CONDUCTED THE CORRECT IMPUTATION TEST TO
24 DETERMINE THAT THE IMPUTATION REQUIREMENTS ARE MET
25 FOR ECS SERVICES?

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A. Yes I have. I have performed an appropriate simplified imputation test to determine if the proposed ECS rates meet the imputation requirements of the new statute. This test is shown below.

<u>Average Per Minute of Use</u>	
ECS/intraLATA toll	\$0.1350

Applicable Switched Access | \$0.0574

(Includes Carrier Common Line (CCL) and Local Switching, and reflects rates to be effective 10/1/95.)

Clearly, , contrary to the allegations of Mr. Gillan and Mr. Guedel, Southern Bell satisfies the imputation requirements of the statute as it applies to non-basic service.

Q. THE AVERAGE RATES FOR ECS/INTRALATA TOLL AND APPLICABLE SWITCHED ACCESS ARE SIGNIFICANTLY DIFFERENT FROM THOSE USED BY MR. GILLAN IN HIS TEST. WHY IS THAT THE CASE?

1 A. In my calculations, I used Southern Bell's average
2 per minute of use rate for ECS/intraLATA toll which
3 includes all toll services, except for 800 and
4 WATS. In his calculation, Mr. Gillan developed an
5 estimate of the average ECS revenue per minute.

6

7 Q. WHY IS THE AGGREGATION OF EXPANDED LOCAL AND TOLL
8 SERVICES THE APPROPRIATE METHOD TO CALCULATE THE
9 AVERAGE PER MINUTE OF USE RATE, AS OPPOSED TO ECS
10 REVENUE PER MINUTE?

11

12 A. The aggregation of expanded local and toll services
13 is appropriate because Southern Bell is aggregating
14 functionally equivalent services.

15

16 Q. HAS THE AGGREGATION OF ALL TOLL SERVICES, EXCEPT
17 800 AND WATS, TO CALCULATE AN AVERAGE PER MINUTE OF
18 USE RATE BEEN USED IN ANY OTHER BELLSOUTH STATE?

19

20 A. Yes. In North Carolina, AT&T and Mr. Gillan argued
21 that the aggregation of various LEC toll services
22 as a part of the imputation standard was not
23 appropriate. The Commission, however, concluded in
24 its Order issued June 30, 1995 in Docket Nos.
25 P-100, Sub 126 and 65, that it is appropriate to

1 aggregate functionally equivalent toll services in
2 North Carolina for the purpose of the imputation
3 test.

4

5 Q. WHY IS THERE A DIFFERENCE IN THE APPLICABLE
6 SWITCHED ACCESS RATE PER MINUTE OF USE THAT IS USED
7 BY SOUTHERN BELL AND BY MR. GILLAN IN THE
8 RESPECTIVE IMPUTATION TESTS?

9

10 A. The difference is that Mr. Gillan is using all
11 switched access elements in calculating a per
12 minute of use rate (CCL, Local Switching, and Local
13 Transport). This is inappropriate. The
14 appropriate switched access rate elements to use in
15 determining if the requirements of the statute is
16 satisfied are CCL and Local Switching. At the
17 present time, the rates for these elements are
18 assessed to all purchasers of switched access
19 regardless of their transport vendor.

20

21 Q. WHY IS IT INAPPROPRIATE TO INCLUDE LOCAL TRANSPORT
22 IN CALCULATING A SWITCHED ACCESS PER MINUTE OF USE
23 RATE?

24

25 A. To include Local Transport would be contrary to the

1 new statute. Revised Section 364.051 (6)(c) states
2 that:

3
4 The price charged to a consumer for a
5 non-basic service shall cover the direct
6 costs of providing the service and shall,
7 to the extent a cost is not included in
8 the direct cost, include as an imputed
9 cost the price charged by the company to
10 competitors for any monopoly component
11 used by a competitor in the provision of
12 its same or functionally equivalent
13 service.

14
15 Local Transport is not a monopoly component for
16 switched access. There are several alternatives to
17 Southern Bell's Local Transport services through
18 Alternate Access Providers (AAVs). AAVs are active
19 in Florida (Teleport, MFS, AlterNet, Intermedia,
20 IntelCom) and have targeted major cities such as
21 Miami, Fort Lauderdale, and West Palm to displace
22 Local Transport services offered by Southern Bell.
23 These AAVs are active and are aggressively seeking
24 customers. Therefore, it is inappropriate to
25 include transport in the average per minute of use

1 rate.

2

3 Q. IN HIS TESTIMONY, MR. GILLAN TALKS ABOUT THE NEED
4 FOR AN INTERCONNECTION RATE FOR ACCESS TO SOUTHERN
5 BELL'S NETWORK. WOULD YOU PLEASE COMMENT?

6

7 A. Yes. First, it is inappropriate at this time to
8 discuss interconnection. Under the new statute,
9 the parties are required to negotiate
10 local interconnection rates, and to subsequently
11 petition the Commission to set rates only if these
12 negotiations are not successful. Revised Section
13 364.162 of the Florida Statute clearly states:

14

15 (1) Any party who, on July 1, 1995, has an
16 application on file with the commission to
17 become an alternative local exchange
18 telecommunications company shall have until
19 August 31, 1995, to negotiate with a local
20 exchange telecommunications company mutually
21 acceptable prices, terms, and conditions of
22 interconnection and for the resale of services
23 and facilities.

24

25 (2) If a negotiated price is not established

1 by August 31, 1995, either party may petition
2 the commission to establish nondiscriminatory
3 rates, terms and conditions of interconnection
4 and for the resale of services and facilities.

5
6 Mr. Gillan advocates abandoning the process in
7 favor of this Commission setting rates without
8 allowing the parties an opportunity to negotiate.
9 The process proposed by Mr. Gillan is clearly
10 contrary to the statute and is improper.

11
12 Second, the attempt to make interconnection a part
13 of this proceeding is simply an "around-the-elbow"
14 way of requesting that switched access rates be
15 lowered. As I explain later in my testimony, FIXCA
16 is one of the parties that expressly agreed to the
17 access reductions listed in the testimony of Mr.
18 Stanley. Mr. Gillan's proposal is simply an
19 attempt to lower switched access, and this is
20 improper.

21
22 Q. MR. GILLAN ALSO REQUESTS THAT THE COMMISSION
23 AUTHORIZE RESALE OF ECS. IS IT APPROPRIATE TO
24 ADDRESS RESALE IN THIS DOCKET?

25

1 A. No. This too is contrary to the new statute and is
2 improper. As is the case with interconnection,
3 this is an attempt by Mr. Gillan to abandon the
4 process laid out in the statutes.

5

6 Q. MR. GILLAN BELIEVES THAT ECS WILL PRECLUDE
7 COMPETITION. DO YOU AGREE?

8

9 A. No. Competition will not be harmed with the
10 approval of ECS. The IXC's enjoy, and will continue
11 to enjoy, a number of competitive advantages over
12 the local exchange companies in the intraLATA
13 market. First, IXC's can provide complete toll
14 services--intraLATA, interLATA, interstate, and
15 international--while the LEC's are limited to the
16 provision of toll services within the LATA. The
17 provision, therefore, of "one stop shopping" for
18 toll services is a benefit that the IXC's enjoy that
19 is not available to the LEC's.

20

21 Moreover, IXC's can and do use "melded" access
22 rates, blending both intrastate and interstate
23 rates as a basis for establishing their toll floor.
24 Given the pricing flexibility that the IXC's have
25 with respect to the use of "melded" intrastate and

1 interstate access rates, it is clear that IXCs can
2 effectively compete on an intralATA basis.
3 Therefore, it is clear that ECS will not preclude
4 competition.

5

6 Q. MR. METCALF, IN HIS TESTIMONY FILED ON BEHALF OF AD
7 HOC SUGGESTED THAT THE \$25 MILLION UNSPECIFIED RATE
8 REDUCTION BE APPLIED TO SWITCHED ACCESS IN THE LESS
9 THAN 40 MILE BANDS. PLEASE COMMENT ON THIS
10 SUGGESTION.

11

12 A. I am perplexed and bewildered by Mr. Metcalf's
13 proposal since there are no banded switched access
14 rates in Florida.

15

16 Moreover, switched access rates will be reduced by
17 \$55 million, effective October 1, 1995, and an
18 additional \$35 million effective October 1, 1996.
19 These are the second and third steps of a three
20 step reduction stipulated to with AT&T, MCI,
21 Sprint, and FIXCA. These reductions total \$140
22 million. Parties to this stipulation agreed that
23 they would make no proposal to the Commission that
24 would require the use of the unspecified remainder
25 (\$25 million) to further reduce switched access

1 rates during 1995.

2

3 Also, under the new statute, Southern Bell must
4 reduce its intrastate switched access rates by 5%
5 annually beginning October 1, 1996, until the rates
6 are at parity with December 31, 1994 interstate
7 switched access rates.

8

9 This is not a proceeding to discuss reductions in
10 switched access charges and Mr. Metcalf's proposal
11 should be rejected.

12

13 Q. PLEASE SUMMARIZE YOUR TESTIMONY?

14

15 A. First, Southern Bell satisfies the imputation
16 requirements of the statute, contrary to the
17 allegations of Mr. Gillan and Mr. Guedel.
18 Furthermore, competition will not be harmed with
19 the approval of ECS.

20

21 Second, it is inappropriate at this time to discuss
22 interconnection and resale. Under the new statute,
23 the parties are required to negotiate
24 interconnection rates and resale, and to
25 subsequently petition the Commission if these

1 negotiations are not successful.

2

3 Finally, this is not a proceeding to discuss
4 reductions in switched access charges, and this is
5 especially inappropriate for parties that agreed to
6 the stipulated switched access reductions.

7

8 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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10 A. Yes.

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