

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	:	DOCKET NO. 950985-TP
Resolution of petition(s)	:	
to establish nondiscriminatory rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, F.S.	:	

FIRST DAY - MID-AFTERNOON SESSION

VOLUME 3

PAGES 332 through 544

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN SUSAN F. CLARK COMMISSIONER J. TERRY DEASON COMMISSIONER JULIA L. JOHNSON COMMISSIONER DIANE K. KIESLING COMMISSIONER JOE GARCIA
DATE:	Wednesday, January 10, 1996
TIME:	Commenced at 9:00 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LISA GIROD JONES, RPR, RMR
APPEARANCES:	

(As heretofore noted.)

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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PROCEEDINGS

(Hearing reconvened at 2:45 p.m.)

(Transcript continues in sequence from Volume
2.)

CHAIRMAN CLARK: Ready to reconvene. Go ahead
Ms. White.

CROSS-EXAMINATION

BY MS. WHITE:

Q Mr. Price, before I really begin my line of
questions, I want to pick up on something you said at
the end of your summary about number portability. I
believe you said that there wasn't true number
portability in Florida.

A That's correct. That wasn't all of my
statement, but that is correct.

Q And upon a question from Mr. Melson, you were
talking about service provider number portability?

A Yes.

Q Is remote call forwarding a form of service
provider number portability?

A Very inefficient and essentially unworkable
form, and that was really the basis for the portion of
my summary. It has to do with the way that the use of
remote call forwarding can result in improper billing of
access charges from MCI Metro's perspective and likely

1 from MCIT's perspective as well.

2 Q But it is a form of service provider number
3 portability?

4 A Yes.

5 Q And MCI -- it is the form of service provider
6 number portability that was stipulated to between the
7 parties, including MCI; is that correct?

8 A As an interim mechanism as required by statute
9 January 1, 1996, yes.

10 Q And that was because the Commission had to put
11 an interim number portability mechanism in place by the
12 beginning of this year?

13 A Yes.

14 Q By statute. Okay. Thank you.

15 Now, would it be fair to say that your direct
16 testimony addresses all the issues in this docket other
17 than the one concerning the appropriate financial
18 arrangements for the interconnection of local traffic
19 between MCI and BellSouth?

20 A Generally, I guess that's probably a fair
21 characterization.

22 Q And would it be fair to say that the financial
23 arrangement issues for MCI are being addressed by
24 Dr. Cornell?

25 A Generally, yes.

1 Q Are you familiar with the stipulation and the
2 agreement between Teleport and BellSouth that was signed
3 on October 17th, 1995?

4 A Yes.

5 Q And this stipulation was reached, I guess --
6 when did MCI file its petition for interconnection?

7 A I believe it was November 13.

8 Q And were many of the issues raised by you in
9 your direct and in your rebuttal testimony resolved
10 between Teleport and BellSouth in this stipulation?

11 A Many of the issues, yes.

12 Q So, for example, and I guess I want to get out
13 before the Commission which of those issues you think
14 there still may be a problem on that the Commission
15 would need to decide. For example, signaling
16 arrangements, MCI wants common channel System 7
17 signaling; is that correct?

18 A On all trunks that support that type of
19 signaling, yes.

20 Q And is that issue resolved in the Teleport
21 agreement?

22 A I'm going from memory because I don't have a
23 copy of that with me and I've not actually reviewed that
24 recently, but my recollection is that it was, yes.

25 Q And I'm just -- for the next few series of

1 questions I'll give you a copy of the agreement.

2 A Thank you.

3 MR. MELSON: Commissioner Clark, may I ask a
4 clarifying question?

5 CHAIRMAN CLARK: Go ahead, Mr. Melson.

6 MR. MELSON: My understanding is that this TCG
7 stipulation is no longer in effect, that TCG has now
8 signed a subsequent stipulation that substitutes for
9 this. And I just wanted to make sure that the record is
10 clear as to exactly which stipulation we're talking
11 about and just whether it's the one in effect today or
12 not.

13 MS. WILSON: Well, I'll be happy to get
14 Mr. Price a copy of the latest stipulation. I think on
15 these issues it's identical, but I'll be glad to hand
16 him a copy of the latest one.

17 MR. MELSON: I just want it to be clear which
18 one she intends to use.

19 Q (By Ms. White) I guess to the extent that
20 this was the settlement that was in effect when you
21 filed your testimony that was attached to MCI's
22 petition, would that be a fair statement? Since this
23 stipulation was signed on, I think, October 17th, and
24 your testimony was filed in November?

25 A My hesitation is I was trying to recall when

1 the subsequent stipulation was signed, but I believe the
2 sequence is as you've described it.

3 MS. WHITE: So I guess I would ask as per the
4 first Teleport stipulation, the one that was signed on
5 October 17th, 1995.

6 CHAIRMAN CLARK: And are you going to give him
7 a copy of it?

8 MS. WHITE: Yes. It stopped at Mr. Melson but
9 we'll get it down.

10 Q (By Ms. White) And I believe the signaling
11 arrangements -- it's RCS No. 6, and I believe this is
12 attached to Mr. Scheye's testimony -- and the signaling
13 arrangement section is Page 25 of 37.

14 A Okay, I'm there.

15 Q As well as Page 24 of 37, No. 7, where there's
16 a section on CLASS interoperability, that also talks
17 about common channel signaling.

18 After having looked at those two sections, do
19 you believe there's anything on signaling arrangements,
20 specifically common channel System 7 signaling, that
21 this commission needs to resolve, any issues outstanding
22 on signaling?

23 A No.

24 Q MCI also wants the option of using either one-
25 way or two-way trunks to interconnect with BellSouth; is

1 that a fair statement?

2 A Yes.

3 Q Has BellSouth ever told MCI that BellSouth
4 would not provide one-way or two-way trunks?

5 A I don't believe so, no.

6 CHAIRMAN CLARK: May I interrupt for just a
7 minute? That was something I didn't understand and
8 maybe it's explained. What's the difference? I mean
9 it's a one-way trunk; it's only carrying traffic going
10 one way, or --

11 WITNESS PRICE: That's correct, Your Honor.
12 There's -- the diagrams that I was correcting earlier
13 that were attached to my direct testimony were intended
14 to show the different ways in which that trunking could
15 be configured, and the first diagram is labeled one-way
16 local trunking, and it shows two different trunk groups,
17 one going in one direction from the MCI Metro central
18 office to the LEC tandem, and then a separate trunk
19 group from the LEC tandem back to the MCI Metro central
20 office. So that would be an example of one-way traffic
21 flow, whereas in the second sheet traffic would be
22 flowing in both directions over that trunk group.

23 CHAIRMAN CLARK: The trunk group. Okay.

24 WITNESS PRICE: Yes.

25 Q (By Ms. White) With regard to 911 service, I

1 assume that 911 service is important to MCI?

2 A It certainly is.

3 Q And would you agree that it's probably equally
4 important to BellSouth?

5 A I would hope so, yes.

6 Q On Page 20 of that exhibit, Page 20 of 37,
7 there's approximately a two-page section on 911. Do you
8 recall -- or you can read that if you wish. After
9 looking at that, would you feel that, as far as MCI
10 goes, that issue is resolved by what's laid out in the
11 Teleport agreement?

12 A Most of the issues are resolved, or would be
13 resolved with this. The only one that would, in my
14 mind, not be completely clear is whether BellSouth
15 intends to offer any mechanized access to the Master
16 Street Address Guide or the automatic line
17 identification database systems so that MCI Metro would
18 have the same type of access to those systems that
19 BellSouth has.

20 Q Okay. Have you looked at -- do you have a
21 copy of BellSouth's answers in this docket to MFS's
22 First Set of Interrogatories dated December 7th, 1995?

23 A I do not.

24 Q Let me try it this way: Has BellSouth ever
25 indicated to you that they would not offer MCI access to

1 the Master Street Address Guide in order to provide 911
2 service in a proper and safe manner?

3 A Perhaps the best way to answer that would be
4 to refer to our interrogatory responses to the Staff,
5 because I believe we touched on areas of agreement or
6 general agreement in those responses.

7 Q Well, let me ask you this: Is access to the
8 Master Street Address Guide something that you believe
9 could be worked out between MCI and BellSouth, without
10 this Commission having to decide that issue?

11 A My understanding is that there has been an
12 offer made to provide a form of access to the Master
13 Street Address Guide, and the next step would be that
14 MCI Metro believes that there needs to be a second step,
15 which is the provision of mechanized or automated
16 interfaces to those various databases, and I am not
17 aware that any commitments have been made by BellSouth,
18 and I would like to see this Commission order BellSouth
19 to make such available at the nearest possible
20 opportunity.

21 Q These mechanized functions that you're talking
22 about, it's more than just 911. I mean there's -- what
23 you'd like is mechanized access to the Master Street
24 Address Guide database for 911, but you're also asking
25 for mechanized systems for other types of things, like

1 order processing and things like that?

2 A That's correct.

3 Q Will there be a cost associated with the
4 development of that mechanized interface?

5 A Yes.

6 Q And is MCI willing to pay for that cost?

7 (Pause)

8 A Those costs are costs that MCI Metro believes
9 need to be expended by BellSouth in order to provide to
10 interconnecting carriers the same type of access to
11 systems that are necessary for a network of networks to
12 operate. So I guess the short answer would be no, we
13 think those are costs that BellSouth needs to incur in
14 order to ensure that it is not in a situation of
15 providing discriminatory access to systems that are
16 necessary for both carriers, or all carriers, operating
17 in this new network of networks environment to have
18 similar access to systems, databases, that are necessary
19 for the provision of service.

20 Q Have other states implemented such a
21 mechanical interface?

22 A These issues are being discussed in a number
23 of jurisdictions around the United States, and I,
24 frankly, cannot tell you whether such an order has been
25 entered by any commission at this moment.

1 Q Where does MCI Metro operate as a local
2 exchange company today?

3 A There are some commercial operations in the
4 Baltimore area. I know that there are interconnect
5 agreements in three other jurisdictions. I am not aware
6 of whether, in any of those jurisdictions, there's
7 actually commercial traffic flowing at this point.

8 Q In Baltimore, is MCI providing residential
9 dial tone?

10 A MCI's has only begun within the last couple
11 months to provide commercial services. And at this
12 stage, I believe that the service is limited to services
13 to customers who are located on MCI Metro facilities, in
14 other words on the metro ring in the Baltimore area.

15 Q So would that be business customers only?

16 A Generally, although I don't -- I mean it is
17 possible that there could be some residential customers
18 on there.

19 Q And in Baltimore what kind of interconnection
20 are you paying with the incumbent LEC? Is it a
21 per-minute basis or bill-and-keep basis?

22 A There was an order issued just within the last
23 few weeks by the Maryland Commission addressing the
24 compensation. And my recollection is that there are two
25 rates, depending on whether the interconnection is

1 tandem or end office, and that rate is a half a penny at
2 the tandem and two-tenths of one cent per minute at the
3 end office.

4 Q Are those rates per minute of use?

5 A Yes.

6 Q In Baltimore do you have a mechanized -- and I
7 think I said mechanical earlier, and I apologize -- a
8 mechanized interface with the incumbent local exchange
9 company?

10 A I don't know.

11 Q And you've asked in your rebuttal testimony
12 that this mechanized interface be developed within --
13 and implemented within a year. Is that a fair
14 statement?

15 A Yes.

16 Q Do you know how much it would cost to put
17 together such an interface?

18 A No.

19 Q Have you looked into the time periods that
20 would be necessary to develop and implement such an
21 interface?

22 A Specifically, no, although my experience in
23 the industry would lead me to believe that if the
24 Commission ordered you to do it within a year you could
25 accommodate that.

1 Q I guess you have no empirical evidence or
2 evidence from other states that it could be done in that
3 period of time?

4 A That's correct. My prior answer was really
5 based on the fact that 800 number portability was
6 something that was talked about for years and years, but
7 it wasn't until the FCC set a date certain that the
8 industry really got cracking on implementing that, and
9 that implementation was done fairly quickly after a date
10 certain was fixed. So my experience is that deadlines
11 are always very motivating.

12 Q Let's talk about NXX codes. Now, MCI wants
13 BellSouth to provide NXX assignments on the same basis
14 that those NXXs are provided to other local exchange
15 companies. Is that a fair statement?

16 A Yes.

17 Q And right now BellSouth is the number
18 administrator for these NXX codes in this area?

19 A That's --

20 Q Is that correct?

21 A That's correct.

22 Q And are you aware of the position that
23 BellSouth has taken at the FCC with regard to the future
24 of number administration with regard to whether a
25 third-party neutral entity should be the number

1 administrator for the future?

2 A Generally, my understanding is that BellSouth,
3 like much of the industry, is in favor of moving towards
4 a neutral administrator and getting out of that
5 function, if you will.

6 Q Has BellSouth ever indicated to MCI, in the
7 negotiations that MCI has had with BellSouth, that
8 BellSouth would not assign the numbers, the NXX codes,
9 in a nondiscriminatory manner?

10 A No, it has not.

11 Q And I believe the Teleport stipulation on
12 Page 23 talks about the assignment of NXX codes. It's
13 Page 23, paragraph 4, and that says that BellSouth will
14 assign and administer these codes consistent with the
15 industry-developed assignment guidelines; is that
16 correct?

17 A Yes.

18 Q Now let's talk about the provision of
19 directory assistance. MCI wants to provide directory
20 assistance in Florida; is that correct?

21 A We would want to make directory assistance
22 services available to our end users, yes.

23 Q And one way you might do that is by
24 interconnecting to BellSouth's database, directory
25 assistance database?

1 A Right. I believe there's three ways that we
2 listed in our petition that might be of use.

3 Q I'm sorry. I thought you were going to
4 continue. So I took a chance on taking a drink.

5 Now, in populating its directory assistance
6 database, BellSouth uses a specific format; would you
7 agree with that?

8 A I would expect that to be the case, yes.

9 Q And if BellSouth is given information in
10 another type of format, then it's going to have to do
11 some kind of translation work to make it fit the format
12 that it uses in that database?

13 A That stands to reason.

14 Q And would it be reasonable to believe that
15 there would be a cost involved in performing that
16 reformatting function?

17 A A cost, yes. I mean, I don't know the extent
18 to which there would be a cost, if there were systems
19 already in place to do that kind of reformatting. The
20 cost of processing time in a computer is relatively low.

21 Q And that cost could be avoided if the ALECs,
22 say MCI in this case, gave BellSouth the information to
23 put in the database in the format that BellSouth uses
24 today?

25 A Certainly.

1 Q On Page 22 of the Teleport stipulation, it
2 talks about white page listings, yellow page listings,
3 as well as distributing the yellow and white page
4 directory books. After looking at that stipulation,
5 does that resolve these issues, the directory listings
6 and the directory distribution issues, as far as MCI is
7 concerned?

8 A Yes, it would.

9 Q With regard to busy line verification and
10 operator emergency interrupt services, I think Page 23
11 of the Teleport stipulation, paragraph 5, talks about
12 that BellSouth and the ALECs will mutually provide each
13 other this service pursuant to tariff. Would this
14 stipulation resolve this issue as far as MCI is
15 concerned? (Pause)

16 Or let me ask you this, do you see any issues
17 with regard to busy line verification and emergency
18 interrupt service that BellSouth and MCI could not agree
19 to or work out between themselves?

20 A From a technical standpoint, I don't believe
21 that's the case. My hesitation a moment ago was that
22 it's not clear to me that the tariff that's referenced
23 in this stipulation and discussed in Mr. Scheye's
24 testimony is the same way in which those functions are
25 provided to independent LECs in Florida. And if there

1 is a separate arrangement that independent LECs have
2 with BellSouth for these functions, we would like the
3 option to either use that contract basis or the tariff,
4 whichever we find most useful or most economical.

5 Q And I think what you're talking about there is
6 that you don't see a problem with the technical aspects
7 of the provision of the service, but maybe there might
8 be an issue as to price; is that a -- am I paraphrasing
9 that fairly?

10 A Yes. I think that's likely the most
11 significant factor.

12 MS. WHITE: Excuse me, I'm checking to make
13 sure if I have anymore.

14 Q (By Ms. White) I guess what I'm left with,
15 Mr. Price, is a question that you saw the stipulation,
16 the Teleport stipulation, before you filed your
17 testimony that was attached to the MCI's petition; is
18 that a fair statement?

19 A Yes, I believe so.

20 Q And if you saw that stipulation -- and as
21 we've discussed for the last few moments, a lot of the
22 subissues in this docket, the things concerned with
23 issues other than the financial arrangements, the 911,
24 the busy line verification, the directory assistance,
25 directory listings, if you feel that the Teleport

1 stipulation resolved those issues as far as MCI went,
2 why did you file testimony raising those issues?

3 A Without trying to be flip or anything, I think
4 it was out of an abundance of caution to make sure that
5 these issues were addressed in testimony before the
6 Commission, because we weren't clear that we were going
7 to have access to that same stipulation if it were
8 executed on a -- say, a partial basis.

9 MS. WHITE: Thank you. I think that's all I
10 have.

11 CHAIRMAN CLARK: Ms. Wilson?

12 MS. WILSON: No, thank you.

13 CHAIRMAN CLARK: Staff?

14 CROSS-EXAMINATION

15 BY MR. EDMONDS:

16 Q Mr. Price, my name is Scott Edmonds, and I
17 just have a few questions to ask you on behalf of
18 Staff. And if you heard the first series of questions
19 that Ms. Canzano asked of Mr. Devine, they won't come as
20 a big surprise to you.

21 First of all, do you have a copy of a set of
22 documents assembled by Staff that Staff has marked as
23 DGP-1? And what this is is MCI's Responses to Staff's
24 First Set of Interrogatories to numbers --
25 Interrogatories No. 1 through 20 and Response to Staff's

1 First Request For Production of Documents, No. 2.

2 A Yes, I do.

3 Q Have you had a chance to review those?

4 A Yes, I have.

5 Q And is it true and correct to the best of your
6 knowledge?

7 A Yes.

8 Q Do you have any corrections to make to these?

9 A None to my knowledge.

10 MR. EDMONDS: Commissioners, at this time I
11 would like to have this marked for identification.

12 CHAIRMAN CLARK: Staff exhibit marked DGP-1,
13 which is Answers to Interrogatories -- Staff's
14 Interrogatories and Request For Production of Documents
15 will be marked as Exhibit 10.

16 (Exhibit No. 10 marked for identification.)

17 MR. EDMONDS: Thank you.

18 Q (By Mr. Edmonds) Mr. Price, we would like to
19 get a bit of an understanding of the type of local
20 network that MCI Metro currently has in Florida. So in
21 general terms, could you give us a brief summary of the
22 type of equipment that your company has and the overall
23 network architecture for local traffic?

24 A This is going to be, by nature, very sketchy,
25 because I'm not involved with the day-to-day

1 construction and engineering activities of MCI Metro. I
2 do understand that the basic network architecture that
3 Metro intends to put in place is a ring architecture
4 with fiber rings. I believe that there are some --
5 either all or portions of fiber rings that are in the
6 Tampa area, the Miami area, the Orlando area, I believe,
7 and beyond that I would really be speculating on where
8 facilities may actually be in place today.

9 With respect to future plans for providing
10 switched services, MCI Metro would deploy the latest
11 digital CLASS 5 end offices with full functionality and
12 would seek to place those switches on its rings so that
13 it could provide switched services to customers on those
14 rings, and then if we can resolve issues regarding
15 unbundling of loops in the other proceeding, then,
16 eventually, to use unbundled loop facilities of
17 BellSouth and the other LECs down the road to provide
18 services to end users that are not located directly on
19 MCI Metro's ring facilities.

20 Q Does your company use any wireless facilities
21 in their network, to your knowledge?

22 A Not at this time, no.

23 Q In your opinion, is your company's network
24 architecture similar or different from that of a cable
25 television company?

1 A It would be different.

2 Q Could you explain how?

3 A Generally, yes. The ring architecture that I
4 referred to is an architecture that is relatively new.
5 It has been deployed within, say, the last seven years
6 or so. The purpose of the ring is that there are
7 intelligent devices that are placed along the ring that
8 allow service to be restored in an opposite direction
9 from the way traffic was originally flowing. So it's a
10 heavily redundant network that's -- provides very high
11 quality services for transmission. That ring
12 architecture is not at all what the cable companies have
13 traditionally used because those architectures were more
14 like, I would say, hub and spoke, or tree architectures,
15 where you had a main feeder from a head end, which is
16 where the signal is received, carrying that signal down
17 a feeder line with spokes off of that or with branches
18 off of that to the various neighborhoods and houses. It
19 is possible that over the last few years, that the cable
20 companies have begun to move to a -- sort of a modified
21 architecture where they're providing rings that connect,
22 say, the head ends within a given area, but the
23 architectures at their basic level are quite different.

24 MR. EDMONDS: Staff has no further questions.

25 CHAIRMAN CLARK: Commissioners? Any

1 questions?

2 (No response.)

3 MS. WILSON: Madam Chairman, I have a
4 request. Based on Mr. Price's testimony in response to
5 Commission Staff's questions regarding cable television
6 architecture, that does raise an issue, and I would
7 request the opportunity to ask the opportunity to ask
8 one or two questions to Mr. Price on that issue.

9 CHAIRMAN CLARK: Go ahead, Ms. Wilson.

10 CROSS-EXAMINATION

11 BY MS. WILSON:

12 Q Mr. Price, do you know how many cable
13 companies in Florida continue to employ tree-and-branch
14 architecture?

15 A No, I don't.

16 MS. WILSON: That's the only question I had.
17 Thank you.

18 CHAIRMAN CLARK: I had a question. On Page 2
19 of your testimony, you refer to MCI Metro as a
20 wholly-owned indirect subsidiary. What in the world
21 does that mean?

22 WITNESS PRICE: It's really not as complicated
23 as it seems. We were trying to avoid making the thing a
24 little overcomplicated. MCI Telecommunications is the
25 long distance company. There is a subsidiary of MCI

1 Telecommunications that is, I believe, referred to as
2 MCI Metro, Inc. That subsidiary has a subsidiary
3 company called MCI Metro Access Transmission Services,
4 Inc., which is the entity that sought the -- that
5 notified the Commission that it wanted to provide
6 service, that has been providing service in Florida as a
7 CAP for several years. So it's indirect in the sense
8 that between MCI Telecommunications.

9 CHAIRMAN CLARK: A subsidiary of a
10 subsidiary?

11 THE WITNESS: Yes.

12 CHAIRMAN CLARK: Okay. Commissioners, any
13 other questions? Redirect?

14 MR. MELSON: Excuse me. One redirect.

15 REDIRECT EXAMINATION

16 BY MR. MELSON:

17 Q I believe Ms. White asked you a question on
18 Page 23 of the TCG settlement regarding the provision on
19 number resource administration and whether that was
20 satisfactory to MCI.

21 I would like to show you Page 29 of the more
22 recent stipulation and ask how the provisions in those
23 two stipulations differ.

24 A The earlier stipulation discusses NXX code
25 assignments, which was the topic that I addressed in my

1 testimony. The more recent stipulation discusses an
2 issue that has to do with clearing of billing issues,
3 which is the assignment of RAO codes. That is not
4 something that MCI Metro is interested in from BellSouth
5 because we already have a sponsor for an RAO code.

6 But the two provisions are different in that
7 the more recent one really addresses more the RAO code
8 issue rather than NXX code assignments.

9 Q And just so the record is clear, what does RAO
10 stand for?

11 A I'm sorry, that's revenue accounting office,
12 and beyond that I really can't tell you much except that
13 it is involved with the clearing of billing issues where
14 you have revenues that are received by one company that
15 have to be remitted to another company.

16 MR. MELSON: I've got no further questions and
17 I would move Exhibit 9.

18 CHAIRMAN CLARK: Exhibit 9 will be admitted in
19 the record without objection.

20 MR. EDMONDS: Likewise staff would like to
21 move Exhibit 10.

22 CHAIRMAN CLARK: Exhibit 10 will be entered in
23 the record without objection.

24 MR. MELSON: MCI calls Dr. Nina Cornell.

25 (Exhibit Nos. 9 and 10 received into

1 evidence.)

2 CHAIRMAN CLARK: Thank you, Mr. Price.

3 (Witness Price excused.)

4 * * *

5 CHAIRMAN CLARK: Dr. Cornell, have you been
6 sworn in?

7 WITNESS CORNELL: No.

8 CHAIRMAN CLARK: Raise your right hand.

9 NINA W. CORNELL

10 was called as a witness on behalf of MCI Metro Access
11 Transmission Services, Inc., having first been duly
12 sworn to speak the truth, the whole truth, and nothing
13 but the truth, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. MELSON:

16 Q Dr. Cornell, would you state your name and
17 address for the record, please?

18 A My name is Nina W. Cornell. My address is
19 1290 Wood River Road, three words, Meeteetse -- and I'll
20 spell that -- M-E-E-T-E-E-T-S-E, Wyoming 82433.

21 Q And what is your occupation or profession?

22 A I am an economist.

23 Q And on whose behalf are you appearing in this
24 proceeding?

25 A I believe it's MCI Metro Access Transmission

1 Services, Inc., but I've probably got it wrong.

2 Q I think you did it exactly right. Have you
3 prefiled testimony in this docket dated November 13 and
4 consisting of 35 pages?

5 A Yes, I have.

6 Q Do you have any changes or corrections to that
7 testimony?

8 A Not that I have found. I tried to get the
9 typos, but I don't know.

10 Q And if I were to ask you the same questions
11 today, would your answers be the same?

12 A Yes. Excuse me, yes.

13 MR. MELSON: Madam Chairman, I would ask that
14 Dr. Cornell's prefiled testimony dated November 13, 1995
15 be inserted into the record as though read.

16 CHAIRMAN CLARK: The prefiled direct testimony
17 of Dr. Nina Cornell will be inserted in the record as
18 though read.

19 Q (By Mr. Melson) And can the Commission
20 disregard any other direct testimony that's been filed
21 by you in this docket?

22 A As far as I'm concerned, yes. I'm sorry, I
23 didn't realize you were addressing me.

24 Q And her lawyer agrees.

25 Dr. Cornell, was there one exhibit attached to

1 that direct testimony labeled NWC-1, which is your
2 professional resume?

3 A Yes.

4 Q And is the information on that resume true and
5 correct to the best of your knowledge and belief?

6 A I sure hope so.

7 Q And I would ask that that be marked as Exhibit
8 11.

9 CHAIRMAN CLARK: Exhibit NWC-1 will be marked
10 as Exhibit 11.

11 (Exhibit No. 11 marked for identification.)

12

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1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2

3 A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse,
4 Wyoming 82433.

5

6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
7 BACKGROUND AND EXPERIENCE.

8

9 A. I am an economist in private practice, specializing in microeconomic analysis of
10 regulatory and antitrust issues. Until late 1988, I was with the firm of Cornell,
11 Pelcovits & Brenner Economists Inc., of which I was president.

12 Before entering private practice, I was Chief of the Office of Plans and
13 Policy, Federal Communications Commission (FCC). As Chief of the Office of
14 Plans and Policy, I served as chief economist to the Commission and participated in
15 virtually all FCC agenda meetings.

16 Prior to being associated with the FCC, I was the Senior Staff Economist for
17 regulatory, transportation, environmental, and health and safety issues for the Council
18 of Economic Advisers (CEA). In this position I reported directly to Charles L.
19 Schultze, Chairman of the Council.

20 Prior to being with the CEA, I was employed as an economist with the
21 Council on Wage and Price Stability, where I served on the Task Force on Reform
22 of Federal Energy Administration Regulations. Before joining the Federal
23 Government, I spent four years at the Brookings Institution as a Research Associate.
24 I am a graduate of Swarthmore College, and received my Ph.D. in Economics from
25 the University of Illinois in 1972.

1

2 Q. HAVE YOU PUBLISHED ANY PAPERS ON TELECOMMUNICATIONS?

3

4 A. Yes. I have published a number of papers on the regulation of telecommunications
5 as well as on other regulatory and natural resource issues. A list of my publications
6 is contained in my resume -- Exhibit ____ (NWC-1).

7

8 Q. HAVE YOU TESTIFIED BEFORE?

9

10 A. Yes. I have served as an expert witness in several court and a number of regulatory
11 proceedings, particularly proceedings involving telecommunications issues. I have
12 also testified before various committees of the US Congress. A list of my testimonies
13 is also contained in my resume.

14

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

16

17 A. My testimony addresses 1) what are the appropriate rate structure, interconnection
18 rates, or other arrangements for the exchange of local traffic between MCImetro and
19 BellSouth; 2) what are the appropriate rate structure, interconnection rates, or other
20 arrangements for the exchange of toll traffic between MCImetro and BellSouth; 3)
21 what are the appropriate arrangements for physical interconnection between
22 MCImetro and BellSouth; and 4) what are the appropriate arrangements for the
23 delivery of calls originated by and/or terminated to MCImetro from other carriers
24 (IXCs, ALECs, other LECs, wireless carriers) that are not directly connected to
25 MCImetro.

1 In particular, I recommend that the Commission order BellSouth to treat
2 MCImetro as a co-carrier, and terminate local traffic that originates on the network
3 of MCImetro using Mutual Traffic Exchange. I also recommend that toll traffic be
4 exchanged with the payment of switched access charges. MCImetro should be
5 allowed to file its own switched access tariff, with a requirement only that its total
6 price to originate or terminate a call not exceed the total price that would have been
7 charged by BellSouth for the same call. I recommend that the physical arrangements
8 for the physical interconnection of the two networks allow MCImetro to designate
9 one point of interconnection in each local calling area, and that the point of
10 interconnection could be at either its switch, at a switch of BellSouth, or at a meet
11 point someplace between the two networks. Finally, I recommend that the
12 Commission require BellSouth to deliver calls originated by and/or terminated to
13 MCImetro from other carriers that are not directly connected to MCImetro on exactly
14 the same terms and conditions that BellSouth performs that same function for
15 independent local exchange carriers.

- 16
17 1. What Are the Appropriate Rate Structure, Interconnection Rates, or
18 Other Arrangements for the Exchange of Local Traffic between
19 MCImetro and BellSouth?

20
21 Q. WHAT POLICY GOAL SHOULD COMPENSATION ARRANGEMENTS
22 ESTABLISHED FOR TERMINATING LOCAL TRAFFIC BETWEEN
23 COMPETING LOCAL EXCHANGE NETWORKS BE DESIGNED TO SERVE?

24
25 A. Whatever compensation arrangements are adopted should foster the ultimate

1 development of effective competition in local exchange markets.

2

3 Q. WHAT IS EFFECTIVE COMPETITION?

4

5 A. Effective competition exists when a firm cannot raise its prices significantly above
6 its costs without losing customers to other suppliers in sufficient quantity that it is
7 forced to bring its prices back in line with costs.

8

9 Q. IS ENTRY THE SAME AS EFFECTIVE COMPETITION?

10

11 A. No. Entry is a necessary first step towards the development of effective competition,
12 but it is not the same as effective competition. Effective competition requires that
13 there are enough alternatives available to and adopted by a sufficient number of
14 consumers that the choices consumers actually make in the market force all of the
15 firms in that market to bring their prices in line with costs and keep them there.

16

17 Q. WHAT ARE THE OBSTACLES THAT MIGHT PREVENT ENTRY FROM
18 BECOMING EFFECTIVE COMPETITION IN LOCAL EXCHANGE MARKETS
19 IN FLORIDA?

20

21 A. Local exchange markets are characterized by significant barriers to entry based on
22 the nature of current technology and the long period during which consumers have
23 faced only a monopoly supplier for local exchange service. In addition, the policy
24 determinations that need to be made could raise equal or even greater artificial
25 barriers to entry. Some of the conditions being proposed for entry, including some

1 that are being proposed here in Florida and around the country, could limit entry
2 sufficiently that effective competition could never develop, if any entry ever occurred
3 at all.

4

5 Q. WHAT DO YOU MEAN BY BARRIERS TO ENTRY?

6

7 A. Barriers to entry occur whenever a firm that is not already in the market faces
8 conditions that would make it have to expect to earn more than the normal return on
9 investment before it would be a wise business decision to put shareholders' funds at
10 risk in the market. The main types of barriers to entry arise when 1) a potential
11 entrant knows that some or all of its investments in that market, *once made, cannot*
12 easily be recovered should the entry be unsuccessful; or 2) the entrant knows it will
13 face costs upon entering that the incumbent firm does not face. In the first case, the
14 greater the level of investments that would be unrecoverable if entry were
15 unsuccessful, the higher the barrier to entry, in that the greater the expected return
16 on those investments would have to be to make the entry a reasonable business risk.
17 Similarly, the greater the costs the potential entrant would face that the incumbent
18 does not, the higher the barrier to entry and therefore the greater the expected return
19 on investment would have to be to make entry a reasonable business risk. Both of
20 these types of barriers to entry exist today in local exchange markets because of the
21 nature of the existing technology and consumers' habits. Both of these types of
22 barriers to entry could be increased artificially by inappropriate policy choices in this
23 docket.

24

25 Q. WHAT ARE THE NATURAL BARRIERS TO ENTRY INTO LOCAL

1 EXCHANGE MARKETS?

2

3 A. Local exchange telephone markets have several important characteristics that naturally
4 create barriers to entry. First, entry will take very large capital outlays, many of
5 which may well be unrecoverable if the firm fails in the market. Second, the
6 construction financed with those capital outlays will take quite some time to be able
7 to reach beyond a small area. Third, consumers are totally unused to the idea of
8 multiple firms supplying local exchange services, so very large marketing costs can
9 be anticipated. Marketing costs are costs that are unrecoverable if the firm is
10 unsuccessful and has to exit the market. Fourth, firms in telecommunications
11 markets, unlike almost any other markets, cannot operate completely independently
12 of each other, affected only by the interaction of what each offers to the public and
13 how the public responds to those offerings. Instead, all firms in the market must
14 interconnect and agree to terminate traffic for each other. There are also several
15 other areas in which cooperation is required for competition to be possible.

16 The first three facts cited above by themselves mean that there are barriers
17 to entry into local exchange markets that are greater than in many other markets.
18 The capital and marketing outlays that are unrecoverable if the firm must exit are
19 barriers to entry caused by the fact that these costs would be sunk once incurred.
20 Thus, before a firm actually enters a market, it must believe that the expected
21 revenues from entry are greater than would be the case if there were no large sunk
22 costs from entry.

23 Given just the first three characteristics of local exchange telecommunications
24 markets, most entrants are likely to begin small and grow slowly. Entrants must be
25 able to take advantage of any synergies they have with other services they may

1 provide, in order to start earning revenues as soon as possible to justify the very
2 large capital outlays needed to expand their networks. In this process, entrants will
3 be eager to serve any and all customers that they can serve for more than the
4 marginal costs of adding the customer. Once a firm has installed network facilities,
5 particularly outside plant, any customer that pays more than the marginal cost of
6 adding it to the entrant's network will help to pay for the initial investment in that
7 network.

8 The entrants also need to be able to concentrate their marketing efforts where
9 they can get the most exposure for the amount spent, in order to overcome the
10 entrenched position of the former monopoly firm. This again is best done where the
11 entrants can take advantage of any synergies they have with other services they
12 provide.

13

14 Q. WHAT ARE THE SPECIFIC PRINCIPLES THAT SHOULD GOVERN
15 COMPENSATION ARRANGEMENTS FOR TERMINATING LOCAL TRAFFIC
16 IN ORDER TO PREVENT THOSE ARRANGEMENTS FROM RAISING
17 ARTIFICIAL BARRIERS TO ENTRY IN LOCAL EXCHANGE MARKETS IN
18 FLORIDA?

19

20 A. There are at least three principles that should govern compensation arrangements for
21 terminating local traffic. First, competing local exchange carriers must be treated as
22 co-carriers, not customers, in recognition of the fact that the need for interconnection
23 becomes mutual as soon as an entrant signs up its first customer. Once an entrant
24 gains that first customer, each has a mutual need for services from the other if each
25 is to offer its customers the ability to reach all other telephone subscribers in the local

1 exchange. Thus, compensation arrangements for terminating local exchange traffic
2 must be reciprocal. If the compensation arrangements are not reciprocal, the firm
3 that must pay more faces a barrier to entry. This is different from the situation with
4 interexchange carriers, who are customers of the incumbent local exchange carriers.

5 Second, it is very important that the compensation arrangements for
6 terminating local exchange traffic foster efficiency rather than inefficiency. The fact
7 that each carrier will need the other should not be used as a reason to create an
8 upward spiral in either local exchange costs or rates, or to try to impose
9 anticompetitive terms and conditions on entrants by incumbents. Firms that are just
10 as efficient as incumbent firms should not be discouraged from entering the market
11 because of the type of compensation arrangements for terminating local exchange
12 traffic that are adopted.

13 Third, the compensation arrangements for terminating local traffic should not
14 force entrants to select one technology over another or one network architecture over
15 another. One of the major benefits from opening local exchange markets to entry and
16 the development of effective local exchange competition is that the residents of the
17 state can benefit from competition between different technologies and involving
18 different architectures of service. If the compensation arrangements for terminating
19 traffic skew the technology or architecture choices of entrants, however, this benefit
20 from entry will be reduced or eliminated. This would not be in the public interest.

21

22 Q. WHAT DO YOU MEAN BY ARCHITECTURE IN YOUR LAST ANSWER?

23

24 A. By architecture, I mean such elements of service as the decision about how many
25 switches to place and where to place them in terms of the overall networks of the

1 entrants. The decisions made about these issues by the incumbent local exchange
2 carriers have been influenced by a large number of factors, including their own
3 historical practices. The current relationship of total customers to numbers of
4 switches may no longer be efficient. Entrants should not be forced by the
5 arrangements for terminating local exchange traffic to duplicate the choices made by
6 the incumbents.

7

8 Q. YOU CALL FOR EQUALLY EFFICIENT FIRMS TO BE ABLE TO ENTER THE
9 MARKET. ISN'T THE WHOLE PURPOSE OF ALLOWING COMPETITION TO
10 HAVE MORE EFFICIENT FIRMS ENTER THE MARKET?

11

12 A. Not entirely. Competitive entry benefits consumers when equally efficient firms
13 enter, because they force the incumbent to reflect fully its efficiency in prices and to
14 become more efficient than it currently is. Currently, whatever is the efficiency level
15 of the incumbent measured in terms of its total service long run incremental costs,
16 the prices it is charging are far higher. Entry, if the market is properly structured,
17 can drive those prices down. If, however, the requirement is that the firm must be
18 more efficient than the incumbent, there are fewer and fewer firms that can even
19 enter.

20

21 Q. YOU PREVIOUSLY SAID THAT COMPENSATION ARRANGEMENTS MUST
22 BE RECIPROCAL. WHAT DO YOU MEAN BY RECIPROCITY?

23

24 A. By reciprocity, I mean that the entrant can charge the same exact price as the
25 incumbent charges for performing the same task, namely terminating a local call.

1

2 Q. WHY WOULD A LACK OF RECIPROCITY CREATE A BARRIER TO ENTRY?

3

4 A. A lack of reciprocity, with the entrant receiving less than the incumbent, creates a
5 barrier to entry because it prevents a potential entrant that is just as efficient as the
6 incumbent from receiving the same payments as the incumbent. In this respect, it is
7 similar to a price squeeze.

8

9 To be able to sign up any customers at all, an entrant must price below the
10 incumbent or offer a better service for the same price. Certainly, an entrant cannot
11 offer the same service for a higher price. If the incumbent is allowed to charge a
12 higher interconnection price than the entrant, the entrant must be more efficient than
13 the incumbent in order to be able even to meet the price of the incumbent, let alone
14 price below the incumbent's price.

15

16 Suppose that the incumbent is allowed to set the rate for terminating traffic
17 for the entrant at the incumbent's cost plus 1¢, but the entrant is only allowed to
18 charge the cost to it of termination. Assume further that traffic is in balance, and
19 that every call originated by a customer of the entrant terminates on the incumbent's
20 network. If the entrant is just as efficient as the incumbent, all of its costs are the
21 same -- except for the cost of termination. Here, because of the lack of reciprocity,
22 the entrant faces a cost 1¢ higher than the cost to the incumbent. For the entrant to
23 be able to even charge the same price for a local call that the incumbent charges, it
24 must be able to provide local calls at a cost to it, before taking into account
25 interconnection charges, of 1¢ less than providing a local call costs the incumbent.
The entrant, however, is just as efficient as the incumbent. This means that
providing local calls costs it the same as it costs the incumbent. As a result, because

1 its costs of termination have been made 1¢ higher than the cost to the incumbent, the
2 entrant cannot enter and even match the price of the incumbent. The result is it is
3 prevented from entering.

4 If instead of all calls terminating on the opposite network, only some do, the
5 amount by which the entrant must be more efficient is somewhat less, but the effect
6 does not go away. The effect of not requiring reciprocity in interconnection rates is
7 to create a barrier to entry.

8

9 Q. WHAT COMPENSATION ARRANGEMENT FOR TERMINATING LOCAL
10 EXCHANGE TRAFFIC BEST SERVES THE THREE GOALS YOU OUTLINED
11 ABOVE?

12

13 A. The best compensation arrangement for terminating local exchange traffic that passes
14 between the networks of two competing local exchange providers is payment for the
15 terminating function in kind, through mutual traffic exchange, rather than in cash.

16

17 Q. WHY DO YOU RECOMMEND THE USE OF PAYMENT IN KIND, THROUGH
18 THE USE OF MUTUAL TRAFFIC EXCHANGE, RATHER THAN PAYMENT
19 IN CASH?

20

21 A. There are at least five reasons why I recommend the use of payment in kind, or
22 mutual traffic exchange, rather than payment in cash. First, mutual traffic exchange
23 is obviously reciprocal, thus respecting that all participants are co-carriers. Second,
24 mutual traffic exchange is by far the least cost means of compensating for terminating
25 traffic, and therefore is the method most likely to help drive local exchange rates as

1 low as possible. Third, mutual traffic exchange offers the least ability for BellSouth
2 to use the compensation mechanism to try to impose both unnecessary and
3 anticompetitive costs upon the entrants, thereby making it the method least likely to
4 result in new unnecessary barriers to entry. Fourth, mutual traffic exchange is
5 neutral in terms of both the technology and architecture that entrants might choose
6 to adopt. In this regard, therefore, it is the method most likely to enhance dynamic
7 efficiency in telecommunications. Fifth, mutual traffic exchange is the only
8 compensation mechanism that may create some incentive for BellSouth to want to
9 cooperate in developing true number portability, rather than helping BellSouth to
10 benefit further from its absence.

11

12 Q. MUTUAL TRAFFIC EXCHANGE IS OBVIOUSLY RECIPROCAL. WHY DO
13 YOU SAY IT IS THE MOST EFFICIENT MEANS OF COMPENSATING FOR
14 TERMINATING LOCAL EXCHANGE TRAFFIC?

15

16 A. Mutual traffic exchange is the most efficient means of compensating for the
17 termination of local exchange traffic, for at least two reasons. First, because the
18 termination of traffic will be paid for "in kind" by each carrier, rather than with
19 money, each carrier has the incentive to minimize the cost of those terminations, an
20 incentive it does not have under any other form of compensation. Second, mutual
21 traffic exchange does not impose costs on the system that could only be justified at
22 most for a transition period.

23

24

25

It is very instructive to note that mutual traffic exchange is the dominant
practice that has long been in use between non-competing adjacent local exchange
carriers around the country -- and in Florida -- for terminating local (Extended Area

1 Service) traffic between adjacent territories. Where there is no gain from
2 anticompetitive or inefficient behavior, carriers seek the most efficient approach. The
3 dominance of mutual traffic exchange in these relationships suggests strongly the
4 efficiency of this approach.

5
6 Q. WHY DOES MUTUAL TRAFFIC EXCHANGE CREATE THE BEST
7 INCENTIVES AVAILABLE TO MINIMIZE THE COST OF TERMINATING
8 TRAFFIC?

9
10 A. Because of the inherent nature of payments in kind, rather than in cash, the payer
11 actually has the ability to affect the cost to itself of the "in kind" payment. This
12 means that each carrier will try to terminate traffic at least cost, thus promoting
13 efficiency. The result will be to seek out more efficient ways to terminate traffic,
14 and, if effective competition can develop, these cost savings will be passed on in
15 reduced local exchange service rates. The likelihood of reduced local exchange
16 service rates is enhanced under mutual traffic exchange relative to almost all other
17 forms of compensation because termination in kind means that the cost for
18 termination is no higher than its total service long run incremental cost, rather than
19 also including some "contribution."

20 If termination of traffic is paid for with money, as is proposed by BellSouth,
21 one effect is to give the incumbent the incentive to make the cost inefficiently high
22 and pass that inflated cost on to its competitors. If termination of traffic is paid for
23 in kind, however, any such cost-raising activities fall on the traffic terminator, not
24 the traffic originator. Thus, if the incumbents tried to terminate traffic in an
25 inefficient manner, the costs would fall on them, not the entrants. The result is to

1 encourage the incumbents to terminate traffic in the most efficient manner possible.

2

3 Q. WHY DOES MUTUAL TRAFFIC EXCHANGE NOT IMPOSE COSTS THAT
4 ARE JUSTIFIED AT MOST ONLY FOR A TRANSITION PERIOD?

5

6 A. Once all the conditions for effective competition have been established, it is virtually
7 certain that the amount of compensation that would be due to one network would be
8 exactly offset by the amount due to the other. Unless there are significant distortions
9 between networks, the traffic between networks tends to be in balance over time.
10 *This means that it is inefficient for firms to develop measurement and billing*
11 *arrangements that can significantly increase the costs of doing business when the*
12 *amounts to be paid are going to cancel out over relatively short periods of time. I*
13 *understand that BellSouth does not now have a means to measure terminating traffic,*
14 *and developing and implementing one will be costly. Developing such a*
15 *measurement and billing system could more than double the total service long run*
16 *incremental cost of the switching function for terminating traffic from the cost*
17 *without measurement and billing. This is a significant -- and totally unnecessary --*
18 *cost burden to add to local exchange service, when it can only be justified at best for*
19 *a relatively brief period of time. It also imposes other costs on local exchange*
20 *service, costs that fall more heavily on the entrants than on BellSouth. Mutual traffic*
21 *exchange is much more efficient, as it prevents the addition of these costs and reflects*
22 *the likely outcome in a world where all of the necessary conditions have been met*
23 *for effective competition, particularly true number portability.*

24

25 Q. WHY DO YOU SAY THAT MUTUAL TRAFFIC EXCHANGE OFFERS THE

1 LEAST ABILITY FOR BELL SOUTH TO USE THE COMPENSATION
2 MECHANISM TO TRY TO IMPOSE UNNECESSARY BARRIERS TO ENTRY?
3

4 A. Under mutual traffic exchange, BellSouth cannot impose costs on its rivals through
5 how it provides or bills for compensation. As noted above, BellSouth cannot now
6 measure the terminating traffic. If it develops a means to measure that traffic, it
7 could develop an unnecessarily costly means, and then pass that cost along to its
8 rivals.

9 Moreover, based on the experiences to date with the billing for carrier access
10 charges, the fact of billing will pose additional unnecessary costs in the form of
11 auditing and verification costs. Carrier access bills have been sufficiently in error
12 that it has been cost effective for interexchange carriers to hire people full time to
13 audit and try to get corrections made in these bills. These auditing costs have not
14 been one-time costs, but continue to be incurred today. The costs to the
15 interexchange carriers are less than the savings from what they otherwise would have
16 been required to pay, but these expenditures bring with them no social benefits
17 whatsoever. In other words, these costs are a total dead weight loss to society.

18 Local exchange users will gain no benefits from duplicating this experience
19 in the local exchange arena. Doing so, moreover, would deny consumers the ability
20 to have local exchange rates fall as far as they might otherwise fall. These auditing
21 costs would become another irreducible part of the cost floor for local exchange
22 service. Because the rates for basic local exchange service are central to the
23 provision of universal service, it would be bad public policy to insist on arrangements
24 that raise costs, rather than lowering them.
25

1 Q. WHY DID YOU TALK ABOUT THE DEVELOPMENT OF MEASUREMENT
2 AND BILLING SYSTEMS AT LEAST FOR THE INCUMBENTS. INCUMBENTS
3 NOW MEASURE AND BILL FOR LOCAL CALLS. WHY WOULD THEY
4 HAVE TO DEVELOP ANY NEW MEASUREMENT AND BILLING SYSTEMS?
5

6 A. While it is the case that incumbent local exchange carriers can and do measure and
7 bill for at least some of their local exchange traffic, the measurement systems they
8 use for that purpose cannot be used to measure terminating local exchange traffic.
9 Moreover, the measurement system that does exist for measuring some terminating
10 traffic, switched access, cannot handle calls that are not preceded by a "1." Thus,
11 any arrangement for terminating local exchange traffic that would have a charge per
12 minute would force incumbents and entrants to develop new measurement systems.
13 For the reasons discussed above, it would also almost certainly impose additional
14 costs for auditing that are purely wasteful.
15

16 Q. EARLIER, IN LISTING THE ADVANTAGES OF MUTUAL TRAFFIC
17 EXCHANGE, YOU SAID THAT MUTUAL TRAFFIC EXCHANGE IS NEUTRAL
18 IN TERMS OF BOTH TECHNOLOGY AND ARCHITECTURE. WHY?
19

20 A. Mutual traffic exchange is totally neutral in terms of both technology and network
21 architecture because the amount paid to each participant does not depend upon the
22 choices of technology or architecture. Each carrier can select the technology and
23 network architecture that it wants, without having to factor in possible penalties that
24 could arise under other arrangements for terminating local traffic. This is very
25 important for the dynamic efficiency of telecommunications. The greatest benefits

1 to consumers from entry over time will come from the efficient search for and
2 deployment of new and better technologies for sending and receiving information.

3

4 Q. WHY MAY MUTUAL TRAFFIC EXCHANGE CREATE AT LEAST SOME
5 INCENTIVE FOR THE INCUMBENT LOCAL EXCHANGE CARRIERS TO
6 COOPERATE IN THE DEVELOPMENT OF TRUE NUMBER PORTABILITY?

7

8 A. Mutual traffic exchange is the only arrangement that has been discussed that may
9 create some incentives -- even if slight -- for the incumbent carriers to co-operate in
10 the development of true number portability, because the lack of true number
11 portability may make the costs to the incumbents higher than if true number
12 portability were present. To the extent that traffic might not be in balance at the
13 outset, it is likely to be because a significant number of customers do not want to
14 change their telephone numbers. Some customers, particularly business customers
15 who are more likely to have more than one line, might respond by splitting their
16 subscriptions, retaining some lines from the incumbent and along with them their old
17 telephone numbers, while using the entrant for outgoing traffic. Under mutual traffic
18 exchange, this would make the incumbent's terminating costs higher than if the
19 customer moved all of its lines to the entrant.

20 Creating incentives for the incumbent local exchange carriers to cooperate
21 with the development of true number portability is important, because they benefit
22 from the lack of true number portability. Thus, they have every incentive to try to
23 resist its development and deployment, and to try to insist that only entrants should
24 pay any costs to achieve it. This is not good for the public.

25

1 Q. DO YOU BELIEVE TRAFFIC WILL BE IN BALANCE?

2

3 A. Yes. Networks tend normally to have roughly equal amounts of incoming and
4 outgoing traffic. Unless very strong incentives exist to try to select customers on the
5 basis of their incoming or outgoing traffic patterns, the way entrants will build their
6 networks should produce the same outcome. Entrants will put facilities in certain
7 locations, and then try to get as many customers as possible in that general location
8 to subscribe to service using those facilities. Once an entrant has facilities in one
9 neighborhood, the entrant will want to serve as many customers who are there as can
10 be induced to switch to the entrant, regardless of their particular usage patterns,
11 because a number of the costs of the facilities do not vary with the number of
12 customers served. This will be true, moreover, whether the entrant is using fiber or
13 radio systems. Even radio-based systems have equipment that is geographically
14 specific and that can be used in common by a number of subscribers, so long as they
15 live in the relevant geographical area. An entrant, with no customers from whom it
16 can cross subsidize its services, would be willing to serve any customer who pays
17 more than the direct costs it imposes, unless again there is both a strong incentive and
18 the ability to do otherwise.

19 Such an incentive would exist only if serving customers with one pattern of
20 usage was made prohibitively expensive. This could occur if the rate to entrants for
21 terminating traffic on the network of the incumbent were made higher than the rate
22 the entrants could charge the incumbent, or if the compensation for terminating traffic
23 on the network of the incumbent is very high relative to the price for local calling.
24 If there were any entry at all under either of these conditions, the entrant would have
25 a strong incentive to serve customers who had little outgoing local exchange traffic,

1 but who had a large amount of incoming traffic. Such customers would leave the
2 entrants paying for many fewer calls to the incumbent while receiving payment for
3 many more calls from the incumbent.

4 If such an incentive were created, the entrants would also have to know the
5 ratios of customers' incoming and outgoing traffic. This is not necessarily known or
6 easy to know by either the customer or the entrant. Most customers do not get
7 reports of incoming (non-800) traffic. Thus, entrants may not have the ability to
8 make a distinction among customers based on whether they have mostly incoming or
9 outgoing traffic.

10 In the absence of both an incentive and the ability to distinguish between
11 customers based on their relative proportions of incoming and outgoing traffic, it
12 seems much more likely that traffic will be in balance between networks. The
13 aggregation of the traffic patterns of a number of customers would suggest this
14 outcome.

15

16 Q. WOULDN'T THE UNEQUAL SIZES OF THE RELATIVE NETWORKS
17 SUGGEST TRAFFIC WOULD NOT BE IN BALANCE?

18

19 A. No. The relative size of networks does not determine how much traffic will flow in
20 each direction. The easiest way to see that this is the case is to imagine a small
21 carrier with only a few customers, but those customers spend their entire waking
22 hours calling customers of the big network. Because of the number of customers of
23 the small network, if all of them were to do nothing but call customers of the big
24 network, they still would not generate a large number of calls. Meanwhile, it only
25 takes a few calls each from customers of the big network calling customers of the

1 small network to equal the number of calls that could go from the customers of the
2 small network to the customers of the big network.

3 For example, if a new entrant were to gain a 2 percent market share in
4 Miami, then on average its customers would be likely to make 2 percent of their local
5 Miami calls to other customers of the new entrant, and 98 percent of their local
6 Miami calls to customers of BellSouth. At the same time, on average BellSouth's
7 customers would make 98 percent of their local Miami calls to other BellSouth
8 customers and 2 percent of their local Miami calls to customers of the new entrant.
9 But 98 percent of the calls originating on the network of a provider with 2 percent
10 of the market is the same number of calls as 2 percent of the calls originating on the
11 network of a provider with 98 percent of the market, leaving the total number of calls
12 terminated by each provider on the other provider's network in balance.

13

14 Q. YOU RECOMMEND THE USE OF MUTUAL TRAFFIC EXCHANGE TO
15 COMPENSATE FOR TERMINATING TRAFFIC ORIGINATED ON ANOTHER
16 LOCAL EXCHANGE NETWORK. IS MUTUAL TRAFFIC EXCHANGE
17 REQUIRING BELLSOUTH TO TERMINATE ITS RIVALS' LOCAL EXCHANGE
18 TRAFFIC "FOR FREE?"

19

20 A. No. It is important to remember that rival local exchange carriers are not customers,
21 but co-carriers. That means, whenever the rival has acquired a single customer,
22 traffic will flow both ways. Mutual traffic exchange simply involves each carrier
23 "paying" for the other to terminate local calls originated by its subscribers by
24 mutually terminating local calls originated by the customers of the other carrier. That
25 is why I referred to it as payment "in kind" rather than "in cash."

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Q. DOES BELLSOUTH AGREE THAT INTERCONNECTION COMPENSATION SHOULD BE BASED ON MUTUAL TRAFFIC EXCHANGE?

A. No. BellSouth has proposed to charge local exchange entrants switched access charges other than the Carrier Common Line Charge and the Residual Interconnection Charge, although it would cap any carrier's liability to payment for no more than 110% of the lower level of traffic. The use of any part of switched access charges is inappropriate.

Q. WHY WOULD SWITCHED ACCESS CHARGES BE INAPPROPRIATE FOR COMPENSATION FOR TERMINATING LOCAL EXCHANGE TRAFFIC?

A. The use of switched access charges for compensation for terminating local exchange traffic would totally bar entry, because the current regulation of BellSouth would prevent it from imputing these rates into its own local exchange rates. If BellSouth were able to reset its local exchange rates in order to pass an imputation test, it would make entry at least possible, although it would create a significant and unnecessary upward spiral in local exchange rates. In short, use of switched access charges for compensation for terminating local exchange traffic under BellSouth's current regulatory restrictions would deny the public all of the benefits that could come from local exchange competition. Use of switched access charges for compensation for terminating local exchange traffic if BellSouth's current regulatory restrictions were relaxed to allow imputation would deny the public one of the two major potential benefits from competition, namely reduced costs and prices.

1 The discussion above assumed that whatever was the sum of the switched
2 access rate elements charged to the entrants would be the charge by the entrants to
3 the incumbents. BellSouth's proposal to use switched access charges as compensation
4 for terminating local exchange traffic would not have the total charge be reciprocal,
5 however. BellSouth proposes to charge a "universal service preservation charge" as
6 part of the interconnection price, which the entrants would not be allowed to charge.
7 The lack of reciprocity would turn this approach to compensation into a virtually
8 insurmountable barrier to entry, as discussed earlier.

9 Even if it were willing to pay the entrant's switched access charges, however,
10 if it also insists that the entrant must mirror the switched access rate structure of
11 BellSouth, reciprocity in that part of the interconnection charge could occur only if
12 the entrant mirrored the architecture, at least, of the incumbent, rather than picking
13 the architecture that would otherwise be efficient, as discussed below. This would
14 deny the public the other major potential benefit from entry, namely the promotion
15 of more rapid deployment of new and better technologies.

16
17 Q. IN YOUR INITIAL DISCUSSION OF THE PRINCIPLES THAT SHOULD BE
18 SERVED BY THE METHOD OF COMPENSATING FOR TERMINATING
19 LOCAL EXCHANGE TRAFFIC BETWEEN COMPETING LOCAL EXCHANGE
20 CARRIERS, YOU NOTED THAT IT WAS IMPORTANT THAT THE METHOD
21 OF COMPENSATION NOT BE USED TO CREATE AN UPWARD SPIRAL OF
22 LOCAL EXCHANGE COSTS OR RATES. YOU ALSO SAID THE USE OF
23 SWITCHED ACCESS CHARGES FOR COMPENSATION WOULD EITHER BAR
24 ENTRY OR CREATE SUCH AN UPWARD SPIRAL, ASSUMING A CHANGE
25 IN HOW BELL SOUTH IS REGULATED. HOW?

1

2 A. The use of switched access rates create an intolerable price squeeze. The only way
3 for the Commission to allow these rates to go into effect and not kill any possibility
4 whatsoever for competition would be to require BellSouth to impute the same rates
5 into all of its local exchange rates. Imputing switched access rates into local
6 exchange rates, however, would mean raising basic local exchange rates for reasons
7 other than an increase in the economic cost of providing local exchange service.

8 A far better approach would be to adopt mutual traffic exchange. Mutual
9 traffic exchange does not create a conflict between BellSouth's current regulation and
10 the possibility of gaining any benefits of entry. This is in addition to all of the other
11 benefits I have listed above that arise from the use of mutual traffic exchange.

12

13 Q. WHAT DO YOU MEAN BY A PRICE SQUEEZE?

14

15 A. By the term "price squeeze" I am referring to a particular relationship between two
16 prices (or two sets of prices). This relationship can arise whenever a monopoly
17 supplier of inputs to other firms also competes to sell the end user service. If that
18 monopoly supplier sets the price or prices of the bottleneck monopoly inputs at a
19 level such that its end user price does not recover both the price(s) for the monopoly
20 input(s) and the rest of the costs of producing the end user service(s), a price squeeze
21 exists. Under a price squeeze, a dependent competitor that is just as efficient as the
22 monopolist cannot cover all of its costs at the price for the end user product charged
23 by the monopolist. There is absolutely no way that an unregulated, competitive firm
24 can lose a penny on every sale and make it up in volume. Thus, when a firm sees
25 that it is going to be subject to a price squeeze, what it sees is a barrier to entry.

1

2 Q. IF SWITCHED ACCESS CHARGES ARE USED FOR COMPENSATION, WHY
3 WOULD RECIPROCITY ONLY BE POSSIBLE, IF AT ALL, IF THE ENTRANT
4 MIRRORED THE ARCHITECTURE OF THE INCUMBENT?

5

6 A. Switched access charges are composed of a series of rate elements charged for the
7 use of different piece parts of the incumbent's network to terminate a call. Except
8 for the rate elements designed to pay "contribution," if the piece part is not used,
9 then the rate element is not charged. The proposals to use switched access charges
10 for compensation mostly include the same requirement. Thus, the entrant would only
11 be allowed to charge for the same categories of costs that the incumbent claims are
12 the costs of providing service.

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Suppose an entrant placed only a single switch, using much more "loop" plant than the incumbent. The total cost to it to terminate a local call for the incumbent may or may not be less than the incumbent's costs, but those costs may be in different categories from those used by the incumbent. If the only costs the entrant can recover in its local interconnection tariff are switching and transport costs, however, it will be handicapped relative to the incumbent, and may be prevented from recovering all of its costs regardless of whether they are less than or equal to the incumbent's costs. Particularly in the early years of its existence, an entrant will mostly be terminating calls from customers of the incumbent rather than from its own customers. Because of the inability to recover its costs using its preferred architecture, it will face an incentive to try to mirror the architecture of the incumbent, even if it were not the most efficient architecture. This would be very bad for the public, because it would reduce the dynamic efficiency benefits from

1 entry.

2

3 Q. WOULD A COMPENSATION PROPOSAL SIMILAR IN STRUCTURE TO
4 SWITCHED ACCESS CHARGES BUT WITH THE ACTUAL RATES SET JUST
5 AT COST BE THE SAME AS MUTUAL TRAFFIC EXCHANGE IN TERMS OF
6 ITS BENEFITS?

7

8 A. No. Although setting the rates at cost instead of above cost would clearly be
9 preferable, such a compensation arrangement still would lead to significantly higher
10 costs for local exchange service than a system of mutual traffic exchange, for the
11 reasons discussed above. It would also still create uneconomic incentives for the
12 entrants to adopt an architecture or technology that is less efficient, solely in order
13 not to be penalized by the compensation mechanism, as discussed above.

14

15 Q. ONE REASON THAT HAS BEEN GIVEN FOR PROPOSING SWITCHED
16 ACCESS CHARGES FOR COMPENSATION FOR TERMINATING LOCAL
17 EXCHANGE TRAFFIC IS THE CLAIM THAT ALL INTERCONNECTORS
18 SHOULD BE CHARGED THE SAME RATES. DO YOU AGREE?

19

20 A. Not necessarily. While it would be better to have a nondiscriminatory price for all
21 users of the same service, there are at least two problems with any proposal to do so
22 by moving all interconnectors to BellSouth's inflated switched access rates. First,
23 charging all interconnectors switched access rates without the proper imputation of
24 those rates into the relevant end user service rates of BellSouth would prevent
25 competition in many cases, and particularly in local exchange service. This problem

1 would be eliminated if BellSouth were to set all interconnection rates at cost, and the
2 entrants could set their compensation rate equal to the sum of the rate elements
3 BellSouth would charge.

4 Second, because of the importance of basic local exchange service for
5 universal service, local interconnections may have to be an exception to the otherwise
6 strong benefits from nondiscriminatory rates. Unless all interconnection prices were
7 set just at economic cost, those rates would contain "contribution." That
8 "contribution" would become part of the irreducible cost of local exchange service,
9 thereby raising the minimum possible price for local exchange service. This denies
10 consumers the possible full benefits from local exchange competition. Thus, it is not
11 necessarily desirable or appropriate to charge all interconnectors the same rates.

12

13 Q. IN ADDITION TO DETERRING ENTRY, ARE THERE ANY OTHER
14 PROBLEMS CREATED IF COMPENSATION IS NOT RECIPROCAL?

15

16 A. Yes. There is a second problem caused if compensation is not reciprocal, and that
17 is that even if a more efficient firm enters the market, that firm is required to transfer
18 its efficiencies to the incumbent, rather than being able to use its greater efficiency
19 to gain market share. This also reduces the likelihood of a potential entrant actually
20 entering the market.

21 This problem can be seen by an example. Suppose there are two firms in the
22 market, and each terminates on the other network half of the local calls that originate
23 on its network. Suppose it costs the incumbent 3¢ per call to terminate local calls,
24 but it only costs the entrant 2¢. Suppose further that it also costs the incumbent 3¢
25 per call for origination, but it only costs the entrant 2¢ per call. If the entrant has

1 to charge the incumbent only 2¢ per call terminating into the entrant's network, the
2 incumbent could offer its own customers calling at 5 and 1/2¢ per call, which is less
3 than the 6¢ per call that it currently costs the incumbent to originate and terminate
4 using only its own network. The entrant, meanwhile, will have to charge 4 and 1/2¢
5 per call in order to recover the interconnection charges that it has to pay the
6 incumbent. If, however, the entrant were allowed to charge the incumbent 3¢ per
7 call for termination, equal to the charge of the incumbent, it could charge 4¢ per call
8 to its own customers, passing on to them the full benefits of its greater efficiency.
9 The incumbent would have to charge the full 6¢ per call until it became as efficient
10 as the entrant. In this example, the market would send the right information to
11 consumers about which firm is more efficient, and the right signals to the incumbent
12 to become more efficient.

13

14 Q. IF THE COMMISSION BELIEVES THAT COMPENSATION SHOULD BE IN
15 CASH, RATHER THAN IN KIND, WHAT RATE LEVEL WOULD BE
16 APPROPRIATE FOR COMPENSATION FOR TERMINATING LOCAL CALLS?

17

18 A. The rate should be set at the direct economic costs of supplying the termination by
19 the incumbent, and no higher. Only if this is the rule for the rates for compensation
20 for terminating local calls can the price for local exchange services have any chance
21 of falling to the social cost of providing them.

22

23 Q. YOU USED THE TERM "SOCIAL COST" IN YOUR LAST ANSWER. WHAT
24 IS SOCIAL COST AND HOW DOES IT RELATE TO ECONOMIC COSTS?

25

1 A. The social cost of providing a good or service is equal to the cost of the resources
2 that society must give up to produce that good or service. The economic cost of
3 providing a good or service is equal to the least cost firms in the given market would
4 face when operating efficiently. Both concepts of cost include a competitive level of
5 profit, but not any higher level of profit. If all goods and services are sold at their
6 social cost, then the economic costs of services will be equal to their social costs.

7 If, however, some intermediate goods or services -- that is, goods or services
8 used as inputs in the production of other goods or services -- are priced above their
9 social costs, the economic costs of the goods or services that use them will be higher
10 than their social costs. This is in fact the case today for interexchange services.
11 Because switched access is priced far above its social cost, the economic cost of
12 interexchange services is also far above the social cost of interexchange services. The
13 same thing could happen to local exchange services if the rates for interconnection
14 and other essential monopoly input functions needed to supply local exchange services
15 are allowed to be set in excess of their social cost.

16

17 Q. WHY WOULD RATES FOR COMPENSATING FOR TERMINATING LOCAL
18 EXCHANGE TRAFFIC HIGHER THAN THE DIRECT COST OF THE
19 TERMINATIONS RESULT IN PRICES FOR RETAIL SERVICES BEING
20 UNABLE TO FALL TO THE SOCIAL COSTS OF SUPPLYING THEM?

21

22 A. If the Commission wants effective competition to be able to drive retail service prices
23 down to the social cost of providing them, it needs to set interconnection service
24 prices at the direct cost of supplying them, and look only to retail services for
25 collection of all of the costs of the incumbent local exchange carriers other than the

1 direct cost of providing interconnection services. Telecommunications is unlike
2 almost any other market in the fact that carriers cannot be in business without
3 interconnecting to competitors. Carriers, however, do not go into business for the
4 purpose of supplying interconnection, but for the purpose of serving end users.
5 Therefore, carriers should look to end users for the recovery of all of the indirect
6 costs of the firm.

7 It is very important to understand that whatever prices are set for
8 interconnection services become part of the economic costs of the companies that
9 must pay them. Connecting carriers cannot compete down the prices for
10 interconnection services, and will be denied service if they do not pay the asking
11 price. Thus, these prices are real costs to the connecting carriers, and are part of the
12 economic costs of providing retail services, even if those prices are above the social
13 costs to provide interconnection services. If interconnection service prices are any
14 higher than the direct cost of supplying them, effective competition may develop in
15 terms of driving prices down to the economic costs of supplying retail services, but
16 those costs will be higher than the social costs of supplying those retail services.

17 If there is to be any competition at all for the retail services that the
18 incumbent local exchange companies provide at the same time that they provide these
19 necessary interconnection services for their rivals, the prices the incumbents charge
20 their rivals for the interconnection services must be part of the retail price floor
21 facing the incumbent carriers as well. Otherwise, the incumbent local exchange
22 carriers can charge their rivals more for interconnection services than they recover
23 for those same services, which would allow the incumbents to underprice equally
24 efficient rivals in the retail market. This is anticompetitive, and prevents the
25 development of competition for the retail services affected. Thus, if any competition

1 is to be possible, the incumbent local exchange carriers must recover at least the
2 same prices for interconnection services as they charge their rivals. As a result,
3 whatever those prices are become part of the economic costs of the retail services.

4 The interconnecting carriers do not only have costs for interconnection. They
5 also have direct costs for other inputs into their retail services. Further, they also
6 have indirect costs that they must recover through markups over direct cost in their
7 retail service rates. These are costs of doing business that do not vary with the
8 output of the retail service, such as overhead costs. If the interconnection rates that
9 the interconnecting carriers must pay include some of the recovery of the indirect
10 costs of the incumbent local exchange carriers, two bad effects occur. First, the
11 basic level of prices in the retail market is higher than it would be otherwise, as new
12 entrants will have to price to recover their own indirect costs, and to help recover the
13 indirect costs of the incumbent. Second, the amount of recovery of the incumbent's
14 indirect costs in interconnection rates will be shielded completely from competitive
15 pressure, since those indirect costs will be imposed on the competitors, and cannot
16 be competed out.

17 If interconnection prices are set at cost, but no higher, all firms will have to
18 look to their retail customers for recovery of all of their indirect costs, as well as for
19 recovery of their direct costs of providing the retail services. A firm that is
20 inefficient at supplying the functions that do not vary with the volume of service will
21 discover that it has to set its retail prices higher than its more efficient competitors.
22 This will cause it to lose market share, and so force it to become more efficient at
23 performing those functions. This is to the benefit of consumers.

24 If, however, interconnection prices include a markup over cost, this same
25 market pressure cannot develop for the amount of the markup contained in

1 interconnection rates. Basically, it is very important to remember that
2 interconnection rates cannot be competed down. Under those circumstances, the
3 costs recovered in those prices cannot face a market test for efficiency.

4 If the Commission wants competition to bring retail prices down to the social
5 cost of providing them (or as close to that level as is possible), it will have to set the
6 prices for the necessary interconnection services to recover just the economic cost of
7 providing them and no more. This means pricing these services to recover the total
8 service long run incremental cost (TSLRIC) of supplying them, but not including any
9 markup over that cost level in interconnection prices.

10

11 2. What Are the Appropriate Rate Structure, Interconnection Rates, or
12 Other Arrangements for the Exchange of Toll Traffic Between
13 MCImetro and BellSouth?

14

15 Q. WHAT SHOULD BE THE CHARGES FOR TOLL TRAFFIC EXCHANGED
16 BETWEEN MCIMETRO AND BELLSOUTH?

17

18 A. Toll traffic should be exchanged using each carrier's switched access charges.
19 BellSouth already has an access charge tariff. MCImetro should be allowed to file
20 an access charge tariff of its own, with the only requirement being that the total
21 charge for originating and terminating toll calls by MCImetro not exceed the total
22 rate that would have been paid to BellSouth.

23

24 3. How Should Competing Local Exchange Networks be Physically
25 Interconnected?

1

2 Q. HOW SHOULD THE NETWORKS OF ENTRANTS AND OF INCUMBENTS BE
3 INTERCONNECTED PHYSICALLY?

4

5 A. The major requirement for physical interconnection is that it should be done in the
6 most efficient manner possible. This means that interconnection should be allowed
7 at any *feasible point of interconnection*, rather than being arbitrarily limited to only
8 certain points, and that the facilities -- trunks -- that actually join the two networks
9 also be as efficient as possible. Additionally, signaling networks need to be
10 interconnected and need to pass sufficient signaling information so that all of the
11 services possible with today's technology can be offered to all customers.

12

13 Q. WHAT DO YOU MEAN BY ALLOWING INTERCONNECTION AT ANY
14 FEASIBLE POINT OF INTERCONNECTION?

15

16 A. Based on the arrangements already in use today, interconnection clearly can occur at
17 a number of points. Interexchange carriers interconnect with local exchange carriers
18 either at their own Points of Presence, or, thanks to recent Federal regulatory
19 changes, at the switch of a local exchange provider. The incumbent local exchange
20 providers often interconnect with each other at a "meet point," which is just a
21 *division of ownership of a trunk connecting two switches owned by different*
22 *companies.* The "meet point" is usually the boundary between two adjacent
23 exchanges.

24

25 All of these are feasible points of interconnection between BellSouth and
competitive local exchange entrants. *The point of interconnection for a trunk*

1 connecting the networks could be at either end -- at the switch of either the entrant
2 or BellSouth -- or it could be in the middle, defining a "meet point" between the two
3 networks. The entrant should get to select which of these it wishes, as its choice will
4 be dictated solely by the desire to minimize costs. That choice should allow the
5 entrant to select only one point of interconnection per local calling area.

6

7 Q. WHY WOULD THE ENTRANT, BUT NOT BELLSOUTH, WANT TO
8 MINIMIZE COSTS?

9

10 A. In order to attract customers, an entrant must offer either lower prices or improved
11 services over what customers can get from BellSouth. In order to do either of these,
12 the entrant needs to keep its costs as low as possible. Moreover, an entrant will be
13 likely initially to have a higher percentage of its traffic going to BellSouth's network
14 than the percentage of its total local traffic BellSouth has that will terminate on the
15 network of the entrant, although the actual quantities should be in balance. Thus,
16 interconnection costs will be a higher percentage of its costs of providing local
17 calling. This increases the incentive of the entrant to keep those costs as low as
18 possible.

19 BellSouth, on the other hand, can use interconnection costs as one of a
20 number of opportunities to try to handicap the entrant, by making the entrant's costs
21 higher than BellSouth's, thus blocking or impeding entry. One way to do this is to
22 insist upon unnecessarily costly methods of interconnection. Thus, allowing the
23 entrant to select which of the points of interconnection it wants to use is the method
24 most likely to minimize these costs.

25

1 Q. SHOULD BELLSOUTH BE ALLOWED TO REQUIRE COLOCATION IF THE
2 ENTRANT WANTS TO PROVIDE SOME OF THE TRUNKS USED FOR
3 INTERCONNECTION?

4

5 A. No. It would be more efficient to allow the entrant to specify a "meet point" half
6 way across the trunk needed to interconnect the networks, with each carrier owning
7 and paying for half of the trunk. If colocation is required if an entrant wants to
8 provide some of the trunks used for interconnection, then the entrant should be
9 allowed to charge BellSouth for colocation whenever BellSouth trunks interconnect
10 at the entrant's switch.

11

12 Q. WHAT DO YOU MEAN BY THE USE OF THE MOST EFFICIENT TRUNKS?

13

14 A. Trunks can be either one-way trunks or two-way trunks. The former carry traffic in
15 only one direction, the latter in both. Often, two-way trunks are more efficient, as
16 they allow more traffic to be carried on a given number of circuits. Entrants should
17 be allowed to select the form of trunking that is most efficient for it, including being
18 able to put both local exchange and intraLATA traffic on the same trunks, in order
19 to minimize costs.

20

21 4. What Are the Appropriate Arrangements for the Delivery of Calls
22 Originated by and/or Terminated to MCImetro From Other Carriers
23 That Are Not Directly Connected to MCImetro?

24

25 Q. WHAT ARE THE APPROPRIATE ARRANGEMENTS FOR THE DELIVERY OF

1 CALLS ORIGINATED BY AND/OR TERMINATED TO MCIMETRO FROM
2 OTHER CARRIERS THAT ARE NOT DIRECTLY CONNECTED TO
3 MCIMETRO?

4

5 A. The answer depends upon what kind of traffic is involved. If the traffic is local
6 traffic, BellSouth should charge only the direct economic costs (TSLRIC) of the
7 transit function. BellSouth should be required to handle toll transit traffic exactly as
8 it does for independent local exchange carriers.

9 BellSouth should be required to do this because it holds a monopoly over the
10 transit function. Because of its status as the former monopoly company, all carriers
11 are connected to BellSouth. BellSouth should not be allowed to refuse to serve as the
12 transit carrier, given that this would be the most efficient way to get the traffic to its
13 destination. Nor should it be allowed to use its position to force entrants to pay a
14 discriminatory price for this service.

15

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17

18 A. Yes.

19

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25

1 Q (By Mr. Melson) And Dr. Cornell, would you
2 please summarize your direct testimony?

3 A Yes. My direct testimony covers four issues.
4 Those are listed on Page 2 as: What are the appropriate
5 rate structure interconnection rates or other
6 arrangements for the exchange of local traffic between
7 MCI Metro and BellSouth; 2, What are the appropriate
8 rate structure, interconnection rates, or other
9 arrangements for the exchange of toll traffic between
10 MCI Metro and BellSouth; 3, What are the appropriate
11 arrangements for physical interconnection between MCI
12 Metro and BellSouth; and 4, what are the appropriate
13 arrangements for the delivery of calls originated by
14 and/or terminated to MCI Metro from other carriers,
15 (IXCs, ALECs, other LECs, wireless carriers) that are
16 not directly connected to MCI Metro.

17 Most of my testimony is devoted to the first
18 issue, which is: What are the appropriate rate
19 structure, interconnection rates, or other arrangements
20 for the exchange of local traffic between MCI Metro and
21 BellSouth. And my testimony goes in a great deal of
22 detail on why the appropriate arrangement is mutual
23 traffic exchange.

24 Now, in effect, mutual traffic exchange and
25 bill and keep have the same outcome, but mutual traffic

1 exchange is a much more appropriate term for the
2 practice because it is payment in kind. I will agree to
3 terminate your traffic if you agree to terminate mine.
4 And it is therefore a mutual exchange of traffic.

5 My testimony tries to lay out what I believe
6 ought to be the goals of public policy for
7 interconnection. And the first and the foremost, sort
8 of overriding goal, should be to foster the development
9 of effective competition, assuming that effective
10 competition is, in fact, possible in these markets.

11 Entry is not the same as effective
12 competition. And for effective competition, all firms,
13 including the incumbent, have to face sufficient market
14 discipline so that prices are as close to cost as
15 possible. Mutual traffic exchange is the best way to
16 foster effective competition because it does not create
17 artificial barriers to entry that would add to the
18 natural barriers that already exist. And I go in my
19 testimony through some of the natural barriers, which I
20 won't summarize here.

21 Mutual traffic exchange satisfies three other
22 vital requirements for interconnection to be able to
23 foster effective competition. First, it is reciprocal,
24 and that is essential; second, it fosters efficiency
25 more than any other form of interconnection arrangement

1 can foster efficiency; and third, it is neutral with
2 respect to the technology and architecture chosen by
3 each of the carriers, incumbents and entrants alike.

4 My testimony also goes through why
5 interconnection should not be based on switched access
6 charges, either in format or at present rate levels.

7 First, switched access rates, as proposed by
8 BellSouth, would create a massive price squeeze, and a
9 price squeeze creates a direct and large artificial
10 barrier to entry.

11 Second, switched access charges could be used
12 to prevent reciprocity if the entrant has to be -- can
13 only, excuse me, charge those rate elements that match
14 the rate elements of BellSouth and at the same levels
15 and only if they have that technology and architecture
16 with the result that you would create an even larger
17 barrier to entry.

18 And that is because the third effect is that
19 it would tend to force, or incent may be a better word,
20 entrants, to mirror the technology and architecture of
21 BellSouth in order to be able to come closer to
22 reciprocity. And this would be very bad for the public,
23 because one of the major gains to be gotten from entry
24 into the local exchange market is a dynamic effect of
25 bringing new technologies and new architectures to bear

1 in the hopes that all of this brings costs down and
2 increases services available to the public.

3 My direct testimony then goes on to discuss
4 that if you are going to order compensation for
5 interconnection in cash, rather than in kind, which I
6 urge you not to do, the rate should be equal to and not
7 higher than the direct economic cost of the incumbent's
8 provision of this service. And direct economic cost I
9 equate to the total service long run incremental costs,
10 or that horrible acronym, TSLRIC. No higher. Because
11 rates any higher than the direct economic costs put an
12 artificial floor down -- above where it ought to be,
13 down to which retail rates can fall, and I discuss that
14 in some detail in the testimony.

15 In terms of the second issue, toll calls
16 should be terminated using switched access just as is
17 the arrangement now with interexchange carriers.

18 In terms of the third issue, networks should
19 be interconnected physically at any feasible point of
20 interconnection, and that should include a meet point
21 rather than requiring interconnection only at switches,
22 and it should be done in the most efficient manner. And
23 in order to get this outcome, the entrant should have
24 the right to choose where the interconnection will take
25 place. And I discuss in my testimony why the entrant,

1 more so than the incumbent, has that incentive for
2 efficiency.

3 And finally, for intermediary services, that
4 was Issue 4, BellSouth should be allowed to charge the
5 TSLRIC direct economic cost for the intermediary
6 function performed when it is local traffic, and its
7 current access charge arrangements when the intermediary
8 function is performed for toll traffic. That concludes
9 my summary.

10 MR. MELSON: Dr. Cornell is tendered for
11 cross.

12 CHAIRMAN CLARK: Ms. Weiske.

13 MS. WEISKE: I have one. Maybe.

14 CROSS-EXAMINATION

15 BY MS. WEISKE:

16 Q Dr. Cornell, you indicated that if the
17 Commission did not adopt your recommendation of bill and
18 keep that you would then recommend cost-based rates
19 equal to TSLRIC. Is that a fair summary of what you
20 just said?

21 A Yes, except I would take out the "based." I
22 would say rates equal to cost.

23 Q Do you then have a position on whether
24 imputation would be part of that recommendation?

25 A If it's a cash rate, yes, you will always have

1 to have imputation, even if the rate is based on cost,
2 in order to try to limit the incentives of making that
3 cost inefficiently high.

4 Q And how exactly would you recommend the
5 imputation occur?

6 A The imputation should be that BellSouth should
7 have to recover in its retail rate for local usage the
8 price that it charges for interconnection, plus the
9 costs of performing all the rest of the functions
10 involved in originating and terminating a local call.

11 Q And what if BellSouth currently is constrained
12 in terms of increasing its local exchange retail
13 residential rates? Does that change that
14 recommendation?

15 A As a policy, it does not. Obviously if it
16 cannot increase its rates, the appropriate thing to do
17 is to reduce the interconnection rate so it still passes
18 an imputation test. Better still is to do bill and
19 keep, which by -- in and of itself passes an imputation
20 test.

21 Q What do you mean by the last comment, that
22 bill and keep, in and of itself, passes an imputation
23 test?

24 A Because each carrier then is going to be
25 providing the service at cost. It's going to be

1 incented to find the most efficient way to terminate it,
2 and it's going to have to recover its costs in its end
3 user rates for local usage.

4 Q Is your recommendation of bill and keep an
5 interim recommendation?

6 A No, not unless after there is true number
7 portability it really is demonstrated that there is
8 significant imbalance in traffic between networks. If
9 there is balance, or very close to balance, there's no
10 reason for society to undertake the extra costs,
11 administrative costs, of billing, rendering bills,
12 auditing bills, that would go along with a cash-based
13 compensation system. It's a dead weight loss to
14 society.

15 MS. WEISKE: Thank you. That's all I have.

16 CHAIRMAN CLARK: Is it Ms. White or -- you
17 want to go last?

18 MR. LACKEY: Yes, ma'am.

19 CHAIRMAN CLARK: Mr. Tye?

20 MR. TYE: Thank you, Madam Chairman.

21 CROSS-EXAMINATION

22 BY MR. TYE:

23 Q Dr. Cornell, my name is Mike Tye, and I
24 represent AT&T, and I just have a few questions for
25 you.

1 A Good afternoon, sir.

2 Q Fine. How you doing? In his rebuttal
3 testimony, Dr. Cornell, Mr. Scheye says that the mutual
4 traffic exchange would not enable BellSouth to recover
5 its cost of interconnection and would therefore appear
6 to be a violation of Florida law.

7 Does the mutual exchange of traffic enable
8 BellSouth to recover its cost of interconnection, in
9 your opinion?

10 A Yes, it does.

11 Q Is this something like a country doctor that
12 gets paid in chickens rather than in cash money?

13 A No, and I would like to explain.

14 Q Go ahead.

15 A In the one case, BellSouth has need of the
16 very service that is going to be the payment in kind,
17 and it has need of it in exactly the quantity that it's
18 going to get paid in kind. That is, it has to terminate
19 calls to the customers of the entrant if it is going
20 continue to claim that it offers ubiquitous local
21 exchange service. If it does not terminate calls to
22 customers of the entrant, it cannot claim it's offering
23 ubiquitous local exchange service, for obvious reasons.
24 Therefore it needs those terminations.

25 A country doctor, usually in the Depression,

1 but sometimes still today, who gets too many chickens
2 that he can't eat, or that his family can't eat, or that
3 his family and friends can't eat, has been given
4 something for which it has no use, he or she, and has no
5 ability to do much with. It is not being paid in that
6 instance, he or she, something that is exactly needed
7 and exactly needed in the quantity in which it's being
8 provided. This is very different from that kind of
9 transaction in kind.

10 Q Thank you. Dr. Cornell, in your testimony,
11 you say, in effect, that one of the advantages of mutual
12 traffic exchange is that it doesn't require BellSouth to
13 develop costly measurement systems; is that correct?

14 A That's correct.

15 Q Are you aware that BellSouth has taken the
16 position that there won't be an incremental cost of
17 measurement?

18 A Yes. And I will admit that measurement is
19 probably a kind of sloppy term in my testimony, and I
20 apologize for it. I should have really talked about the
21 cost of jurisdictionally sorting traffic. And
22 jurisdiction may not even be the right term, but it's
23 the one that I know to apply to segregating and
24 identifying the minutes that are flowing past as local
25 versus toll. And that's a different story, and that's

1 the kind of cost I was referring to in my testimony.

2 Q Is there a cost there?

3 A Not only is there a cost to that, but over a
4 trunk that carries local and intraLATA toll traffic on
5 the same trunk, there is today no system that does that,
6 but ones are being explored, and so far the cost data on
7 what they would cost to implement are very high, and
8 it's just a very costly proceeding. If they were
9 willing to continue using a percent local usage figure,
10 that's fine. But it's when they insist they must be
11 able to jurisdictionally sort themselves that this
12 problem arises.

13 MR. TYE: Thank you, Dr. Cornell. I have no
14 further questions, Madam Chairman.

15 MR. FINCHER: No questions.

16 MR. FALVEY: No questions.

17 CHAIRMAN CLARK: Mr. Lackey?

18 MR. LACKEY: No questions.

19 CHAIRMAN CLARK: Staff?

20 CROSS-EXAMINATION

21 BY MR. ELIAS:

22 Q Dr. Cornell, my name is Bob Elias, and I'm
23 also going to be blessedly brief. The choice of
24 compensation mechanism is only important if one of two
25 things are true: If the cost on a permanent basis is

1 different, or the traffic is imbalanced. Is that true?

2 A No.

3 Q Would you explain why not?

4 A Yes. The choice of a compensation mechanism
5 is important even if traffic is in balance and the rates
6 are allowed to be, in dollar terms, reciprocal, for the
7 following sets of reasons: First, no firm is going to
8 be able to confidently project into the future that on a
9 month-by-month basis it will always be the case down to
10 the last minute that the traffic will be in balance.
11 And therefore, it is going to have to set its retail
12 rates at a level that enables it to collect sufficient
13 revenue to cover some kind of probabilistic out of
14 balance for that month incurrence of interconnection
15 charges for cash flow reasons.

16 It's all very well to say, I've made my
17 five-year projections and it all comes out fine, if one
18 month you can't meet payroll because you don't have the
19 cash flow for it. I speak as somebody who has in fact
20 run a business. For that reason, retail prices will be
21 set higher than they would be in a mutual traffic
22 exchange environment in order to ensure that that cash
23 flow is available.

24 Secondly, it is going to impact -- this very
25 requirement is going to affect much more heavily the

1 entrants from whom you are looking for the competitive
2 downward price pressure than it will affect the
3 incumbent, because a much higher percentage of the
4 entrant's traffic is likely to terminate on the
5 incumbent than is the percentage of the total traffic of
6 the incumbent on the entrant.

7 Now, I want to be very clear. That percentage
8 statement about each carrier's traffic has nothing to do
9 whether the total number of minutes will be basically in
10 balance or not. And I go through that in one of my
11 testimonies -- I think the direct, but I apologize, it's
12 been a while since I filed -- in which I describe that
13 two percent of -- you know, that -- that you can have a
14 two percent and a 98 percent carrier and each of them
15 transmits the same number of minutes, but it's a much
16 higher percentage of the traffic of the small carrier
17 than of the large carrier.

18 The result of that effect is that this need to
19 ensure against a cash flow crunch is going to hit much
20 harder on the very part of the industry you are looking
21 for the competitive pressure to come from than it will
22 on the incumbent. So you kind of compound the problem.

23 Q Do you have any reason to believe that the
24 traffic that will flow over these multiple networks,
25 once competition is in place, will be out of balance,

1 will flow in one direction or another?

2 A I have no reason to believe that it will be
3 out of balance, and I only have network engineers in
4 other circumstances similar to this making the same
5 claim I am, and that the first time this issue was
6 brought to my attention -- let me put it in the passive,
7 I apologize -- was in New Zealand, where there was an
8 application for competitive local exchange service. And
9 all of the network engineers, both the would-be entrant
10 and incumbent, were in agreement that the traffic would
11 tend to be in balance as the networks grew, and you had
12 just basically the kind of effect of large numbers just
13 similar to the kind of effect that you get on trunking
14 efficiency as you get more traffic coming into a trunk.

15 My understanding is that Bell Atlantic also
16 has pretty much conceded that they expect traffic to be
17 in balance after a particular period of -- after some
18 period of time, maybe not day one, but soon.

19 Q You stated that total service long run
20 incremental cost should be the basis of establishing
21 compensation rates should the Commission decide not to
22 go with a bill-and-keep mechanism. Do you have an
23 opinion as to whether that cost will be higher for the
24 incumbent local exchange company or higher for the new
25 entrants, identical or otherwise?

1 A I do not, but I think you've mischaracterized
2 the position I stated.

3 Q I didn't mean to.

4 A Pardon?

5 Q I said, if I did, I'm sorry. I certainly
6 didn't mean to.

7 A And I know you didn't mean to, so I would like
8 to correct it if I may. My position is that the rate
9 should be set equal to the total service long run
10 incremental cost of the incumbent, and the entrant
11 should be allowed to match that rate, and that that sets
12 the price, regardless of whether the entrant's costs are
13 higher or lower.

14 Q Do you have a feel for whether the entrant's
15 costs are likely to be higher or lower than the
16 incumbent's?

17 A I really don't have a feel, and I'll tell you
18 why. In the beginning, entrants will come in with
19 facilities that are costly but lightly used, which means
20 that in some respects it depends on the time period over
21 which you look at this question. After that, it depends
22 upon whether the whole stage has been set for the
23 possibility of effective competition. The better you
24 set that stage, the more rapidly you will find out
25 whether, in fact, entry and effective competition is

1 possible or is not possible. If it is possible, clearly
2 the entrants will have to have equal to or lower than
3 costs for interconnection, or have some other service
4 for which they are much lower cost to make up any
5 difference. But the best way to find that out is to
6 structure the market optimally to support effective
7 competition and let the market tell you the answer.

8 Q You spoke previously to the requirement in the
9 new Florida law that the local interconnection charge
10 shall be sufficient to cover the cost of furnishing
11 interconnection. If I'm an incumbent LEC, and more
12 minutes are being terminated on my network, and I'm just
13 receiving the privilege of terminating traffic on your
14 network as a new entrant, how does that cover the cost
15 of furnishing interconnection?

16 A I agree that if that is a persistent and
17 systematic situation, after you have true number
18 portability so you can know whether that is an
19 artificial creation or a real creation, that it would
20 then be appropriate to turn to a cash-based rather than
21 an in-kind rate.

22 If, however, traffic is close to balance or
23 fluctuates around balance, it in fact does meet the --
24 in my opinion, the statutory requirement -- and I'm only
25 speaking as an economist, I'm not a lawyer -- because

1 the market price for interconnection is whatever is the
2 highest rate set out there. If you allow BellSouth to
3 charge what it's asking to charge, the appropriate
4 market price for interconnection is then the same price
5 per minute back, and therefore if it's in balance, they
6 would be receiving a service for which they otherwise
7 would have had to pay that same amount of money. Even
8 if you set it just at cost, the same argument applies;
9 that is, if you set it at their cost, which is very much
10 lower than what they're asking for, they would be
11 receiving, in return, a service for which they would
12 have to pay exactly that same amount of money per
13 minute.

14 CHAIRMAN CLARK: And you said that a decision
15 to go to a cash basis should wait until after there is
16 true number portability?

17 WITNESS CORNELL: That's correct.

18 CHAIRMAN CLARK: And that would be because you
19 don't have any skewing of use due to the fact you have
20 to use remote call forwarding; is that why?

21 WITNESS CORNELL: That's correct. Remote call
22 forwarding really is an inferior form of number
23 portability. It causes problems in service quality.
24 There are things you cannot do. I'm not the technical
25 expert on it, but I know enough to know from an economic

1 perspective, it is truly an inferior product to a
2 database solution. Databased solutions are being
3 trialed, I think even as we speak, or very shortly now.
4 True number portability is coming. That's clear. And
5 with it you will have a much better indication of how
6 traffic patterns will take place -- can I put it that
7 way? -- after entry. And so it is worth saying this is
8 an interim period.

9 CHAIRMAN CLARK: Okay.

10 Q (By Mr. Elias) You would agree that for every
11 originating local interconnection minute, there's a
12 terminating minute out there somewhere?

13 A Certainly for all completed calls, yes.

14 Q Do you have in front of you a document that is
15 identified NWC-1?

16 A Help me out; is that --

17 Q It's your deposition.

18 A Okay, not my resume. Yes, I do.

19 Q As I recall, when that deposition was taken,
20 you were not sworn; is that correct?

21 A I think technically that's correct because I
22 had no access to a notary public out 20 miles out of
23 Meeteetse, Wyoming.

24 Q Have you had an opportunity to review the
25 transcript of your deposition?

1 A Yes, I have, and I have prepared what is, as
2 yet in handwriting, an errata sheet. I don't think
3 anything changes any substantive meaning, but there are
4 some places that I found it hard to follow what the
5 deposition was saying, and I tried to make it something
6 that became readable.

7 Q Other than that -- other than the corrections
8 noted on your errata sheet, are the answers contained in
9 your deposition true and correct to the best of your
10 knowledge?

11 A To the best of my knowledge, yes, sir.

12 MR. ELIAS: Madam Chairman, I would ask that
13 that exhibit be marked for identification.

14 CHAIRMAN CLARK: We will identify NWC-1, which
15 is the deposition of Dr. Cornell taken on December 18th,
16 1995 as Exhibit No. 12.

17 MR. MELSON: Commissioner Clark, the Staff has
18 been kind enough to type that errata sheet from
19 Dr. Cornell's handwritten notes. We have not had a
20 chance to proofread it. As soon as it's proofread, we
21 will see that it gets with the deposition.

22 CHAIRMAN CLARK: What I would propose to do is
23 we won't admit this into evidence. We'll identify both
24 NWC-1 and the errata sheet as being Exhibit 12. We'll
25 wait to admit it into the record when we're sure that

1 the errata sheet is correct.

2 (Exhibit No. 12 marked for identification.)

3 MR. ELIAS: Thank you. The Staff has nothing
4 further.

5 CHAIRMAN CLARK: Commissioners, any questions.

6 (No response.)

7 CHAIRMAN CLARK: Thank you, Dr. Cornell -- oh,
8 redirect, excuse me.

9 MR. MELSON: Is there anything Mr. Lackey
10 didn't ask you that you would like to answer?

11 (Laughter)

12 MR. MELSON: No redirect.

13 CHAIRMAN CLARK: Dr. Cornell, you're excused
14 for now, but you will be coming back for rebuttal; is
15 that correct?

16 WITNESS CORNELL: That's my understanding.

17 MR. MELSON: And Commissioner Clark, we would
18 move No. 11.

19 CHAIRMAN CLARK: Exhibit 11 will be admitted
20 in the record without objection.

21 (Exhibit No. 11 received into evidence.)

22 CHAIRMAN CLARK: We're going to wait to admit
23 12 until we get the errata sheet.

24 (Witness Cornell excused.)

25 * * *

1 CHAIRMAN CLARK: Mr. Guedel.

2 COMMISSIONER KIESLING: Madam Chairman, while
3 he's coming up, I just wanted to let anyone who was
4 worried about whether I was going to make my plane, no,
5 that my plane was canceled, so I'll be here until at
6 least 7:00 tonight and maybe tomorrow.

7 CHAIRMAN CLARK: Mr. Guedel, you were here
8 when I swore in witnesses; were you not?

9 WITNESS GUEDEL: Yes, I was.

10 CHAIRMAN CLARK: Good. So you have been sworn
11 in?

12 WITNESS GUEDEL: Yes, I have.

13 CHAIRMAN CLARK: Good. Go ahead, Ms. Dunson.

14 MIKE GUEDEL
15 was called as a witness on behalf of AT&T Communications
16 of the Southern States, Inc., and having been duly
17 sworn, testified as follows:

18 DIRECT EXAMINATION

19 BY MS. DUNSON:

20 Q Would you please state your name and business
21 address for the record?

22 A Yes, my name is Mike Guedel. My business
23 address is 1200 Peachtree Street, Northeast, Atlanta,
24 Georgia 30309.

25 Q By whom are you employed and in what capacity?

1 A I'm employed by AT&T as a manager in the
2 network services division.

3 Q Did you cause to be prepared 20 pages of
4 direct testimony which was prefiled on behalf of AT&T on
5 November 27th, 1995 in Docket 950985-B, and which was
6 adopted in Docket No. 950985-C?

7 A That is correct.

8 Q Do you have any changes or corrections to this
9 testimony?

10 A No, I do not.

11 Q If I asked you the same questions today as are
12 contained in your written testimony, would your answers
13 be the same?

14 A Yes, they would.

15 MS. DUNSON: Madam Chairman, I move for
16 admission of Mr. Guedel's direct testimony into the
17 record.

18 CHAIRMAN CLARK: I should be admitting the
19 direct testimony of Mr. Mike Guedel dated September
20 15th, 1995 for docket --

21 MS. DUNSON: No, November 27th.

22 CHAIRMAN CLARK: All right. Oh good. All
23 right. It has -- it's entitled 950985-B?

24 MS. DUNSON: Yes, it is.

25 CHAIRMAN CLARK: Dated November 27th will be

1 entered in the record as though read.

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1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

3 A. My name is Mike Guedel and my business address
4 is AT&T, 1200 Peachtree Street, NE, Atlanta,
5 Georgia, 30309. I am employed by AT&T as
6 Manager-Network Services Division.

7

8

9 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
10 WORK EXPERIENCES.

11

12 A. I received a Master of Business Administration
13 with a concentration in Finance from Kennesaw
14 State College, Marietta, GA in 1994. I
15 received a Bachelor of Science degree in
16 Business Administration from Miami University,
17 Oxford, Ohio. Over the past years, I have
18 attended numerous industry schools and seminars
19 covering a variety of technical and regulatory
20 issues. I joined the Rates and Economics
21 Department of South Central Bell in February of
22 1980. My initial assignments included cost
23 analysis of terminal equipment and special
24 assembly offerings. In 1982, I began working
25 on access charge design and development. From

1 May of 1983 through September of 1983, as part
2 of an AT&T task force, I developed local
3 transport rates for the initial NECA interstate
4 filing. Post divestiture, I remained with
5 South Central Bell with specific responsibility
6 for cost analysis, design, and development
7 relating to switched access services and
8 intraLATA toll. In June of 1985, I joined
9 AT&T, assuming responsibility for cost analysis
10 of network services including access charge
11 impacts for the five South Central States
12 (Alabama, Kentucky, Louisiana, Mississippi, and
13 Tennessee).

14

15

16 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

17

18 **A. My current responsibilities include directing**
19 **analytical support activities necessary for**
20 **intrastate communications service in Florida**
21 **and other southern states. This includes**
22 **detailed analysis of access charges and other**
23 **LEC filings to assess their impact on AT&T and**
24 **its customers. In this capacity, I have**
25 **represented AT&T through formal testimony**

1 before the Florida Public Service Commission,
2 as well as regulatory commissions in the states
3 of South Carolina and Georgia.

4

5

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7

8 **A. The purpose of my testimony is twofold:**

9

10 First, I will describe in a generic sense the
11 characteristics of interconnection and
12 collocation arrangements that are necessary to
13 provide inter-carrier connections that are both
14 technically efficient and economically
15 sensible, and thus competitively effective.

16

17 Second, I will specifically address the issue
18 of mutual compensation associated with call
19 completion as described in the petition and
20 testimony of Metropolitan Fiber Systems of
21 Florida, Inc., ("MFS-FL") and I will recommend
22 a compensation arrangement that is consistent
23 with the generic principles discussed above.

24

25

1 Q. WHAT IS MEANT BY THE TERM INTERCONNECTION?

2

3 A. Interconnection refers to the act of linking
4 two networks together such that calls or
5 messages that originate on one of the networks
6 may transit or terminate on the other network.
7 Traditionally, in the switched environment,
8 interconnection has taken place on either the
9 line-side or the trunk-side of a local exchange
10 company's switch. Typical interconnection
11 arrangements have included switched access,
12 cellular interconnection, Enhanced Service
13 Provider(ESP) interconnection, and the
14 interconnection of end user Customer Provided
15 Equipment (CPE) through local service
16 arrangements.

17

18 In the implementation of local competition,
19 these traditional types of interconnection will
20 still be useful, but may not be sufficient to
21 meet the all of the needs of all potential
22 interconnectors. A more open or "unbundled"
23 set of interconnection options and
24 interconnection architectures will need to be
25 made available.

1 Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY "UNBUNDLED"
2 INTERCONNECTION ARRANGEMENTS?

3

4 A. Unbundling is the identification and
5 disaggregation of useful components of the
6 local exchange network into a set of elements,
7 or Basic Network Functions (BNFs) which can be
8 individually provided, costed, priced, and
9 interconnected in such a manner as to provide
10 other telecommunications service offerings.
11 For example, local exchange service can be
12 "unbundled" into loops, local switching, and
13 transport.

14

15 AT&T has identified 11 components or BNFs
16 associated with local exchange services which
17 may be effectively and usefully unbundled.
18 These include: loop distribution, loop
19 concentration, loop feeder, switching, operator
20 systems, dedicated transport links, common
21 transport links, tandem switching, signaling
22 links, signal transfer points, and signal
23 control points.

24

1 Further, it must be noted that the list of BNFs
2 described above must not be considered static
3 or necessarily complete. Additional functional
4 elements may continue to be identified as
5 telecommunications technology evolves.

6

7

8 **Q. WOULD YOU DESCRIBE WHAT YOU MEAN BY**
9 **INTERCONNECTION ARCHITECTURES?**

10

11 **A.** The two basic architectures for implementing
12 interconnection are physical and virtual
13 collocation.

14

15 Physical collocation is an arrangement whereby
16 an interconnector leases floor space (and
17 access to floor space) within a LEC central
18 office for purposes of installing, maintaining
19 and managing telecommunications equipment used
20 in the provision of the interconnector's
21 service(s). Under this arrangement, the
22 interconnector can gain entry to its designated
23 space within the LEC central office (generally
24 with security escort) to install, maintain,
25 and/or repair its own equipment.

1 Virtual collocation is an arrangement whereby
2 the local exchange company installs, maintains,
3 and repairs the interconnector's designated
4 telecommunications equipment. Under this
5 arrangement, there is no segregated space
6 rented by the interconnector. Rather, there
7 would be equipment designated to the
8 interconnector in the central office, but the
9 actual location would be determined by the LEC.
10 The interconnector could maintain monitoring
11 and control ability, but would not be able to
12 physically access the equipment within the
13 central office.

14

15

16 **Q. ARE THERE OTHER TYPES OF INTERCONNECTION**
17 **ARRANGEMENTS?**

18

19 **A.** Yes, there are other types of interconnection
20 where the actual point of interconnection is
21 not in a central office. These are generally
22 called "mid-span meets." In a mid-span meet
23 arrangement, each carrier builds and is
24 responsible for operating trunk facilities out
25 to some agreed upon point between central

1 offices. Another way of thinking about this
2 arrangement is that each carrier provides one
3 half of the circuit. Under such an arrangement
4 the carriers are jointly responsible for the
5 traffic traversing the circuit.

6

7 In addition, there may be other interconnection
8 arrangements that LECs have used or that may be
9 useful to potential interconnectors.

10

11

12 **Q. WHAT ARE THE NECESSARY CHARACTERISTICS OF**
13 **INTERCONNECTION NEEDED TO OFFER AN EFFECTIVE**
14 **AND EFFICIENT WAY OF PROMOTING LOCAL EXCHANGE**
15 **COMPETITION?**

16

17 **A. First, interconnection must be available at all**
18 **technically and logically possible unbundled**
19 **interfaces to the LEC network.**

20

21 **Second, interconnection must be made available**
22 **to new carriers under the same rates, terms and**
23 **conditions as apply to the LECs own service.**

24

1 Third, it is important that no restrictions be
2 placed on interconnection standards and
3 offerings that would limit these requirements
4 to just the existing inventory of LEC network
5 functions. In order for interconnection to
6 encourage the growth of competition over time,
7 it must apply to all new LEC network services
8 as they are developed.

9
10 Fourth, LECs must not be permitted to
11 discriminate in any respect against new
12 entrants. Any discrimination in the
13 interconnection of new entrants to LEC network
14 components vis-à-vis interconnection of the
15 LEC's own services - be it in the form of
16 delays in the offering of new arrangements,
17 inferior provisioning, installation or
18 maintenance of these arrangements, or
19 uneconomic pricing of these arrangements, will
20 thwart new competition.

21
22 Furthermore, the compensation arrangements for
23 interconnection must also allow for the maximum
24 feasible development of local exchange
25 competition. To do so, carrier compensation

1 arrangements should be nondiscriminatory and
2 tariffed at rates that accurately reflect
3 underlying costs.

4

5

6 **Q. HAS MFS-FL RAISED THESE GENERIC ISSUES OF**
7 **UNBUNDLING AND INTERCONNECTION ARCHITECTURES IN**
8 **ITS PETITION?**

9

10 **A. Yes. MFS-FL is seeking specific**
11 **interconnection arrangements which fall within**
12 **these generic guidelines. Presumably, the**
13 **requested arrangements will compliment MFS's**
14 **existing or anticipated network and its**
15 **business plan. It must be noted, however, that**
16 **other arrangements may be required by other**
17 **ALECs that chose to organize their businesses**
18 **in a different manner.**

19

20 The purpose of this initial section of
21 testimony is to demonstrate the complexity of
22 the issues surrounding interconnection and the
23 need for incumbent LECs to make available an
24 extensive variety of interconnection

1 arrangements if the development of competition
2 is to have any chance at all.

3
4 While it is imperative that BellSouth make
5 available to all potential entrants the same
6 interconnection arrangements that it is
7 offering to MFS-FL, it must be recognized that
8 these arrangements may not be sufficient. In
9 other words, the MFS-FL arrangement must not be
10 considered the generic solution to
11 interconnection.

12

13

14 **Q. MFS-FL IS SEEKING SPECIFIC RELIEF FROM THE**
15 **PROPOSED CHARGES OF BELLSOUTH ASSOCIATED WITH**
16 **CALL TERMINATION. WOULD YOU DEFINE CALL**
17 **TERMINATION IN THE CONTEXT OF ALEC/LEC LOCAL**
18 **INTERCONNECTION?**

19

20 **A. Yes. Call termination is the function of**
21 **receiving a call from an interconnecting**
22 **company at the terminating company's switch and**
23 **delivering the call to an end user customer (a**
24 **customer of the terminating company).**

25

1 For example, assume that two companies are
2 offering competitive local telephone service in
3 a given geographic territory. One company is
4 the incumbent local exchange company (LEC) and
5 the other is an alternative local exchange
6 company (ALEC). Further assume that these
7 companies have established interconnecting
8 facilities linking their respective switches.
9 When a customer of the ALEC places a call to a
10 customer of the LEC, the call is transmitted
11 over the interconnecting facility to the LEC
12 switch. Likewise when a customer of the LEC
13 places a call to a customer of the ALEC, the
14 call can be transmitted over the same
15 interconnecting facility to the ALEC switch.
16 The function of call completion, in either
17 case, includes the reception of the call at the
18 terminating company switch and the delivery of
19 the call to the end user customer.

20

21

22 **Q WHY ARE THE CHARGES ASSOCIATED WITH THIS TYPE**
23 **OF CALL COMPLETION REFERRED TO AS "MUTUAL**
24 **COMPENSATION" ARRANGEMENTS?**

25

1 A. If competition develops, each of the competing
2 local service providers in a given territory
3 will serve a certain number of customers. In
4 order for each of these companies to offer
5 ubiquitous local service to their respective
6 customers, each will have to rely on the
7 other(s) to complete calls, and each will
8 expect some form of compensation for completing
9 other companies' calls. "Mutual Compensation"
10 refers to this interdependent need for call
11 completions.

12

13

14 **Q. WHAT ARE THE APPROPRIATE TERMS AND PRICES FOR**
15 **MUTUAL COMPENSATION ARRANGEMENTS?**

16

17 A. Initially, the best solution may be the "bill
18 and keep" arrangement. Under this arrangement
19 no dollars change hands. The compensation that
20 one company offers to another for the
21 completion of its calls is the agreement to
22 complete the other companies' calls in a like
23 manner.

24

1 The beauty of this arrangement is its
2 simplicity. There is no need for terminating
3 companies to measure delivered traffic. There
4 is no bill preparation or bill rendering
5 involved, nor is there the need to review bills
6 for accuracy. Further, this arrangement can be
7 implemented without the development of cost
8 studies that would be required to establish and
9 justify specific prices.

10

11 This arrangement could be implemented very
12 quickly, and because the initial volumes of
13 interconnected traffic will be very small, it
14 should not burden any of the interconnecting
15 companies:

16

17

18 **Q. IS "BILL AND KEEP" A VIABLE LONG RUN SOLUTION?**

19

20 **A. It may be. If traffic deliveries are**
21 determined to be relatively balanced and the
22 costs are similar among LECs and ALECs, then a
23 bill and keep arrangement could work
24 indefinitely.

25

1 However, if effective competition for local
2 service does develop, and some of the
3 complications of measuring and billing and
4 costing are sorted out, then a more likely long
5 term scenario would include actual billing at
6 prices based upon the total service long run
7 incremental cost incurred in providing call
8 termination.

9
10 This latter method would more likely ensure
11 that each company is accurately compensated for
12 the particular services that it provides.

13
14

15 **Q. IF THE COMMISSION DETERMINES THAT A RATE FOR**
16 **CALL COMPLETION IS APPROPRIATE, AT WHAT LEVEL**
17 **SHOULD THE COMMISSION SET THE RATE?**

18

19 **A. The rates charged for call termination should**
20 **be set at the Total Service Long Run**
21 **Incremental Cost (TSLRIC) that the LEC incurs**
22 **in providing the service. No additional mark-**
23 **up should be allowed. A LEC should be**
24 **permitted to recover the costs that it incurs**
25 **in providing call termination arrangements, but**

1 it should not be allowed to exact any
2 additional mark-up from potential competitors
3 simply for the right to do business in its
4 territory.

5

6

7 **Q. WHY IS IT NECESSARY TO ESTABLISH THE RATE AT**
8 **COST?**

9

10 **A. In the current environment, the incumbent LECs**
11 **have an overwhelming market advantage. The**
12 **incumbent LECs have essentially all of the**
13 **existing customers in the local exchange**
14 **telephone market.**

15

16 If alternative providers are to have a
17 competitive chance, barriers to competition, if
18 not completely eliminated, must be minimized.
19 Barriers should not be enhanced by allowing the
20 incumbent LECs to exact additional mark-up
21 through the rates charged for providing call
22 termination.

23

24

1 **Q. ARE CURRENT TERMINATING SWITCHED ACCESS CHARGES**
2 **THE APPROPRIATE RATES FOR INTERCONNECTION**
3 **COMPENSATION?**

4
5
6 **A. No. In fact, current terminating switched**
7 **access charges are not even appropriate for**
8 **switched access. The rates are simply too**
9 **high. Recognizing that the cost of providing**
10 **switched access is less than 5 tenths of a cent**
11 **per access minute of use (more likely closer to**
12 **3 tenths of a cent), current terminating rates**
13 **include a mark-up above cost in excess of 850%**
14 **- probably closer to 1500% or more.**

15
16 **By pricing interconnection services at these**
17 **exorbitant levels, BellSouth could effectively**
18 **foreclose local competition before it every has**
19 **a chance to develop.**

20
21
22 **Q. ARE THERE NOT ADVANTAGES TO PRICING LOCAL**
23 **INTERCONNECTION AT THE SAME RATES AS SWITCHED**
24 **ACCESS?**

25

1 A. Yes, there are advantages. Pricing these
2 services at equal levels would greatly simplify
3 the measuring, reporting and billing processes.
4 Further, from an economic standpoint,
5 recognizing that the cost of providing these
6 respective services is essentially the same, it
7 would make sense to price them the same.
8 But the appropriate reconciliation is not to
9 begin pricing local interconnection
10 arrangements at the inflated prices of switched
11 access. Rather, local interconnection should
12 be priced at the appropriate TSLRIC rate and
13 switched access should be reduced to that
14 level.

15
16
17 **Q. BELLSOUTH HAS APPARENTLY TAKEN THE POSITION**
18 **THAT IF IT PROVIDES THE TANDEM SWITCHING IN A**
19 **MEET-POINT SWITCHED ACCESS ARRANGEMENT (I.E., A**
20 **SITUATION WHERE MFS-FL SUBTENDS A BELLSOUTH**
21 **TANDEM) THAT IT (BELLSOUTH) SHOULD BILL AND**
22 **KEEP ITS RESIDUAL INTERCONNECTION CHARGE (RIC).**
23 **DO YOU SUPPORT THAT POSITION?**

24
25

1 A. No. The RIC has been purposefully dissociated
2 from the local transport function and
3 associated with end office switching in the
4 Local Transport Restructure (LTR) environment.
5 BellSouth has traditionally supported this
6 arrangement. In a situation where a company
7 (CAP, LEC, ETC.) provides local transport and
8 BellSouth provides the end office switching, it
9 would be BellSouth's position that it
10 (BellSouth) should be entitled to bill the RIC.
11 The same rules should apply to ALECs. In a
12 meet point arrangement where an ALEC provides
13 the end office switching, BellSouth should not
14 be entitled to RIC revenue.

15

16 Of course the optimal solution would be to
17 eliminate the billing of the RIC altogether.
18 There is no underlying direct cost associated
19 with the RIC and even with its elimination,
20 BellSouth's switched access charges would still
21 be many hundred percent above cost.

22

23

24

25

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2

3 A. Yes.

1 Q (By Ms. Dunson) Mr. Guedel, did you prepare a
2 summary of your testimony?

3 A Yes, I did.

4 Q Would you please give it for the record?

5 CHAIRMAN CLARK: Are we going to do his
6 rebuttal?

7 MS. DUNSON: He doesn't have any rebuttal.

8 WITNESS GUEDEL: Basically my testimony
9 addresses three issues. First, I give some description
10 of some generic guidelines that the Commission should
11 consider in approving any interconnection arrangements.
12 Those guidelines are as follows: First, interconnection
13 must be made available at all logically and technically
14 possible unbundled interfaces in the LEC network;
15 second, the interconnection must be made available to
16 new carriers under the same rates, terms and conditions
17 as applied to the LEC's own services; third, it is
18 important that no restrictions be placed on
19 interconnection standards or offerings that would limit
20 these -- the requirements to just the existing inventory
21 of LEC network functions.

22 Fourth, the LEC must not be permitted to
23 discriminate in any respect against the new entrants
24 with respect to service quality or service
25 provisioning.

1 And finally, compensation arrangements must be
2 designed to encourage the development of competition.

3 The second part of my testimony addresses the
4 concepts of mutual compensation and recommends that the
5 Commission adopt, at least initially, a bill-and-keep
6 arrangement. Under a bill-and-keep arrangement, no
7 dollars change hands. The compensation that one company
8 offers to another for the completion of its calls is the
9 agreement to complete the other company's calls in a
10 like manner. With bill and keep there is no bill
11 preparation or bill rendering, nor is there a need to
12 review bills for accuracy. Further, this arrangement
13 could be implemented without the development of cost
14 studies that would be required to establish and justify
15 specific rates.

16 Finally, my testimony addresses the residual
17 interconnection charge. It is my understanding that
18 Bell has taken the position that if they provide tandem
19 switching in an access arrangement, and another carrier,
20 an ALEC, provides the end office switching in that
21 access arrangement, that Bell should be entitled to
22 bill -- or the residual interconnection charge. I
23 don't believe that's consistent with the way the charge
24 is billed today, and I don't believe that's appropriate
25 in the future. So we do not agree with Bell on that

1 particular issue. That concludes my summary.

2 MS. DUNSON: The witness it's available for
3 cross-examination.

4 CHAIRMAN CLARK: Ms. Wilson?

5 MS. WILSON: No questions.

6 CHAIRMAN CLARK: Ms. Weiske?

7 MS. WEISKE: No questions.

8 CHAIRMAN CLARK: Mr. Melson?

9 MR. MELSON: No questions.

10 CHAIRMAN CLARK: Mr. Tye?

11 MR. TYE: No questions.

12 CHAIRMAN CLARK: Mr. Fincher?

13 MR. FINCHER: No questions.

14 CHAIRMAN CLARK: Mr. Lackey or Ms. White?

15 MS. WHITE: Yes, it's me.

16 CROSS-EXAMINATION

17 BY MS. WHITE:

18 Q Mr. Guedel, I just have a few questions. AT&T
19 hasn't filed for certification as an ALEC in Florida,
20 have they?

21 A I don't believe we have.

22 Q Did AT&T file for certification in Georgia a
23 couple of months ago?

24 A It's my understanding that we did.

25 Q Do you know when AT&T is planning to file for

1 such certification in Florida?

2 A No, I do not.

3 Q Were you here when I was cross-examining
4 Mr. Price for MCI?

5 A I believe I was, for most of it.

6 Q And essentially, what I did was ask him if he
7 had read the settlement agreement between BellSouth and
8 Teleport. Have you read that agreement, Mr. Guedel?

9 A I have read it. It's been some time.

10 Q And let me see if I can make this short by
11 asking you, with regard to the issues of 911, directory
12 listings, NXX assignments, busy line verification and
13 emergency interrupt, common channel signaling, CLASS
14 interoperability, did you see any issues that would
15 still be outstanding between AT&T and BellSouth?

16 A I believe in my -- in the prehearing statement
17 that we filed we addressed those issues at a relatively
18 high level, conceptual level, and at that level I don't
19 believe there's any major disagreement between AT&T and
20 Southern Bell.

21 Q So on all those kinds of issues you would
22 think that what few items might still need to be
23 resolved could be resolved between AT&T and BellSouth?

24 A I would be optimistic that that could be
25 done.

1 MS. WHITE: I have no further questions.

2 Thank you.

3 CHAIRMAN CLARK: Staff?

4 MS. CANZANO: We just have brief questions
5 here.

6 CROSS-EXAMINATION

7 BY MS. CANZANO:

8 Q Mr. Guedel, do you have in front of you
9 Staff's exhibit that's entitled the 12-20 Deposition
10 Transcript?

11 A I'm not sure. What were you referring to,
12 please?

13 Q Staff's exhibit. The description reads 12-20
14 deposition transcript. If you don't have a copy, I can
15 run a copy to you.

16 A I do have a copy here, I believe, sitting
17 here.

18 Q To your knowledge -- have you had a chance to
19 review this document?

20 A Yes.

21 Q Is it true and correct, to the best of your
22 knowledge?

23 A Yes. There were some typos in it, but I think
24 it's substantively accurate.

25 MS. CANZANO: Commissioners, at this time I

1 would like to have this document marked for
2 identification as an exhibit.

3 CHAIRMAN CLARK: The Staff exhibit identified
4 as MG-1, which is the deposition transcript, will be
5 identified as Exhibit 13.

6 (Exhibit No. 13 marked for identification.)

7 MS. CANZANO: And this concludes Staff's
8 questions.

9 CHAIRMAN CLARK: Commissioners, are there any
10 questions?

11 (No response.)

12 CHAIRMAN CLARK: I have one question, I
13 guess. You indicate that it would be appropriate to
14 have the same price for access charges for both local
15 and toll access eventually. But you indicate it's
16 appropriate to price it at total service long run
17 incremental cost.

18 WITNESS GUEDEL: Correct. I think at some
19 point in time both switched access service and local
20 interconnection should be priced at total service long
21 run incremental cost.

22 CHAIRMAN CLARK: At the same time, does also
23 have to be in effect that the incumbent local exchange
24 companies do not have price caps on their basic service
25 and that the universal service -- there's a mechanism

1 for maintaining universal service? Do those things have
2 to be in place too?

3 WITNESS GUEDEL: Could you repeat that,
4 Commissioner?

5 CHAIRMAN CLARK: As I understand it, access
6 charges are where they are because they also provide a
7 contribution to keeping local rates low.

8 WITNESS GUEDEL: Okay.

9 CHAIRMAN CLARK: Do you agree with that?

10 WITNESS GUEDEL: I'm not sure you can track
11 where the access dollars go. I just think they're too
12 high, the rates are too high.

13 CHAIRMAN CLARK: Let me just ask my question.
14 In order for us to not discriminate in terms of access
15 charges, that we don't make a distinction whether
16 they're for local call or toll call, you indicate that
17 they should be set at long run incremental cost.

18 WITNESS GUEDEL: That's correct.

19 CHAIRMAN CLARK: Is it also necessary for
20 there to be in place a universal service mechanism that
21 will allow the necessary funds to keep an appropriate
22 level of universal service? And should the incumbent
23 LEC also be relieved from a cap on basic local services.

24 WITNESS GUEDEL: I think if we put those
25 charges at TSLRIC, the access charges, the local

1 charges, and the local exchange companies could
2 demonstrate that by doing that they would not be able to
3 maintain local service rates at the current levels, then
4 we would have to consider some form of a universal
5 service fund. And I think there are forms of such a
6 fund that we could support, but I don't -- I haven't
7 seen one presented yet, but I think there is a way to
8 work that out.

9 CHAIRMAN CLARK: Do we also need to do away
10 with the cap for them on basic service, on raising basic
11 service? Does that have to be part of it too?

12 WITNESS GUEDEL: I don't see why that would
13 necessarily be a requirement. It would be depending on
14 how you structure the fund.

15 CHAIRMAN CLARK: Okay. All right. Thank
16 you. Redirect?

17 MS. DUNSON: No redirect. May Mr. Guedel
18 be --

19 CHAIRMAN CLARK: Exhibits?

20 MS. CANZANO: Staff moves Exhibit No. 13 into
21 the record.

22 CHAIRMAN CLARK: Exhibit 13 will be admitted
23 in the record without objection.

24 (Exhibit No. 13 received into evidence.)

25 MS. DUNSON: May Mr. Guedel be excused?

1 CHAIRMAN CLARK: He may be excused.

2 (Witness Guedel excused.)

3 * * *

4 CHAIRMAN CLARK: We'll go ahead and take a
5 break until 4:15. I should tell you, our plan is to go
6 no later than 7:30 tonight. We cannot go late tomorrow
7 night. We probably won't go late Friday night, and I
8 guess all of us would rather not work on Saturday, so --

9 MR. MELSON: Commissioner Clark, just to let
10 you know, I have got substantially more
11 cross-examination for the next witness than I will have
12 during the remainder of the hearing. I suspect if we
13 concluded after he was finished tonight, which likely
14 would be before that time, then we will have no problem
15 finishing in the next two days. I think unbundling is
16 going to move very quickly.

17 CHAIRMAN CLARK: So if we can slug our way
18 through Mr. Scheye we're in good shape?

19 MR. MELSON: I think we're in very good
20 shape.

21 CHAIRMAN CLARK: We'll go ahead and take a
22 break until 4:15.

23 (Recess from 4:05 p.m. until 4:25 p.m.)

24 CHAIRMAN CLARK: We'll reconvene the hearing.
25 Mr. Scheye, have you been sworn in?

1 WITNESS SCHEYE: Yes.

2 MR. LACKEY: Southern Bell calls Robert Scheye
3 to the stand.

4 Mr. Scheye, you have been sworn, haven't you?

5 WITNESS SCHEYE: Yes, I have.

6 ROBERT C. SCHEYE

7 was called as a witness on behalf of BellSouth
8 Telecommunications, Inc., and having been duly sworn,
9 testified as follows:

10 DIRECT EXAMINATION

11 BY MR. LACKEY:

12 Q Would you please state your name and address
13 for the record?

14 A Robert C. Scheye, 675 West Peachtree Street,
15 Atlanta, Georgia 30375.

16 Q And Mr. Scheye, did you cause to be prefiled
17 in this proceeding 31 pages of direct testimony?

18 A Yes.

19 Q Do you have any changes or corrections to that
20 31 pages of prefiled direct testimony?

21 A No, I don't.

22 Q And accompanying your direct testimony -- did
23 you have exhibits accompanying your direct testimony?

24 A Yes.

25 Q And were those the exhibits that were marked

1 RCS-1, 2, 3 and 4?

2 A Yes, they were.

3 Q Do you have any changes or corrections in
4 those exhibits?

5 A No, I don't.

6 MR. LACKEY: Madam Chairman, could I have
7 those exhibits marked -- let me hold it, because we're
8 going to do his rebuttal, too, and I'll just put them
9 all in one exhibit.

10 CHAIRMAN CLARK: No, don't put them all in one
11 exhibit. Please do it separately.

12 MR. LACKEY: Could I have the next exhibit
13 number for those, please?

14 CHAIRMAN CLARK: RCS-1 through 4 will be
15 identified as Exhibit 14.

16 (Exhibit No. 14 marked for identification.)

17 MR. LACKEY: Could I ask that Mr. Scheye's
18 direct testimony be included in the record as if given
19 orally from the stand?

20 CHAIRMAN CLARK: Mr. Scheye's prefiled direct
21 testimony dated November 27th, 1995 will be inserted in
22 the record as though read.

23

24

25

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF ROBERT C. SCHEYB
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NOS. 950985B-TP (MFS PETITION),
5 AND 950985C-TP (MCImetro PETITION)
6 NOVEMBER 27, 1995

7
8 Q. Please state your name, address and position with
9 BellSouth Telecommunications, Inc. ("BellSouth" or
10 "The Company").

11
12 A. My name is Robert C. Scheye and I am employed by
13 BellSouth Telecommunications, Inc., as a Senior
14 Director in Strategic Management. My address is
15 675 West Peachtree Street, Atlanta, Georgia
16 30375.

17
18 Q. Please give a brief description of your background
19 and experience.

20
21 A. I began my telecommunications company career in
22 1967 with the Chesapeake and Potomac Telephone
23 Company (C&P) after graduating from Loyola College
24 with a Bachelor of Science in Economics. After
25 several regulatory positions in C&P, I went to

1 AT&T in 1979, where I was responsible for the FCC
2 Docket dealing with competition in the long
3 distance market. In 1982, with the announcement
4 of divestiture, our organization became
5 responsible for implementing the MFJ requirements
6 related to nondiscriminatory access charges. In
7 1984, our organization became part of the divested
8 regional companies' staff organization which
9 became known as Bell Communications Research. I
10 joined BellSouth as a Division Manager responsible
11 for jurisdictional separations and other FCC
12 related matters. In 1993, I moved the BellSouth
13 Strategic Management organization, where I have
14 been responsible for various issues, including
15 local exchange interconnection, unbundling and
16 resale.

17

18 Q. What is the purpose of your testimony?

19

20 A. The purpose of my testimony is to describe
21 BellSouth's local interconnection plan and why it
22 is appropriate. My testimony will specifically
23 respond to the formal issues list attached as
24 RCS-1. I will also respond to the specific issues
25 raised by Mr. Timothy T. Devine for the petition

1 filed by Metropolitan Fiber Systems of Florida,
2 Inc. (MFS) in Docket No. 950985B-TP and by Dr.
3 Nina Cornell and Mr. Don Price for the petition
4 filed by MCI Metro Access Transmission Services,
5 Inc. (MCImetro) in Docket No. 950985C-TP.

6

7 Q. What is the status of your negotiations with MFS
8 and MCImetro?

9

10 A. Based on the affidavit submitted by Mr. Devine
11 dated November 10, 1995, MFS has concluded that
12 MFS-FL and BellSouth will not reach a negotiated
13 settlement. Contrary to Mr. Devine's conclusion,
14 BellSouth has attempted to reach agreements with
15 all ALECs that wish to interconnect, the agreement
16 reached with TCG being evidence of that resolve.
17 BellSouth has been, and continues to be, open to
18 further discussion and has continued to meet with
19 MFS and MCImetro in a effort to resolve the
20 outstanding issues. A list of BellSouth's
21 negotiation items is attached as RCS-2. BellSouth
22 still remains optimistic that an agreement can be
23 reached with MFS and MCImetro.

24

25 Q. What are the appropriate interconnection rate

1 structure, interconnection rates or other
2 compensation arrangements for the exchange of
3 local and toll traffic between ALECs and
4 BellSouth? (Issue No. 1)

5

6 A. BellSouth supports a local interconnection plan
7 that includes the following components:

8

- 9 * Compensation arrangements for terminating
10 traffic on BellSouth and ALEC networks;
- 11 * A default to the toll access model if local
12 calls cannot be distinguished from toll;
- 13 * Charges for local interconnection based on the
14 switched access rate structure and rate levels
15 (the level and components may vary based on the
16 universal service mechanism adopted); and
- 17 * A transitional structure that will eventually
18 merge all interconnection plans (local, toll,
19 independent, cellular/wireless) into one common
20 structure.

21

22 BellSouth's plan recognizes that carriers will not
23 be able to distinguish between different types of
24 calls and carriers. The arrangements existing
25 today have been predicated on the Modified Final

1 Judgment (MFJ) requirements and BellSouth's
2 ability to distinguish between the types of
3 traffic and class of carrier terminating on our
4 network. Under the MFJ, BellSouth is required by
5 law to charge access on long distance calls. Once
6 local competition is permitted, ALECs will begin
7 terminating both local and toll traffic on
8 BellSouth's network. This, coupled with the
9 impacts of number portability and the assignment
10 of NXX codes to ALECs, will result in BellSouth
11 being unable to differentiate among the types of
12 traffic terminating on its network. Thus, one
13 comprehensive structure for all types of calls and
14 carriers should be the ultimate goal. Many issues
15 are likely to arise in reaching that goal,
16 including the issue of cost recovery.

17

18 Q. Why will number portability and the assignment of
19 NXX codes result in BellSouth being unable to
20 distinguish the types of traffic being terminated
21 on its network?

22

23 A. First, with location (geographic) number
24 portability, end users will be able to move from
25 one area to another and still retain their same

1 telephone numbers. Therefore, it will be
2 impossible for BellSouth to know if an end user is
3 calling a point within the traditional local
4 calling area. If this happens, the concept of
5 Local Calling Areas will become virtually
6 meaningless.

7
8 Second, NXXs assigned to ALECs may be deployed in
9 a manner completely different from the way
10 BellSouth utilizes its own NXXs. For example, an
11 ALEC may use an NXX for an area greater than a
12 BellSouth Local Calling Area, such as a whole
13 LATA, the entire state, or multiple states.
14 Assignment of NXXs in such a manner will make it
15 impossible for BellSouth to tell whether a call to
16 or from such NXXs is a "traditional local" call or
17 a "traditional long distance" call.

18
19 Q. MFS and MCImetro propose bill and keep as the
20 appropriate local interconnection arrangement.
21 What is BellSouth's position regarding this
22 proposal?

23
24 A. BellSouth does not support adoption of the "bill
25 and keep" arrangement proposed by MFS and MCImetro

1 for several reasons.

2

3 First, bill and keep does not recognize the
4 different types of technical interconnection
5 arrangements that may exist. Under a bill and
6 keep arrangement, ALECs will not be encouraged to
7 provide efficient functionality internal to their
8 own networks. Rather, ALECs will be encouraged to
9 use the efficiencies inherent to BellSouth's
10 network, functionalities for which BellSouth
11 would not be compensated. For example, under a
12 bill and keep arrangement, ALECs may decide to
13 interconnect their end offices with BellSouth's
14 tandems, rather than building their own tandems
15 because there will be no financial incentive to
16 make this investment.

17

18 By contrast, under BellSouth's proposed structure,
19 BellSouth will be encouraged to provide
20 functionality to ALECs that will allow them to
21 operate effectively because BellSouth would be
22 compensated. Where there is no compensation, and
23 the carriers do not share equally in providing the
24 necessary overall capabilities, a significant
25 disincentive will exist for one carrier to provide

1 functionality to the other. For example,
2 regulators, through the restructure of access
3 transport and collocation, have created additional
4 competition for both transport and tandem
5 switching. If no one is directly compensated for
6 providing these functions, it is highly unlikely
7 that any party would be motivated to provide them.

8
9 Second, bill and keep also does not eliminate the
10 need for billing and administrative systems as
11 suggested by Mr. Devine. There will still be a
12 need to hand off toll and 800 traffic to IXCs, to
13 LECs (for intraLATA toll only) and to ALECs, which
14 requires the billing of switched access rates.
15 Because ALECs will bill switched access to many
16 different carriers, BellSouth's proposal of
17 applying switched access elements for local
18 interconnections places no additional billing
19 requirements on the ALECs.

20
21 Third, it is suggested that bill and keep is
22 appropriate because it is the arrangement used
23 today for the exchange of traffic between
24 BellSouth and independent companies. This is not
25 an accurate statement. Today, except for some

1 extended calling service arrangements, BellSouth
2 and other LECs in Florida compensate each other
3 with terminating access charges. Additionally,
4 the traditional arrangements between independent
5 companies and BellSouth arose from very different
6 circumstances than those existing between the
7 ALECs and BellSouth. For example, historically,
8 independent companies served geographic
9 territories different from BellSouth and,
10 therefore, did not compete for the same customers
11 as BellSouth. Moreover, interconnection
12 arrangements were typically end office to end
13 office. Attempting to use such arrangements in
14 the competitive environment envisioned by the
15 statute would be comparable to suggesting that
16 LECs and IXCs ought to pool their access and toll
17 revenues. Dr. Banerjee will specifically address
18 the economic issues raised by MFS and MCImetro in
19 their testimony.

20

21 Q. Would BellSouth have to develop new measurement
22 and billing systems to measure terminating local
23 exchange traffic as suggested by MCImetro?

24

25 A. No. Although BellSouth currently has no need to

1 and, therefore, does not normally measure
2 terminating local exchange traffic, the capability
3 exists to both measure and bill terminating local
4 exchange traffic. Furthermore, ALECs such as MFS
5 and MCImetro will have to develop measurement and
6 billing systems in light of rulings by the Public
7 Service Commissions in Maryland and New York which
8 have adopted usage sensitive local interconnection
9 arrangements.

10

11 Q. Does BellSouth's proposed local interconnection
12 arrangement preclude ALECs from competing in the
13 local exchange market?

14

15 A. No. BellSouth's proposal includes charges for the
16 technical arrangements that ALECs may require for
17 interconnection and subsidy elements related to
18 carrier of last resort (universal service)
19 obligations. Based on revised Chapter 364, any
20 carrier entering the market in Florida must
21 recognize that support for universal service will
22 be required and that there will be expenses
23 associated with local interconnection.
24 BellSouth's proposal recognizes these components.
25 Indeed, rather than thwarting competition,

1 BellSouth's proposal actually encourages
2 competition by the offering of its network
3 capabilities in an economically sound manner which
4 will encourage efficient use of both BellSouth's
5 and ALEC's networks.

6

7 Q. MFS contends that it is inappropriate to have a
8 usage sensitive rate structure in a flat-rate
9 local exchange environment. Do you agree?

10

11 A. No. MFS uses the analysis on this issue put forth
12 by Teleport Communications Group Inc. (TCG) in
13 testimony filed on September 1, 1995 which
14 purported to show that an ALEC would be unable to
15 offer a flat-rate service if charged usage
16 sensitive interconnection rates. The chart and
17 analysis referenced by MFS is misleading by
18 omission because the revenue sources available
19 from vertical and toll services are not included.
20 It is these very revenue sources that have
21 permitted the LECs to offset the revenue deficit
22 that exist today with the current residential
23 rates. Further, the analysis referenced by MFS is
24 limited to residential services and ignores any
25 revenue from business customers that may be served

1 by ALECs.

2

3 The most significant deficiency, however, is the
4 refusal of the parties to acknowledge that the
5 compensation paid will be mutual. Because the
6 payments are mutual, the compensation to ALECs by
7 BellSouth to terminate traffic on an ALEC's
8 network will offset, to a great extent, the
9 compensation paid to BellSouth by an ALEC. This
10 revenue source has also been omitted from the
11 analysis used by MFS. In light of this, the real
12 issue becomes the net difference between the usage
13 sensitive rates paid and the usage sensitive rates
14 collected. The difference can be expected to be
15 fairly fixed (or flat) as traffic patterns between
16 BellSouth and the ALECs mature and become more
17 predictable.

18

19 Q. If the Commission sets rates, terms, and
20 conditions for interconnection between ALECs and
21 BellSouth, should BellSouth tariff the
22 interconnection rate(s) or other arrangements?

23 (Issue No. 2)

24

25 A. Yes, following the completion of negotiations or

1 upon receiving an order from the Commission,
2 BellSouth intends to file its rates for local
3 exchange interconnection in a tariff or in
4 contracts filed with the Commission. This will
5 ensure that the rates for local interconnection
6 will be available to all ALECs on a
7 non-discriminatory basis.

8

9 Q. What are the appropriate technical and financial
10 arrangements which should govern interconnection
11 between ALECs and BellSouth for the delivery of
12 calls originated and/or terminated from carriers
13 not directly connected to an ALEC's network?

14 (Issue No. 3)

15

16 A. BellSouth is analyzing the appropriateness of
17 providing an intermediary function that would
18 allow calls to transit through BellSouth's network
19 to another carrier's network. Based on
20 BellSouth's understanding of such interconnection
21 arrangements, it may not be appropriate for
22 BellSouth to be involved in these situations
23 because no BellSouth customer is involved.
24 Because of this, the situation goes beyond what is
25 considered "standard" types of interconnection.

1
2 To the extent that BellSouth and ALECs agree that
3 these arrangements are necessary and that the
4 technical and financial issues can be resolved,
5 BellSouth may consider providing this type of
6 interconnection. In these situations, meet point
7 billing arrangements, where each carrier bills its
8 portion of the interconnection arrangement, may be
9 required. While there can be many permutations
10 involving both local and toll traffic, these
11 should be manageable. It should be emphasized,
12 however, that all parties to such an arrangement
13 must agree on both the technical and financial
14 arrangements to assure a seamless configuration in
15 which all parties are properly compensated.

16

17 Q. What are the appropriate technical and financial
18 requirements for the exchange of intraLATA 800
19 traffic which originates from an ALEC customer and
20 terminates to an 800 number served by or through
21 BellSouth? (Issue No. 4)

22

23 A. It is BellSouth's position that, during at least
24 the initial phase of local exchange competition,
25 the traffic at issue will be minimal. While

1 BellSouth provides minimal intraLATA 800 services,
2 ALECs may opt not to provide a comparable service,
3 further reducing the potential volume of traffic.
4 There will also be a need for procedures to be
5 established for the exchange of data in both
6 directions for billing purposes between the two
7 parties involved. Given the minimal amount of
8 traffic involved, it is BellSouth's opinion that
9 the parties can resolve this issue.

10

11 Q. What are the appropriate technical arrangements
12 for the interconnection of an ALEC's network to
13 BellSouth's 911 provisioning network such that
14 ALEC customers are ensured the same level of 911
15 service as they would receive as a customer of
16 BellSouth? What procedures should be in place for
17 the timely exchange and updating of ALEC customer
18 information for inclusion in appropriate E911
19 databases? (Issue No. 5a and 5b)

20

21 A. Each ALEC must provide its own facilities or lease
22 facilities from BellSouth that will connect the
23 trunk side of the ALEC's end office to the
24 BellSouth 911 tandem serving the calling
25 customer's Public Safety Answering Point (PSAP).

1 The trunks must be capable of carrying Automatic
2 Number Identification (ANI) to the 911 tandem.
3 The trunk facility must conform with ANSI
4 T1.405-1989 (Interface Between Carriers and
5 Customer Installations - Analog voice Grade
6 Switched Access). The trunk interface between the
7 ALEC end office and the BellSouth tandem may be
8 either a 2-wire analog interface or a digital DS1
9 interface. A minimum of two trunks are required.
10 Additional trunks may be required depending on the
11 volume of traffic.

12
13 Procedures must be in place to handle
14 transmission, receipt and daily updates of the
15 customer telephone number and the name and address
16 associated with that number. At least three data
17 files or databases are generally required to
18 provide data for display at the Public Service
19 Answering Position (PSAP). These are
20 Master Street Address Guide (MSAG), Telephone
21 Number (TN), and Network Information (TN/ESN)
22 databases.

23
24 Q. What are the appropriate technical and financial
25 requirements for operator handled traffic flowing

1 between an ALEC and BellSouth including busy line
2 verification and emergency interrupt services?

3 (Issue No. 6)

4

5 A. A dedicated trunk group, either one way or two
6 way, is required from the ALEC's end office to the
7 BellSouth Operator Services System. The trunk
8 group can be the same as that used for Inward
9 Operator Services (busy line verification and
10 emergency interrupt services) and Operator
11 Transfer Service. Busy line verification and
12 emergency interrupt services are currently
13 tariffed in the Access Service Tariff.

14

15 Q. What are the appropriate arrangements for the
16 provision of directory assistance services and
17 data between BellSouth and ALECs? (Issue No. 7)

18

19 A. If an ALEC desires to list its customers in
20 BellSouth's directory assistance database,
21 BellSouth will provide this service as long as
22 the ALEC provides BellSouth with necessary
23 information in the format specified by BellSouth
24 to populate the database. To the extent that
25 additional costs are incurred by BellSouth to

1 store ALEC directory assistance information, ALECs
2 should be required to pay BellSouth these costs.

3

4 Q. Mr. Devine suggests that BellSouth should be
5 required to provide branded and unbranded
6 directory assistance. What is BellSouth's
7 position?

8

9 A. BellSouth currently provides directory assistance
10 service via the access tariff. Branding is not
11 available with this offering at this time. The
12 company is examining the possibility of providing
13 branding on directory assistance access calls.

14

15 Q. Mr. Devine also suggests that ALECs be permitted
16 to license BellSouth's directory assistance
17 database for use in providing competitive
18 directory assistance services. What is
19 BellSouth's position?

20

21 A. BellSouth currently licenses the use of data
22 contained in its directory assistance database via
23 DADS (Directory Assistance Database Service),
24 tariffed in the BellSouth General Subscriber
25 Services Tariff. ALECs may use DADS data to

1 provide their own directory assistance type
2 service.

3

4 Q. Under what terms and conditions should BellSouth
5 be required to list ALEC customers in its white
6 and yellow pages directories, and to publish and
7 distribute these directories to ALECs customers?
8 [Issue No. 8]

9

10 A. BellSouth intends to list ALEC business customers
11 in BellSouth's yellow and white page directories,
12 as well as ALEC residence customers in BellSouth's
13 white page directories. It is also BellSouth's
14 intention to distribute yellow and white page
15 directories to ALEC customers. White page
16 listings for individual customers will be offered
17 at no charge. Additional listing options (e.g.,
18 design listings) and the provision of directories
19 outside a customer's service area will be provided
20 to ALEC customers under the same terms, conditions
21 and rates offered to BellSouth customers.

22

23 Q. What are the appropriate arrangements for the
24 provision of billing and collection services
25 between BellSouth and ALECs including billing and

1 clearing credit, collect, third party calls and
2 audiotext calls? (Issue No. 9)

3

4 A. All ALECs entering the market in the BellSouth
5 region have two options for handling their
6 non-sent paid traffic.

7

8 First, an ALEC may elect to have another Regional
9 Bell Company (RBOC) serve as its Centralized
10 Message Distribution System (CMDS) host. CMDS
11 will provide the ALEC with the ability to bill for
12 its services when the messages are recorded by a
13 local exchange company. This would include credit
14 card, collect and third-party calls.

15

16 Under this option, all messages that are
17 originated by the ALEC but billable by another
18 company, or that are originated by another company
19 and billable by the ALEC, will be sent through
20 that RBOC host for distribution. BellSouth would
21 not be involved in this scenario. If a call
22 originates in BellSouth territory that is billable
23 by the ALEC, BellSouth would send that message to
24 Kansas City (where the CMDS system resides).
25 CMDS would forward the message to the host RBOC

1 who would then distribute it to the ALEC. The
2 reverse would be true for any ALEC originated
3 message that is billable to a BellSouth customer.
4 If the ALEC elects to purchase operator and/or 800
5 database service from BellSouth, and BellSouth is
6 therefore recording messages on the ALEC's behalf,
7 BellSouth will send those messages directly to the
8 ALEC for rating. The ALEC would then distribute
9 the messages to the appropriate billing company
10 via their RBOC host.

11
12 The second possible option is that the ALEC may
13 elect to have BellSouth serve as their CMDS host.
14 The only requirement for this option is that the
15 ALEC have Regional Accounting Office status
16 (RAO-status), which means that it has been
17 assigned its own RAO code from Bellcore. When
18 BellSouth provides the CMDS host function,
19 BellSouth will send CMDS all messages that are
20 originated by an ALEC customer that are billable
21 outside the BellSouth region. BellSouth will also
22 forward all messages that originate outside the
23 BellSouth region from CMDS to the ALEC for billing
24 where applicable. This service will be provided
25 via contract between the two companies.

1
2 As for audiotext calls, N11 service is the only
3 service currently offered by BellSouth in its
4 General Subscriber Service Tariff specifically
5 tailored for audiotext customers. 976 service is
6 grandfathered. For an ALEC to be able to provide
7 N11 service to an audiotext customer, they would
8 have to translate the audiotext provider's seven
9 or ten digit local telephone number to the
10 appropriate N11 service three-digit code at their
11 end office. Since the recording for that call
12 would be done at the ALEC's end office, BellSouth
13 would not be involved. The ALEC would then have
14 to make its own arrangement with the audiotext
15 provider for billing and collection of N11 calls
16 to their customers. It should be noted that
17 BellSouth does not jointly provide N11 service
18 with any other carrier anywhere in its service
19 region.

20
21 Q. What arrangements are necessary to ensure the
22 provision of CLASS/LASS services between BellSouth
23 and an ALECs interconnected networks? [MFS Issue
24 No. 10]

25

- 1 A. Full Signaling System 7 (SS7) connectivity is
2 required between end offices to ensure the
3 provision of CLASS/LASS services between BellSouth
4 and an ALEC. BellSouth plans to unbundle SS7
5 signaling in its Switched Access Service tariff
6 and ALECs will be able to purchase this
7 connectivity as an unbundled service.
8
- 9 Q. What are the appropriate arrangements for physical
10 interconnection between ALECs and BellSouth,
11 including trunking and signaling? (Issue No. 11)
12
- 13 A. It is BellSouth's position that local
14 interconnection, which includes trunking and
15 signaling, should be provided at the access tandem
16 and end office level. This is the only
17 technically feasible arrangement and is the
18 arrangement that currently exists with the
19 interexchange carriers.
20
- 21 Q. To the extent not addressed in the Number
22 Portability Docket, what are the appropriate
23 financial and operational arrangements for
24 interexchange calls terminated to a number that
25 has been "ported" to an ALEC? (Issue No. 12)

1
2 A. The arrangement referenced above is identical to a
3 situation in which an interexchange carrier is
4 connected through the BellSouth access tandem and
5 then is connected to an ALEC end office. Under
6 these circumstances, BellSouth would bill its
7 switched access rate elements to the interexchange
8 carrier and would anticipate that ALECs would do
9 likewise. This same arrangement would be
10 applicable to a call that has been "ported",
11 therefore, no special technical provisions are
12 required.

13
14 Q. What, if any, arrangements are necessary to
15 address other operational issues? (Issues No. 13)

16
17 A. Operational issues such as handling of repair
18 calls, white page directory information pages and
19 order processing provisions are most appropriately
20 resolved through the negotiation process. It is
21 BellSouth's intention to address them in this
22 manner. Should issues arise between the parties
23 that cannot be resolved, the existing Commission
24 complaint procedures are the appropriate means for
25 resolution.

1

2 Q. What, if any, arrangements are appropriate for the
3 assignment of NXX codes to ALECs? (MFS Issue No.
4 14)

5

6 A. BellSouth acknowledges that numbers should be
7 available to all carriers on a equal basis in a
8 competitive local exchange environment. This
9 issue is currently being examined at the federal
10 level. BellSouth supports the national work as
11 well as the use of an independent administrator
12 for the assignment and control of NPA and NXX
13 codes and other special codes available in the
14 North American Numbering Plan (NANP). BellSouth
15 will continue to participate in national forums
16 established to develop and implement such an
17 independent administrator.

18

19 Until such time that these issues are resolved at
20 the national level, ALECs must process requests
21 through BellSouth as long as BellSouth is the NXX
22 administrator for its region.

23

24 Q. Mr. Devine contends in his direct testimony that
25 BellSouth is violating revised Chapter 364 by

1 including universal service when addressing the
2 appropriate local interconnection arrangement. Do
3 you agree?

4
5 A. No. There is nothing in revised Chapter 364 that
6 prohibits drawing a relationship between universal
7 service and local interconnection. Therefore,
8 BellSouth is not in violation of any statutory
9 provision. Moreover, the legislation actually
10 contemplates that the ALEC will pay a local
11 interconnection charge, as well as contribute its
12 fair share to the support of universal
13 service/carrier of last resort obligations.

14
15 Q. Why is it appropriate to consider universal
16 service issues when addressing local
17 interconnection issues?

18
19 A. It is appropriate to consider universal service
20 issues when addressing local interconnection
21 arrangements because the local interconnection
22 arrangement could be significantly affected by the
23 universal service and carrier of last resort
24 issues being addressed in Florida Docket No.
25 950696-TP. Specifically, the manner in which the

1 universal service support mechanism is modified to
2 include the required ALEC support will affect the
3 structure and price level for local
4 interconnection arrangements. Consequently, these
5 issues cannot be viewed in a vacuum. For example,
6 under BellSouth's proposed bulk billed universal
7 service arrangement (Alternative 1), the resulting
8 fixed or flat differences are not likely to differ
9 significantly from month to month.

10

11 Q. Does the BellSouth Stipulation and Agreement with
12 Teleport Communications Group, Inc. (TCG)
13 recognize the interrelationship between local
14 interconnection, universal service issues, and
15 other issues before this Commission?

16

17 A. Yes. BellSouth's agreement with TCG reflects the
18 interrelationship between local interconnection,
19 interim universal service and carrier of last
20 resort support, temporary telephone number
21 portability, unbundling and resale. BellSouth
22 believes that the Stipulation and Agreement is
23 reasonable because it is a comprehensive package
24 which recognizes the interrelationships of all
25 local competition issues and addresses these

1 issues in a manner that is both logical and
2 rational. Because it is a total package, each of
3 the elements can be changed only if all of the
4 other elements are also changed. A copy of the
5 Stipulation and Agreement is attached as RCS-3.

6
7 Q. Mr. Devine proposes that BellSouth permit ALECs to
8 directly interconnect to any other entity which
9 maintains a collocation facility at the same
10 BellSouth wire center at which an ALEC maintains a
11 collocation facility. What is BellSouth's
12 position?

13
14 A. BellSouth currently provides collocation to any
15 provider wishing to interconnect with BellSouth.
16 BellSouth should not be required to permit ALECs
17 to directly interconnect to other entities which
18 maintain a collocation facility at the same
19 BellSouth wire center at which an ALEC maintains a
20 collocation facility for two reasons.

21
22 First, collocation was not intended to require
23 LECs to interconnect service providers with anyone
24 but the LEC. ALECs wishing to directly
25 interconnect with each other should negotiate

1 alternative interconnection arrangements between
2 each other.

3
4 Second, the situation envisioned by MFS would
5 appear to be one in which BellSouth would provide
6 space to two unrelated entities. Under the
7 Florida collocation tariff filed by BellSouth on
8 November 20, 1995 in Docket No. 921074-TP, this
9 arrangement would not be permitted. It is
10 BellSouth's position, therefore, that this issue
11 is beyond the scope of this proceeding.

12
13 Q. Mr. Devine proposes certain terms and conditions
14 that should apply to end user customers that
15 switch local exchange carriers and do not retain
16 their original telephone number, i.e., that the
17 customer be provided a transfer of service
18 announcement on the abandoned telephone number by
19 the party formerly providing service. What is
20 BellSouth's position on this issue?

21
22 A. BellSouth currently provides a standard intercept
23 announcement service when a customer's service is
24 transferred. BellSouth proposes that this service
25 will be provided to BellSouth customers when a

1 customer does not retain their original telephone
2 number.

3

4 Q. MFS proposes that, within each LATA served, MFS
5 and BellSouth would identify a wire center to
6 serve as the interconnection point (defined as the
7 Default Network Interconnection Point or "D-NIP").
8 What is BellSouth's position on this proposed
9 arrangement?

10

11 A. As stated previously, the most technically and
12 economically feasible points for interconnection
13 with BellSouth is at the access tandem and end
14 office level. A very similar issue was raised at
15 the time of divestiture to ensure that all
16 interexchange carriers could connect in the most
17 efficient manner with the RBOCs. It was
18 determined that the size and configuration of the
19 LATAs could be a major factor. Generally,
20 however, the RBOC deployment of access tandems
21 considered to provide the minimal number of points
22 of connection.

23

24 Q. Does this conclude your testimony?

25

1 A. Yes.

2

3

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1 Q (By Mr. Lackey) Mr. Scheye, on December 11th,
2 1995, did you cause rebuttal testimony consisting of 23
3 pages of questions and answers to be filed in this
4 proceeding?

5 A Yes, I did.

6 Q Do you have any changes or corrections to that
7 testimony?

8 A No, I don't.

9 Q If I asked you the questions in that testimony
10 today, would your answers be the same?

11 A Yes, they would be.

12 Q And accompanying that testimony, were there
13 six additional exhibits?

14 A I believe there were, yes.

15 Q Do you have any changes or corrections in
16 those exhibits?

17 A No, I do not.

18 MR. LACKEY: Madam Chairman, could I have
19 those exhibits marked with the next number?

20 COMMISSIONER KIESLING: Could I get a
21 clarification? I have two sets of rebuttal filed
22 December 11th, 1995 that just have two different
23 petitions listed on them. Which one am I looking at?
24 One says MCI Metro Petition, one says Metropolitan Fiber
25 Systems Petition. And I'm assuming they're identical,

1 but no one has told me that.

2 MR. LACKEY: I'm sorry, they are identical,
3 Commissioner.

4 COMMISSIONER KIESLING: So either one, doesn't
5 matter?

6 MR. LACKEY: Either one will be fine.

7 CHAIRMAN CLARK: Mr. Lackey, you indicated
8 there were six additional exhibits?

9 MR. LACKEY: That's the problem I'm having. I
10 only see four, and I was using the prehearing
11 statement. May I have a moment to sort that out?

12 COMMISSIONER KIESLING: I've got six, RCS-4,
13 5, 6 and 7, which would be -- RCS-1 through 3 are
14 attached to the direct.

15 MR. LACKEY: Madam Chairman, I think what the
16 problem is, is when we rolled all the testimony
17 together, we must have duplicated exhibits. Can I just
18 go through and enumerate what they were on the direct
19 and make sure the record is clear on that?

20 CHAIRMAN CLARK: Sure.

21 Q (By Mr. Lackey) Mr. Scheye, do you have a
22 copy of your testimony and your exhibits in front of
23 you?

24 A Yes, I do.

25 Q Let's look at your direct testimony and make

1 sure that we have the exhibits correct.

2 (Pause)

3 A Which testimony were you looking at
4 specifically?

5 Q I want to look at the direct. We better go
6 through it all.

7 A The direct testimony in -- okay. Is this for
8 MFS and MCI Metro?

9 Q Yes. The first exhibit consisted of two
10 pages, it was a list of negotiation items; is that
11 correct?

12 MR. HATCH: The first exhibit that I've got --

13 WITNESS SCHEYE: Two pages, that's correct.
14 Issues list for MCI, MFS Continental, Teleport, yes.

15 MR. LACKEY: Are you with me?

16 MR. HATCH: Yeah.

17 MR. LACKEY: The difficulty is that that
18 exhibit is marked RCS-5 in the prehearing statement.
19 Apparently we've shuffled these. I'm sorry, Madam
20 Chairman.

21 Q (By Mr. Lackey) The second exhibit in that
22 document, your direct testimony, is the stipulation and
23 agreement; is that correct?

24 A I have Exhibit 2, says Negotiation Items.
25 It's two pages.

1 Exhibit RCS-3 is the stipulation and
2 agreement.

3 MR. LACKEY: Madam Chairman, RCS-5, on the
4 prehearing statement, is his first exhibit attached to
5 his --

6 CHAIRMAN CLARK: I'm not worried about the
7 prehearing statement. I'm just worried about
8 identifying it now.

9 MR. LACKEY: I understand, and I apologize. I
10 don't know how we got the numbers --

11 CHAIRMAN CLARK: RCS-1 through 3 should be
12 identified as Exhibit 14. Those are the only exhibits
13 attached to his prefiled direct testimony; is that
14 correct?

15 MR. LACKEY: That's correct.

16 CHAIRMAN CLARK: And they will be marked as
17 Exhibit 14.

18 MR. LACKEY: Thank you, Madam Chairman. And
19 if we can go to his rebuttal testimony. With a little
20 effort I can probably get this right. Attached to his
21 rebuttal testimony is RCS-4, which is a diagram; RCS-5,
22 which is a diagram; RCS-6, which is a diagram; and
23 RCS-7, which is a stipulation and agreement consisting
24 of 43 pages.

25 Could I have those marked the next exhibit?

1 CHAIRMAN CLARK: They'll be marked as Exhibit
2 15, and those are the Exhibits RCS-4 through 7, attached
3 to his rebuttal testimony.

4 (Exhibit No. 15 marked for identification.)

5 MR. LACKEY: Thank you for your assistance.

6 Q (By Mr. Lackey) Do you have any changes or
7 corrections to the exhibits attached to your rebuttal
8 testimony?

9 A No, I do not.

10 MR. LACKEY: Madam Chairman, I would like to
11 ask that his rebuttal testimony be included in the
12 record as if given orally from the stand.

13 CHAIRMAN CLARK: The prefiled rebuttal
14 testimony of Mr. Robert Scheye dated December 11th, 1995
15 will be inserted in the record as though read.

16

17

18

19

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1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **REBUTTAL TESTIMONY OF ROBERT C. SCHEYE**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
4 **DOCKET NO. 950985B-TP**
5 **(METROPOLITAN FIBER SYSTEMS PETITION)**
6 **DECEMBER 11, 1995**

7

8

9 Q. Please state your name, address and position with
10 BellSouth Telecommunications, Inc. ("BellSouth" or
11 "Company").

12

13 A. My name is Robert C. Scheye and I am employed by
14 BellSouth Telecommunications, Inc., as a Senior
15 Director in Strategic Management. My address is
16 675 West Peachtree Street, Atlanta, Georgia 30375.

17

18 Q. Please give a brief description of your background
19 and experience.

20

21 A. I began my telecommunications company career in
22 1967 with the Chesapeake and Potomac Telephone
23 Company (C&P) after graduating from Loyola College
24 with a Bachelor of Science in Economics. After
25 several regulatory positions in C&P, I went to AT&T

1 in 1979, where I was responsible for the FCC Docket
2 dealing with competition in the long distance
3 market. In 1982, with divestiture, this
4 organization became responsible for implementing
5 the Modification of Final Judgment (MFJ)
6 requirements related to nondiscriminatory access
7 charges. In 1984, this organization became part of
8 the divested regional companies' staff organization
9 known as Bell Communications Research, Inc.
10 (Bellcore). I joined BellSouth in 1988 as a
11 Division Manager responsible for jurisdictional
12 separations and other FCC related matters. In
13 1993, I moved to the BellSouth Strategic Management
14 organization, where I have been responsible for
15 various issues, including local exchange
16 interconnection, unbundling and resale.

17

18 Q. What is the purpose of your rebuttal testimony?

19

20 A. There are several issues that still seem to be
21 misunderstood by the parties. The purpose of my
22 rebuttal testimony is to address those
23 misunderstandings in addition to responding to a
24 new issue raised in the direct testimony filed by
25 Mr. Mike Guedel on behalf of AT&T in this docket.

1

2 In an effort to be brief, I will not repeat the
3 responses I made to several of these issues in
4 earlier testimony. Instead, I would like to adopt
5 by reference my Direct Testimony filed November 13,
6 1995 and Rebuttal Testimony filed November 27, 1995
7 in Florida Docket No. 950985A-TP and my Direct
8 Testimony filed on December 4, 1995 in Florida
9 Docket No. 950985D-TP. I will then provide
10 clarifying remarks which hopefully will correct
11 some of the misunderstandings the other parties
12 still have with regard to BellSouth's position on
13 these issues.

14

15 In addition, I want to bring the Commission up to
16 date on the settlement discussions.

17

18 Q. Can you first bring us up to date on the
19 negotiations between BellSouth and the other
20 parties to this proceeding?

21

22 A. Yes. As I informed the Commission in earlier
23 testimony, we have continued to negotiate with
24 anyone willing to talk to us even though these and
25 other proceedings were pending. As a result,

1 BellSouth has reached agreement with a number of
2 other parties to this and other proceedings.
3 While not all of the signatures are indicated,
4 Attachment A (RCS-7), which follows my exhibits, is
5 a copy of the most recent agreement that we have
6 reached. As can be seen, this agreement resolves
7 all of the outstanding issues between the parties
8 to the agreement involving universal access
9 funding, number portability, resale, unbundling and
10 interconnection, among other things. As I have
11 indicated before, we desire to resolve all such
12 matters through negotiation and accommodation,
13 rather than taking this Commission's time and
14 resources to adjudicate these matters.

15

16 Q. Turning to the other matters you want to discuss,
17 why do you say that there are issues that appear to
18 be misunderstood by several parties?

19

20 A. The fact that ALECs continue to support bill and
21 keep as an appropriate interconnection arrangement
22 in spite of the inherent problems associated with
23 that arrangement clearly indicates that the parties
24 supporting that arrangement must not fully
25 understand its problems.

1

2 Q. You mentioned the inherent problems associated with
3 bill and keep in your previous response. Could you
4 please elaborate on these problems?

5

6 A. Yes. The most fundamental problem with the bill
7 and keep arrangement, which is still not
8 acknowledged by the parties, is that there is no
9 mechanism for recovery of the costs associated with
10 the termination of local calls. For example, if it
11 costs BellSouth five cents a minute to terminate a
12 local call and it costs an ALEC three cents a
13 minute to terminate a local call, the bill and keep
14 arrangement will not allow either party to recover
15 its costs. At best, in the situation I
16 illustrated, if the traffic were perfectly
17 balanced, the carrier with the lower cost might be
18 able to conclude that it somehow is okay because
19 the payments it avoided making to the other carrier
20 exceeded its own costs. However, and using the
21 numbers I gave above, BellSouth would be unable to
22 recover the net difference of two cents per minute
23 under any theory. If the traffic is unbalanced,
24 the situation could be worse or better, depending
25 on the direction of the imbalance. The point

1 remains, however, that unless both parties' costs
2 are identical and the traffic is perfectly
3 balanced, this interconnection arrangement does not
4 provide, even in theory, a mechanism for BellSouth
5 as well as other parties to recover the costs
6 incurred. Of course, this problem is exacerbated
7 if BellSouth provides additional functionalities as
8 part of the interconnection arrangement because
9 BellSouth's costs will increase even more. Because
10 of this, there must be a financial component in the
11 approved local interconnection plan. The fact that
12 bill and keep, by definition, lacks this financial
13 component and would not permit cost recovery,
14 constitutes a fatal flaw in that proposed
15 interconnection arrangement.

16

17 Q. Are there other cost recovery problems associated
18 with the bill and keep arrangement?

19

20 A. Yes. While I am not a lawyer, based on my
21 understanding of Florida law, BellSouth is required
22 to recover its costs in the provision of its
23 services. Chapter 364.162(3) of the Florida
24 statutes provides that the rates for interconnection
25 shall not be below cost. To preclude BellSouth

1 from cost recovery, as would occur with the
2 proposed bill and keep arrangement, appears to be a
3 violation of Florida law.

4

5 Q. Are there compensation problems associated with the
6 bill and keep arrangements?

7

8 A. Yes, BellSouth owns a ubiquitous network that is
9 valuable. Indeed, its value has been recognized by
10 ALECs, such as MFS and Continental Cablevision.
11 AT&T has acknowledged that the LECs have spent
12 hundreds of millions of dollars in constructing
13 their networks. The bill and keep proposal
14 prevents BellSouth from being compensated for
15 access to and the use of its valuable, ubiquitous
16 network. To preclude BellSouth from receiving
17 compensation for the ALECs' use of BellSouth's
18 network is clearly unfair, inappropriate and
19 personally speaking, if not illegal, it should be.

20

21 Q. What other issues should be considered when
22 evaluating the proposed bill and keep arrangement?

23

24 A. First, let me differentiate between the definition
25 of interconnection and the definition of

1 unbundling. Interconnection is defined as
2 connecting one carrier's network to another
3 carrier's network. Unbundling is defined as
4 providing a specific piece of the network, on a
5 stand alone basis, without any requirement that the
6 purchaser also take or purchase any other service
7 element. The unbundled piece of BellSouth's
8 network would then be coupled with the ALEC's own
9 facilities in order to provide service to the
10 ALEC's end user. An example of an unbundled
11 network element would be the local loop which the
12 ALEC could purchase from the LEC in order to
13 connect the ALEC's customer to the ALEC's switch.

14

15 On the other hand, the access tandem switching
16 function is a component of local interconnection,
17 in that it provides a transiting function to the
18 ALEC which allows for the completion of the ALEC's
19 calls. In many instances it might be an ALEC
20 customer completing a call to a BellSouth customer.
21 However, the tandem could also be involved in a
22 call between two ALEC end users, where no BellSouth
23 customer is involved. This latter case involves
24 the intermediary function that BellSouth has under
25 further study, as previously described. In either

1 case, BellSouth would incur switching costs which
2 it must be allowed to recover.

3

4 Bill and keep, of course, provides no cost recovery
5 mechanism for BellSouth and, therefore, no way for
6 BellSouth to recover the costs of acting as
7 intermediary in this transfer of traffic.

8 Moreover, as I noted earlier, it is my
9 understanding that BellSouth has no obligation and
10 is indeed prohibited from providing a function free
11 of charge when that function has costs associated
12 with it. Nevertheless, this is what bill and keep
13 would require.

14

15 Q. Are there other consequences if bill and keep is
16 adopted?

17

18 A. Yes. There is a problem with tandem
19 interconnection. Under BellSouth's proposal, ALECs
20 may conclude that it is less costly and therefore
21 more efficient to interconnect with BellSouth at a
22 tandem. If an ALEC chooses to interconnect at
23 BellSouth's tandem office, BellSouth would assess
24 the ALEC a switching charge and the ALEC would
25 avoid the construction costs of building a network

1 to every end office for interconnection.
2 Alternatively, if an ALEC chooses to connect at the
3 end office, then it avoids the proposed BellSouth
4 tandem switching charges, but incurs the additional
5 construction costs involved with direct end office
6 interconnection. It is clear that either of these
7 options would be equitable and fair for both the
8 ALEC and BellSouth. What the ALECs want, and what
9 bill and keep would provide, is a situation where
10 the ALECs avoid paying the tandem switching charge
11 and, at the same time, avoid incurring the
12 construction costs. With bill and keep they would
13 simply connect at the tandem, avoid the switching
14 costs, and have access to every end office
15 subtending the tandem. This demonstrates the clear
16 inequities inherent in the bill and keep
17 arrangement, and once again demonstrates how
18 BellSouth's property would be used without
19 providing compensation to the Company.

20

21 Q. Why is BellSouth's usage sensitive structure a
22 superior approach for local interconnection
23 arrangements?

24

25 A. The usage sensitive structure proposed by BellSouth

1 does not contain the inherent flaws associated with
2 the bill and keep arrangement proposed by other
3 parties. AT&T's witness, Mr. Guedel, acknowledges
4 this on page 18 of his direct testimony where he
5 states:

6
7 Pricing these services at equal levels would
8 greatly simplify the measuring, reporting and
9 billing processes. Further, from an economic
10 standpoint, recognizing that the cost of
11 providing these respective services is
12 essentially the same, it would make sense to
13 price them the same.

14
15 I should note, however, that characterizations by
16 Mr. Guedel of the current rate levels as overly
17 inflated, are nothing more than an attempt to use
18 this forum, albeit a totally inappropriate one, to
19 lobby for further reductions in switched access
20 rates.

21
22 The usage sensitive local interconnection structure
23 proposed by BellSouth is appropriate for both the
24 short term and the long term. It encourages
25 BellSouth to provide the interconnection

1 arrangements desired by ALECs because it provides a
2 mechanism that permits cost recovery. Furthermore,
3 no party is harmed under this arrangement since all
4 parties will be given the same opportunity for cost
5 recovery, since the interconnection charges will be
6 mutual.

7

8 Q. Under BellSouth's proposal, there appears to be
9 some confusion as to the billing systems required
10 if the BellSouth usage sensitive plan is adopted.
11 Can you address this?

12

13 A. BellSouth intends to adapt its current switched
14 access system for use with local exchange traffic.
15 Therefore, no new billing systems are required for
16 BellSouth. ALECs must also put similar systems in
17 place to bill and measure their switched access
18 charges for toll calls. Such a system can be
19 adapted for the local interconnection usage
20 sensitive charges. This is supported by Mr.
21 Devine's testimony on behalf of MFS. Mr. Devine
22 states that all ALECs will employ advanced
23 switching equipment. In light of this, measuring
24 and billing cannot be a problem for ALECs.
25 Moreover, such billing systems will also be

1 required for the jurisdictions that have adopted a
2 usage sensitive structure for local interconnection
3 (for example, New York and Maryland).

4

5 Q. The testimony filed in this proceeding indicates
6 that ALECs appear to want the same financial
7 arrangement as those in place for traditional
8 independent local exchange companies. Are there
9 implications associated with providing ALECs
10 arrangements similar to those provided for
11 independent companies?

12

13 A. Yes. The ALECs use BellSouth's relationship with
14 traditional independent local exchange companies to
15 support their arguments that bill and keep is
16 appropriate for local interconnection. However,
17 they ignore all of the other aspects of those
18 arrangements.

19

20 The historical independent local exchange company
21 arrangements were put into place during a period
22 when rate of return regulation was prevalent.
23 Under this form of regulation, if BellSouth's or
24 the independent's costs for terminating a call for
25 one another were not explicitly recovered, the

1 ratepayers of each company would reimburse their
2 company for these costs. For BellSouth, the
3 regulatory framework is now changing to one of
4 price regulation. In the future, this Commission
5 will not be able simply to direct that BellSouth's
6 subscribers reimburse BellSouth for these costs.
7 BellSouth will have to recover these costs from the
8 entity that caused them. This means that
9 historical independent local exchange company
10 arrangements must also evolve to a different
11 structure. Because of this, it makes no sense to
12 adopt a local interconnection plan that is
13 predicated on a relationship that must change.

14

15 Q. Are there other problems with bill and keep?

16

17 A. Yes. Bill and keep assumes that local and toll
18 distinctions can be maintained. If this assumption
19 is in error, and BellSouth believes it is, it is
20 imperative that the plan adopted for local
21 interconnection accommodate the evolution of local
22 and toll to the point where no distinctions are
23 possible. To adopt any plan at this time that does
24 not recognize or allow for the possibility that the
25 local and toll distinction cannot be maintained,

1 will simply lead to a more complex and time
2 consuming transition in the future. Examples that
3 represent today's possible interconnection
4 arrangements demonstrate how the local-toll
5 distinction can evaporate. RCS-4 illustrates the
6 manner in which BellSouth uses NXX codes today in
7 order to distinguish between local and toll calls.
8 In this illustration BellSouth's Exchanges X, Y and
9 Z have distinct NXX codes, i.e., 220, 330 and 440,
10 respectively. The arrangement portrayed permits
11 end users in Exchange X and Y to call each other on
12 a local basis, while calls from either of these
13 exchanges to Exchange Z are toll calls dialed as 1+
14 or 0+ and are either carried by BellSouth or handed
15 off to an interexchange carrier.

16

17 Q. How could an ALEC use its NXX codes to serve these
18 three areas?

19

20 A. ALECs may use their NXX codes in the same
21 geographic areas as used by BellSouth. This is
22 depicted in RCS-5. This is possible, even though,
23 as in my example, the ALEC may use one switch to
24 serve these different exchanges. It is only
25 necessary that each exchange have distinctive NXX

1 codes. If the ALEC distributed its NXX codes in
2 this manner, BellSouth would have no problem
3 distinguishing between toll and local calls. For
4 instance, a BellSouth customer in Exchange X with a
5 220 number could dial either an ALEC customer with
6 a 777 number or an ALEC customer with an 888 number
7 and BellSouth would know that these were local
8 calls. Similarly, if the same customer called an
9 ALEC customer in Exchange Z with a 999 number,
10 BellSouth would know that this was a toll call
11 and the customer would have dialed 1+ or 0+ to
12 reach the ALEC customer. Therefore, BellSouth
13 experiences no difficulty in identifying the calls
14 as local or toll under this scenario.

15

16 Q. Can ALECs use the NXX codes in a manner that would
17 blur this local and toll distinction?

18

19 A. Yes, this would occur if ALECs use their NXX codes
20 in a manner such as that depicted by RCS-6. In
21 this illustration, the ALEC has assigned its
22 numbers from a single NXX to both toll and local
23 calling areas. In this situation, when a BellSouth
24 220 customer calls an ALEC customer with an 888
25 number, the call can terminate in Exchange X, Y or

1 Z. BellSouth does not know in this situation
2 whether the call is being completed to a local
3 calling area or to a toll calling area. In this
4 circumstance, BellSouth hands the call to the ALEC
5 and the ALEC uses its switch and facilities to
6 deliver the call to the customer with the number
7 dialed. BellSouth has no knowledge of where the
8 called party is located. Because of this, the
9 ALEC's use of the NXX code prevents BellSouth from
10 knowing whether to charge the ALEC originating
11 access or to pay the ALEC for terminating a local
12 call. This is compounded by the fact that if it
13 had been clear that the call in question was a toll
14 call, the call would have been (1) handed off to
15 the calling customer's chosen IXC and BellSouth
16 would have charged that IXC for originating access
17 or (2) BellSouth would have handled the call and
18 charged the calling party a toll rate.

19
20 This graphically illustrates BellSouth's position
21 as to why the industry must move to a common
22 interconnection structure and why bill and keep
23 cannot serve that function. This example should
24 also make it clear that the adoption of bill and
25 keep will undermine long distance competition as

1 well as local competition.

2

3 Q. Is it your opinion that what you just explained is
4 fully understood by the participants in this
5 proceeding?

6

7 A. The explanation above is obviously not understood
8 by some of the parties involved in this proceeding.
9 This is evidenced by the testimony filed by Dr.
10 Nina Cornell on behalf of MCImetro.

11

12 Dr. Cornell discusses using V&H coordinates to
13 distinguish a call as local or toll. This is
14 clearly not feasible, as shown by RCS-6. In that
15 example, the 888 NXX code would have one set of V&H
16 coordinates, presumably in Exchange Y. Having that
17 information in no way assists in determining
18 whether originating or terminating calls are local
19 or toll, given the previous discussion of RCS-6.

20

21 Q. Does Mr. Devine, appearing on behalf of MFS, have a
22 similar misunderstanding?

23

24 A. Yes. Like Dr. Cornell, Mr. Devine apparently
25 believes that the identification problem only

1 exists with terminating calls. He suggests that a
2 percent local usage (PLU) factor be applied to
3 distinguish the local and toll traffic. As
4 explained in my discussion of RCS-6, the problem
5 exists for originating traffic and, unlike the
6 terminating traffic, the PLU can not be used to
7 differentiate between local and toll calls.

8

9 Q. A number of the parties continue to discuss
10 collocation. Can you address this?

11

12 A. Yes. Collocation for local exchange companies
13 presents unique problems. I should note, since the
14 ALECs have alluded to the situation with
15 independent companies in support of their bill and
16 keep proposal, that LECs do not collocate with each
17 other. Furthermore, adoption of bill and keep
18 could also make collocation problematic, because of
19 the cost recovery problems I discussed earlier.

20

21 Q. Are there any other issues you would like to
22 address?

23

24 A. Yes. I would like to respond to a new issue raised
25 by AT&T's witness, Mr. Guedel. Mr. Guedel takes

1 the position that the Residual Interconnection
2 Charge (RIC) has been disassociated with the local
3 transport function and BellSouth should not collect
4 a RIC charge when it acts as an intermediary
5 between an IXC and an ALEC. BellSouth disagrees
6 with this contention.

7
8 The RIC recovers a portion of a LEC's transport and
9 tandem revenue requirements, and was established as
10 part of the FCC's local transport restructure
11 decision. When local transport was restructured,
12 the RIC was established to recover the shortfall
13 between the overall local transport revenue
14 requirement and the revenues generated by the new
15 and lower transport and tandem switching charges.
16 By way of example, and speaking at a fairly high
17 level, if a LEC had collected \$10 by providing
18 transport and switching before the restructure, and
19 only received \$5 from transport and switching under
20 the new rates, the per minute RIC charge was
21 established to recover the equivalent of the
22 missing \$5. The method selected to collect the RIC
23 was to simply apply the charge to terminating
24 access minutes measured at the end office where the
25 call was terminated. Obviously this would not

1 normally present a problem, because the same LEC
2 transporting and switching the call would also be
3 terminating it at one of its end offices, and thus
4 would receive both the transport and switching
5 revenues and the RIC revenues.

6
7 Sometimes, of course, things do not work precisely
8 that way. Occasionally one LEC will transport and
9 switch the call while another LEC terminates the
10 call at its end office. Currently this happens
11 most often when a call involves BellSouth and an
12 independent telephone company. In this case the
13 LEC providing transport and switching collects its
14 charges and the LEC terminating the call collects
15 the RIC. This the most practical way to handle
16 this situation and has an element of fairness.
17 While it is not perfect, on balance both the
18 independent company and BellSouth have revenue
19 requirements associated with the RIC, and
20 collecting the RIC in this circumstance helps the
21 collecting LEC meet its revenue requirements
22 associated with transport and switching, even if
23 the collecting LEC was not directly involved in
24 transporting or switching the particular call
25 involved.

1

2 On the other hand, the ALECs will not have a
3 revenue requirement associated with a RIC charge.
4 The RIC arose from a situation involving existing
5 transport and switching charges levied by LECs.
6 Therefore, where an ALEC end office subtends an LEC
7 tandem, calls terminated to that end office would
8 not have a RIC charge associated with the call.
9 Since the ALEC will not have a RIC cost, there
10 would be simply no legitimate reason to allow the
11 ALEC to collect the RIC. On the other hand, the
12 LEC transporting and switching the call will still
13 have such a revenue requirement. Depriving that
14 LEC of the right to collect a RIC will simply
15 benefit the IXC at the expense of the LEC.

16

17 Presumably, since AT&T is an IXC in Florida and not
18 an ALEC, this is the reason that Mr. Guedel has
19 raised this issue. AT&T has simply found another
20 way to feather its nest at the expense of BellSouth
21 and the other LECs in Florida. He has not claimed
22 that the revenue requirement that lead to the
23 establishment of the RIC has gone away. He has
24 simply found a way that AT&T and the other IXCs can
25 avoid their obligation to make these payments. His

1 ploy should be recognized for what it is and his
2 position regarding the RIC should be rejected.

3

4 Q. Does this conclude your testimony?

5

6 A. Yes.

7

8

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25

1 Q (By Mr. Lackey) Do you have a summary of your
2 testimony, Mr. Scheye?

3 A Yes, I do.

4 Q Will you be summarizing your direct and
5 rebuttal at this time?

6 A Yes.

7 Q Would you please do so?

8 A Good afternoon, Commissioners. This is a
9 docket with many issues related to the interconnection
10 of the networks of local exchange and alternate local
11 exchange companies. However, the real controversy in
12 this proceeding is the appropriate pricing arrangement
13 for the exchange of local traffic between BellSouth and
14 the alternate local exchange companies that have been
15 certified.

16 These carriers want to use our network and our
17 facilities for free. We want them to pay for the use of
18 our facilities, just as we are willing to pay them for
19 the use of their facilities. Let me identify, if I may,
20 one aspect of this issue that is not in dispute.

21 There's no dispute that there are costs
22 incurred by BellSouth to terminate local calls and that
23 such costs must be recovered as required by statute. To
24 recover these costs BellSouth has proposed a usage-based
25 plan modeled after the switched access structure and

1 rates.

2 This plan addresses four concerns:

3 First, it ensures that we recover our costs.

4 Second, it addresses the fact that traditional
5 local toll distinctions will blur with time and
6 ultimately disappear with increased competition. Using
7 either the MFS or MCI Metro bill-and-keep proposals
8 simply does not reflect these market realities. Our
9 solution will provide the basis for a reasonable
10 transition, as well.

11 Third, our proposal recognizes that
12 competitors will wish to interconnect at different
13 points within BellSouth's network and differentiates the
14 charges accordingly.

15 Finally, BellSouth's plan, which includes
16 reciprocal compensation -- which simply means that each
17 carrier that incurs costs is allowed to recover those
18 costs from the other and allows the local exchange
19 company to recover the proper amounts, even when their
20 costs are different.

21 Every advantage of BellSouth's plan is absent
22 from the plans advocated by the other parties in this
23 proceeding. They advocate a plan premised on the
24 assumption their traditional local toll distinctions
25 will be maintained and that all competitive carriers

1 will wish to interconnect in the same manner. This
2 proposal, as we've termed, bill and keep, simply means
3 that they want no charges made or payments exchanged
4 between the carriers.

5 While I hope the deficiencies in such a plan
6 are obvious, I would like to outline a few of them.
7 First, BellSouth will have no means of recovering the
8 costs it has incurred in providing for interconnection
9 to its network. We simply won't get paid for the costs
10 the other local exchange companies cause us to incur.

11 Secondly, bill and keep does not encourage the
12 provision of efficient network by the alternate
13 carriers. These companies connect at every end office
14 that BellSouth has or they may connect at a tandem.
15 Under BellSouth's plan, a company can make an economic
16 decision based on BellSouth's price versus providing
17 these own capabilities for itself. With bill and keep
18 there really aren't any economic decisions to make
19 because the additional functionality would simply be
20 provided for free. BellSouth's usage-based access
21 structure also creates the proper business relationship
22 between the competing carriers. And that simply means
23 that each compensates the other for the network services
24 provided and the costs incurred.

25 Bill and keep, on the other hand, is more

1 reflective of a barter arrangement. BellSouth's
2 proposal is also more in line with its current form of
3 regulation, price regulation. And this is an important
4 factor. Under traditional rate of return regulation, if
5 a carrier had to incur costs it could not otherwise
6 recover because of a bill-and-keep arrangement, it would
7 seek relief from this Commission through increases in
8 other rates. Other ratepayers simply paid for the
9 shortfall caused by any bill-and-keep arrangement. This
10 isn't possible in a new and more competitive environment
11 in which we now find ourselves.

12 We had hoped to negotiate these matters with
13 MFS and MCI Metro, as we have with a large number of
14 other carriers in the state of Florida. That simply
15 hasn't been possible. Therefore, BellSouth has proposed
16 an interconnection plan that recognizes the realities of
17 a changing environment from both a market, technical, as
18 well as a regulatory perspective. The MCI Metro and MFS
19 plans are deficient in all these areas.

20 BellSouth's proposal should be adopted and
21 applied to those carriers who have not reached agreement
22 with BellSouth through the negotiation process. Thank
23 you.

24 And if I could take one more second, I would
25 like to clarify one item using some charts up here. Is

1 this permissible?

2 Q Is that in connection with your rebuttal
3 testimony and your summary of your rebuttal?

4 A Yes, sir. This chart depicts the traditional
5 way BellSouth and most telephone companies use codes and
6 determine exchange areas and local calling areas. What
7 we've depicted here, very simply, is several BellSouth
8 areas -- these are exchange areas -- where we use an NXX
9 code in each of those areas. And for simplification,
10 we've simply said that these two exchanges can call each
11 other on a local basis, and calls to this exchange would
12 be a long distance call or toll call (indicating).

13 Another way of looking at that would be to
14 say, this 222 customer can call a 330 customer over here
15 in a seven-digit dialed manner and we know that's a
16 local call, of course. If a call from 222 was to go to
17 440 -- because that's a toll call -- they would dial
18 that as 1+, and toll charges or access charges would be
19 applied. Let me contrast, if I can, with the new
20 environment.

21 In this situation, we've added an alternate
22 local exchange carrier. And again, for sake of
23 simplicity, we've said this carrier may operate in
24 somewhat the same territories. This particular carrier
25 has chosen these unique NXX codes, 777 over here, 888

1 over here and 999 over here. In this particular case, a
2 call from a BellSouth 222 customer, to both 777 and 888,
3 would be a local call and our switches would recognize
4 that and they would be dialed accordingly. A call,
5 similarly, from 220 to the ALEC switch, even though it's
6 located here, or serving a customer here, 999, would be
7 dialed as a toll call. And in that instance, again,
8 either toll charges would apply or access charges would
9 apply to an interexchange carrier.

10 In contrast, another alternate local exchange
11 carrier -- this is another alternate local exchange
12 carrier similarly situated to the first one. However,
13 this carrier has chosen, again, to serve all three
14 areas, but use the same NNX code, here, here and here.
15 Now when our it 220 customer attempts to dial 888, we
16 really have no idea whether that call is terminated here
17 or here or here (indicating).

18 Now in the instance from here to here, that
19 was a local call, so that really doesn't present a
20 problem. Where our problem exists is when this 220
21 customer dials 888 and magically the call terminates
22 down here. Now all of a sudden we have no idea whether
23 that was a local call or a toll call. We would have
24 applied access charges or toll in the past. Now we have
25 no capability of doing that. And this is the blurring

1 of local and toll that we envision occurring, over time,
2 as new local competitors come into business, whether
3 they be in a wire line or wireless. So I would like to
4 clarify that for the purpose, and we do have handouts of
5 this if the parties would like to see this more
6 closely. Thank you.

7 CHAIRMAN CLARK: Mr. Scheye, I understand
8 those are your Exhibits 4 through 6?

9 WITNESS SCHEYE: Yes, they are.

10 MR. LACKEY: Does that conclude your summary,
11 Mr. Scheye?

12 WITNESS SCHEYE: Yes, it does.

13 MR. LACKEY: Mr. Scheye is available for
14 cross-examination.

15 CHAIRMAN CLARK: Ms. Wilson.

16 CROSS-EXAMINATION

17 BY MS. WILSON:

18 Q Mr. Scheye, I have very limited
19 cross-examination of you based upon two statements made
20 earlier by Mr. Devine.

21 Let me just ask first, were you present during
22 the cross-examination of Mr. Devine earlier today?

23 A Yes, I was.

24 Q Do you recall his characterization of the most
25 recent BellSouth agreement as the, quote, "cable

1 agreement," or the agreement between BellSouth and the,
2 quote, "cable people"?

3 A Yes, I do recall that.

4 Q Do you agree with that characterization?

5 A No, I do not at all.

6 Q And why not?

7 A There were several parties to that agreement,
8 and the cable association was certainly one of those.
9 But there are several other parties, alternate access
10 vendors, alternate access providers, who were also
11 members of that stipulation and agreement that have
12 nothing to do with the cable industry at all.

13 Q And would you accept, subject to check, that
14 those entities, other than the FCTA, are Intermedia,
15 Teleport, Continental, Time Warner AxS of Florida,
16 Limited Partnership, and Digital Media Partners?

17 A Yes, I would.

18 Q And are any of those companies providing cable
19 TV service today to your knowledge?

20 A Not to my knowledge.

21 Q With respect to FCTA, on whose behalf did FCTA
22 sign the agreement?

23 A I'm sorry, I couldn't hear the question.

24 Q Do you know, with respect to FCTA, on whose
25 behalf the FCTA signed the agreement with BellSouth?

1 A I believe they signed it on behalf of
2 themselves, Adelphi, Hyperion, Comcast, Jones
3 Intercable, and possibly a few other companies whose --
4 as well as Continental, Time Warner as well, and I
5 suspect there were several others that I have missed.

6 Q Okay, now those companies that you just named,
7 those are traditional cable companies; is that correct?

8 A Some of them are, but as I understand, Jones
9 Intercable or Adelphi, for example, is not a cable
10 company.

11 Q Let's just talk about that for a minute.
12 Is -- does Jones Intercable have an AAV, to your
13 knowledge, named Jones Lightwave of Tampa?

14 A Yes.

15 Q And was FCTA negotiating on behalf of that
16 entity as well?

17 A Yes, they were.

18 Q And is Adelphi Cable affiliated with Hyperion?

19 A Yes, they are.

20 Q And are they a certificated AAV, to the best
21 of your knowledge, in Florida?

22 A Yes, they are.

23 MS. WILSON: Okay, that's all the questions I
24 have.

25 CHAIRMAN CLARK: Mr. Crosby?

1 MR. CROSBY: No questions. Thank you.

2 CHAIRMAN CLARK: Ms. Weiske?

3 MS. WEISKE: No questions.

4 CHAIRMAN CLARK: Mr. Melson?

5 CROSS-EXAMINATION

6 BY MR. MELSON:

7 Q Mr. Scheye, I'm Rick Melson representing MCI
8 Metro Access Transmission Services, Inc. Could you put
9 back up your previous exhibit that said Example 1 of
10 ALEC's potential use of NNX codes, please?

11 A Sure.

12 Q Were you present during the testimony of
13 Mr. Price?

14 A Yes, I was.

15 Q And did you understand Mr. Price's testimony
16 to be that MCI Metro's use of NXX codes will be the type
17 of use depicted on your Example 1?

18 A Honestly, I could not hear all of Mr. Price's
19 comments, but I think there was some discussion about
20 NNX codes, but I couldn't hear all the words.

21 Q Let me ask you this: If an ALEC used a
22 separate NXX code per rate center, would that correspond
23 to this Example 1?

24 A Yes, it would.

25 Q And in Example 1, Southern Bell has no

1 difficulty in distinguishing toll from local traffic; is
2 that correct?

3 A For that particular carrier in that particular
4 circumstance, that would be correct.

5 Q So if all carriers, all ALECs used NXX codes
6 the way Mr. Price has indicated MCI Metro would, then
7 Bell does not have the toll local distinguishment
8 problem described in your testimony; is that correct?

9 A If every -- if the scenario you paint, which
10 is every alternate carrier in every situation does that,
11 that is correct, sir.

12 Q All right. During your summary, you
13 indicated, I believe, that Southern Bell was proposing
14 reciprocal compensation, but then you gave a definition
15 of reciprocal which may be a little different than what
16 I'm used to hearing.

17 Could you describe for me in a little more
18 detail what you meant when you said "reciprocal
19 compensation?" Does that mean if Southern Bell's charge
20 is four cents, that the ALEC's charge would be four
21 cents?

22 A No, that would be reciprocal and equal.

23 Q So when you say reciprocal, you mean
24 reciprocal and unequal?

25 A It could be. Reciprocal could either be equal

1 or unequal.

2 Q And in what situation do you believe it would
3 be appropriate for the compensation to be reciprocal and
4 equal?

5 A I don't know if I know a circumstance, other
6 than, as you may be aware, in some instances in the
7 negotiated agreement that we have had with several
8 parties in the state of Florida, there can be
9 circumstances where that compensation could be
10 reciprocal and equal.

11 Q And under that stipulation -- in what
12 particular circumstances is it reciprocal and equal
13 under the stipulation?

14 A If, in a particular period of time, say a
15 month, the usage was absolutely the same, if the
16 functionality performed by each of the carriers in that
17 instance was identical, then it could work out that in
18 that particular period of time, the payments in each
19 direction would be exactly the same.

20 Q But that would be the exception rather than
21 the rule?

22 A Could be.

23 Q Even in that case, under the agreement, do I
24 understand that the rate per minute is the same whether
25 Southern Bell charges that rate to the ALEC or the ALEC

1 charges the rate to Southern Bell?

2 A The rates reflect the functionality. If in
3 the case of the functionality being absolutely
4 identical, in which case BellSouth provides the ALEC a
5 particular functionality, and in turn, the ALEC provided
6 that same functionality back to BellSouth, yes, then the
7 rates would be identical.

8 Q Let me understand what you mean by
9 functionality. By functionality, I take it you mean
10 tandem switching, local switching and local transport;
11 is that correct?

12 A As well as collocation is another example of
13 that. So if the carriers, both BellSouth and the other
14 carrier, were exactly similarly situated, through either
15 collocation or non-collocation, and bought the same
16 functions, switching from the other, then in your
17 scenario, the answer would be yes, they would be exactly
18 the same.

19 Q Let me turn to your proposal for ALECs who
20 have not signed the stipulation. Are you proposing that
21 assuming the same functionality is provided, that the
22 rates for each functional element be equal or unequal?

23 A The rates for the same elements, did you say?

24 Q Yes. Yes.

25 A I have not -- in our proposal, we propose,

1 since it's a proposal of BellSouth -- what we anticipate
2 charging ALECs for interconnecting with our network. We
3 would assume that the ALEC would have to, similarly,
4 put -- come forth to this Commission and explain what
5 it plans to charge BellSouth for its interconnection.
6 They could mirror our rate structure. They may not
7 mirror our rate structure.

8 Q Is it also fair to say that they could mirror
9 your rate levels or not mirror your rate levels?

10 A They could mirror our rate levels. I guess
11 they could not -- they may not.

12 Q Could choose not to?

13 A They could choose not to, that's correct. In
14 addition, in our proposal we have suggested that
15 contribution to carrier of last resort be included in
16 the rates that we assess upon the alternate local
17 exchange carriers as part of the interconnection
18 arrangement.

19 Q Okay, I'll come back to that point a little
20 later.

21 A Okay.

22 COMMISSIONER DEASON: Let me interrupt for a
23 second. I'm right here.

24 WITNESS SCHEYE: Yes, sir.

25 COMMISSIONER DEASON: Are you saying that

1 you've signed an agreement for interconnection which
2 sets the rate that you will charge the ALECs but that
3 doesn't indicate what rate they will charge you?

4 WITNESS SCHEYE: No, Commissioner. In the
5 agreement we signed, it does specify what we will charge
6 and what they will charge. As I understand the question
7 earlier, it was for those carriers that had not signed
8 the agreement, what did we propose to charge.

9 COMMISSIONER DEASON: For those carriers who
10 did not sign the agreement, you anticipate they would
11 have an obligation to come to the Commission and get a
12 tariffed rate that they would charge to complete calls?
13 Is that correct?

14 WITNESS SCHEYE: Or to have BellSouth complete
15 on their network, assuming they plan to charge BellSouth
16 for that.

17 Q (By Mr. Melson) Mr. Scheye, I want to talk
18 now -- I want to go -- I've got a fairly lengthy set of
19 questions here on interconnection charges, so if you'll
20 bear with me. I want to talk about a local call, one
21 that we can agree the parties have identified as local,
22 and they know is local, that originates from an ALEC
23 customer and terminates to a Southern Bell customer. Do
24 you understand the situation we're looking at?

25 A Yes.

1 Q All right. Now, you support a plan under
2 which the charge for that local termination is based on
3 the switched access charge rate structure and rate
4 levels; is that correct?

5 A Yes, that's correct.

6 Q Okay, in your testimony you indicate that the
7 rate level and components might vary based on the
8 universal service mechanism adopted by the Commission;
9 is that correct?

10 A Yes.

11 Q And are you familiar with the order the
12 Commission did adopt on universal service?

13 A Yes.

14 Q And isn't it correct that that decision did
15 not adopt an explicit universal service support charge
16 at this time?

17 A As I understand it, it did not create an
18 interim fund for universal service recovery.

19 Q And is it also your understanding that that
20 decision left Southern Bell free to request such a
21 charge in the future if it could demonstrate that the
22 charge was required?

23 A Yes.

24 Q In light of that universal service decision, I
25 would like to go back to the statement in your testimony

1 that says the rate levels and components may vary based
2 on that decision. Given the decision, what rate
3 elements and rate levels does Southern Bell believe
4 should apply to this local termination of a call from an
5 ALEC customer to a Southern Bell customer?

6 A At the time of the filing of that, not knowing
7 the outcome of the universal service fund proceeding, we
8 had indicated in that proceeding that if the universal
9 service fund plan was adopted, specifically Alternative
10 1, then we envisioned the switched access, carrier
11 common line and residual interconnection elements
12 essentially disappearing. Therefore, those rates would
13 no longer apply to switched access, and by implication,
14 then those rate elements would not have applied in the
15 case of local interconnection either.

16 Q But the Commission did not adopt your
17 Alternative 1?

18 A Right. So the switched access rates remain
19 with the carrier common line and residual
20 interconnection elements and that's what we envision
21 applying here on the local side as well.

22 Q Let me make sure I understand. You envision
23 applying every switched access rate element to this
24 local interconnection; is that correct?

25 A When you say every switched access -- I think

1 the answer to that is correct. Let me just clarify that
2 certain rate elements do not apply when a carrier
3 collocates, and if they're collocated then those
4 elements would not apply.

5 Q Let's assume a situation, for purposes of
6 discussion here, where we are not collocated. Are the
7 rate elements that would apply, the local switching,
8 local transport, the terminating carrier common line or
9 CCL, and the residual interconnection charge, or R-I-C,
10 RIC?

11 A That's some of them. That's not all of them.

12 Q What else would apply?

13 A There's an entrance facility charge as part of
14 a local transport restructure that would also apply.

15 Q Could you turn to the stipulation that you
16 entered into with Florida Cable Telephone (sic)
17 Association and others. I believe that's RCS-7
18 attached, been identified as part of Exhibit 15.

19 A Yes, sir, I have it.

20 Q And could you turn to Attachment C of that
21 document, which is Page 25 of 43.

22 A Yes.

23 Q Is it correct that what -- the charge you
24 would propose to apply to an ALEC who has not signed the
25 stipulation is the sum of the terminating carrier common

1 line charge, the entrance facility, the residual
2 interconnection, the switched transport facilities
3 termination, access tandem switching and local
4 switching?

5 A Yes, sir.

6 Q And would you agree with me that totals, for
7 your average situation, 4.495 cents per minute of use?

8 A I haven't added it up, but I will accept your
9 calculation.

10 Q And let me turn you back to Attachment A,
11 which is on Page 22. Let me be clear about how I
12 derived the 4.4895 so we can decide whether that is the
13 correct number. I took the 1.052 cents on Attachment A
14 and added to that the terminating carrier common line
15 charge and the RIC.

16 A I accept that, sir.

17 Q What is it about the Commission's decision in
18 the universal service docket that makes it appropriate
19 to include all of these rate elements, including the
20 carrier common line and the RIC in this local
21 interconnection charge?

22 A In the Commission's decision on universal
23 service, basically the outcome of that is that the
24 switched access rates should not be modified, and that
25 whatever contribution or subsidies are contained in

1 those rates will remain in those rates. And as you
2 mentioned, BellSouth can approach this Commission at a
3 later date and request a specific fund, but until such
4 time, then those rate elements will essentially remain
5 as they are.

6 What we are proposing here for local
7 interconnection is that like the interexchange carriers,
8 the alternate local exchange carriers have an obligation
9 towards carrier of last resort/universal service fund
10 obligations, and therefore the same rate structure and
11 elements are equally appropriate.

12 Q So you would agree with me that the carrier
13 common line portion of this rate and the RIC portion of
14 the rate are contribution elements rather than cost
15 elements?

16 A I would agree with you that the carrier common
17 line element is -- without getting into a lot of debate,
18 is a contribution element. It is actually recovering
19 loop costs, but for the sake of this discussion, yes,
20 I'll agree with you. In the case of residual
21 interconnection element, it's not quite so clean in that
22 sense. It does recover costs that are a portion of
23 transport, and local -- and the tandem switching. But
24 some people, for convenience, also call them a support
25 element.

1 Q Could you turn to Page 26 of your direct
2 testimony, please?

3 A You did not have a question on Attachment A;
4 is that correct?

5 Q No, I was -- no.

6 A Okay. That's fine.

7 Q Now on Page 26 --

8 A Can you just give me one second?

9 Q Sure, I'm sorry.

10 A Page 26?

11 Q Yes, sir.

12 A Yes, sir, I have it.

13 Q At Lines 5 through 7, you state that there is
14 nothing in revised Chapter 364 that prohibits drawing a
15 relationship between universal service and local
16 interconnection; is that correct?

17 A Yes, sir, it's what it says.

18 Q And that relationship is what we've just
19 talked about, the fact that the carrier common line,
20 which is essentially a support element, is included in
21 your proposed local interconnection charge?

22 A Yes.

23 Q All right. Mr. Scheye, we're handing you a
24 copy of what has previously been marked as Exhibit 1, a
25 transcript of a House committee meeting, a draft of

1 proposed committee bill and an amendment. I would ask
2 you to turn to Page 5 of the committee transcript, which
3 is part of Exhibit 1.

4 A Was that the first document?

5 Q It's the document that looks like this with
6 the seal on it.

7 A Page 5?

8 Q Yes, sir. Hang on one second. I've got a
9 wrong reference here in my notes. (Pause)

10 All right, would you read for me, if you would
11 please, the statement by Representative Safley that
12 begins at Line 20 of Page 5 and continues on to the top
13 of Page 6?

14 A You want me to read it out loud?

15 Q Yes, if you would please.

16 A "And let me, members, as you scan through this
17 amendment, highlight the issues that are embedded within
18 the amendment. This deals with the universal service
19 funding mechanism. It creates an interim mechanism. It
20 creates the opportunity, if necessary, of a permanent
21 mechanism to make sure that we provide universal
22 service, basic telephone service at affordable rates to
23 the consumers of this state. It guarantees, I think,
24 the continuation of universal service in all the areas
25 of the state. We delink, if you will, the universal

1 service subsidy issue from the interconnect issue which
2 is later addressed in this bill. I would be happy to
3 answer any questions, Mr. Chairman, but I think, in
4 summary, this gives us enough to proceed."

5 Q And now would you turn to Page 25 of the same
6 transcript. At Line 9, the chairman says, Amendment No.
7 44 by Safley. Would you read Mr. Safley's statement at
8 Lines 10 through 16, please?

9 A "Yes, ma'am." I didn't mean to say that to
10 you, sir. "This completes the delinking between the
11 universal service fund and the interconnect charges.
12 And this is important language in terms of it says that
13 the Commission shall determine that the charge is
14 sufficient to cover the cost of furnishing interconnect,
15 and it deals with the interconnect charges."

16 Q And are you aware that Amendment No. 44, that
17 is referred to at that point in the transcript,
18 eliminated universal service obligation and carrier of
19 last resort obligations as two of the things that in the
20 prior draft of legislation the Commission was required
21 to consider in setting local interconnection charge?

22 A I --

23 MR. LACKEY: Madam Chairman -- I still don't
24 have a red light. I want to object to this line of
25 examination. This document has already been included

1 into the record, of course over my objection. But I
2 still maintain that it has no probative value as to what
3 the legislature -- what the legislation means.

4 On top of that, it appears to be inconsistent
5 with the order that Mr. Melson asked you to take
6 official notice of at the beginning of this proceeding
7 this morning, your universal service order.

8 Given the fact that I think that this
9 Commission's order on this matter -- and I'm
10 specifically talking about PSC 951592-FOF-TP in Docket
11 950696, and at Page 28, says that, "Although not the
12 subject of this proceeding for ALECs, such markups could
13 presumably extend to services such as local
14 interconnection and number portability." You've already
15 noticed in your order on universal service that we could
16 have markups on local interconnection and number
17 portability. I think that's inconsistent with the
18 conclusion Mr. Melson -- the legal conclusion, I
19 suppose -- that Mr. Melson is trying to have this
20 witness draw at this point, and I think it's
21 inappropriate and I object to it.

22 MR. MELSON: Commissioner Clark, I would
23 respond very briefly.

24 CHAIRMAN CLARK: Do you understand -- what is
25 the basis for the objection?

1 MR. LACKEY: Well, the first -- I think he is
2 asking Mr. Scheye to look at a document, a transcript of
3 a proceeding, where we were not able to be there, or we
4 certainly didn't cross-examine these people. We're
5 having to guess about what they actually meant. It's
6 picking pieces and bits and phrases of it, talking about
7 amendments, Amendment 44. You know, he doesn't talk
8 about Amendment 47, 48, other things that are discussed
9 in here.

10 And we're trying to -- he's trying to draw --
11 or get Mr. Scheye to draw a conclusion that we're
12 supposed to get some kind of legislative history that
13 says, gee, you've got to delink universal service from
14 your interconnection rate here. Now, if that's the
15 conclusion he wants to argue from this document you've
16 taken notice of when he files his brief, that's fine.
17 But I don't think he can ask Mr. Scheye to draw that
18 conclusion.

19 And I also pointed out, perhaps as a
20 throw-away, that in your order on universal service you
21 specifically acknowledged that we presumably could -- we
22 could mark up services, such as local interaction and
23 number portability, which I think would be inconsistent
24 with the point that Mr. Melson is trying to make.

25 CHAIRMAN CLARK: Mr. Melson?

1 MR. MELSON: I will respond briefly. The
2 reason I'm asking about Amendment 44, and only Amendment
3 44, is that's the only amendment that amended the
4 section that deals with what the Commission is to
5 consider when it sets local interconnection charge.

6 The universal service order, I assume, had the
7 language in it that Mr. Lackey just represented. I
8 don't believe you were deciding in that docket any legal
9 issues that might arise in this docket. We can deal
10 with that in the briefs.

11 Finally, I was not asking Mr. Scheye to render
12 a legal opinion. I asked was he aware that that
13 amendment amended the bill to eliminate universal
14 service and carrier of last resort as two items that the
15 Commission was required to consider. He's either aware
16 or he isn't. And that was my last question in this
17 line.

18 CHAIRMAN CLARK: Go ahead, Mr. Scheye. You
19 can answer the question. I think the documents have
20 been admitted. I think Mr. Scheye takes the position
21 that there can be some consideration given to the -- as
22 he said, a charge for carrier of last resort in
23 interconnection, so I think it's a fair question to
24 ask.

25 WITNESS SCHEYE: Could I ask that the question

1 be repeated?

2 CHAIRMAN CLARK: Yes.

3 Q (By Mr. Melson) Yes. Are you aware that
4 Amendment 44 amended the bill to eliminate universal
5 service and carrier of last resort as two of the things
6 that the Commission was required to consider when it set
7 the local interconnection rate?

8 A Obviously I was not aware that it did that,
9 but I don't think it changes the proposal that we're
10 making today, because it sounds like, and as Mr. Lackey
11 said, I cannot interpret what the requirements of this
12 are, since I've never seen it before. But you indicated
13 the word "required," and we are simply proposing
14 something that we think is a very reasonable proposal.
15 It wasn't premised upon, necessarily, that there was a
16 requirement that an alternate local exchange carrier
17 participate in carrier of last resort obligations like
18 an interexchange carrier. To us, it is a very
19 reasonable proposal on that basis, and it would appear
20 to remain very reasonable, even subject to a
21 non-interpretation of this amendment.

22 Q Thank you. I would like to turn now to the
23 stipulation that you reached with the Florida
24 Telecommunications Association and several other
25 parties.

1 A Am I done with this document, sir?

2 Q Yes, we're done with that.

3 And again, that stipulation, I believe, was
4 Exhibit RCS-7 attached to your rebuttal. That
5 stipulation has provisions that deal with Southern
6 Bell's universal service and carrier of last resort
7 obligations; is that correct?

8 A Yes, sir, it does.

9 Q And does that stipulation essentially provide,
10 at Page 12, that Southern Bell will guarantee the
11 provision of universal service and carrier of last
12 resort for two years without ALEC contributions?

13 A Yes, sir, it does.

14 Q And the last paragraph on that page leaves
15 Southern Bell free to seek universal service support on
16 a case-by-case basis during that two-year period if it's
17 required; is that correct?

18 A That is correct.

19 Q Given that, is it fair to say that the
20 provisions of the stipulation with respect to universal
21 service are essentially the same as the Commission
22 adopted in its order on universal service; namely that
23 there is no interim fund established, but Southern Bell
24 can come in and justify -- attempt to justify a charge?

25 A I believe you started your question by saying

1 is this consistent. I believe it is consistent. This
2 is a little more far-reaching in the stipulation and
3 agreement than I understand the Commission's order. I
4 don't believe anything in the Commission order said
5 ALECs cannot contribute or are not required to
6 contribute for a two-year period to a fund, if such a
7 fund were established. So I believe there are
8 differences between the specifics of the Commission
9 order and the specifics of this agreement.

10 Q And it's your testimony then that this
11 agreement provides that even if a fund is established,
12 signatories to the agreement are not required to
13 contribute to the fund?

14 A For the period of this agreement.

15 Q Can you point me to the provision in the
16 agreement that says that?

17 A I would have to read it.

18 Q Well, the universal service provisions are at
19 Pages 11 through 13.

20 A Sir, if you want me to take the time to go
21 through it, I will be happy to do so. For expediency of
22 today and -- as Chairman, or Chairperson, said, we have
23 to slug our way through to 7:30, I would ask that you
24 accept, upon clarification later, that it does state
25 that.

1 Q I guess I have read it, Mr. Scheye, and
2 sometimes I read things too quickly, but I did not
3 understand that from reading the language. I had heard
4 that previously from you in your deposition, and I was
5 hoping to get some clarification from you as to what
6 language you had reference to.

7 A Then I'll have to read it.

8 Q Tell you what, let me move on. And if we take
9 a break during your testimony, maybe you can read it
10 during the break.

11 A All right.

12 Q But it's your -- let me just be clear. It's
13 your understanding of the stipulation that an ALEC who
14 signs it is not required to pay anything toward
15 universal service for two years, the term of the
16 agreement, even if the Commission subsequently
17 establishes a charge during that two-year period?

18 A That's correct.

19 Q Now that stipulation also establishes rate for
20 local interconnection; is that correct?

21 A Yes, it does.

22 Q And that rate equals the local transport, plus
23 the local switching rate elements from the switched
24 access charge tariff; is that correct?

25 A It's all rate elements that are included in

1 switched access, with the exception of the residual
2 interconnection element and the carrier common line
3 element.

4 Q And that rate comes out to 1.052 cents per
5 minute; is that correct?

6 A I believe you're probably referring to
7 attachment A, and that shows you an average or
8 illustrative rate, and on average that is correct, sir.

9 Q And that rate is high enough to cover Southern
10 Bell's cost of terminating those calls; is that correct?

11 A Covers the cost of those rate elements, sir.

12 Q That wasn't the question. It covers Southern
13 Bell's cost of terminating the call?

14 A Yes.

15 Q And in fact that rate provides some
16 contribution above cost toward your shared costs; is
17 that correct?

18 A That is correct.

19 Q And that rate is available to any ALEC who
20 signs this stipulation and agreement; is that correct?

21 A It is available to all the parties who have
22 signed it; that is correct.

23 Q Is this agreement available for other parties
24 to sign in the future?

25 A It's an interesting question. We have made it

1 available in the past to both MCI Metro and MFS, and
2 some other carriers. And they have rejected it. Is it
3 available to them tomorrow is something I guess I would
4 have to think about, sir.

5 Q That's fair enough.

6 A I would probably have to talk to the other
7 parties who have signed it, because they have certainly
8 negotiated in good faith with us to get this agreement
9 signed, so it's something I would certainly consider
10 though.

11 Q And do you believe MCI Metro has negotiated in
12 good faith with you?

13 A Because we have not reached an agreement with
14 them, we certainly have not negotiated to the same
15 extent and to the same degree we have with all the other
16 parties. I will not say that they did not negotiate in
17 good faith, however.

18 Q And would the same be true with respect to
19 MFS?

20 A Yes, sir.

21 Q And let's go back to the rate, local
22 interconnection rate under this agreement, of 1.052
23 cents. You would agree, wouldn't you, that that is less
24 than 25 percent of the rate that you are proposing in
25 this proceeding that the Commission establish to apply

1 to ALECs who are not signatories to the agreement?

2 A Again, I'll accept your mathematics on that,
3 sir.

4 Q Well, would you agree with me that 1.05 cents
5 is less than 25 percent of four and a half cents?

6 A Yes.

7 Q Now, the rate under this stipulation may not
8 apply to all of the minutes that terminate from an ALEC
9 to Southern Bell; is that correct?

10 A No, sir, it's not.

11 Q The rate does apply to all minutes that
12 terminate?

13 A Yes, sir.

14 Q All right, what happens in the situation where
15 Southern Bell, during a month, terminates 10,000 minutes
16 to the ALEC, and the ALEC terminates 15,000 minutes to
17 Southern Bell?

18 A I assume you're referring to the 105 percent
19 cap in the stipulation and agreement. And what that
20 suggests is, or what that states is, that in a
21 particular month, or the billing period, that one party
22 will not bill the other party for more than 105 percent
23 of what the other party --. So in the instance -- in
24 the situation that you just displayed, I think it was
25 10,000 minutes, then the billing in the other direction

1 would not exceed 10,500 minutes.

2 Q So if 15,000 minutes were delivered and 10,500
3 minutes were billed for, is it fair to say that there
4 are 4500 minutes that were not compensated at that rate?

5 A Right. There was no compensation at that rate
6 for those minutes in that month.

7 MR. MELSON: Commissioners, at this point, I
8 would like to refer to an interrogatory answer that's
9 been filed on a confidential basis. I will do it in a
10 way that does not disclose any of the numbers. I also
11 have several other questions that relate to
12 interrogatory answers and so forth that Staff has
13 included in its exhibit package, and I was wondering if
14 we might have the Staff identify those exhibits at this
15 point. I think it would help -- it would help me, at
16 least, to try to build a clear record.

17 CHAIRMAN CLARK: Is Staff going to do that,
18 identify those exhibits?

19 MR. HATCH: Yes, ma'am. That's no problem.

20 Mr. Scheye, do you have a package of five
21 exhibits prepared by staff?

22 WITNESS SCHEYE: Yes, sir.

23 MR. HATCH: Madam Chairman, we can go through
24 these individually and I can identify them, or we can do
25 them as a composite. It will be sort of your choice,

1 and I will identify them however you wish.

2 CHAIRMAN CLARK: Looks like we've been doing
3 them individually.

4 MR. HATCH: Okay. The first one, Mr. Scheye,
5 I believe, is identified as a 12-18-95 deposition
6 transcript. Do you have that one?

7 WITNESS SCHEYE: I'm sorry, sir, could you
8 repeat that?

9 MR. HATCH: Sure. I believe the first one in
10 that stack is the 12-18-95 deposition transcript. Do
11 you have that one?

12 WITNESS SCHEYE: Yes.

13 MR. HATCH: Is everything in there true and
14 correct to the best of your knowledge and belief?

15 WITNESS SCHEYE: Yes.

16 MR. HATCH: Madam Chairman, could we have that
17 marked for identification, please?

18 CHAIRMAN CLARK: Yes. The deposition
19 transcript from the deposition taken on December 18th,
20 1995 will be identified as Exhibit 16.

21 (Exhibit No. 16 marked for identification.)

22 MR. HATCH: And Mr. Scheye, do you have a
23 document before you that's identified as the 1-5-96
24 deposition transcript?

25 WITNESS SCHEYE: Yes, sir.

1 MR. HATCH: Everything in there true and
2 correct in there to your best of your knowledge and
3 belief?

4 WITNESS SCHEYE: Yes, sir.

5 MR. HATCH: Can we have that marked for
6 identification, please, Madam Chairman?

7 CHAIRMAN CLARK: The transcript for the
8 deposition taken on January 5th, 1996 will be marked as
9 Exhibit 17.

10 (Exhibit No. 17 marked for identification.)

11 MR. HATCH: The third document, Mr. Scheye, I
12 believe is Staff's First Set of Interrogatories to
13 BellSouth, No. 6. Do you have that one?

14 WITNESS SCHEYE: Yes, I do.

15 MR. HATCH: Is everything in that one true and
16 correct to the best of your knowledge and belief?

17 WITNESS SCHEYE: Yes.

18 MR. HATCH: Could we have that marked for
19 identification, please, Madam Chairman?

20 CHAIRMAN CLARK: Staff's First Set of
21 Interrogatories to BellSouth, No. 6, will be identified
22 as Exhibit 18.

23 (Exhibit No. 18 marked for identification.)

24 MR. HATCH: And the fourth document, I
25 believe, is identified, Mr. Scheye, as Staff's First

1 Request for Production, No. 5. Do you have that one?

2 WITNESS SCHEYE: Yes, sir.

3 MR. HATCH: And is everything in that one true
4 and correct to the best of your knowledge and belief?

5 WITNESS SCHEYE: Yes.

6 MR. HATCH: Could we have that marked for
7 identification, please, Madam Chairman?

8 CHAIRMAN CLARK: Staff's First Request for
9 Production of Documents, BellSouth, No. 5, will be
10 marked as Exhibit 19.

11 (Exhibit No. 19 marked for identification.)

12 MR. HATCH: And the fifth document,
13 Mr. Scheye, is identified as MFS's First Set of
14 Interrogatories to BellSouth and there's a series of
15 numbers listed there specifying interrogatories. Do you
16 have that one?

17 WITNESS SCHEYE: Yes, sir.

18 MR. HATCH: Everything in that document true
19 and correct to the best of your knowledge and belief?

20 WITNESS SCHEYE: Yes, it is.

21 MR. HATCH: May we have that marked for
22 identification, please, Madam Chairman?

23 CHAIRMAN CLARK: The various interrogatories
24 from MFS of Florida to BellSouth will be marked as
25 Exhibit 20.

1 (Exhibit No. 20 marked for identification.)

2 MR. HATCH: That's the end of the documents.

3 MR. MELSON: And Tracy, if I might get some
4 clarification, and Chairman Clark, I believe RCS-3 and
5 RCS-4, there are two versions. There's a redacted copy
6 and then there's the confidential version in the red
7 envelope. I assume what is being marked as the exhibit
8 is the confidential version.

9 MR. HATCH: That is correct.

10 MR. MELSON: And those should indicate that
11 those two are confidential exhibits.

12 MR. HATCH: Exhibit 18 and Exhibit 19, as
13 they've been identified, are both confidential, and we
14 meant to refer to the confidential version.

15 CHAIRMAN CLARK: All right, Exhibit 18 and
16 Exhibit 19 will be the confidential exhibits.

17 CHAIRMAN CLARK: Go ahead, Mr. Melson.

18 MR. MELSON: Could I have one minute to talk
19 to Mr. Lackey?

20 CHAIRMAN CLARK: Sure.

21 MR. MELSON: We're discussing how to handle
22 the confidential information. I think we've got it
23 worked out.

24 CHAIRMAN CLARK: Why don't we do this, why
25 don't we go ahead and take a ten-minute break. We need

1 to change out court reporters and we'll do that at this
2 time.

3 (Recess at 5:20 p.m.)
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