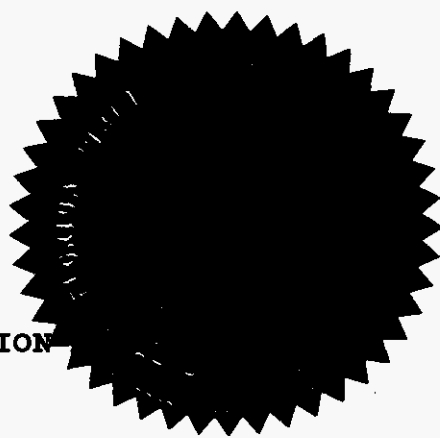


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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of :
Resolution of Petition(s) : DOCKET NO. 950984-TP
to establish nondiscrimi- :
natory rates, terms and :
conditions for resale :
involving local exchange :
companies and alternative :
local exchange companies :
pursuant to Section :
364.161, Florida Statutes. :



FIRST DAY - MORNING SESSION

VOLUME 1

Pages 1 through 198

PROCEEDINGS: HEARING
BEFORE: CHAIRMAN SUSAN F. CLARK
COMMISSIONER J. TERRY DEASON
COMMISSIONER JULIA L. JOHNSON
COMMISSIONER JOE GARCIA
DATE: Thursday, January 11, 1996
TIME: Commenced at 11:40 a.m.
PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida
REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
SYDNEY SILVA, CSR, RPR
Official Commission Reporters

1 **APPEARANCES:**

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5 appearing on behalf of **Metropolitan Fiber Systems of**
6 **Florida, Inc.**

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10 **HENRY**, Suite 700, 780 Johnson Ferry Road, Atlanta,
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12 on behalf of **MCI Metro Access Transmission Services,**
13 **Inc.**

14 **DOUGLAS R. LACKEY** and **PHILLIP CARVER**, c/o
15 Southern Bell Telephone and Telegraph Company, 150
16 South Monroe Street, Room 400, Tallahassee, Florida
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18 behalf of **BellSouth Telecommunications, Inc., d/b/a**
19 **Southern Bell Telephone and Telegraph Company.**

20 **MICHAEL W. TYE**, 101 North Monroe Street,
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24 **AT&T Communications of the Southern States, Inc.**

25

1 **APPEARANCES CONTINUED:**

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3 Telecommunications Association, Inc., 310 North Monroe
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6 **Telecommunications Association, Inc.**

7 **FLOYD R. SELF**, and **NORMAN H. HORTON, JR.**,
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9 P. O. Box 1876, Tallahassee, Florida 32302-1876,
10 Telephone No. (904) 222-0720, appearing on behalf of
11 **WorldCom, Inc., d/b/a LDDS Limited Partnership.**

12 **BENJAMIN W. FINCHER**, 3100 Cumberland Circle,
13 Atlanta, Georgia 30339, Telephone No. (404) 649-5145,,
14 appearing on behalf of **Sprint Communications Company**
15 **Limited Partnership.**

16 **SUE E. WEISKE**, 160 Inverness Drive West, Englewood,
17 Colorado 80112, Telephone No. (303) 799-5513, appearing on
18 behalf of **Time Warner Communications.**

19 **DONNA CANZANO, ROBERT V. ELIAS, SCOTT**
20 **EDMONDS** and **TRACY HATCH**, Florida Public Service
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24 **the Commission Staff.**

25

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P R O C E E D I N G S

(Hearing convened at 11:40 a.m.)

CHAIRMAN CLARK: Counsel, will you please read the notice for 950984.

MS. CANZANO: Pursuant to an amended notice issued December 22nd, 1995, a hearing in Docket 950984-TP has been set to begin at the conclusion of Docket No. 950985-TP.

CHAIRMAN CLARK: We'll take appearances.

MS. WILSON: Laura Wilson representing the Florida Cable Telecommunications Association, 310 North Monroe Street, Tallahassee, Florida 32301.

MS. WEISKE: Sue Weiske, Time Warner Communications, 160 Inverness Drive West, Englewood, Colorado 80112.

MR. LACKEY: I'm R. Douglas Lackey, 675 West Peachtree Street, Atlanta, Georgia. With me is Phil Carver, 150 West Flagler Street, Miami, Florida appearing on behalf of BellSouth Telecommunications, Inc.

MR. MELSON: Richard Melson of the law firm Hopping Green Sams & Smith P.A., P. O. Box 6526, Tallahassee, appearing on behalf of MCI Metro Access Transmission Services, Inc. With me is Michael J. Henry of MCI in Atlanta.

1 MR. TYE: I'm Michael W. Tye, 101 North
2 Monroe Street, Suite 700, Tallahassee, Florida 32301.
3 Appearing with me is Robin D. Dunson of the AT&T legal
4 department in Atlanta.

5 MR. SELF: Floyd R. Self and
6 Norman H. Horton, Jr. of the Messer Caparello law
7 firm, Post Office Box 1876, Tallahassee, Florida,
8 appearing on behalf of WorldCom, Inc., d/b/a LDDS
9 WorldCom Communications.

10 MR. FINCHER: Benjamin Fincher, 3100
11 Cumberland Circle, Atlanta, Georgia 30339, appearing
12 on behalf of Sprint Communications Company Limited
13 Partnership. I'm associated with C. Everett Boyd of
14 the law firm of Ervin, Varn, Jacobs, Odom & Ervin, P.
15 O. Box 1170, Tallahassee, Florida 32302.

16 MR. FALVEY: James C. Falvey and Richard M.
17 Rindler with Swidler and Berlin, on behalf of
18 Metropolitan Fiber Systems of Florida, Inc., 3000 K.
19 Street Northwest, Suite 300, Washington, D.C. 20007.

20 MS. CANZANO: Donna Canzano, Scott Edmonds,
21 Robert Elias and Tracy Hatch, appearing on behalf of
22 the Commission Staff.

23 CHAIRMAN CLARK: Are there any preliminary
24 matters we need to take up at this time?

25 MS. CANZANO: Yes. Staff has one.

1 Yesterday we distributed a -- Staff's list
2 of orders for official recognition. Again, if anybody
3 needs copies of these orders, please ask Staff. And
4 if you need a copy of the list, please see me also.

5 MR. FALVEY: On that same note, I have some
6 additional -- I'm sorry, Donna, do you have other
7 items?

8 MS. CANZANO: No, that's it for right now.

9 CHAIRMAN CLARK: We'll take official notice
10 of the orders listed on the document Staff has
11 provided, entitled "Docket No. 950984-TP, Staff's list
12 of orders for official recognition. "

13 Joy, you have a copy of that list, do you
14 not? Okay.

15 Anything else, Ms. Canzano?

16 MS. CANZANO: None that I am aware of.

17 CHAIRMAN CLARK: Ms. Wilson.

18 MS. WILSON: Yes, Chairman Clark, I would
19 just request again, we're here basically to monitor
20 this proceeding and to ask cross examination only if
21 an issue arises that I feel needs clarification in the
22 record. So I'd request the ability to cross examine,
23 if necessary, prior to Staff's questions. In other
24 words, take me out of order.

25 CHAIRMAN CLARK: You let me know if you have

1 cross examination questions, okay?

2 Ms. Weiske, do you have anything.

3 MS. WEISKE: No.

4 CHAIRMAN CLARK: Mr. Lackey.

5 MR. LACKEY: No.

6 CHAIRMAN CLARK: Mr. Melson.

7 MR. MELSON: Yes. The Prehearing Order says
8 take Mr. Price has rebuttal testimony. In fact, he
9 has no rebuttal. That was an error on my part in
10 putting together the prehearing statement.

11 I also have a couple of items that I will
12 request official recognition of. They are BellSouth
13 tariff filings. I would prefer to wait until I get to
14 the witness where I'm going to use them and do them at
15 that time, but I can handle it now if you'd prefer.

16 CHAIRMAN CLARK: No, we'll take it up at
17 that time. You're going to ask for official notice of
18 a tariff filing?

19 MR. MELSON: Yes.

20 MR. TYE: Chairman Clark, the order of
21 witnesses in the Prehearing Order shows direct and
22 rebuttal separately. I'm the culprit for that because
23 Mr. Gillan only had rebuttal testimony. I've talked
24 with the other counsel, and I do not have a problem
25 with putting Mr. Gillan on with the direct witnesses

1 before the BellSouth witnesses if that will facilitate
2 us moving along by combining direct and rebuttal.

3 CHAIRMAN CLARK: And you've talked to the
4 other parties and there's no objection to putting
5 Mr. Gillan right after Mr. Guedel; is that right?

6 MR. TYE: That would be what I would do,
7 Chairman Clark.

8 CHAIRMAN CLARK: And as I understand the
9 implication of what you've said, is everyone else will
10 be presenting both direct and rebuttal when they take
11 the stand?

12 MR. TYE: That's correct.

13 CHAIRMAN CLARK: Mr. Self, anything
14 preliminarily?

15 MR. SELF: Nothing.

16 CHAIRMAN CLARK: Mr. Fincher, anything?

17 MR. FINCHER: Nothing.

18 CHAIRMAN CLARK: Mr. Falvey.

19 MR. FALVEY: Yes. I also have a list of
20 orders for official recognition from other states.
21 It's just two orders.

22 CHAIRMAN CLARK: Go ahead and read them.

23 MR. FALVEY: First is application of
24 Southern New England Telephone Company, Docket
25 No. 95-06-1795-06-17, Draft Decision, Department

1 of Public Utilities of Connecticut, December 20, 1995.

2 The second one is Joint Complaint of AT&T
3 Communications of New York, Inc. et al, Case
4 95-C-0657, Order Considering Loop Resale and Links and
5 Ports Pricing, New York Public Service Commission,
6 November 1, 1995.

7 CHAIRMAN CLARK: Those are both orders of
8 other commissions?

9 MR. FALVEY: That's correct.

10 CHAIRMAN CLARK: We'll take official
11 recognition of those orders.

12 That concludes the preliminary matters. And
13 as I understand from talking to the parties briefly,
14 there's some thought that we may be able to get
15 through this proceeding today if we work through
16 lunch. I would like to do that. We may take a brief
17 15 minutes or something so we could get -- bring lunch
18 in, or Commissioners can run up and get their lunches.
19 It's my proposal that we do, in fact, work through
20 lunch in a attempt to get done by 5 o'clock today.

21 Mr. Lackey.

22 MR. LACKEY: Yes, ma'am, if you're ready to
23 go to Mr. Devine.

24 CHAIRMAN CLARK: I think I need to swear in
25 the witnesses first, and then we'll go to Mr. Devine.

1 Will everyone who is going to present
2 testimony in this docket, please stand and raise your
3 right-hand.

4 (Witness collectively sworn.)

5 Mr. Devine.

6 MR. FALVEY: MFS of Florida calls Timothy
7 Devine to the stand.

8 - - - - -

9 **TIMOTHY T. DEVINE**

10 was called as a witness on behalf of MFS of Florida
11 and, having been duly sworn, testified as follows:

12 **DIRECT EXAMINATION**

13 BY MR. FALVEY:

14 Q Mr. Devine, could you state your full name
15 and business address?

16 A Timothy T. Devine, MFS Communications
17 Company, Inc. My office location is Six Concourse
18 Parkway, Suite 2100, Atlanta, Georgia, and the zip is
19 30328.

20 Q And did you submit testimony, direct
21 testimony in this docket on behalf of Metropolitan
22 Fiber Systems filed on November 13th, 1995?

23 A Yes.

24 Q And did you submit a petition of
25 Metropolitan Fiber Systems of Florida for BellSouth to

1 unbundle the local loop, also filed on November 13,
2 1995?

3 A Yes.

4 Q And did you submit rebuttal testimony on
5 behalf of MFS of Florida filed December 11, 1995?

6 A Yes.

7 Q Okay. And do you have any corrections to
8 that testimony?

9 A Just a few to the direct testimony. On
10 Page 5 of the direct testimony, on Line 6, if the
11 month "September" can be inserted between "and" and
12 "29," so it would read "and September 29". And "also"
13 inserted after "29, 1995".

14 Also on Page 5, Line 10, the date would be
15 on September 15th, 1995, so if you can insert
16 "September, 1995." And then also there insert
17 "September 1995" for "September 29th, 1995."

18 On Page 8, Line 15, if you could change the
19 word "have" to the word "has," H-A-S. On Page 15,
20 Line 7, the word "provide" should be the word
21 "provides," with an S. On Page 19, Line 1, the words
22 "remote switching modules" should be struck and
23 "digital loop carriers" should be inserted.

24 On Page 22, Line 8, the word "stipulations"
25 should have an apostrophe before the S. Those are all

1 my changes.

2 Q And with those corrections do you affirm
3 that your testimony is true and correct?

4 A Yes.

5 Q And are you adopting and sponsoring exhibits
6 attached to your direct testimony, Exhibits TTD-1
7 through TTD-4?

8 A Yes.

9 Q Are you adopting and sponsoring Exhibit
10 TTD-5 attached to your rebuttal testimony?

11 A Yes.

12 MR. FALVEY: Madam Chairman, I would move
13 that this testimony be inserted into the record and
14 that the accompanying exhibits be marked for
15 identification.

16 MR. LACKEY: Madam Chairman, this is the
17 point I wanted to speak to. I don't want to belabor
18 it. I raised it yesterday, and you ruled against me
19 when I objected to certain portions of the testimony.
20 Could I just put it on the record and we'll be done
21 with it?

22 CHAIRMAN CLARK: Yes, go ahead.

23 MR. LACKEY: I object to that portion of the
24 testimony being included in the record that's on Page
25 20, Lines 13 and 14, which makes reference to TTD-1,

1 and I object to TTD-1, -2, -3 and, -4 on the grounds
2 that they all constitute documents that were generated
3 in a settlement process and are, therefore, not
4 admissible.

5 Basically, if I could, rather than go
6 through the long argument, or whatever, just
7 incorporate my remarks from the 85 docket that I made
8 yesterday, and if that would be okay.

9 CHAIRMAN CLARK: Go ahead.

10 MR. FALVEY: If I could do the same,
11 incorporate my remarks.

12 CHAIRMAN CLARK: And the basis for my ruling
13 be will be the same as in Docket 950985. Okay.

14 Thank you, Mr. Lackey.

15 With that, the direct testimony of
16 Mr. Timothy T. Devine, filed in Docket 950984 on
17 November 13th, 1995, will be inserted in the record as
18 though read. And the rebuttal testimony of
19 Mr. Timothy T. Devine, filed in docket -- I have it
20 labeled as 950984A, and it is filed on December 11th,
21 will be inserted in the record as though read.

22 And Exhibits 1 through 4 attached to the
23 direct testimony of Mr. Devine will be marked as
24 Exhibit 1. And Exhibit TTD-5 attached to his rebuttal
25 testimony, will be marked as Exhibit 2. Go ahead,

1 Mr. Falvey.

2 (Exhibit Nos. 1 and 2 marked for
3 identification.)

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**DIRECT TESTIMONY OF TIMOTHY T. DEVINE
ON BEHALF OF
METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC.
Docket No. 950984-TP**

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

2 **A.** My name is Timothy T. Devine. My business address is MFS
3 Communications Company, Inc. ("MFSCC"), 250 Williams St., Ste. 2200,
4 Atlanta, Georgia 30303.

5 **Q. WHAT IS YOUR POSITION WITH MFS?**

6 **A.** I am the Senior Director of External and Regulatory Affairs for the Southern
7 Region for MFSCC, the indirect parent company of Metropolitan Fiber
8 Systems of Florida.

9 **Q. WHAT ARE YOUR RESPONSIBILITIES IN THAT POSITION?**

10 **A.** I am responsible for the regulatory oversight of commission dockets and other
11 regulatory matters and serve as MFSCC's representative to various members
12 of the industry. I am also responsible for coordinating co-carrier discussions
13 with Local Exchange Carriers within the Southern Region.

14 **Q. PLEASE DESCRIBE YOUR PREVIOUS PROFESSIONAL
15 EXPERIENCE AND EDUCATIONAL BACKGROUND.**

16 **A.** I have a B.S. in Political Science from Arizona State University and an M.A.
17 in Telecommunications Policy from George Washington University. I began
18 work in the telecommunications industry in April 1982 as a sales
19 representative for packet switching services for Graphnet, Inc., one of the first
20 value-added common carriers in the United States. From 1983 until 1987, I

Direct Testimony of Timothy T. Devine
MFS Communications Company, Inc.
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1 was employed at Sprint Communications Co., in sales, as a tariff analyst, as a
2 product manager, and as Manager of Product and Market Analysis. During
3 1988, I worked at Contel Corporation, a local exchange carrier, in its
4 telephone operations group, as the Manager of Network Marketing. I have
5 been working for MFSCC and its affiliates since January 1989. During this
6 time period, I have worked in product marketing and development, corporate
7 planning, regulatory support, and regulatory affairs. Most recently, from
8 August 1994 until August 1995, I have been representing MFSCC on
9 regulatory matters before the New York, Massachusetts, and Connecticut state
10 commissions and was responsible for the MFSCC Interim Co-Carrier
11 Agreements with NYNEX in New York and Massachusetts, as well as the
12 execution of a co-carrier Joint Stipulation in Connecticut.

13 **Q. PLEASE DESCRIBE THE OPERATIONS OF MFS**
14 **COMMUNICATIONS COMPANY, INC. AND ITS SUBSIDIARIES**

15 **A.** MFSCC is a diversified telecommunications holding company with operations
16 throughout the country, as well as in Europe. MFS Telecom, Inc., an MFSCC
17 subsidiary, through its operating affiliates, is the largest competitive access
18 provider in the United States. MFS Telecom, Inc.'s subsidiaries, including

Direct Testimony of Timothy T. Devine
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1 MFS/McCourt, Inc., provide non-switched, dedicated private line and special
2 access services.

3 MFS Intelenet, Inc. ("MFSI") is another wholly owned subsidiary of
4 MFSCC. It causes operating subsidiaries to be incorporated on a state-by-
5 state basis. MFSI's operating subsidiaries collectively are authorized to
6 provide switched interexchange telecommunications services in 48 states and
7 have applications to offer such service pending in the remaining states. Where
8 so authorized, MFSI's operating subsidiaries offer end users a single source
9 for local and long distance telecommunications services with quality and
10 pricing levels comparable to those achieved by larger communications users.
11 Apart from Florida, MFSI subsidiaries have been authorized to provide
12 competitive local exchange service in twelve states. Since July 1993, MFS
13 Intelenet of New York, Inc. has offered local exchange services in competition
14 with New York Telephone Company. MFS Intelenet of Maryland, Inc. was
15 authorized to provide local exchange services in competition with Bell
16 Atlantic-Maryland, Inc. in April 1994 and recently has commenced
17 operations. On June 22, 1994, MFS Intelenet of Washington, Inc. was
18 authorized to provide local exchange services in competition with US West
19 Communications, Inc. On July 20, 1994, MFS Intelenet of Illinois, Inc. was

Direct Testimony of Timothy T. Devine
MFS Communications Company, Inc.
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1 certificated to provide local exchange services in competition with Illinois
2 Bell Telephone Company and Central Telephone Company of Illinois. MFS
3 Intelenet of Ohio was certificated to provide competitive local exchange
4 service in competition with Ohio Bell on August 3, 1995. MFS Intelenet of
5 Michigan, on May 9, 1995, was certificated to provide competitive local
6 exchange service in competition with Ameritech-Michigan. MFS Intelenet of
7 Connecticut was dedicated to provide local exchange service in competition
8 with Southern New England Telephone Company on June 28, 1995. MFS
9 Intelenet of Texas, Inc. was authorized to provide local exchange service in
10 Texas in competition with Southwestern Bell Telephone Company by Order
11 signed on October 25, 1995. MFS Intelenet of Georgia, Inc. was certificated
12 to provide local exchange service in the Atlanta and Smyrna Exchanges in
13 competition with BellSouth on October 27, 1995. MFS Intelenet of
14 Pennsylvania, Inc. was authorized to provide local exchange service in
15 Pennsylvania by Order entered October 4, 1995. Finally, MFS Intelenet of
16 Massachusetts was certificated on March 9, 1994 to operate as a reseller of
17 both interexchange and local exchange services in the Boston Metropolitan
18 Area in competition with New England Telephone.

Direct Testimony of Timothy T. Devine
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Page 5

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
2 **COMMISSION?**

3 **A.** Yes. On August 14, 1995 and September 8, 1995, respectively, I filed direct
4 and rebuttal testimony in the universal service docket. *In re: Determination*
5 *of funding for universal service and carrier of last resort responsibilities,*
6 Docket No. 950696-TP. On September 1, 1995 and ^{September} 29, ¹⁹⁹⁵ respectively, I filed
7 direct and rebuttal testimony in the temporary number portability docket. *In*
8 *re: Investigation into temporary local telephone portability solution to*
9 *implement competition in local exchange telephone markets,* Docket No.
10 950737-TP. On 15 and ^{September} 29, ¹⁹⁹⁵ respectively, I filed direct and rebuttal testimony
11 in the TCG Interconnection Petition docket. *Resolution of Petition(s) to*
12 *establish nondiscriminatory rates, terms, and conditions for interconnection*
13 *involving local exchange companies and alternative local exchange*
14 *companies pursuant to Section 364.162, Florida Statutes,* Docket
15 No. 950985A-TP.

16 **Q. ARE ANY OF THE PARTIES UPON WHOSE BEHALF YOU ARE**
17 **TESTIFYING CURRENTLY CERTIFICATED TO PROVIDE**
18 **SERVICE IN FLORIDA?**

19 **A.** Yes. Metropolitan Fiber Systems of Florida, Inc., a certificated Alternative
20 Access Vendor ("AAV"), by letter dated July 5, 1995, notified the

Direct Testimony of Timothy T. Devine
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Page 6

1 Commission of its intent to provide switched local exchange service in
2 Florida. The Commission acknowledged this notification on September 12,
3 1995.

4 **I. PURPOSE AND SUMMARY**

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 **A.** MFS-FL has filed its unbundling petition in this docket, as well as a
8 parallel petition in the interconnection docket, because its negotiations
9 with BellSouth (and, to date, only BellSouth) have failed to yield
10 acceptable co-carrier arrangements. Specifically, MFS-FL could not
11 come to an agreement with BellSouth because BellSouth insisted,
12 contrary to statute, that the universal service issue be addressed in
13 these negotiations. MFS-FL therefore is petitioning the Commission,
14 in accordance with Florida Statute Section 364.161, for BellSouth to
15 provide unbundled services, network features, functions or capabilities,
16 and specifically the unbundled local loop and the concentration of
17 unbundled loops.

18 **Q. AS A THRESHOLD MATTER, WHAT IS MEANT BY THE TERM**
19 **"CO-CARRIER ARRANGEMENTS"?**

Direct Testimony of Timothy T. Devine
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1 A. By "co-carrier" arrangements, I refer to a variety of arrangements that will
2 have to be established to allow alternative local exchange carriers ("ALECs")
3 and BellSouth to deal with each other on a reciprocal, non-discriminatory, and
4 equitable basis. Once the basic principles for such arrangements are
5 established by the Commission, the affected carriers should be directed to
6 implement specific arrangements in conformance with these principles. The
7 term "co-carrier" signifies both that the two carriers are providing local
8 exchange service within the same territory, and that the relationship between
9 them is intended to be equal and reciprocal—that is, neither carrier would be
10 treated as subordinate or inferior. The arrangements needed to implement this
11 co-carrier relationship will encompass, among other things, physical
12 connections between networks; signaling and routing arrangements for the
13 exchange of traffic between networks; and arrangements for joint access to
14 essential service platforms, such as operator and directory assistance services,
15 that must serve all telephone users within a geographic area.

16 MFS-FL believes that customers of all carriers must be assured that
17 they can call each other without the caller having to worry about which carrier
18 serves the other party. To achieve this, not only must carriers physically
19 connect their networks, but they must terminate calls for each other on a

Direct Testimony of Timothy T. Devine
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1 reciprocal basis that is both technically and economically reasonable. Traffic
2 exchange arrangements should be seamless and transparent from the
3 viewpoint of the caller. There should be no difference in how a call is dialed,
4 how long it takes to be completed, or how it is billed depending solely upon
5 the identity of the carrier serving the dialed number. In addition, customers
6 should have access to essential ancillary functions of the network (such as
7 directory listings, directory assistance, inward operator assistance, and CLASS
8 features, to name a few) without regard to which carrier provides their dial
9 tone or originates their call.

10 **Q. SPECIFICALLY WHAT CO-CARRIER ARRANGEMENTS ARE**
11 **REQUIRED FOR MFS-FL TO PROVIDE VIABLE COMPETITIVE**
12 **LOCAL EXCHANGE SERVICE?**

13 **A.** MFSI-FL believes that certain co-carrier requirements should apply equally
14 and reciprocally to all local exchange carriers, LECs and ALECs alike. The
15 Florida statute ~~have~~^{has} recognized the necessity for such arrangements by
16 requiring LECs to negotiate both interconnection and unbundling
17 arrangements. Fla. Stat. §§ 364.161 and 364.162. The following are the co-
18 carrier arrangements required by MFS-FL: 1) Number Resources; 2) Tandem
19 Subtending/Meet-point Billing; 3) Reciprocal Traffic Exchange and

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1 Reciprocal Compensation; 4) Shared Platform Arrangements; 5) Unbundling
2 the Local Loop; and 6) Interim Number Portability. Unbundling the local
3 loop will be addressed herein. The remaining arrangements will be addressed
4 in a separate parallel petition and testimony.

5 **Q. WAS THERE AGREEMENT ON ANY OF THESE CO-CARRIER**
6 **ISSUES WITH BELLSOUTH?**

7 **A.** BellSouth would not come to an agreement on any interconnection or
8 unbundling issue absent an agreement on universal service. Therefore, while
9 the parties appeared to be in agreement as to several issues, no formal
10 agreement was reached on any issue. The opportunity for an agreement on a
11 subset of unbundling issues was squandered by BellSouth's insistence on
12 including universal service.

13 **Q. WHY IS BELLSOUTH'S INSISTENCE ON INCLUDING THE ISSUE**
14 **OF UNIVERSAL SERVICE IN THE UNBUNDLING AND**
15 **INTERCONNECTION NEGOTIATIONS DIRECTLY CONTRARY TO**
16 **THE LEGISLATURE'S STATUTORY FRAMEWORK?**

17 **A.** BellSouth, by including the issue of universal service in the unbundling and
18 interconnection negotiations, has directly contravened the intent of the
19 Legislature. The statute states that the parties shall "negotiate the terms,

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1 conditions, and prices of any feasible unbundling request." Fla. Stat.
2 § 364.161(1). The Legislature deliberately addressed the issue of an interim
3 universal service mechanism separately (Fla. Stat. § 364.125), as reflected by
4 the separate docket opened by the Commission. By linking universal service
5 with unbundling and interconnection, BellSouth is contravening the intent of
6 the Legislature.

7 **II. UNBUNDLING OF LOCAL LOOP FACILITIES**

8 **Q. YOU STATED ABOVE THAT THE COMMISSION SHOULD**
9 **FACILITATE COMPETITION IN THE LOCAL EXCHANGE**
10 **MARKET BY REQUIRING BELL SOUTH TO OFFER ITS LOCAL**
11 **LOOP FACILITIES ON AN UNBUNDLED BASIS. WHY IS THIS**
12 **NECESSARY?**

13 **A.** The importance of local loop unbundling to the development of actual
14 competition derives directly from BellSouth's continued control of significant
15 monopoly elements. Unbundled links will provide access to an essential
16 bottleneck facility controlled by BellSouth. MFS-FL would strongly urge the
17 Commission to require BellSouth to unbundle its services so that each element
18 of the local loop bottleneck is priced separately from other service elements.
19 This will allow competitors and users to pay for only those portions of the

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1 loop services that they want or need. Line side interconnection will allow
2 competing carriers to directly reach end user customers who are currently
3 reachable efficiently only through the BellSouth bottleneck.

4 BellSouth continues to have monopoly control over the "last mile" of
5 the telecommunications network. Service between most BellSouth customers
6 and the BellSouth central offices remains, and for some time to come will
7 apparently continue to remain, nearly the exclusive province of BellSouth.

8 This monopoly results from the fact that this loop network consists mostly of
9 transmission facilities carrying small volumes of traffic, spread over wide
10 geographic areas. Presently, it is economically more efficient for competitors
11 to purchase access to the BellSouth loops, just as long distance carriers
12 presently purchase access to the BellSouth distribution networks, rather than
13 to construct ubiquitous competing transmission and switching facilities. The
14 "last mile" loop network, therefore, is an essential bottleneck facility for any
15 potential provider of competitive local exchange service.

16 Given the protection of its former monopoly status, BellSouth
17 has constructed virtually ubiquitous loop networks that provide access
18 to every interexchange carrier and virtually all residential and business
19 premises in its territory. In building these networks, BellSouth had the

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1 singular advantage of favorable governmental franchises, access to
2 rights-of-way, unique tax treatment, access to buildings on an unpaid
3 basis, and protection against competition. Companies such as MFS-
4 FL that now seek to compete in the provision of local exchange service
5 do not share these advantages, and it would be both infeasible and
6 economically inefficient in most cases for them to seek to construct
7 duplicate loop facilities. Replication of the existing LEC loop network
8 (using either facilities similar to the incumbent LECs' or alternative
9 technologies such as wireless loops or cable television plant) would be
10 cost-prohibitive; moreover, competitors cannot obtain public and
11 private rights-of-way, franchises, or building access on the same terms
12 as incumbent LECs enjoy.

13 **Q. WHAT SPECIFIC UNBUNDLED ELEMENTS SHOULD BE MADE**
14 **AVAILABLE?**

15 **A.** The network access line portion of local exchange service can be represented
16 as being comprised of two key components: the loop, or "link," which
17 provides the transmission path between the customer and the local exchange
18 central office, and the "port," which represents the interface to the switch, and
19 the capability to originate and terminate calls. Unbundling the local loop

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1 consists of physically unbundling the link and port elements, and pricing them
2 on an economically viable basis.

3 Specifically, BellSouth should immediately unbundle all of its
4 Exchange services into two separate packages: the link element plus
5 cross-connect element and the port element plus cross-connect
6 element. MFS-FL seeks unbundled access and interconnection to the
7 following forms of unbundled links: (1) 2-wire analog voice grade,
8 also known as a "simple" link, which is simply a path for voice-grade
9 service from an end user's premises to the central office; (2) 2-wire
10 ISDN digital grade; and (3) 4-wire DS-1 digital grade. MFS-FL also
11 requests that the following forms of unbundled ports be made
12 available: (1) 2-wire analog line; (2) 2-wire ISDN digital line; (3) 2-
13 wire analog DID trunk; (4) 4-wire DS-1 digital DID trunk; and (5) 4-
14 wire ISDN DS-1 digital trunk.

15 In order for MFS-FL to efficiently offer telephone services to
16 end users, BellSouth should unbundle and separately price and offer
17 these elements such that MFS-FL will be able to lease and interconnect
18 to whichever of these unbundled elements MFS-FL requires and to

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1 combine the BellSouth-provided elements with facilities and services
2 that MFS-FL may provide itself.

3 **Q. WHAT IS THE UNBUNDLED LINK TECHNOLOGY REFERRED TO**
4 **AS DIGITAL LOOP CARRIER SYSTEMS?**

5 **A.** MFS-FL seeks unbundled access and interconnection to the link
6 subelements that are resident in the modern digital loop carrier
7 ("DLC") systems (which provide concentration) that LECs have begun
8 to deploy in lieu of copper pair links. These DLC systems typically
9 involve three main sub-elements: (1) a digital transport distribution
10 facility operating at 1.544 Mbps ("DS1"), or multiples thereof,
11 extending from the LEC end office wire center to a point somewhere
12 in the LEC network (this point could be a manhole, pedestal, or even a
13 telephone closet in a large building); (2) digital loop carrier terminal
14 equipment housed in the manhole, pedestal, telephone closet, etc., at
15 which the DS1 terminates and which derives from the DS1 facility 24
16 or more voice grade telephonic channels; and (3) copper pair
17 feeder/drop facilities (lines) extending from the DLC terminal to a
18 demarcation/connector block at various customers' premises.

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1 To the extent these or similar systems are employed in BellSouth's
2 network, MFS-FL should be allowed to interconnect to the unbundled
3 subelements of these systems, where technically feasible and where capacity
4 allows. This further unbundling of the links into digital distribution and voice-
5 grade feeder/drop sub-elements is necessary in order to ensure that the quality
6 of links MFS-FL leases from the BellSouth is equal to the quality of links that
7 BellSouth provides^s directly to end users.

8 Essentially, MFS-FL would seek to lease as one element, the DS1-rate
9 digital distribution facility and DLC terminal, and to lease as discrete
10 incremental elements individual channels on voice-grade feeder/drop
11 facilities. MFS-FL would expect to interconnect to the DS1 distribution
12 facility at the BellSouth end office (via expanded interconnection arrange-
13 ments offered pursuant to Substantive Rule § 23.92), but would also consider
14 arrangements pursuant to which it could interconnect at other points. The
15 generic interface for the DLC-type arrangements is described in Bellcore TR-
16 TSY-000008, Digital Interface Between the SLC-96 Digital Loop Carrier
17 System and Local Digital Switch, and TR-TSY-000303, Integrated Digital
18 Loop Carrier ("IDLC") Requirements, Objectives and Interface and MFS-FL's
19 Ericsson switch is compatible with these standards.

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1 **Q. IS LINK UNBUNDLING TECHNICALLY FEASIBLE?**

2 **A. Yes. Competitors can interconnect to the unbundled loops at the LEC central**
3 office using the same physical collocation arrangements already in place for
4 special access and private line circuits.

5 **Q. HAVE OTHER STATES REQUIRED LOOP UNBUNDLING?**

6 **A. Yes. Several state public utility commissions have already determined that**
7 unbundling of the local loop is essential for the development of local
8 exchange competition and in the public interest. The New York Public
9 Service Commission has found that the unbundling of local loops is in the best
10 interest of consumers because it would allow competitive carriers to expand
11 the market for their services, increase the utility of competitive networks and
12 offer all local exchange customers an alternative to the monopoly local service
13 provider.^{1/}

14 The Illinois and Michigan Commissions have determined that
15 unbundling of the local loop is necessary to remove a significant barrier to
16 competition. The Michigan Public Service Commission found that

^{1/}Proceeding on Motion of the Commission Regarding Comparably Efficient Interconnection Arrangements for Residential and Business Links, 152 PUR4th 193, 194 (NY PSC 1994).

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1 "unbundled loops are vital to local exchange competition and in the public
2 interest" and are necessary to allow a competitive local exchange carrier to
3 provide service to every customer within its exchange areas.^{2/} In an Order
4 issued April 7, 1995, the Illinois Commerce Commission concluded that
5 "unbundling LEC networks is essential to permit the development of local
6 exchange competition and is in the public interest."^{3/}

7 On March 31, 1995, the Iowa Utilities Board declared that unbundling
8 of U S West's local loop "is necessary for competition in the local exchange"
9 because new entrants "are not going to be able to provide loops to all
10 customers. Resale of unbundled facilities is the appropriate answer."^{4/}

^{2/}In the matter of the application of CITY SIGNAL, INC. for an order establishing and approving interconnection arrangements with Michigan Bell Telephone Company, Case No. U-10647, Opinion and Order at 56, 57 (MI PSC, February 23, 1995).

^{3/}See Illinois Bell Telephone Company, Proposed Introduction of a Trial of Ameritech's Customers First Plan in Illinois, Docket Nos. 94-0096, *et al.*, at 48 (Ill. Commerce Comm'n, April 7, 1995).

^{4/}In re: McLeod Telemanagement, Inc., TCU-94-4 (Iowa Utilities Board, March 31, 1995).

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1 The Maryland Public Service Commission has approved the "idea of
2 unbundling links" to promote local exchange competition and is conducting
3 further proceedings to resolve implementation and pricing issues.^{5/}

4 **Q. SHOULD BELLSOUTH BE REQUIRED TO OFFER COLLOCATION**
5 **FOR INTERCONNECTION TO UNBUNDLED LINKS?**

6 **A.** Yes. Economic development and expanded competition in the provision of
7 local exchange services will be promoted only if MFS-FL can interconnect to
8 unbundled elements of the local loop. Interconnection should be achieved via
9 collocation arrangements MFS-FL will maintain at the wire center at which
10 the unbundled elements are resident. At MFS-FL's discretion, each link or
11 port element should be delivered to the MFS-FL collocation arrangement over
12 an individual 2-wire hand-off, in multiples of 24 over a digital DS-1 (or, if
13 technically feasible, higher transmission levels) hand-off in any combination
14 or order MFS-FL may specify, or through other technically feasible and
15 economically comparable hand-off arrangements requested by MFS-FL (*e.g.*,
16 SONET STS-1 hand-off). In addition, BellSouth should permit MFS-FL to

⁵Re MFS Intelenet of Maryland, Inc., 152 PUR4th 102, 117 (MD PSC 1994).
California, Massachusetts and Pennsylvania are also addressing local loop unbundling issues in
ongoing proceedings.

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1 *Digital Loop Carriers*
2 collocate ~~remote switching modules~~ and associated equipment in conjunction
3 with collocation arrangements MFS-FL maintains at BellSouth's wire center,
4 for the purpose of interconnecting to unbundled link elements.

4 **Q. WHAT ADDITIONAL TERMS SHOULD BELLSOUTH'S**
5 **UNBUNDLED ELEMENTS BE MADE AVAILABLE TO MFS-**
6 **FL IN ORDER FOR MFS-FL TO EFFICIENTLY OFFER**
7 **SERVICES?**

8 **A. BellSouth should be required to apply all transport-based features,**
9 **functions, service attributes, grades-of-service, and install,**
10 **maintenance and repair intervals which apply to bundled service to**
11 **unbundled links. Likewise, BellSouth should be required to apply all**
12 **switch-based features, functions, service attributes, grades-of-service,**
13 **and install, maintenance and repair intervals which apply to bundled**
14 **service to unbundled ports.**

15 BellSouth should permit any customer to convert its bundled
16 service to an unbundled service and assign such service to MFS-FL,
17 with no penalties, rollover, termination or conversion charges to MFS-
18 FL or the customer. BellSouth should also bill all unbundled facilities
19 purchased by MFS-FL (either directly or by previous assignment by a

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1 customer) on a single consolidated statement per wire center. Finally,
2 BellSouth should provide MFS-FL with an appropriate on-line
3 electronic file transfer arrangement by which MFS-FL may place,
4 verify and receive confirmation on orders for unbundled elements, and
5 issue and track trouble-ticket and repair requests associated with
6 unbundled elements.

7 **Q. HOW DOES BELL SOUTH'S UNBUNDLING PROPOSAL**
8 **DIFFER FROM THAT OF MFS-FL?**

9 **A.** BellSouth proposed to provide only an unbundled 2-wire voice
10 grade loop and a 2-wire analog port in its initial tariff filing package.
11 BellSouth also proposed that ALECs should not be allowed to
12 combine an unbundled loop with an unbundled port when both
13 elements are provided by BellSouth. *See* Exhibit TTD-1, Latham
14 Letter at 2 (October 6, 1995). These proposals contravene the whole
15 purpose of unbundling the local loop. BellSouth should unbundle its
16 services so that each element of the local loop bottleneck is priced
17 separately from other service elements. Specifically, BellSouth should
18 immediately unbundle all its Exchange services into two separate
19 packages: the link element plus cross-connect element and the port

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1 element plus cross-connect element. In addition to BellSouth's
2 proposal to provide an unbundled 2-wire voice grade loop and a 2-wire
3 analog port, BellSouth should provide unbundled access and
4 interconnection to the following unbundled link and port categories:
5 Link Categories - (1) 2-wire ISDN digital grade, and (2) 4-wire DS-1
6 digital grade; Port Categories - (1) 2-wire ISDN digital line, (2) 2-wire
7 analog DID trunk, (3) 4-wire DS-1 digital DID trunk, and (4) 4-wire
8 ISDN DS-1 digital trunk. This level of unbundling will allow
9 competitors and users to pay for only those portions of the loop
10 services that they want or need, and to obtain access to the same level
11 of technology as BellSouth currently provides. Line side interconnec-
12 tion will allow competing carriers to directly reach end user customers
13 who are currently reachable efficiently only through the BellSouth
14 bottleneck.

15 In order for MFS-FL to efficiently offer telephone services to
16 end users, BellSouth should unbundle and separately price and offer
17 these elements such that MFS-FL will be able to lease and interconnect
18 to whichever of these unbundled elements MFS-FL requires and to
19 combine the BellSouth-provided elements with facilities and services

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1 that MFS-FL may provide itself. BellSouth's proposal that MFS-FL
2 should not be allowed to combine an unbundled loop with an
3 unbundled port when both elements are provided by BellSouth would
4 make MFS-FL's provision of local exchange services economically
5 inefficient, and contravene the Florida Legislature's intent of
6 promoting local exchange competition.

7 In addition, the TCG Stipulation fails to address the unbundling
8 of the local loop. The TCG Stipulation's failure to address this issue
9 and its proposal to close this unbundling docket would not be
10 acceptable. As I discussed above, unbundling the local loop is
11 absolutely necessary for local exchange competition to flourish.

12 **Q. IS IT IMPORTANT THAT UNBUNDLED ELEMENTS OF THE**
13 **LOCAL LOOP BE AVAILABLE TO NEW ENTRANTS AT A**
14 **REASONABLE PRICE?**

15 **A.** Yes. The availability of loops on an unbundled basis is only half the equation.
16 The loops must be priced in a manner that allows carriers to offer end users a
17 competitively priced service. In order to discourage BellSouth from
18 implementing anticompetitive pricing policies that would artificially depress
19 the demand for a competitor's service, the Commission should adopt pricing

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1 guidelines for unbundled loops that are premised on BellSouth's' cost in
2 providing the service and that reflect this functional equivalency.

3 Absent any mitigating circumstances that might justify lower rates,
4 BellSouth's Long Run Incremental Costs ("LRIC") should serve as the target
5 price and cap for unbundled loops where such loops must be employed by
6 competitive carriers to compete realistically and practically with the
7 entrenched monopoly service provider, BellSouth. LRIC is the direct
8 economic cost of a given facility, including cost of capital, and represents the
9 cost that the LEC would otherwise have avoided if it had not installed the
10 relevant increment of plant -- *i.e.*, local loops in a given region. Thus, by
11 leasing a loop to a competitor, an incumbent LEC would be allowed to
12 recover no less than the full cost it would otherwise have avoided had it not
13 built the increment of plant that it has made available, through loop
14 unbundling, for use by a competitor in serving the customer to whose
15 premises the loop extends. For purposes of calculating LRIC-capped rates for
16 unbundled loops, the LEC would be required to perform long-run incremental
17 cost studies for each component of the local exchange access line, including
18 the link, port, cross-connect element and local usage elements. In addition,

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1 the volume and term discounts that are offered to end users should be made
2 available to competitive local exchange carriers.

3 There is, however, an important qualification to this general
4 principle. LRIC is the appropriate pricing methodology *only* if it is
5 applied consistently in setting the price both for the unbundled services
6 provided to co-carriers and the bundled services offered by BellSouth
7 to its own end users. New entrants should not be subject to
8 discriminatory charges that BellSouth does not apply to its own end
9 users. Therefore, the Commission should adopt two additional pricing
10 guidelines to prevent such discrimination:

- 11 • First, the sum of the prices of the unbundled rate elements (link, port,
12 and cross-connect) must be no greater than the price of the bundled
13 dial tone line.
- 14 • Second, the ratio of price to LRIC for each element and for the
15 bundled dial tone line must be the same.

16 These two guidelines would require that the prices for the unbundled
17 dial tone line components be derived from the existing access line rates
18 established in BellSouth's effective tariffs. As long as those rates

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1 cover LRIC, the unbundled component prices determined by these
2 guidelines would also cover LRIC.

3 **Q. WHAT DO YOU THINK ABOUT BELLSOUTH'S SUGGESTION**
4 **THAT A NEW ENTRANT SIMPLY PURCHASE A PRIVATE LINE**
5 **OR SPECIAL ACCESS CHANNEL FROM BELLSOUTH'S EXISTING**
6 **TARIFF?**

7 **A.** It would not be economical and would not be practical from a time of
8 installation perspective. While there is not much physical difference between
9 an unbundled link and a private line or special access channel, there are
10 differences in technical standards as well as engineering and operational
11 practices. The voice-grade channels offered under the private line and special
12 access tariffs provide a dedicated transmission path between an end user's
13 premises and a LEC wire center, just as unbundled simple links would. The
14 major differences between these existing services and unbundled simple links
15 are the additional performance parameters required for private line and special
16 access services, beyond what is necessary to provide "POTS" (plain old
17 telephone service); and the methods used by LECs to install and provision the
18 services. Currently, installation of a private line or special access channel
19 typically requires special engineering by the LEC and therefore takes longer

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1 and costs more than installation of a "POTS" line. This special engineering
2 begins with a line that would be suitable for "POTS," but then adapts it to
3 conform to specialized performance parameters. Therefore, no single private
4 line service offering provided by BellSouth is likely to represent the basic co-
5 carrier unbundled loop facility. Private line and special access services also
6 include additional performance standards that are not necessary for the
7 delivery of "POTS" service. MFS-FL's major concern is that, in the future,
8 when a customer decides to replace its existing BellSouth dial tone service
9 with MFS-FL dial tone service, MFS-FL should be able to have the customer's
10 existing link facility rolled over from the BellSouth switch to an MFS-FL
11 expanded interconnection node in the same central office, without having the
12 entire link re-provisioned or engineered over different facilities. This roll-
13 over, including the seamless roll-over to MFS-FL when the customer is taking
14 advantage of number retention, should occur within the same ordering
15 provision interval as BellSouth provides for bundled local exchange service to
16 end users and with minimal service interruption to those customers.

17 In addition, it has been MFS's experience that, in most cases,
18 the tariffed rate of a private line service exceeds the tariffed rate of a
19 bundled dial tone business or residence line. In fact, private lines or

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1 special access channels are typically priced at substantial premiums
2 today. LECs have set prices for these existing services at premium
3 prices, on the basis that these services require additional performance
4 parameters beyond what is necessary to provide POTS. As such,
5 applying the tariffed rate of a private line or special access channel for
6 unbundled loops will place MFS-FL in a "price squeeze," in that it
7 would be paying more for the unbundled loops than it would be
8 allowed to recover through end user retail rates. Left to its own
9 devices, a dominant incumbent LEC such as BellSouth, would not
10 tariff the unbundled loop facility at the appropriate LRIC price.
11 Instead, it would likely choose to continue to apply the premium rate
12 to an entrant like MFS-FL in order to raise an additional barrier to
13 competition.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes, it does.

**REBUTTAL TESTIMONY OF TIMOTHY T. DEVINE
ON BEHALF OF
METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC.
Docket No. 950984A-TP**

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

2 **A. My name is Timothy T. Devine. My business address is MFS**
3 **Communications Company, Inc., Six Concourse Parkway, Ste. 2100,**
4 **Atlanta, Georgia 30328.**

5 **Q. ARE YOU THE SAME TIMOTHY DEVINE WHO PREVIOUSLY**
6 **FILED TESTIMONY IN THIS PROCEEDING?**

7 **A. Yes.**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
9 **PROCEEDING?**

10 **A. To respond on behalf of Metropolitan Fiber Systems of Florida, Inc.**
11 **(“MFS-FL”) to the direct testimony in this proceeding, and particularly the**
12 **testimony of Mr. Robert C. Scheye and Dr. Aniruddha (Andy) Banerjee**
13 **filed on behalf of BellSouth Telecommunications, Inc.**

14 **Q. WHY IS THE UNBUNDLING OF THE LOCAL LOOP CRITICAL TO**
15 **THE DEVELOPMENT OF LOCAL COMPETITION IN FLORIDA?**

16 **A. The unbundling of the local loop has been endorsed by commissions in New**
17 **York, Illinois, Michigan, Iowa, and most recently Washington State (“the**
18 **Commission is satisfied with a first level of unbundling that includes an**
19 **unbundled loop and an efficient line-side interconnection.”) because it is**

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1 critical to the development of local exchange competition in these states.
2 *Washington Utilities and Transportation Commission v. U S West*
3 *Communications, Inc.*, Docket Nos. UT-941464 et al., Fourth Supplemental
4 Order Rejecting Tariff Filings and Ordering Refiling; Granting Complaints
5 in Part, at 52 (October 31, 1995). To the extent that BellSouth continues to
6 control significant monopoly elements, unbundled links will provide access to
7 an essential bottleneck facility controlled by BellSouth. Even once other co-
8 carrier arrangements are established by the Commission, BellSouth will
9 continue its monopoly control over the local loop, the "last mile" of the
10 telecommunications network. Presently, it is economically more efficient for
11 competitors to purchase access to the BellSouth loops, just as long distance
12 carriers presently purchase access to the BellSouth distribution networks,
13 rather than to construct ubiquitous competing transmission and switching
14 facilities. The "last mile" loop network, therefore, is an essential bottleneck
15 facility for any potential provider of competitive local exchange service. To
16 the extent that the virtually ubiquitous loop networks were constructed with
17 the benefit of favorable governmental franchises and related privileges, and
18 replication of the existing LEC loop network would be cost-prohibitive
19 (particularly without the rights-of-way, franchises, or building access
20 privileges of BellSouth), BellSouth should unbundle and separately price and

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1 offer the loop and port elements I described in my Direct Testimony such that
2 MFS-FL will be able to lease and interconnect to whichever of these
3 unbundled elements MFS-FL requires and to combine the BellSouth-provided
4 elements with facilities and services that MFS-FL may provide itself.

5 **Q. WHAT ELEMENTS SHOULD BELL SOUTH MAKE AVAILABLE?**

6 As I explained in my Direct Testimony (Devine Direct at 12-13),
7 specifically, BellSouth should immediately unbundle all of its
8 Exchange services into two separate packages: the link element plus
9 cross-connect element and the port element plus cross-connect
10 element. MFS-FL seeks unbundled access and interconnection to the
11 following forms of unbundled links: (1) 2-wire analog voice grade,
12 also known as a "simple" link, which is simply a path for voice-grade
13 service from an end user's premises to the central office; (2) 2-wire
14 ISDN digital grade; and (3) 4-wire DS-1 digital grade. MFS-FL also
15 requests that the following forms of unbundled ports be made
16 available: (1) 2-wire analog line; (2) 2-wire ISDN digital line; (3) 2-
17 wire analog DID trunk; (4) 4-wire DS-1 digital DID trunk; and (5) 4-
18 wire ISDN DS-1 digital trunk. BellSouth should also make loop
19 concentration available through Digital Loop Carrier Systems, which I
20 will address later in my testimony.

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1 **Q. WHAT UNBUNDLED LOOPS AND PORTS HAS BELLSOUTH**
2 **AGREED TO OFFER?**

3 **A. Leaving aside the issue of pricing for the time being, BellSouth has only**
4 **agreed to provide voice grade unbundled loops and ports, and refuses to**
5 **provide 2-wire ISDN digital grade loops; 4-wire DS-1 digital grade loops; 2-**
6 **wire ISDN digital line ports; 2-wire analog DID trunk ports; 4-wire DS-1**
7 **digital DID trunk ports; and 4-wire ISDN DS-1 digital trunk ports. BellSouth**
8 **will not provide these loops and ports because they are “not part of basic local**
9 **exchange service.” Scheye Direct at 12. BellSouth apparently has arbitrarily**
10 **decided that local exchange competition and unbundling should be limited to**
11 **basic local exchange service. Mr. Scheye, however, cites no regulatory or**
12 **statutory basis for raising this possibly insurmountable long term barrier to**
13 **the development of viable local exchange competition. No such limitation is**
14 **imposed by statute: “Upon request, each local exchange company shall**
15 **unbundle all of its network features, functions, and capabilities, including**
16 **access to signaling databases, systems and routing processes, and offer them**
17 **to any other telecommunications provider requesting such features, functions**
18 **or capabilities for resale to the extent technically and economically**
19 **feasible.” Fla. Stat. 364.161.**

20 By defining the loop and port to be unbundled as “two-wire analog”

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1 connection service offerings, BellSouth would dramatically limit the ability
2 of ALECs' to offer competitively a full range of business and data services.
3 This would be completely inconsistent with the Legislature's mandate to
4 promote local exchange competition in Florida.

5 **Q. HOW WILL LIMITING THE AVAILABILITY OF THESE TYPES OF**
6 **LOOPS AND PORTS LIMIT COMPETITION IN FLORIDA LOCAL**
7 **EXCHANGE MARKETS?**

8 **A.** In order for ALECs to offer advanced network services such as ISDN to
9 customers who are not yet located along an ALEC's network, ALECs must
10 be able to utilize both two- and four-wire connections in analog or digital
11 format. ISDN, for example, cannot be offered using two-wire analog loop
12 connections. For a large percentage of the business market, key systems
13 and private branch exchanges ("PBXs") are commonplace. *This customer*
14 *equipment almost always requires a four-wire connection.* Accordingly,
15 MFS-FL strongly urges the Commission to require BellSouth to offer both
16 two- and four-wire, as well as analog and digital loops and ports. By not
17 defining the unbundled loops and ports necessary for the complete line of
18 analog and digital connection service offerings, the Commission will
19 undermine the Legislature's unbundling policies and limit the development
20 of competition in Florida.

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1 If the appropriate range of unbundled loops are not offered, ALECs
2 effectively will be precluded from offering sophisticated telecommunications
3 services, such as ISDN. BellSouth will be able to continue to offer such
4 sophisticated services without competition. As a result, the public switched
5 network will not be used efficiently and BellSouth's monopoly --
6 particularly with respect to business users -- will be preserved, while
7 incumbent LECs retain virtual bottleneck control over the local loop.

8 Other states that have unbundled the local loop have appropriately
9 extended unbundling beyond two-wire analog loops and ports. For
10 example, in Michigan, Ameritech offers five types of analog loops,
11 including four-wire loops, and one digital loop. *See In the Matter on the*
12 *Commission's Own Motion, to Establish Permanent Interconnection*
13 *Arrangements Between Basic Local Exchange Service Providers*, Direct
14 Testimony of William DeFrance (Ameritech Michigan), Case No. U-10860,
15 Tr. at 325 (filed July 24, 1995). In Illinois, similarly, Ameritech offers
16 several four-wire analog loops as well as digital loops. *See Ameritech*
17 *Illinois Commerce Commission Tariff No. 5, Part 2, Section 26*. Mandating
18 only two-wire analog loop connections will unnecessarily impair the
19 Commission's stated intent of encouraging competition for the benefit of
20 Florida consumers. Moreover, the services that will be impacted are the

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1 very services most likely to be sought by consumers for purposes of
2 utilizing telecommunications for its most sophisticated uses.

3 **Q. IS THE MFS-FL UNBUNDLING PROPOSAL CONSISTENT WITH**
4 **THE INTENT OF THE LEGISLATURE?**

5 **A.** Yes. In order for MFS-FL to efficiently offer telephone services to end users,
6 BellSouth should unbundle and separately price and offer loop and port
7 elements such that MFS-FL will be able to lease and interconnect to
8 whichever of these unbundled elements MFS-FL requires and to combine the
9 BellSouth-provided elements with facilities and services that MFS-FL may
10 provide itself. This is what the Legislature intended when it required
11 unbundling "to the extent technically and economically feasible." Section
12 364.161, Fla. Stat. Mr. Scheye even admits that "it may be technically
13 possible to offer the remaining ISDN and DS-1 loops and interfaces," but
14 states that BellSouth has arbitrarily limited its focus to "basic elements first."
15 Scheye Direct at 13.

16 **Q. WHY IS LOOP CONCENTRATION SQUARELY WITHIN THE**
17 **DEFINITION OF UNBUNDLING MANDATED BY THE**
18 **LEGISLATURE?**

19 **A.** MFS-FL seeks unbundled access and interconnection to the link subelements
20 that are resident in the modern digital loop carrier ("DLC") systems (which

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1 provide concentration) that LECs have begun to deploy in lieu of copper pair
2 links. These DLC systems typically involve three main sub-elements: (1) a
3 digital transport distribution facility operating at 1.544 Mbps ("DS1"), or
4 multiples thereof, extending from the LEC end office wire center to a point
5 somewhere in the LEC network (this point could be a manhole, pedestal, or
6 even a telephone closet in a large building); (2) digital loop carrier terminal
7 equipment housed in the manhole, pedestal, telephone closet, etc., at which
8 the DS1 terminates and which derives from the DS1 facility 24 or more voice
9 grade telephonic channels; and (3) copper pair feeder/drop facilities (lines)
10 extending from the DLC terminal to a demarcation/connector block at various
11 customers' premises.

12 Mr. Scheye claims that loop concentration is "a new network
13 capability," "not a capability that can be disaggregated from another
14 functionality within the network." Scheye Direct at 15. This is simply not
15 correct. As I have described above, digital loop carrier systems fall squarely
16 within the definition of the network elements that must be unbundled: the
17 Legislature has required that BellSouth shall unbundle "all of its network
18 features, functions, and capabilities, including access to signaling databases,
19 systems and routing processes" Section 364.161, Fla. Stat. This broad
20 definition certainly includes the "feature, function, or capability" of

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1 concentrating local loops (Mr. Scheyne has himself described it as a “network
2 capability”) through technology that is currently in place in the BellSouth
3 network. Mr. Scheyne has attempted to carve out an exception that does not
4 exist in the statute for a “new” network capability; the “newness” of a
5 capability is not a factor under the statute that the Commission is expected to
6 examine in requiring loop unbundling.

7 **Q. WHY IS IT INACCURATE FOR MR. SCHEYNE TO STATE THAT**
8 **LOOP CONCENTRATION CANNOT BE DISAGGREGATED FROM**
9 **ANOTHER FUNCTIONALITY WITHIN THE NETWORK?**

10 **A.** Mr. Scheyne states that loop concentration “requires the creation of a new
11 capability,” (Scheyne Direct at 15), implying that digital loop carrier systems
12 are not currently in use by BellSouth on a widespread basis. BellSouth could
13 not make such a statement on the record, and Mr. Scheyne, in fact, does not
14 deny that digital loop carrier systems are currently in use by BellSouth. The
15 fact of the matter is that digital loop carrier systems *are* in use by BellSouth
16 and can easily be “disaggregated” or unbundled. Digital loop carrier systems
17 could be shared between BellSouth and ALECs, so “new hardware” would not
18 necessarily be required. MFS-FL has specifically requested access “where
19 technically feasible and where capacity allows.” Devine Direct at 15. MFS-
20 FL would lease these facilities at reasonable cost-based rates, so Mr. Scheyne’s

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1 implication that it will have to pay the cost of ALEC services is entirely
2 unjustified. Moreover, if new purchases of digital loop carrier systems are
3 required to meet increasing demand, this is a beneficial result of implementing
4 competition that will benefit all end users. The use of loop concentration by
5 ALECs benefits both BellSouth and end users alike, by permitting the most
6 efficient provisioning of the local exchange network.

7 **Q. WHY ARE MR. SCHEYE'S OTHER CONCERNS WITH LOOP**
8 **CONCENTRATION UNBUNDLING UNJUSTIFIED?**

9 **A.** BellSouth provides no support for its statement that "the operations and
10 support systems required to order and administer" unbundling of this
11 capability would be "extremely difficult to develop and maintain." Scheye
12 Direct at 16. There is no question that BellSouth will have to provide services
13 in a different manner in order for competition to develop, nor is there any
14 evidence in this record that provisioning this service would not be "technically
15 and economically feasible." To the extent that there are additional costs to
16 providing unbundled service, these costs should be borne equally across the
17 entire subscriber base that will reap the benefits of competition. As to the
18 allegation of potential quality problems, there is no reason to believe that the
19 quality of any services will be affected; this technology is utilized routinely in
20 other jurisdictions by LECs for their own services and those of competitors

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1 without problems or disruption. Mr. Scheye's hyperbolic statement that
2 "accountability and control of the network would be completely lost at that
3 point" is reminiscent of the "Chicken Little—the sky is falling approach" that
4 has been used by telephone company monopolists since the initial efforts to
5 introduce competition in telecommunications.¹ By taking such positions,
6 BellSouth only reveals its true intent, delaying the introduction of local
7 competition. Despite the fact that the empirical evidence proves that this
8 argument is baseless, it is continually reiterated by the Bells.

9 **Q. DOES MFS-FL REQUIRE COLLOCATED DIGITAL LOOP**
10 **CARRIER SYSTEMS?**

¹ AT&T and the Bell companies have repeatedly taken the position that the introduction of competition will have a devastating effect on their network. *Litton Systems, Inc. v. AT&T Co.*, 700 F.2d 785, 795 (2nd Cir. 1983) ("AT&T continued to maintain that unlimited interconnection could harm the network."); *Essential Communications v. AT&T*, 610 F.2d 1114, 1116 (3rd Cir. 1979) ("[f]or the protection of the network," New Jersey Bell filed tariff with FCC to require customers to lease a PCA device from Bell before they are allowed to connect competitors equipment to the system); *Carter v. AT&T Co.*, 250 F.Supp. 188, 190 (N.D.Tex. 1966) (AT&T and Bell companies argue that they have the right to prevent equipment connections to the network because it might "impair the operation of the telephone system or otherwise injure the public in the use of the Telephone Company's services."); *Hush-A-Phone Corp. v. United States*, 238 F.2d 266, 268 (D.C. Cir. 1956) (AT&T and Bell companies argue that a telephone muting device offered by a competing company is likely to be "deleterious to the telephone system and injures the services rendered by it."); *Use of the Carterphone in Message Toll Telephone Service*, 13 F.C.C.2d 430, 439 (1967) (AT&T and the Bell companies contended that interconnection "would hamper innovation and increase the cost to the public of basic telephone service.").

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1 A. Yes. In addition to the elements that need to be unbundled, MFS-FL also
2 must be able to install DLCs at BellSouth virtual collocation sites. DLCs are
3 multiplexing-type equipment which are commonly used by LECs to connect
4 to outside plant subscriber loops. Collocation will permit ALECs to have
5 similar loop concentration capabilities as their LEC competitors.

6 **Q. WHY SHOULD OPERATIONAL ISSUES BE ADDRESSED IN THIS**
7 **PROCEEDING?**

8 A. MFS-FL believes that the prompt resolution of these issues will be essential
9 to establishing co-carrier status. I have described these issues, including
10 requirements to ensure the quality of unbundled loops and conversion
11 charges, in detail in my Direct Testimony. Devine Direct at 19-20. If these
12 issues remain unresolved, ALECs will not have access to unbundled loops
13 on nondiscriminatory terms and conditions. BellSouth would prefer to leave
14 these issues to the negotiation process. Scheye Direct at 9. As I discussed
15 in my Direct Testimony, to date, MFS-FL has found BellSouth to be
16 intransigent in negotiations on co-carrier issues. Devine Direct at 9-10.
17 Moreover, there is no incentive for BellSouth to negotiate an expeditious
18 resolution of these issues. The experience of MFS-FL affiliates in other
19 states suggests that these issues will *not* be easily resolved through
20 negotiations, nor does MFS-FL believe, as Mr. Scheye advocates (Scheye

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1 Direct at 9), that the complaint procedures should be relied upon to resolve
2 issues that the parties have already identified as contentious issues. MFS-
3 FL therefore recommends that these issues be addressed by the Commission
4 in the manner described in my Direct Testimony.

5 **Q. WHY IS IT CRITICAL THAT UNBUNDLED LOOPS BE PRICED AT**
6 **A REASONABLE LEVEL IN ORDER FOR ALECS TO COMPETE?**

7 **A.** Physical unbundling of the local loop without ensuring that they are available
8 at nondiscriminatory prices will not facilitate local competition: loops and
9 ports must be priced in a manner that allows carriers to offer end users a
10 competitively priced service. In order to discourage BellSouth from
11 implementing anticompetitive pricing policies, the Commission should adopt
12 pricing guidelines for unbundled loops that are premised on BellSouth's cost
13 in providing the service and that reflect this functional equivalency.

14 **Q. WHAT PRICING GUIDELINES SHOULD APPLY?**

15 **A.** Absent mitigating circumstances, BellSouth's Long Run Incremental Costs
16 ("LRIC") should serve as the target price and cap for unbundled loops where
17 such loops must be employed by ALECs to compete with BellSouth, with all
18 of the advantages of its historical monopoly franchise. LRIC is the direct
19 economic cost of a given facility, including cost of capital, and represents the
20 cost that the LEC would otherwise have avoided if it had not installed the

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1 relevant increment of plant -- *i.e.*, local loops in a given region. Thus, by
2 leasing a loop to a competitor, an incumbent LEC would be allowed to
3 recover no less than the full cost it would otherwise have avoided had it not
4 built the increment of plant that it has made available, through loop
5 unbundling, for use by a competitor in serving the customer to whose
6 premises the loop extends. MFS-FL would also apply two additional pricing
7 guidelines to prevent discrimination: 1) the sum of the prices of the
8 unbundled rate elements (link, port, and cross-connect) must be no greater
9 than the price of the bundled dial tone line; and 2) the ratio of price to LRIC
10 for each element and for the bundled dial tone line must be the same. These
11 two guidelines would require that the prices for the unbundled dial tone line
12 components be derived from the existing access line rates established in
13 BellSouth's effective tariffs. As long as those rates cover LRIC, the
14 unbundled component prices determined by these guidelines would also cover
15 LRIC. The pricing guidelines recommended by MFS-FL are fully outlined in
16 my Direct Testimony. Devine Direct at 22-25.

17 **Q. DOES PRICING UNBUNDLED LOCAL LOOPS AT LRIC VIOLATE**
18 **THE STATUTE AS CLAIMED BY MR. SCHEYE?**

19 **A.** Section 364.161(1) states that LECs shall not be required to offer unbundled
20 local loops at prices that are below cost. Mr. Scheye misstates MFS-FL's

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1 position by implying that MFS-FL would require the pricing of unbundled
2 loops below cost. Scheye Direct at 19. MFS-FL advocates the pricing of
3 unbundled loops at the "target price" of LRIC (Devine Direct at 23), and
4 therefore supports pricing unbundled *at* cost, not below cost. Moreover, upon
5 a showing that residential local exchange service is priced below LRIC
6 (Scheye Direct at 19) -- a showing which is not supported by any evidence of
7 which MFS-FL is aware -- MFS-FL would not advocate pricing unbundled
8 *residential* loops at LRIC. Of course, this rule has no bearing on business
9 services, and BellSouth has not presented evidence in this proceeding that
10 residential services are priced below LRIC. Mr. Scheye's analysis is based
11 upon a misreading of MFS-FL's testimony which states that as "long as those
12 [dial tone] rates cover LRIC, the unbundled component prices determined by
13 these guidelines would also cover cost." Devine Direct at 25. (MFS-FL also
14 states that its guidelines apply "absent any mitigating circumstances that
15 might justify lower rates." Devine Direct at 23.)

16 **Q. WHAT DO YOU THINK ABOUT BELLSOUTH'S SUGGESTION**
17 **THAT A NEW ENTRANT SIMPLY PURCHASE A PRIVATE LINE**
18 **OR SPECIAL ACCESS CHANNEL FROM BELLSOUTH'S EXISTING**
19 **TARIFF?**

20 **A.** Mr. Scheye claims that unbundled loops are currently available through

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1 BellSouth's Access Services Special Access tariff. Scheye Direct at 4. As I
2 explained in my Direct Testimony (Devine Direct at 25-27), this would not be
3 economical, nor practical from a time of installation perspective. While there
4 is not much physical difference between an unbundled link and a private line
5 or special access channel, there are differences in technical standards as well
6 as engineering and operational practices that render current tariffed services a
7 completely unsatisfactory substitute for unbundled links. The major
8 differences between these existing services and unbundled simple links are the
9 additional performance parameters required for private line and special access
10 services, beyond what is necessary to provide plain old telephone service
11 ("POTS"); and the methods used by LECs to install and provision the
12 services. Currently, installation of a private line or special access channel
13 typically requires special engineering by the LEC and therefore takes longer
14 and costs more than installation of a POTS line. This special engineering
15 begins with a line that would be suitable for POTS, but then adapts it to
16 conform to specialized performance parameters. Therefore, no single private
17 line service offering provided by BellSouth will satisfy MFS-FL unbundled
18 loop requirements. Private line and special access services also include
19 additional performance standards that are not necessary for the delivery of
20 POTS service.

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1 **Q. DOES MR. SCHEYE RECOGNIZE THESE KEY DIFFERENCES**
2 **BETWEEN PRIVATE LINES AND UNBUNDLED LOOPS?**

3 **A.** No. Mr. Scheye's statement that unbundled facilities "are provisioned and
4 maintained in a manner that is more analogous to a Special Access dedicated
5 line than to a regular switched exchange line" is completely inaccurate.
6 Scheye Direct at 7. Mr. Scheye has completely overlooked the significant
7 differences described above, which are reflected in the price of private lines,
8 in order to support his system of premium pricing.

9 **Q. WHAT DOES MFS-FL REQUIRE FOR UNBUNDLED LOOPS?**

10 **A.** When a customer decides to replace its existing BellSouth dial tone service
11 with MFS-FL dial tone service, MFS-FL should be able to have the customer's
12 existing link facility rolled over from the BellSouth switch to an MFS-FL
13 expanded interconnection node in the same central office, without having the
14 entire link re-provisioned or engineered over different facilities. This roll-
15 over, including the seamless roll-over to MFS-FL when the customer is taking
16 advantage of number retention, should occur within the same ordering
17 provision interval as BellSouth provides for bundled local exchange service to
18 end users and with minimal service interruption to those customers.

19 **Q. WOULD THE TARIFFED RATES FOR PRIVATE LINE SERVICES**
20 **PERMIT ECONOMICALLY VIABLE COMPETITION?**

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1 A.. No. Not surprisingly, the tariffed rate of a private line service exceeds the
2 tariffed rate of a bundled dial tone business or residence line. In fact, private
3 lines or special access channels are typically priced at substantial premiums
4 today because these services require additional performance parameters
5 beyond what is necessary to provide POTS.

6 **Q. IF BELLSOUTH CHARGES TARIFFED PRIVATE LINE RATES,**
7 **WILL IT BE SUBJECT TO A PRICE SQUEEZE?**

8 A. Yes. MFS-FL would be paying more for the unbundled loops than it would
9 be allowed to recover through end user retail rates, resulting in a price
10 squeeze. The Commission should ensure that BellSouth does not maintain its
11 premium pricing and instead charges the appropriate LRIC price for
12 unbundled loops.

13 **Q. WHY SHOULD BELLSOUTH NOT BE PERMITTED TO ADD**
14 **CONTRIBUTION TO LRIC IN SETTING PRICES FOR UNBUNDLED**
15 **LOOPS?**

16 A. Dr. Banerjee believes that contribution should be included in rates for
17 unbundled loops "to recover its substantial shared and common costs."
18 (Banerjee Direct at 8.) "Contribution" is often defined in the industry as the
19 difference between the incremental cost of a service and the price charged
20 for that service. Such charges force ALECs to recover from their customers

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1 not only the ALEC's own overhead costs, but also a portion of BellSouth's
2 overhead costs. This effectively insulates BellSouth from the forces of
3 competition. One of the most significant benefits of competition is that it
4 forces all market participants, including BellSouth, to operate efficiently,
5 resulting in lower rates for end users. If BellSouth receives contribution --
6 in effect, is subsidized by its new entrant competitors -- BellSouth's
7 overhead costs will not be subjected to the full benefits of competition that
8 result from market pressures. Instead, current inefficiencies in BellSouth's
9 network will become incorporated into BellSouth's price floor, locking in
10 current inefficiencies in BellSouth's operations, despite the introduction of
11 competition. The Commission should therefore not require ALECs to
12 provide contribution in unbundled loop rates because it would foreclose
13 many of the potential benefits of competition.

14 **Q. WHY IS BELLSOUTH'S PROPOSAL TO IMPUTE CONTRIBUTION**
15 **INTO END USER PRICES PART OF THE PROBLEM AND NOT**
16 **THE SOLUTION?**

17 **A.** Dr. Banerjee would guard against a price squeeze by requiring BellSouth to
18 impute contribution from unbundled elements into end user prices. Banerjee
19 Direct at 9-10. This is precisely the problem with requiring ALECs to pay
20 contribution: existing BellSouth efficiencies would be guaranteed to be

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1 passed on to end users *ad infinitum*. The Commission should therefore reject
2 the BellSouth recommendation regarding contribution, and the supposed
3 “safeguard” of imputation as anticompetitive and anticonsumer. The MFS-
4 FL LRIC-based approach, with the appropriate pricing guidelines, is the best
5 means available to ensure that ALECs are not caught in a price squeeze, and
6 can provide competitive local exchange service on an economically viable
7 basis.

8 **Q. WHAT PROCESS DOES MFS-FL ADVOCATE FOR FUTURE**
9 **UNBUNDLING OF BELL SOUTH'S NETWORK?**

10 A. MFS-FL does not advocate the Open Network Architecture (“ONA”) Model
11 adopted by the FCC and supported by BellSouth. Scheye Direct at 10.
12 MFS-FL supports the ONA model adopted by both New York and
13 Maryland. *See Investigation by the Commission on its Own Motion Into*
14 *Legal and Policy Matters Relevant to the Regulation of Firms, Including*
15 *Current Telecommunications Providers and Cable Television Firms, Which*
16 *May Provide Local Exchange and Exchange Access Services in Maryland in*
17 *the Future*, Case No. 8587, Order No. 71485 at 67 (October 5, 1995). The
18 process established in Maryland and New York would permit a carrier to
19 write a letter to the Commission’s Executive Secretary requesting that a
20 specific BellSouth element be unbundled. Initially, the matter is referred to

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1 Staff which will convene a collaborative ONA process to work out promptly
2 the details associated with interconnection and pricing of the unbundled
3 functionalities, with regular updates to the Commission. If the matter is not
4 resolved satisfactorily, the Commission shall take up the matter on an
5 expedited basis. MFS-FL supports this process which permits unbundling
6 requests to be addressed expeditiously, on a case-by-case basis, at the
7 request of a carrier.

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A. Yes.**

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1 MR. FALVEY: Mr. Devine, I believe has an
2 opening statement at this time.

3 WITNESS DEVINE: Thank you. This Commission
4 has before it the historic task of implementing
5 switched local exchange competition in the state of
6 Florida. A critical component of local competition
7 will be unbundling the bottleneck facilities of the
8 incumbent LEC, such as BellSouth. If unbundling of
9 bottleneck facilities, and particularly the local
10 loop, is not properly accomplished in this docket,
11 competition will primarily be limited to major urban
12 areas and the benefits of competition will not be
13 shared by all residents of the state.

14 Given the protection of its former monopoly
15 status, BellSouth has constructed virtually ubiquitous
16 loop networks that provide access to every
17 interexchange carrier in virtually all residential and
18 business premises in its service area. Access by
19 ALECs to this ubiquitous network is critical to the
20 development of competition.

21 The legislature was mindful of the
22 significance of unbundling when it created a statutory
23 mechanism that permits ALECs, such as MFS, to request
24 unbundled network elements from LECs. And if an
25 agreement cannot be reached on rates, terms and

1 conditions, permits ALECs to petition the Commission
2 for unbundling arrangements.

3 MFS has been negotiating with BellSouth
4 since last summer on unbundling local loops, ports and
5 loop concentration. In order for MFS to efficiently
6 offer telephone service to end users, BellSouth should
7 unbundle and separately price and offer these elements
8 such that MFS will be able to lease and interconnect
9 to whichever of these unbundled elements MFS requires,
10 and to combine BellSouth-provided elements with MFS
11 facilities and services.

12 Specifically, MFS has requested that
13 BellSouth unbundle two-wire and four-wire analog and
14 digital links, two-wire and four-wire analog and
15 digital ports, unbundled access to the link
16 subelements that are resident in modern digital loop
17 carrier systems, and the ability to utilize MFS
18 digital loop carriers in collocation to connect to
19 unbundled loops.

20 MFS requires this level of loop and port
21 unbundling, as well as loop concentration under the
22 utilization of collocation for loops, to ensure that
23 the quality of links MFS leases from BellSouth is
24 equal to the quality of links that BellSouth provides
25 directly to end users.

1 The reason that MFS was unable to come to
2 agreement with BellSouth is because BellSouth offered
3 only limited loop and port unbundling. This limited
4 proposal would deprive ALECs of access to the level of
5 technology necessary to provide services that would be
6 competitive with BellSouth's current service
7 offerings.

8 While BellSouth offered the possibility and
9 the utilization of digital loop carriers with
10 collocation, their testimony is contrary. These
11 options should be required to provide unbundled
12 services. NYNEX, Ameritech, SNET, Pacific Bell, Bell
13 Atlantic and Rochester Telephone all offer MFS the
14 ability to use digital loop carriers in collocated
15 environments.

16 Under the statute, BellSouth is required to
17 unbundle network elements to the extent technically
18 and economically feasible. There's no question as to
19 the technical feasibility of the unbundling requested
20 by MFS. In fact, several states, including New York,
21 Connecticut, Illinois, Michigan and Iowa have already
22 offered loop unbundling. In fact, MFS is the largest
23 user of unbundled loops in the country with over
24 thousands of loops currently in use in New York.

25 The unbundling request by MFS is also

1 economically feasible. Loops must not only be
2 physically unbundled, but they must also be priced at
3 the appropriate level to ensure that ALECs are not
4 subject to a price squeeze and that demand for ALEC
5 services is not artificially depressed.

6 MFS recommends that BellSouth's long run
7 incremental cost should serve as the target price and
8 cap for unbundled loops.

9 LECs should be required to perform long run
10 incremental cost studies for each component of the
11 local exchange access line, including the link, port,
12 cross-connect element and local usage elements.

13 To ensure that a price squeeze cannot be
14 imposed, the Commission should adopt two additional
15 pricing principles. First, the sum of the prices of
16 the unbundled elements, link, port and cross-connect,
17 must be no greater than the price of the bundled dial
18 tone line.

19 Second, the ratio of the price to LRIC for
20 each element and for the bundled dial tone line must
21 be the same. These two guidelines would require that
22 the prices for the unbundled dial tone components be
23 derived from the existing access rates established in
24 BellSouth's effective tariffs. BellSouth's response
25 to the MFS loop unbundling request is that an ALEC can

1 purchase a private line or special access channel out
2 of BellSouth's existing tariff. However, due to
3 significant differences in technical standards, as
4 well as engineering and operational practices,
5 providing simple links at special access pricing would
6 be seriously overcharging ALECs for unbundled links.

7 For example, the installation of a private
8 line requires special engineering by the LEC and,
9 therefore, takes longer and costs more than
10 installation of plain old telephone service.
11 Therefore, no single private line service offering by
12 BellSouth is likely to represent the basic co-carrier
13 unbundled loop facility. MFS should therefor not be
14 required to pay the substantial premium prices
15 associated with private lines in order to account for
16 additional performance parameters beyond what is
17 necessary to provide POTS.

18 MFS has direct experience in trying to
19 utilize private lines in New York with NYNEX in a case
20 where it got so out of control with the operational
21 issues and implementation, that MFS ceased selling
22 local dial tone to customers using Bell private line
23 services for a period of about nine months.

24 MFS will also require the utilization of
25 digital loop carriers with collocation arrangements to

1 interconnect unbundled loops in ports.
2 Interconnection should be achieved via collocation
3 arrangements MFS will maintain at the wire center at
4 which the unbundled elements are resident.

5 BellSouth should also permit ALECs to
6 convert its bundled service to an unbundled service
7 and assign such service to MFS with no penalties,
8 rollover, termination or conversion charges to MFS or
9 the customer.

10 While MFS and BellSouth might have agreed on
11 peripheral issues, the central issues of the elements
12 to be unbundled and the appropriate pricing for those
13 elements are still very much at issue. The
14 stipulation between BellSouth and other parties to
15 this docket provides almost no guidance on the issue
16 of unbundling. The parties only agreed to one
17 sentence on unbundling, with no definition of the
18 types of loops that should be unbundled or the
19 associated collocation, conversion or other
20 arrangements.

21 Critically, the pricing agreed by other
22 ALECs was special access pricing. While these rates
23 and arrangements may be acceptable to other ALECs, MFS
24 requires a significantly more detailed and reasonably
25 priced agreement to address the numerous unbundling

1 issues raised in more detail in my testimony.

2 MFS believes that it is only through
3 reasonably priced and comprehensive unbundling that
4 local exchange competition will reach its full
5 potential in Florida. Thank you.

6 MR. FALVEY: The witness is now available
7 for questioning.

8 CHAIRMAN CLARK: Thank you. Ms. Wilson.

9 MS. WILSON: I no questions at this time.

10 CHAIRMAN CLARK: Ms. Weiske.

11 MS. WEISKE: I have no questions.

12 CHAIRMAN CLARK: Mr. Melson.

13 MR. MELSON: No questions.

14 CHAIRMAN CLARK: Mr. Tye.

15 MR. TYE: I've got a few, Chairman Clark.

16 **CROSS EXAMINATION**

17 BY MR. TYE:

18 Q Mr. Devine, is it your understanding -- have
19 you reviewed the Florida Statutes with respect to
20 unbundling and resale?

21 A Just high gloss. I'm not a lawyer, so I am
22 not much good for legal interpretation.

23 Q Is it your understanding that BellSouth
24 cannot be required to make the currently tariffed
25 flat-rated switched local service available for

1 resale?

2 A No, it's not my interpretation. I would say
3 it says that loops and ports and unbundled elements
4 should be unbundled to be used by ALECs, so I would
5 say that they would probably be available.

6 Q I guess I'm talking about the bundled
7 service. Is it your understanding that you are able
8 to buy that and resell it in Florida today?

9 A I really am not an expert on the statute to
10 really appropriately try to answer it.

11 Q I don't mean to cross examine you on the
12 law.

13 One of the things that you have asked for, I
14 think, in your negotiations with BellSouth is that
15 they provide you an unbundled loop and an unbundled
16 port and hook them together; is that correct?

17 A Yes, that's one of the things that we've
18 proposed.

19 Q Now, a port, as I understand it, and the way
20 you're using it, is really the switching function, is
21 it not?

22 A Yes.

23 Q Okay. And in your negotiations, BellSouth
24 has refused to hook those two functions together so
25 that you can resell them; is that correct?

1 A Yes. But to be candid with you, I have been
2 really pushing them more on the unbundled loops
3 itself.

4 Q But there's testimony on this issue in this
5 case, is there not?

6 A Yes. They told me numerous times that they
7 didn't feel that the statute required them to provide
8 loops and ports on a bundled basis.

9 Q And you've read Mr. Scheye's rebuttal
10 testimony, have you not?

11 A Yes.

12 Q And doesn't Mr. Scheye say that rather than
13 unbundle these facilities and then hook them back
14 together and allow you to resell them that way, that
15 you have the option of reselling measured local
16 service; is that correct?

17 A Yes, he does say that.

18 Q Have you looked at Bell's rates for measured
19 local service?

20 A No, I haven't, but from what I know, they
21 offer flat-rate service as a standard.

22 Q You haven't looked at the possibility of
23 trying to resell measured local service then; is that
24 correct?

25 A No, our company has not. We'd like to do in

1 Florida like we do elsewhere and buy CENTREX, you
2 know, and connect CENTREX lines to it, and take
3 special access lines out of the CENTREX back to our
4 switch.

5 MR. TYE: Thank you, sir. I have no further
6 questions.

7 CHAIRMAN CLARK: Mr. Self.

8 MR. SELF: Yes, Chairman Clark.

9 **CROSS EXAMINATION**

10 BY MR. SELF:

11 Q Mr. Devine, I'm Floyd Self for LDDS
12 WorldCom. I just have two questions for you.

13 A Yes.

14 Q Your negotiations -- your requests for
15 unbundled facilities are based upon your company's
16 facilities that you have in Florida and your business
17 plan for Florida, correct?

18 A Yes. They are based on MFS's particular
19 requirements.

20 Q And would you agree with me that another
21 carrier with different facilities and a different
22 business plan might have different unbundling
23 requests?

24 A Yes, most definitely. In our petition we
25 asked for what we feel that we need based on our

1 business experience. Other carriers would, I would
2 think, have other needs.

3 MR. SELF: Thank you. That's all I have.

4 CHAIRMAN CLARK: Mr. Fincher.

5 MR. FINCHER: No questions.

6 CHAIRMAN CLARK: Mr. Falvey.

7 MR. FALVEY: No.

8 CHAIRMAN CLARK: Mr. Lackey.

9 MR. LACKEY: Thank you, Madam Chairman.

10 **CROSS EXAMINATION**

11 BY MR. LACKEY:

12 Q Mr. Devine, you remember me, don't you?

13 A Yes, I do.

14 Q I'm Doug Lackey --

15 A Good afternoon.

16 Q Representing BellSouth Telecommunications.

17 Let's do this, if we can, let's make sure
18 we're talking about the same thing. Can we take a
19 couple of minutes here and describe, say, some basic
20 connectivity between the subscriber and your switch so
21 that we could get some common elements to talk about
22 here?

23 A Yes, sure.

24 Q A subscriber has an interface -- let's talk
25 about a residential subscriber and make it simple. A

1 residential subscriber will have an interface on their
2 premises, correct?

3 A Yes, probably some kind of network interface
4 unit.

5 Q And then the telephone company runs probably
6 a twisted pair, just two copper wires back eventually
7 to what is known as a central office, right?

8 A Yes.

9 Q We won't worry about whether they multiplex
10 it in between.

11 A Yes --

12 Q Let's just take a simple example.

13 A -- some other events could happen, but
14 that's correct.

15 Q And then once it hits that switch, it
16 connects at that switch at what we call a port; is
17 that right?

18 A Yes, it would go through probably a main
19 distribution frame before it hit port switch, but
20 that's correct, yes.

21 Q And then it's switched at that switch and
22 sent off into the network --

23 A Yes.

24 Q -- to where the call is going; is that
25 correct?

1 A Yes, that's correct.

2 Q All right. Now, the local loop consists of
3 the part in my example between the subscriber's
4 interface and the port; is that correct?

5 A The loop itself, yes, it could traverse
6 different types of equipment. But, yes, we would
7 consider that to be the loop.

8 Q I'm trying to keep it simple just so the
9 record is clear, it could go through a subscriber line
10 carrier?

11 A Yes.

12 Q There could be a lot of things between the
13 central office and the subscriber's house?

14 A Yes.

15 Q But you recognize that my simple example of
16 just a two-wire pair running all the way back to the
17 central office is probably still the case some places
18 in Florida?

19 A Probably for residential service in most
20 cases, that's correct.

21 Q Again, once it hits that port, it's switched
22 out into the world, and that's local exchange service,
23 right?

24 A That would be considered basic service, I'd
25 say the definition of it, pretty much.

1 Q Okay. Now, there's another piece of the
2 network that connects the central office we were just
3 talking about with, in this case, the MFS switch,
4 correct?

5 A In what kind of context do you mean?

6 Q We have been talking about interconnection
7 all day yesterday.

8 A Okay.

9 Q There has been to be some kind of an
10 interconnection between --

11 A Okay. If it's between two LECs, an ALEC and
12 BellSouth, yes, there would be some kind of
13 connectivity off of some type of Bell switch to MFS
14 and a switch eventually.

15 Q For instance, if you wanted to provide
16 service to that residential customer I just described,
17 you might want to purchase that local loop, that
18 twisted pair from us, you might want to purchase a
19 port from us, and then you would need to get the call
20 back to your central office somehow, right?

21 A Yes. Normally, how we would do it then is
22 to take it back probably to our switch, and we'd do
23 some routing to carriers, wherever else it needed to
24 go.

25 Q But once you have the twisted pair from the

1 house to the central office and you have the port, you
2 have local exchange service for that customer,
3 correct?

4 A Yes, I would say that that's generally
5 correct. I mean, there's other things that go along
6 with local exchange service in terms of access to 911
7 and directory assistance and those sort of things,
8 probably defined by how the State of Florida defines
9 local service.

10 Q And I have been using a residential
11 customer, but it could have been a business customer.
12 The linkage between the business customer's premise
13 and the central office might have been a little more
14 complicated, but essentially it's the same thing?

15 A Conceptually, yes.

16 Q Okay. Now, BellSouth has taken the position
17 that we will not sell an unbundled loop and then
18 connect that loop to an unbundled port on our switch,
19 correct?

20 A Yes. BellSouth has told me we could
21 purchase either a loop or a port, we just couldn't
22 purchase them together, they've told us.

23 Q Okay. Now, I heard you say in your summary
24 that one of the standards that needed to be applied
25 was that BellSouth should not be allowed to charge

1 more for the unbundled pieces than it charged for its
2 own bundled service, is that correct?

3 A Yes, that's part of what we are asking for.

4 Q Okay. Now, I want you to assume just for a
5 moment -- I know you're not a lawyer, but I want you
6 to assume for a moment that the law prohibits you from
7 reselling BellSouth's flat-rated business and
8 residential service, okay? Can you assume that with
9 me just for a moment?

10 A Yes, I could assume that.

11 Q All right. If we are required to put
12 together a local loop and connect it to a port on our
13 switch, and are required to sell it to you at a rate
14 no higher than our bundled service, say a 1-FR, isn't
15 that the same thing as reselling a bundled service?

16 MR. MELSON: Objection. It calls for a
17 legal conclusion.

18 MR. LACKEY: Well, let me rephrase it then.
19 I want to talk about technically. Technically.

20 Q (By Mr. Lackey) If you put together an
21 unbundled loop in an unbundled port on the same
22 switch, is technically that the same thing -- I've
23 still got the question messed up, I'm sorry. I'm
24 talking about a residential loop from that house we
25 were talking about.

1 If you take that unbundled loop between that
2 house and that central office, and you connect it to
3 an unbundled port, haven't you provided the technical
4 equivalent of residential local exchange service to
5 that customer?

6 A Not necessarily in total. I guess it really
7 depends how it was packaged. I mean, I could tell you
8 how MFS does it in other states, and maybe if you tell
9 me if it's the same way, then I could answer the
10 question.

11 Q I don't want to do that. You've already
12 agreed with me that the local loop in the port gives
13 you the essence of local exchange service. You did
14 that five minutes ago, didn't you?

15 MR. FALVEY: Objection. I mean, if you want
16 to ask him a question, a new question, that's fine; or
17 if you want to read the question back from the record,
18 that would be fine, too.

19 CHAIRMAN CLARK: Mr. Lackey, I'm not sure
20 where we are so why don't you ask.

21 MR. LACKEY: Okay.

22 CHAIRMAN CLARK: I thought you were just
23 making a comment rather than asking a question.

24 MR. LACKEY: I'm sorry, I thought I had a
25 "didn't you" on the end of it, but I'll do it again,

1 please.

2 Q (By Mr. Lackey) Would you agree with me
3 that once you have the local loop and you have the
4 switching function at the central office that serves
5 that local loop, that you have the essence of basic
6 local exchange service. That from that point, a call
7 can go out into the network and be completed?

8 A I guess I need the question in a little bit
9 more detail to be able to answer it.

10 Do you mean when I buy the loop and the port
11 am I buying either a), you know, directory listings
12 and billing capabilities, that BellSouth would be
13 doing all the billing and all the things that go along
14 with local service? Or would it be case b), more like
15 when MFS does it, where we would actually -- we'd have
16 a DS-1 out of the BellSouth switch and run it back to
17 our switch, and actually we would be rendering the
18 bill to the customer, and we would be doing other
19 components. Which scenario would it be?

20 Q Well, let me make it clear, if I can. I
21 can't answer your question.

22 Mr. Carver here, sitting next to me, lives
23 in Florida, lives in Miami, and at least today has a
24 residential telephone. Okay? Now -- and he's our
25 customer, I'll testify to that. He's our customer

1 today, okay?

2 A Okay.

3 Q Now, if I were to sell you Mr. Carver's
4 loop, the twisted pair that runs from his central
5 office to his house, and I were to sell you the
6 interconnection, the port at his serving central
7 office, if I were to sell you those two things, would
8 Mr. Carver be able to pick up the phone at his house
9 and call his office?

10 A Yes. Technically, in terms of the customer
11 having the capability to make local calls and -- you
12 know, for local calling and all of that, technically,
13 yes, they'd have the capability. I guess the thing I
14 referenced earlier is how is it packaged? Is
15 BellSouth, you know, packaging the whole thing and
16 billing it and private labeling it for MFS, or is MFS
17 just buying those two unbundled components and then
18 connecting it to other MFS network components, like a
19 switch and transport and IXC connections and all those
20 other things. I guess that's where I'm kind of
21 getting confused.

22 I mean, I agree with you technically if you
23 have a loop and a port. Technically, they'd have the
24 ability to have the components -- I guess, of most
25 local service. You'd probably have to refresh me on

1 the local service definition in Florida, but I guess
2 technically, yes, he could make those calls. I guess
3 when we're discussing the whole package, I guess it's
4 how it's packaged, maybe it would be considered not
5 local exchange service.

6 Q Now, the issue of directory listings,
7 directory assistance, yellow pages, and all of that
8 stuff was discussed yesterday in the interconnection
9 docket, right?

10 A Yes, that's correct.

11 Q Those were interconnection matters, right?

12 MR. FALVEY: I object to the list of issues,
13 and what issues are in each proceeding is really a
14 legal issue. And to ask the witness what the issues
15 from the prehearing conference are that he may or may
16 not have attended, it seems inappropriate.

17 MR. LACKEY: I must be confused. I was sure
18 Mr. Devine testified about all of those things
19 yesterday and how he wanted them as part of
20 interconnection. I'm sure he did.

21 CHAIRMAN CLARK: Mr. Lackey, why don't you
22 ask your question again?

23 Q (By Mr. Lackey) The issue of things like
24 directory listings, E911, listings in the yellow
25 pages, listings on the informational pages, were

1 issues that you raised in your testimony yesterday and
2 discussed in connection with the local interconnection
3 docket, aren't they?

4 A Yes, that's correct. I believe that's how
5 the Commission Staff recommended they be broken down.

6 Q Now, if Mr. Carver here buys a 1-FR service
7 from us, would you agree with me that he can reach, on
8 a local basis, anybody who is connected with our local
9 network in the Miami local calling area?

10 A Yes.

11 Q All right. If you buy Mr. Carver's
12 unbundled loop from us and you buy a port from us and
13 you connect the two together in the Miami central
14 office that serves him, will you be able -- will he be
15 able, as a customer of yours, to complete a call to
16 every customer in the local calling area of Miami
17 that's connected to our network?

18 A Yes.

19 Q Okay. Now, in the first instance, we sold
20 him 1-FR service, right?

21 A Yes.

22 Q And in this instance, you sold him your
23 residential service, haven't you?

24 A Yes.

25 Q What you would call your residential

1 service?

2 A Yes, however we packaged it.

3 Q And in terms of being able to complete
4 calls, it's the same service, correct?

5 A In terms of being able to --

6 Q His being able to complete calls.

7 A As the way you just described it?

8 Q Yes.

9 A Yes. I think we agreed that under both
10 scenarios he would be able to complete the same type
11 of calls that you described.

12 Q And MFS's position is that this Commission
13 should require us to sell you those two elements and
14 that we shouldn't be allowed to charge anymore to you
15 for those two elements than we priced the bundled 1-FR
16 service at?

17 A Yes. Well, we would feel that we would not
18 want to have all of the elements used to take
19 unbundled service to be priced to us more than the
20 total bundled service, and at minimum, long run
21 incremental cost. But if an issue arises where that
22 causes a quirk, that's something the Commission would
23 have to address.

24 Q It is your position, isn't it, that the
25 Commission should not require us to unbundle our

1 network and to sell it to you at a price below cost,
2 correct?

3 A Yes, charging a price below cost would not
4 be appropriate.

5 Q Okay. Did you happen to review Exhibit 26,
6 which was submitted by Mr. Melson in Docket 950985?

7 A No, I have not.

8 Q Let me hand you a copy of it, if I may.

9 MR. MELSON: Doug, do you intend to make it
10 an exhibit in this proceeding?

11 MR. LACKEY: No. I'm just going to ask him
12 a question about it. (Hands document to witness.)

13 Q (By Mr. Lackey) Do you have it, Mr. Devine?

14 A Yes.

15 Q Now, that document which was just admitted
16 less than two hours ago as an exhibit in that docket I
17 mentioned, shows that the estimated average long run
18 incremental monthly cost for local loops in Florida is
19 \$15.97, doesn't it?

20 A That's what the response is on this page,
21 yes.

22 Q Okay. Now, BellSouth has offered a local
23 loop in the form -- I'm sorry. We've already
24 described that the local loop runs in my simple
25 example between the house and the central office,

1 right?

2 A Yes, simply.

3 Q Tell me where a private line runs. What two
4 points does a private line connect?

5 A Under what circumstances?

6 Q You said that BellSouth agreed to sell you
7 the local loop in a special access configuration,
8 didn't you?

9 A Yes.

10 Q All right. Where would that -- if you
11 purchased a local loop between the house I
12 described -- the house I described in the earlier
13 example?

14 A Yes.

15 Q Where would the special access line end?
16 Where would the end of the loop be?

17 A It depends. I really can't answer that in
18 total because I don't know how BellSouth engineers
19 special access private line versus dial tone, but a
20 lot of LEC companies engineer their circuits
21 differently between special access and private line.
22 They put extra conditioning. Generally, there's a
23 better chance it's on a higher grade of facility.
24 There's test points into the line. There's a lot of
25 additional bangs and whistles when you buy a special

1 access or private line versus a dial tone line. In
2 fact, we've experienced this in New York, as I
3 mentioned in my opening statement.

4 Q Does the private line end at the BellSouth
5 central office, or does the private line come all the
6 way back to your switch?

7 A Under what context? Could you give me the
8 identical situation? If I want to do buy a private
9 line or special access to somebody's house versus --

10 Q If you wish to purchase a special access
11 facility to provide service to that residential
12 subscriber we were talking about a few minutes ago,
13 one end of the private line we could agree, the
14 special access line actually, we can agree would be at
15 the subscriber's house. We can agree to that, can't
16 we?

17 A Yes, if that's where I ordered the circuit
18 to and they could terminate it to there, yes, that's
19 where it would go.

20 Q Where does the other end of the special
21 access facility reside? At the central office of
22 BellSouth or at your facility?

23 A I don't know how they configure their
24 network, but I would think it went back to the wire
25 center eventually. So I would think back to the wire

1 center.

2 Q I see what I'm confusing you with. In
3 addition to the special access facility to get between
4 the house and some other points, say our central
5 office, do you still have to purchase another facility
6 to get between our central office and your switch when
7 you buy a private line?

8 A Is this through collocation or not?

9 Q I don't know. You said you have all this
10 experience in New York, how do you do it there?

11 A If it's through collocation, then you're
12 just buying one end of a circuit. You're buying a
13 channel termination and then you're buying a
14 cross-connect circuit at the central office, if you're
15 collocated there. If you're not collocated, you'd be
16 buying a regular two-end private line or special
17 access circuit.

18 Q One end is at the subscriber's house; where
19 does the other end go? That's all I want to know. In
20 your experience in New York, where is the other end of
21 the special access?

22 A Of the transmission piece of the circuit?

23 Q The complete circuit.

24 A Excuse me, I didn't hear you.

25 Q Let me --

1 A I didn't hear you. I want to answer the
2 question. I just --

3 Q Let me try to ask it in a way that is clear
4 because, obviously, I'm confused.

5 What is the tariff charge for a special
6 access line in Florida?

7 A Could you repeat that, I didn't hear?

8 Q Let me get close.

9 What is the tariff charge for the special
10 access line that BellSouth offered you in Florida?

11 A I believe they said it was around \$21.

12 Q Okay. \$21 a month, right?

13 A Yes.

14 Q Okay. Now, if you were to purchase a
15 special access line from BellSouth to try to provide
16 service to this residential end user we have been
17 talking about, one end of the special access would be
18 at the subscriber's premises, right?

19 A Yes.

20 Q For your \$21, where would the other end of
21 the special access facility or service that you're
22 purchasing for \$21 be?

23 A At the serving wire center that would
24 connect to my collocated equipment.

25 Q Okay. And there would be no port involved,

1 would there?

2 A If I were just asking to procure a loop and
3 I were doing the switching, no, I would not need a
4 port.

5 Q By definition, special access doesn't
6 involve switching, right?

7 A That's correct. Yes.

8 Q Okay. So you can buy a special access
9 facility and get back to your collocated position in
10 the central office without paying a switching or port
11 charge, correct?

12 A Yes. It doesn't fulfill our needs, but
13 technically it would get it back there. But we had
14 severe problems in New York utilizing special access
15 private lines. And as I said earlier, we stopped
16 selling local service using private lines, and we went
17 nine months without selling dial tone to customers
18 that were in buildings where we didn't have loops and
19 we had to use Bell.

20 Q If Exhibit 26 is correct, the local loop
21 portion cost you -- the incremental cost in the local
22 loop is \$15.97, if this exhibit is correct, right?

23 A Yes, if it's correct.

24 Q Okay. And what BellSouth offered you was a
25 pipe that would get you back to your collocated

1 connection for \$21, correct?

2 A Yes.

3 Q Now, Mr. Scheye has proposed that in
4 unbundling the local loop, that the ONA model be used
5 to determine what elements would be unbundled and
6 whether they were technically and economically --
7 whether it was technically and economically feasible
8 to unbundle, correct?

9 A Yes, he said that in his testimony.

10 Q And you take exception with his
11 recommendation, correct?

12 A Yes, I do from the standpoint that we're
13 here to try to address these issues now; let's address
14 them. There's a statutory requirement. Let's go
15 ahead and do it.

16 Q Does unbundling a network involve -- do you
17 incur costs when you unbundle a network?

18 A If you could be more specific with your
19 question.

20 Q Is the process of breaking the network into
21 its constituent parts, determining what the costs of
22 the parts are, pricing them, does that cost the
23 incumbent local exchange company money?

24 A You mean the analysis --

25 Q Yes.

1 A -- to figure out what to do, or to actually
2 just to provide the service unbundled?

3 Q No, to break it down; to decide that this is
4 a local loop, and this is what it cost; that this is a
5 loop concentration, that's what it cost. To break it
6 down into its component parts; is there a cost
7 associated with breaking it down?

8 A Yes. There would be some kind of cost to
9 figure out what to do, some planning work and things
10 like that, operational issues, yes.

11 Q Okay. Can you and I agree that there's
12 bound to be some part of the BellSouth network for
13 which there will never be a demand on an unbundled
14 basis?

15 A I imagine there is, yes, there is probably
16 some component somewhere.

17 Q Okay. So would you agree that it makes
18 sense that we ought to have a process in place that
19 only requires BellSouth to go to the trouble and
20 expense of unbundling a network element if there's a
21 demand for it?

22 A No. If nobody is asking for any service to
23 be unbundled, then unless BellSouth thought they could
24 make money offering it on an unbundled basis, I
25 wouldn't think you should be required.

1 Q Now the ONA process does exactly that,
2 doesn't it? It requires whoever wants the element to
3 come to the Company and ask for the element to be
4 unbundled?

5 A I really can't answer that question. I'm
6 not, of I have never seen the ONA model for Florida.
7 I have seen the New York ONA model but I have not seen
8 the Florida ONA model, so I really can't answer that
9 appropriately.

10 Q So I guess you would agree then based on our
11 earlier discussion that a process ought to be in place
12 that doesn't require BellSouth to go to the trouble
13 and expense of unbundling a piece of the network
14 unless somebody wants it, unless there's a demand,
15 request for it?

16 A Yes.

17 Q Do you agree with that?

18 A I would agree with that, yes.

19 Q What if a company comes to BellSouth and
20 asks for an unbundled network item and the cost of the
21 unbundled network item proves to be uneconomic for the
22 requester? MFS comes to BellSouth, asks for a
23 particular network element, it is unbundled and it
24 costs on an unbundled basis ten times what you thought
25 it was going to so you can't use it economically

1 anymore. If that happens, would you consider that to
2 be a waste of everybody's time and effort, both the
3 Company's and the ALEC's?

4 A No. Because if somebody has a bona fide
5 request, the bona fide request should be reviewed
6 appropriately before the Commission; and if cost
7 studies need to be looked at, or what have you, that
8 would probably be the appropriate method to take. It
9 is really the Commission's jurisdiction to decide if
10 it is a bona fide request, I would say.

11 Q I think we're in agreement here. In
12 determining whether it is a bona fide request it would
13 be appropriate to look at the use and demand for the
14 unbundled element that's being requested?

15 A That should be a consideration if it is --
16 yes, only if it is maybe an element that would cause
17 any pain and suffering to what BellSouth currently
18 does.

19 For instance, if we're asking for loops to
20 be unbundled, BellSouth already provides loops as part
21 of their bundled service, that's not a burdensome
22 thing just to unbundle what you already have. That's
23 a common thing that actually is already broken down in
24 the network, it already can be segmented. So in that
25 instance, no. But being a case-by-case basis, it's

1 hard to answer the question without really knowing
2 what the element is, to be honest with you.

3 Q Well, in this process, for instance, you
4 would certainly agree that not every element of the
5 network has been requested by anybody to this point?

6 A Yes, that's correct.

7 Q And so we don't have any idea whether the
8 next element that is going to be asked for is a part
9 of the network that we already offer on an unbundled
10 basis or a bundled basis or whatever, we just don't
11 know, do we?

12 A Yes.

13 Q All right. Now, one of the other things you
14 spend a lot of your testimony discussing has to do
15 with not what I call the local loop in the port but
16 what happens between the BellSouth's switch and your
17 switch. You have talked about loop concentration and
18 loop transportation; is that correct?

19 A Yes, about loop concentration and then also
20 MFS being able to put digital loop carriers in virtual
21 collocation arrangements to connect unbundled loops.

22 Q Is a digital loop carrier a small thing?

23 A Yes. I mean, it's a pretty normal piece of
24 equipment that the used in the LEC network and in our
25 network.

1 Q Is it the size of a desk?

2 A No, I would say it is probably about the
3 size of maybe a small air conditioning type unit.

4 Q Now what you want to do is you want to
5 either buy a loop concentration device and collocate
6 it at BellSouth's facility or you want to purchase the
7 loop concentration from BellSouth itself on an
8 unbundled basis; correct?

9 A Yes.

10 Q Okay. Now, is it your position that if
11 BellSouth does not have loop concentration facilities
12 in the central office that it should be required to go
13 out and buy the equipment and put it in the central
14 office for you?

15 A Yes, pretty much. I mean, if it is
16 something, if they don't have that feature capability
17 now or if it were burdensome for them to do it, then
18 yes, they shouldn't be forced to do it. But if it is
19 something they can do in the normal course of business
20 to throw a digital loop carrier in another central
21 office or something of that manner, I think that
22 probably should be pursued. But generally you
23 shouldn't be forced to do something that doesn't make
24 technical sense.

25 Q So it's your position that they shouldn't be

1 able to go out and buy things to put in the central
2 office to resell to you if they don't already normally
3 have them?

4 A Yes. If it is not something they don't
5 normally do in the normal course of business, they
6 shouldn't have to get some unique whiz bang box to
7 facilitate something. But if it's the normal course
8 of business, yes, they should have to support it.

9 Q Is MFS an AAV in Florida?

10 A Yes.

11 Q What does an alternative access vendor do?

12 A They traditionally in the traditional sense
13 up until now in new certifications in states like
14 Florida traditionally they provided special access and
15 private line type facilities to end users and to
16 interexchange carriers.

17 Q Do they provide facilities between local
18 exchange company central offices and points of
19 presence or POPs of IXCs?

20 A Yes, that would be part, part of their
21 business focus.

22 Q The link between an IXC's POP and a central
23 office is essentially the same connection we're
24 talking about when we talk about connecting your
25 switch to a LEC's central office, isn't it?

1 A Could you restate that, please?

2 Q Sure. Right now IXC's points of presence
3 are connected to let's just call it BellSouth's
4 switches in Florida, right?

5 A Yes.

6 Q So there has to be some kind of physical
7 connection between the two locations, correct?

8 A Yes.

9 Q And the connection that we're talking about
10 between BellSouth's switch and your facility is
11 essentially going to perform the same function,
12 correct?

13 A Between our -- you mean our switch or
14 collocation? Do you mean when we're collocated or do
15 you mean not collocated?

16 Q Let's assume you're not collocated.

17 A Okay. So if we're not collocated, to be
18 able to connect to BellSouth to get to unbundled
19 loops, you mean?

20 Q Yeah, uh-huh.

21 A Well, not necessarily. I mean, we really
22 propose and I provided to Staff in an interrogatory
23 answer that the unbundling that we're requesting is
24 really connecting from our virtual collocation spaces.
25 So we would be providing the transmission all the way

1 up until the wire center, to the demarcation point
2 within the wire center to BellSouth.

3 Q I see, I must have misunderstood something.
4 You want BellSouth to provide loop concentration but
5 you don't want BellSouth to provide loop
6 transportation?

7 A To get to the unbundled loops we have
8 collocation with BellSouth at a lot of sites and we
9 would just as soon use our transmission to get to the
10 central office through our collocation and then
11 connect through loops either through our digital loop
12 carriers in the site or purchasing digital loop
13 carrier capability from BellSouth.

14 Q In that circumstance where you're
15 collocated, the answer to my question is, "Yes, we
16 don't want to purchase loop transportation"?

17 A Yes, we would not purchase it.

18 Q And just to sort of round out that line of
19 questioning, that loop transportation is the same
20 function that's being provided between IXCs and
21 BellSouth's offices now, correct?

22 A Yes, if you would say in terms of
23 interoffice mileage, interoffice channels, is that
24 what you are referring to?

25 Q Yes.

1 A Yes, I would say it might be packaged
2 different, a CAP, you know, an AAV might package it
3 differently than a LEC; but in terms of technically,
4 yes, it would be the same type facility.

5 Q And that's the same kind of service that
6 AAVs provide --

7 A Yes.

8 Q -- in Florida and make available to IXCs or
9 even to you, right?

10 A Yes.

11 Q Okay. So clearly the facility between the
12 central office and your facility is one that you can
13 purchase either from BellSouth, or you can provide it
14 yourself, or you can buy it from an AAV, correct?

15 A Yes, any certificated carrier.

16 MR. LACKEY: That's all I have, thank you,
17 Madam Chairman.

18 CHAIRMAN CLARK: Thank you. Thank you,
19 Mr. Lackey. Staff?

20 MS. CANZANO: Just a few questions.

21 **CROSS EXAMINATION**

22 BY MS. CANZANO:

23 Q Good afternoon, Mr. Devine.

24 A Thank you.

25 Q Do you have in front of you some of Staff's

1 exhibits? One is a package that consists of the 12-15
2 deposition transcript and certain responses to
3 interrogatories and PODs, and then also responses from
4 MFS to BellSouth? It's called, Staff calls it TTD-1.

5 A Yes.

6 CHAIRMAN CLARK: Hang on a minute. Where is
7 my packet? Okay.

8 Q (By Ms. Canzano) Also I have handed out to
9 people MFS's responses to Staff's First Set of
10 Interrogatories, Item No. 8, which is a handwritten
11 copy. Do you have that also?

12 A Yes, I do.

13 MS. CANZANO: At this time I would like this
14 marked for identification as an exhibit? Do you not
15 have it?

16 CHAIRMAN CLARK: TDD-1 will be labeled
17 Exhibit 3. TDD-2 will be labeled Exhibit 4. And this
18 is what you want?

19 MS. CANZANO: Yes. This will be included in
20 our first exhibit.

21 CHAIRMAN CLARK: Okay, included in Exhibit 3
22 will be the handwritten document titled "Legend of
23 Terms."

24 (Exhibit Nos. 3 and 4 marked for
25 identification.)

1 Q (By Ms. Canzano) Mr. Devine, have you
2 reviewed these documents?

3 A Yes.

4 Q And to your knowledge are they true and
5 correct?

6 A Yes.

7 Q Do you have any corrections to make?

8 A No.

9 Q Okay.

10 MS. CANZANO: That's all Staff's questions.

11 CHAIRMAN CLARK: Questions, Commissioners?

12 Redirect.

13 MR. FALVEY: Is it possible to take a minute
14 with the witness prior to redirect or not?

15 CHAIRMAN CLARK: What I would like to do is
16 redirect and then take a break so the Commissioners
17 can go get their lunches.

18 MR. FALVEY: That's fine. I just have a
19 couple questions.

20 **REDIRECT EXAMINATION**

21 BY MR. FALVEY:

22 Q I believe, and I don't have a verbatim
23 transcript in front of me but I believe, Mr. Lackey
24 asked you a question to the effect that as part of
25 this process no one has asked for unbundled elements

1 yet, and you replied, "Yes."

2 Now, when he said "as part of this process,"
3 were you including our petition in this hearing in
4 which we have requested unbundled elements?

5 A I must have misinterpreted what his question
6 was. I mean, I feel that through what we've asked for
7 through this petition and in our negotiations, that
8 we've asked for unbundled elements that we feel that
9 we need. So --

10 Q Were you referring to the quote/unquote
11 "ONA" process that Mr. Lackey was discussing in his
12 line of questioning?

13 A Referring to it in terms of?

14 Q When you said, "Yes," I'm just trying to get
15 some sense of where you were going when you said that
16 as part of this process we haven't requested elements
17 yet. Were you referring to perhaps some process down
18 the road in which the carriers could make further
19 requests for unbundled elements?

20 A Well, yeah, we haven't requested anything
21 through the ONA process. We felt, based upon what the
22 statute had offered us, that this was the appropriate
23 vehicle to request elements and we're requesting what
24 we need now.

25 We may come back later and learn that we

1 need other things at a later time, and I imagine other
2 parties have their needs, too.

3 Q There's a discussion in terms of whether
4 BellSouth must provide, say, a digital loop carrier in
5 order for an ALEC request for that digital loop
6 carrier to be appropriate. Does the equipment
7 utilized by BellSouth have to be identical in every
8 respect to the equipment asked for by an ALEC? And
9 perhaps I can provide as an example if BellSouth asked
10 for an Ericcson multiplexer -- rather if BellSouth
11 utilizes an Ericcson multiplexer in its systems and we
12 ask for a digital loop carrier multiplexer made by
13 another equipment manufacturer, would you consider
14 that to be equipment that's in use by BellSouth?

15 A Yes, I would. And BellSouth, based on what
16 they have done in collocation, if you're not using the
17 equipment that they use, you can specify the equipment
18 that you would need. And I believe you work with them
19 to help get their people trained and up to speed.

20 So if the digital loop carriers we wanted to
21 use were a little different but it's the same
22 functional type of equipment, yes, they should be
23 required to be able to do that.

24 Q And is it your understanding that digital
25 loop carriers are in fairly common usage by BellSouth

1 as well as all major or at least let's say all
2 regional Bell operating companies in the United
3 States?

4 A Yes, they're very common, they're a very
5 inherent piece of the local loop. They would be used
6 in part of the network in terms of, as Mr. Lackey was
7 explaining, a loop between a residence and a wire
8 center at the wire center, so they are very common
9 pieces of equipment that are used. And they were
10 initially designed for local exchange carriers in the
11 local loop. They were referred to as subscriber line
12 carriers. They're SLCs.

13 Q Is it your opinion that these digital loop
14 carrier are capable of unbundling -- of being
15 unbundled, shall we say?

16 A Yes, most definitely. In fact, I had a lot
17 of discussions with BellSouth about it. It seemed
18 that even as over two months ago they thought it was
19 feasible and they actually gave us a proposal for it.
20 And I believe in some of the interrogatories responses
21 that we received they said in some e-mails between
22 employees that it does work and it would work and it
23 looked as though it were something they were seriously
24 considering offering.

25 Q Was it proposed in Florida or was it

1 proposed in other states?

2 A It was for Georgia and Florida, really.

3 MR. FALVEY: I have no further questions.

4 CHAIRMAN CLARK: Thank you very much. You
5 may be excused, Mr. Devine.

6 WITNESS DEVINE: Thank you.

7 CHAIRMAN CLARK: We will take a break until
8 1:00 and then we will start up with Mr. Price.

9 MS. CANZANO: Excuse me, can we move the
10 exhibits into the record?

11 CHAIRMAN CLARK: Yes. Mr. Falvey, do you
12 move Exhibits 1 and 2?

13 MR. FALVEY: Yes, I do.

14 CHAIRMAN CLARK: They will be admitted into
15 the record subject to the objection that Mr. Lackey
16 has made. And Exhibits 3 and 4 will be admitted into
17 the record without objection.

18 Thank you. We'll be back at 1:00.

19 (Exhibit Nos. 1 through 4 received in
20 evidence.)

21 (Brief recess.)

22 - - - - -

23 CHAIRMAN CLARK: I think we'll go ahead and
24 get started. I think Mr. Price is next.

25 - - - - -

DON PRICE

1
2 was called as a witness on behalf of MCI Metro Access
3 Transmission Services, Inc. and, having been duly
4 sworn, testified as follows:

DIRECT EXAMINATION

5
6 BY MR. MELSON:

7 Q Mr. Price, would you state your name and
8 business address, please.

9 A Yes. My name is Don Price. My business
10 address is 701 Brazos, B-R-A-Z-O-S, Suite 600, Austin,
11 Texas 78701.

12 Q By whom are you employed and in what
13 capacity?

14 A I am employed by MCI Telecommunications
15 Corporation as Regional Manager, Local Competition
16 Policy Southern Region, State Regulatory and
17 Governmental Affairs.

18 Q Have you prefiled direct testimony in this
19 docket dated November 13 and consisting of five pages?

20 A Yes.

21 Q Do you have any changes or corrections to
22 that testimony?

23 A Not to my knowledge.

24 Q If I were to ask you the same questions
25 today would your answers be the same?

1 A Yes, they would.

2 Q And you had no exhibits attached -- excuse
3 me, that's wrong.

4 MR. MELSON: Let me first ask that the
5 prefiled direct be inserted into the record as though
6 read.

7 CHAIRMAN CLARK: Mr. Price's prefiled direct
8 testimony filed on November 13, 1995, will be inserted
9 in the record as though read.

10 Q (By Mr. Melson) And did you have attached
11 to your testimony one exhibit consisting of your
12 resume, identified as DGP-1?

13 A That's correct.

14 Q Do you have any changes or corrections to
15 that exhibit?

16 A No.

17 MR. MELSON: I ask that that DGP-1 be marked
18 for identification as Exhibit 5.

19 CHAIRMAN CLARK: It will be so marked.

20 (Exhibit No. 5 marked for identification.)
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DOCKET NO. 950984-TP
DIRECT TESTIMONY OF DON PRICE
ON BEHALF OF
MCI METRO ACCESS TRANSMISSION SERVICES, INC.

November 13, 1995

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Price, and my business address is 701 Brazos, Suite 600, Austin, Texas, 78701.

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

A. I am employed by MCI Telecommunications Corporation as Regional Manager, Local Competition Policy, Southern Region State Regulatory and Governmental Affairs.

Q. WHAT ARE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE?

A. I have provided as Exhibit 5 (DGP-1) to this testimony a listing of my professional qualifications and experience.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS COMMISSION?

A. Yes. Also, I have testified in a number of regulatory proceedings in various states in the BellSouth and Southwestern Bell regions. Included in Exhibit 5 (DGP-1) is a list of proceedings in which I have presented testimony.

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

1 A. My testimony will provide an explanation of MCImetro's rationale
2 in requesting that BellSouth provide it with unbundled loops and
3 describe BellSouth's response to that request.

4 Q. WHO IS MCIMETRO ACCESS TRANSMISSION SERVICES, INC.?

5 A. MCImetro Access Transmission Services, Inc. ("MCImetro") is an
6 wholly-owned indirect subsidiary of MCI Telecommunications
7 Corporation, the certificated long distance provider. The creation
8 of MCImetro was announced by MCI on January 4, 1994. That
9 announcement stated that MCImetro was expected to invest \$2
10 billion in fiber rings and local switching infrastructure in major U.S.
11 metropolitan markets, and was the MCI subsidiary that will operate
12 as a local telecommunications service provider.

13 The 1994 annual report to shareholders of MCI
14 Communications Corporation stated that the planned capital
15 expenditures for MCImetro for 1995 were \$500 million. Since its
16 formation, MCImetro has obtained regulatory approval to provide
17 competitive local exchange services in 13 states, and has pending
18 applications for such authority in another 5 states.

19 On June 30, 1995, pursuant to s.364.337(6)(b), Florida
20 Statutes, MCImetro provided notice to this Commission of its
21 intent to provide alternative local exchange telecommunications
22 services. On October 11, 1995, this Commission issued its Order
23 No. PSC-95-1256-FOF-TX acknowledging MCImetro's intent to
24 provide alternative local exchange services effective January 1,
25 1996.

1 Q. WOULD YOU BRIEFLY SUMMARIZE THE NEGOTIATIONS THAT
2 TOOK PLACE BETWEEN MCIMETRO AND BELLSOUTH?

3 A. Yes. On July 18, 1995, MCI metro and BellSouth met to initiate
4 discussions on a variety of interconnection and unbundling issues.
5 Subsequently, at least four other face-to-face meetings and several
6 conference calls were held to explore whether agreement on these
7 issues was possible. Some of these issues are still under
8 discussion.

9 Q. IN MCIMETRO'S COMPLAINT, THE TERM "UNBUNDLED LOOP"
10 IS USED. WHAT IS AN "UNBUNDLED LOOP"?

11 A. An unbundled loop involves those basic network elements which
12 provide a connection between the end user's premises and the
13 LEC's central office switch. The network elements involved would
14 include the buried cable or aerial facility(ies) and the line card or
15 other terminating device inside the LEC's central office which
16 provides connectivity to the switch. These network elements are
17 today available only on a "bundled" basis, combined with other
18 network elements in various tariffed offerings to make "finished"
19 or retail services for end users' use. It is not possible today to
20 obtain these network elements on an "unbundled" basis -- that is,
21 without also having to purchase other, perhaps unnecessary,
22 network elements such as switching and transport. So what is
23 meant by the term "unbundled loop" is simply the ability to obtain
24 loop facilities and other related network elements (such as loop
25 transport and loop concentration) for combination by MCI metro

1 with its own switching and other functions to provide a retail
2 service. This is more completely described in the testimony of Dr.
3 Nina Cornell.

4 Q. WHAT IS THE REASON THAT MCIMETRO DESIRES UNBUNDLED
5 LOOPS?

6 A. The use of unbundled loops would permit the offering of
7 competitive services where MCImetro does not have facilities.

8 Q. IS THAT SOUND PUBLIC POLICY?

9 A. Yes. Permitting MCImetro to use unbundled loops will more
10 rapidly spread the benefits of competition to consumers because
11 MCImetro, and other entrants using unbundled loops, would not be
12 artificially constrained to offer services only where they have
13 facilities in place.

14 This concept was endorsed by the Washington Utilities and
15 Transportation Commission, who said in a recent Order that:

16 The record clearly establishes that unbundling of the local
17 loop is essential to the rapid geographic dispersion of
18 competitive benefits to consumers and is in the public
19 interest. Unbundling allows customers greater opportunity
20 to choose between a diversity of products, services, and
21 companies. Unbundling also allows for efficient use of the
22 public switched network, reduces the likelihood of
23 inefficient network over-building, and ensures that
24 competition is not held hostage by being bundled with
25 bottleneck functions.

1 (Docket Nos. UT-941464 and UT-95-0146, Fourth Supplemental
2 Order Rejecting Tariff Filings and Ordering Refiling; Granting
3 Complaints, in Part, October 1995, at 50.)

4 Q. WHEN DID MCIMETRO REQUEST THAT BELLSOUTH PROVIDE IT
5 WITH UNBUNDLED LOOPS?

6 A. MCI metro and BellSouth met in Atlanta on July 18, 1995. During
7 that meeting, a request for unbundled loops was made.
8 Subsequent meetings and conversations with BellSouth also
9 discussed that request.

10 Q. WHAT HAS BEEN BELLSOUTH'S RESPONSE TO MCIMETRO'S
11 REQUEST?

12 A. BellSouth has advised that MCI metro could utilize an existing
13 tariffed offering from BellSouth's Access Service Tariff --
14 specifically a Special Access Line -- to serve as an unbundled loop.
15 A Special Access Line is, however, not acceptable, for the reasons
16 set forth in the testimony of MCI witness Dr. Nina Cornell.

17 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

18 A. Yes, it does.

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1 Q (By Mr. Melson) Mr. Price, would you please
2 summarize your testimony?

3 A Good afternoon, Commissioners. My testimony
4 in this proceeding explains the rationale of MCI Metro
5 Access Transmission Services, Inc, or MCI Metro, in
6 requesting that BellSouth provide it with unbundled
7 loops.

8 I defined unbundled loops as certain network
9 elements which provide a connection between an end
10 user's premises and the local exchange carrier's
11 central office, and explain that today those network
12 elements cannot by themselves be purchased; rather, an
13 ALEC would have to purchase other network elements
14 that are not needed in order to obtain the necessary
15 loop element.

16 It is intuitive that unless this Commission
17 establishes a strong policy position requiring
18 unbundling, BellSouth would be free to impose
19 conditions on ALECs requiring them to purchase
20 unnecessary network elements. That would be bad
21 public policy.

22 This is the conclusion that was recently
23 reached by the Washington Utility and Transportation
24 Commission, who stated that local loop unbundling is,
25 quote, "essential to the rapid geographic dispersion

1 of competitive benefits to consumers and is in the
2 public interest." End quote.

3 That concludes my summary. Thank you.

4 MR. MELSON: Tendered for cross.

5 MS. WILSON: No questions.

6 CHAIRMAN CLARK: Mr. Self?

7 MR. SELF: Yes. Thank you, Chairman Clark.

8 **CROSS EXAMINATION**

9 BY MR. SELF:

10 Q I just have two questions. The unbundling
11 requests you have made in this proceeding, would you
12 agree with me that those are based on the facilities
13 you currently have in place in Florida in the
14 Company's business plan?

15 A The facilities currently in place and
16 planned, yes.

17 Q And would you also agree with me that other
18 carriers with different facilities and/or different
19 plans might have different unbundling needs?

20 A Yes, very much so. I mean, one of the
21 things that I think is important for the Commission to
22 understand is that all entrants do not come to the
23 market with -- they don't come similarly situated,
24 they don't come with the same types of networks in
25 place, they don't come necessarily with the same types

1 of business plans, and, therefore, there's really no
2 such thing as a one-size-fits-all approach to
3 permitting competitive entry.

4 The requests that are made by MCI Metro in
5 our petition were specific to MCI Metro. But there
6 was a provision, I believe, where we requested that
7 BellSouth be required to provide additional unbundling
8 elements upon request. And of course that "upon
9 request" should be available to others as well, so
10 whatever network elements they believe they need for
11 their purposes would likewise be made available upon
12 request.

13 MR. SELF: Thank you, Mr. Price, that's all
14 I have.

15 CHAIRMAN CLARK: Ms. Dunson, do you have any
16 questions?

17 MS. DUNSON: Yes, I have just a few
18 questions for Mr. Price. Madam Chairman, I would like
19 to ask him a couple questions --

20 COMMISSIONER GARCIA: Excuse me just a
21 second. Who are you representing, Mr. Self?

22 MR. SELF: I represent LDDS WorldCom. I'm
23 sorry.

24 MS. DUNSON: I would like to ask Mr. Price a
25 couple questions about his answers to Staff's First

1 Set of Interrogatories. I understand that Staff is
2 going to introduce these into evidence and I would
3 just like to ask him a couple questions and let Staff
4 have them marked for identification at that time.

5 CHAIRMAN CLARK: Let's go ahead and identify
6 that exhibit. I have, is there one exhibit you're
7 asking?

8 MR. EDMONDS: We have one exhibit that Staff
9 has identified as DGP-1. And it consists of answers
10 to Staff's First Set of Interrogatories, Nos. 1
11 through 13. Attachment 1 and portions of Attachment 2
12 to those answers.

13 CHAIRMAN CLARK: Let's go ahead and mark
14 those -- well, Mr. Price, are you familiar with these
15 interrogatory answers?

16 WITNESS PRICE: Yes, I am.

17 CHAIRMAN CLARK: Are they true and correct
18 to the best of your knowledge?

19 WITNESS PRICE: Yes, they are.

20 CHAIRMAN CLARK: Okay. We'll go ahead and
21 identify DGP-1 as Exhibit 6.

22 MR. EDMONDS: Thank you.

23 MR. MELSON: Commissioner Clark, for
24 clarification, I've got what looks like pieces of it
25 that are stapled separately. I have Page 1 through 46

1 and then I have Page 47 through the end; is that all
2 one exhibit?

3 CHAIRMAN CLARK: I think that is intended to
4 be one exhibit.

5 MR. EDMONDS: I believe that's correct.

6 (Exhibit No. 6 marked for identification.)

7 CHAIRMAN CLARK: Go ahead, Ms. Dunson.

8 **CROSS EXAMINATION**

9 BY MS. DUNSON:

10 Q Mr. Price, would you please turn with me to
11 your answer to Staff's Interrogatory No. 12? It's on
12 Page 11.

13 A All right.

14 Q That answer shows monthly loop costs for
15 Florida by population density. Is that correct?

16 A Yes, it does.

17 Q For all those areas with more than 200
18 households per square mile, the costs are \$9 or less;
19 is that correct?

20 A Yes.

21 Q You say in this response that this
22 information was derived from the benchmark cost study
23 which was included in this exhibit as Attachment 2; is
24 that correct?

25 A Yes.

1 Q I couldn't understand how you got from the
2 numbers in the study to the numbers in Interrogatory
3 12. Could you please explain to me how those numbers
4 were calculated?

5 A Yes. If you will turn to Page 41 of the
6 exhibit, there is a sheet labeled in the upper
7 left-hand column, "Florida," upper left-hand corner.
8 And at the bottom it looks like III-62.

9 If you will look down the first column, what
10 you will see is the density zones that are reflected
11 in the response to which we were referring at Page 11
12 of the exhibit.

13 The third row -- let's start at the top. If
14 you look at the less than or equal to five density
15 zone, that's less than five households per square
16 mile. The third row next to that shows average of
17 loop dollar per HH. What that means is the loop
18 investment on average for that density zone in
19 dollars. And the figure there is, for the less than
20 or equal to five density zone, is \$5,088.72.

21 Okay. That figure is multiplied times a
22 cost factor, if you will, to take into account the
23 cost of money, the depreciation and maintenance
24 expenses that are assigned to investment through
25 normal long-run incremental costing procedures, and

1 other maintenance overheads that would be used.

2 Now there are two such factors that are used
3 in the benchmark cost model. I'm going to see if I
4 can find the reference to that.

5 If you will look at Page 27 of the exhibit,
6 that page is headed "II, Summary Model Results." In
7 the last paragraph, which is really only about halfway
8 down the page, it explains two annual cost factors.
9 The first one is based on historical accounting data.
10 That is one that MCI does not agree with and does not
11 use.

12 The second factor is called Cost Factor 2,
13 and it says is based on the Hatfield-MCI study. We
14 believe that cost factor is much more in line with a
15 forward looking approach to costing, which is what the
16 benchmark cost model is in our view designed to do.

17 You will see that second cost factor is
18 22.97%. So if you take the \$5,088.72 investment
19 figure that we had identified on Sheet 41, multiply
20 that times .2297 and divide that result by 12 to get
21 it down to a monthly figure, you will have the \$97.41
22 that's reflected on Page 11 for that density zone.

23 The same mathematics apply for each of the
24 rows that are reflected in the answer at Page 11.

25 All of those calculations are done for each

1 of the density zones in exactly the same way as I just
2 described. So, for example, the -- well, I think I
3 have explained how it is derived. The mathematics are
4 the same for each calculation, each row.

5 MS. DUNSON: Thank you very much, I have no
6 other questions.

7 CHAIRMAN CLARK: Mr. Fincher?

8 MR. FINCHER: No questions.

9 CHAIRMAN CLARK: Mr. Falvey.

10 MR. FALVEY: No questions.

11 CHAIRMAN CLARK: Mr. Lackey? Mr. Carver.

12 MR. CARVER: Thank you, Chairman Clark.

13 Yes, I have a few questions.

14 **CROSS EXAMINATION**

15 BY MR. CARVER:

16 Q Good afternoon, Mr. Price. Let me ask you,
17 first of all, is MCI currently providing local service
18 anywhere in the United States -- I'm sorry, MCI Metro?

19 A MCI Metro is providing commercial service
20 today in the Baltimore area in Maryland. We went
21 through this a little bit yesterday but this is a
22 different record, so I'll repeat it.

23 There are switches that are up and running
24 in at least three other jurisdictions and there are
25 interconnection agreements to permit the termination

1 of local traffic with the RBOC in each of those three
2 other regions, but I'm not aware at this time that we
3 are actually going commercial with the operation in
4 those other jurisdictions. I know that commercial
5 traffic is flowing in the Baltimore area.

6 Q Do you know in what states MCI is authorized
7 to provide local service? And I'm sorry, I keep
8 saying MCI, I mean MCI Metro.

9 A Yes. Let me see if that's in this
10 interrogatory response. It was in one, I don't
11 remember that it was in this one. There are presently
12 13 states in which MCI Metro is authorized to provide
13 switched local services.

14 Q Okay. Does MCI Metro currently have a
15 switch in Florida?

16 A No.

17 Q Okay. Now correct me if I'm wrong, but I
18 thought in your testimony yesterday you said something
19 about an MCI switch, perhaps in Miami? Did I hear
20 that wrong?

21 A I believe I said that there was a -- there
22 is a plan to locate a switch in Miami.

23 Q So then MCI Metro has plans to locate a
24 switch there but there is not currently one there?

25 A That is correct.

1 Q Okay. Let me ask you just a couple
2 questions about what has been marked for
3 identification as Exhibit No. 6. I'm talking
4 specifically about the study.

5 A Mr. Carver, if I might just for
6 clarification, is that the exhibit I was just looking
7 at? I didn't get the number.

8 Q Yes, that was, the cost study.

9 A Thank you.

10 Q Now correct me if I'm wrong, but if I
11 understand the situation correctly, Staff propounded
12 an interrogatory to you and you responded by providing
13 this cost study?

14 A Yes.

15 Q How did you come to have the cost study?

16 A The benchmark cost model was a product that
17 MCI was a joint sponsor in the conduct of the
18 analysis. And as one of the cosponsors of that
19 product, it was provided in Docket -- well, I believe
20 that information is right here -- CC Docket No.
21 80-286, before the FCC.

22 There were several iterations of this. The
23 first iteration was filed in September of 1985 with a
24 limited data set. Subsequently, there were, I
25 believe, one or two submissions with this December 1,

1 1995, submission ex parte filing before the FCC being
2 made with data for all of the states having been run
3 through this model.

4 Q You say MCI sponsored this study, but who
5 actually authored this study?

6 A I'm sorry, I didn't hear you, was your
7 question "authored"?

8 Q Yes, authored.

9 CHAIRMAN CLARK: I am hearing two different
10 things, I hear you say "offered" with an "f."

11 MR. CARVER: No, I'm sorry. I meant to say
12 "authored."

13 CHAIRMAN CLARK: Then I heard wrong. You
14 mean "authored," as in somebody writing something.

15 MR. CARVER: Yes, that's what I mean.

16 Q (By Mr. Carver) I mean, basically who
17 created the study is what I'm trying to say.

18 A It was a joint product. There was contact
19 made with US West, who had filed an earlier version of
20 this as part of an FCC filing well over a year ago. I
21 don't recall exactly the specifics of that. But we
22 contacted US West because of the fact there were some
23 strong similarities in the way that they had conducted
24 their analysis and our views towards local exchange
25 costing.

1 Subsequent to that initial contact, there
2 were two other parties that worked with US West and
3 MCI as joint sponsors; and it is my understanding that
4 this is a joint product. Obviously, there's at least
5 one difference of opinion among the authors, to use
6 your word, which is the two different approaches
7 towards the cost factor. But other than that, at the
8 investment level. My understanding is that there's
9 complete agreement among the joint sponsors with the
10 methodology.

11 Q Did you have any personal involvement in
12 creating this study?

13 A I did not.

14 Q Do you know who at MCI if anyone did?

15 A Yes, I do.

16 Q Who is that?

17 A A gentleman named Mark Bryant.

18 Q Are you aware of the methodology used in the
19 study?

20 A To some extent, yes.

21 Q But not completely?

22 A No.

23 Q Have you examined any of the backup papers
24 or any of the calculations that went into this study?

25 A No, I have not.

1 Q As you sit here today would you be able to
2 swear under oath that what is in this study is
3 accurate?

4 A Not of my own personal knowledge, no.

5 Q Let me move on to another area, Mr. Price.
6 If you would, please turn to Page 3 of your
7 testimony.

8 A All right.

9 Q Let me just read to you a couple portions
10 just so you'll understand the question I'm about to
11 ask.

12 First of all, on Line 11, Page 3, you state
13 the following, "an unbundled loop involves those basic
14 network elements which provides a connection between
15 the end user's premises and the LEC's central office
16 switch." Is that your testimony?

17 A That would be, that would certainly be a
18 large part of what we are viewing as an unbundled
19 loop, yes.

20 Q Okay. Further down on the page at Line 23,
21 you state, "Unbundled loop is simply the ability to
22 retain loop facilities and other related network
23 elements, such as loop transport and loop
24 concentration." Is that correct?

25 A Yes.

1 Q My question is this: Loop transport and
2 loop concentration, those aren't parts of the loop per
3 se, are they?

4 A In a sense, they are. And they are even in
5 today's monopoly environment in the sense that an end
6 user can go to BellSouth and request what's called
7 foreign CO service, for example, where their dial tone
8 would be provided out of another central office. In
9 that instance, their loop would effectively run from
10 their premise through the nearest central office and
11 then be placed on transport facilities and terminate
12 on a switch in what would normally be a distant
13 location.

14 Q Let me ask you this. As you define the loop
15 on Lines 11 through 13 on Page 3 of your testimony,
16 you say it is a connection between the end user's
17 premises and the LEC's central office switch. And
18 that configuration you have defined as a loop. Is
19 there a piece within that that is loop transport?

20 A It could be, yes.

21 Q Then what do you mean on Lines 24 when you
22 refer to these two items, loop transport and loop
23 connection, as being related elements? That's where
24 my confusion is, because you talk about loop
25 facilities and related elements. So my question is,

1 are these two items in the loop or are they just
2 related to the loop?

3 A In terms of how BellSouth would configure a
4 loop today, it is possible that what is equivalent to
5 the loop transport that is in MCI's testimony is being
6 provided in the sense that you would be using feeder
7 facilities in the form of a digital loop carrier to
8 effectively multiplex, if not to concentrate, a rather
9 high number of subscribers on to a relatively low
10 number of channels, if you will, to be transmitted
11 back to your central office.

12 What we are talking about in the form of
13 concentration and loop transport is merely an
14 extension of that which is already in many instances
15 in your existing loop network.

16 Q I think I understand you now. So you are
17 talking about an extension of the existing loop.
18 Isn't that what you just said?

19 A I believe what I just said is an extension
20 of the same technology or facilities that are used in
21 that connection in your network, yes.

22 Q How do you define loop transport?

23 A I believe that may be defined in
24 Dr. Cornell's testimony.

25 Q You don't know how to define the term?

1 A What I'm suggesting is that her testimony
2 covers that, she may be able to give you a better
3 definition.

4 Q Well, to the extent you talk about it in
5 your testimony and since I'm asking you questions
6 right now, I'd just like to know your understanding.

7 A Well, if we go back to my example of a
8 moment ago, the foreign central office situation where
9 the service that you provided today is not connected
10 to the nearest central office, there would be a, if
11 you will, a loop transport from that central office to
12 the central office that's actually providing dial
13 tone.

14 Q Let me ask you --

15 A In other words, what you are doing is you're
16 using in your own network what are the equivalent of
17 interoffice facilities to actually extend the loop to
18 a more distant location.

19 Q So we're talking about an extension of the
20 loop. Let me ask you. In a particular central office
21 if BellSouth does not have facilities in place by
22 which they can do that extension, do you believe they
23 should still be obligated to offer to MCI loop
24 transport?

25 A Yes.

1 Q How would they do that? Would they have to
2 build something?

3 A Well, the reason I answered that way is
4 because I can't envision a situation where you would
5 not have the ability to do that.

6 Q We're not talking about ability, I'm just
7 saying in a particular situation there might not be
8 facilities in place to offer that. If you want to
9 take that as a hypothetical, that's fine. I'm just
10 saying if that's the case, do you believe BellSouth
11 should be required to build something in order though
12 sell you the looped transport?

13 A I cannot accept the hypothetical because to
14 do so would be to accept the fact that BellSouth has
15 central offices that are completely isolated from
16 every other switch in the public network, and I cannot
17 accept that.

18 Q Do you know if -- well, you said that you
19 were going to build a switch in Miami. Do you know
20 for a fact that BellSouth currently has facilities
21 between whatever central office is closest to that
22 switch and where the switch is going to be?

23 A No, I don't.

24 Q Okay. So it's possible when you put that
25 switch in, that new switch, BellSouth may not have

1 facilities running to it over which they could provide
2 you with loop transport, right?

3 A Quite frankly, I believe we've kind of
4 bridged over into the other proceeding. Because my
5 view is that, assuming we can get an order from the
6 Commission that requires you to provide
7 interconnection at a reasonable rate, that we would
8 order that kind of connection and there would then be
9 exactly that which you have said doesn't exist, and it
10 doesn't exist today.

11 Q So then you're saying, if I understand you
12 now, that that's handled within your definition of
13 interconnection, so within the context of unbundling
14 the Commission really doesn't need to be concerned
15 with that piece?

16 A No, I didn't say that. You were asking me
17 to assume there was no connection. What I was telling
18 you is that that does spill over into the other
19 docket.

20 Q Let me try one last time, because I really
21 think it is a very simple question. Maybe I'm not
22 making it clear.

23 You put a new switch in. You put it in a
24 location to which BellSouth has no facilities. In
25 order to provide loop transport from wherever the

1 closest central office is to that switch, do you
2 believe that BellSouth should be required to build
3 something if that's what it takes to provide loop
4 transport?

5 A I think the most straightforward way that I
6 can answer that is to go back to the testimony of
7 Dr. Cornell in the previous docket, which is to say
8 that we should have the opportunity to construct that
9 facility, or to negotiate the construction of joint
10 facilities with BellSouth, or to choose to collocate
11 at that end office or at the tandem.

12 So there would need to be facilities, but
13 no, I'm not saying that you should have to construct
14 them.

15 Q You're not saying that we should have to
16 construct them?

17 A No. There will need to be facilities there,
18 but I'm not mandating -- I would not ask that you be
19 mandated to construct them.

20 Q And certainly MCI could construct them, I
21 believe you just said?

22 A Yes. We should have that choice.

23 Q Let me ask you the same questions in regard
24 to loop concentration. Let's assume -- well, first of
25 all, what do you mean by "loop concentration"?

1 A Again, this is a topic that is covered in
2 Dr. Cornell's testimony. I will do my best to give
3 you a description.

4 In your feeder plant today in many instances
5 you would use multiplexing, which means that a given
6 number of end user drops, if you will, can be
7 connected to your feeder plant over a much smaller
8 number of channels or physical pairs, physical
9 channels. Those could be either copper or fiber.
10 That's multiplexing.

11 If you use the old style SLC 96 kind of
12 model, it would mean that 24 subscribers could be
13 connected to your central office using essentially two
14 twisted pair, okay? But at the central office, each
15 one of those channels is mapped to a specific time
16 slot, if you will, within the transmission path and
17 there is a logical path constantly there for any given
18 subscriber at the remote end.

19 Of the 24 people, any of them or all of them
20 could pick up the phone at the same time and they
21 would have a way to go back to the switch and
22 presumably the switch could provide dial tone to them.

23 Q Do you have any knowledge as to whether
24 BellSouth currently has in its central offices the
25 equipment necessary to perform that loop concentration

1 function?

2 A My understanding is that that's true.

3 Actually, I hadn't quite finished.

4 Q I'm sorry.

5 A I was just at the point of describing
6 multiplexing and I hadn't really gotten over into
7 concentration.

8 Q Is concentration and multiplexing something
9 different?

10 A Slightly, yes.

11 Q Okay. Well, let me -- I don't mean to cut
12 you off. I'm not asking for a technical definition as
13 much as I am just asking whether you know.

14 MR. MELSON: I'm going to have to object.
15 He asked the witness to define loop concentration, now
16 he's saying he don't want to know what loop
17 concentration is. I think the witness should be
18 entitled to complete his answer.

19 MR. CARVER: He's kind of going down a road
20 that's not related to my question. I don't have a
21 problem if he wants to continue the technical
22 explanation.

23 CHAIRMAN CLARK: Mr. Price, have you
24 finished your explanation or is there more you would
25 like to add?

1 WITNESS PRICE: There's a brief bit I would
2 like to add regarding concentration.

3 CHAIRMAN CLARK: Go ahead.

4 A If we go back to the 24 persons having
5 essentially physical access to dial tone all of the
6 time in a multiplexing environment, if you inject
7 concentration into that equation, what you have is you
8 have really the shared use of the channels in the
9 feeder so that only maybe half of those persons or
10 maybe even only a quarter of those persons could
11 actually go off hook at the same time and actually
12 have a channel all the way back to the central office
13 so that they could get dial tone.

14 So it is a much more efficient way of
15 providing connection between end users and the central
16 office to do concentration than even it is to do
17 multiplexing because are you not reserving space that
18 is not needed, you're obtaining some trunking
19 efficiencies through the use of concentration.

20 Q Are you through?

21 A Yes.

22 Q Do you know if BellSouth currently does this
23 type of concentration that you just described?

24 A No, I don't.

25 Q Do you know whether they have equipment or

1 facilities that would allow them to do this type of
2 concentration?

3 A No.

4 Q Assuming they don't, do you believe that
5 they should be require to go out and purchase this
6 equipment in order to provide loop concentration to
7 MCI Metro?

8 A Yes.

9 Q And do you believe also that they should
10 only charge you incremental costs for this?

11 A Well, let's be real clear on what our
12 recommendation is. And again I hope I'm not spilling
13 over into the testimony of Dr. Cornell.

14 The loop figures that are in the exhibit
15 that I was discussing with Ms. Dunson earlier are
16 figures that may or may not include the use of
17 multiplexing or concentration facilities. To the
18 extent that those figures would include loop
19 concentration, then that equipment would already be
20 reflected in that incremental cost per unit.

21 If we were looking at a situation where
22 BellSouth did not have such equipment, that could be
23 done on a basis of either a virtual collocation where
24 MCI would have to buy the equipment for location --
25 collocation within your central office space, lease it

1 back to you, say for \$1, and provide training on your
2 employees to be able to use that equipment. So it
3 would not in that instance be a situation where
4 BellSouth was out any huge amount of investment for
5 the provision of that loop concentration to MCI Metro.

6 Q Let's assume that this is a situation in
7 which the concentration piece is not part of the
8 existing loop and where BellSouth has to purchase
9 equipment. We're not talking again about collocation,
10 we're talking about a situation where BellSouth has to
11 purchase the equipment and then they charge MCI Metro
12 some rate for that function.

13 A Okay.

14 Q Do you believe in that circumstance that
15 rate should be set at incremental cost or should there
16 be contribution allowed in that rate?

17 A There should be no -- I'm sorry. I believe,
18 as discussed in Dr. Cornell's testimony, the
19 contribution should not be permitted. MCI Metro would
20 be glad to compensate for the cost of the equipment;
21 but beyond that, I think anything else would not be
22 good public policy.

23 Q If I could go back just for one moment to
24 loop transport. To the extent BellSouth has to build
25 facilities to provide that service to MCI -- let's

1 assume that MCI elects that option in a situation
2 where creating some additional facility is
3 necessary -- do you believe that in that instance
4 BellSouth should also only be able to charge MCI Metro
5 its incremental cost to build that facility?

6 MR. MELSON: Commissioner Clark, I'm going
7 to object at this point. I have not objected yet and
8 maybe I'm late. But Mr. Price's testimony addresses
9 what MCI has requested. It does not address the
10 appropriate pricing for that. That is Dr. Cornell's
11 testimony. Mr. Price has obviously some familiarity
12 with MCI's position but we're getting into quite
13 detailed here so I object to it as being beyond the
14 scope of direct.

15 MR. CARVER: Well, my question is really
16 straightforward, which is, if additional facilities
17 have to be built or bought, does he believe that
18 those, as a representative of MCI, is he taking the
19 position that those should those be priced at TSLRIC
20 or some other type of incremental cost? Now, if he's
21 not competent to answer that, fine; but I would just
22 like to know what his answer is if he can.

23 CHAIRMAN CLARK: Mr. Carver, where does he
24 cover it in his direct testimony?

25 MR. CARVER: I don't know that he does, I

1 would have to look to see if it is there.

2 CHAIRMAN CLARK: That's the objection. The
3 objection is you're cross examining him on something
4 that is not covered in his direct, and therefore it is
5 not a proper subject for cross examination.

6 I would suggest that you direct that to
7 Dr. Cornell.

8 MR. CARVER: That's fine. I'll withdraw it.

9 CHAIRMAN CLARK: Okay.

10 MR. CARVER: That's all I have, thank you.

11 CHAIRMAN CLARK: Staff?

12 MR. EDMONDS: Staff has no questions that
13 haven't already been answered.

14 CHAIRMAN CLARK: Thank you. Commissioners?
15 Thank you very much, Mr. Price.

16 MR. MELSON: I have one redirect.

17 CHAIRMAN CLARK: I'm sorry. Excuse me. I'm
18 just so anxious to make 5:00.

19 MR. MELSON: This is a short one.

20 **REDIRECT EXAMINATION**

21 BY MR. MELSON:

22 Q Mr. Price, if you said that the benchmark
23 cost study was first provided to the FCC in 1985 --
24 and that's what I heard you say -- would it have been
25 1995?

1 A Yes, it would.

2 MR. MELSON: Thank you.

3 CHAIRMAN CLARK: Thank you, Mr. Price.

4 Dr. Cornell.

5 MR. MELSON: And I move Exhibit 5.

6 CHAIRMAN CLARK: Exhibit 5 is admitted

7 without objection.

8 MR. EDMONDS: Staff moves Exhibit 6.

9 MR. CARVER: I object to the admission of
10 Exhibit 6. I think the questions that were asked of
11 the witness when he was on the stand required him to
12 testify about the content of that cost study. And I
13 believe that his answers were asserting the truth of
14 what was set forth in that cost study.

15 However, when I cross examined him, he said
16 as he sits here on the witness stand today he is not
17 able to say that those numbers are true or accurate or
18 tell us about the methodology by which they were
19 arrived at. So I would object to their being put into
20 evidence for that reason, because this witness can't
21 give us the necessary foundation.

22 CHAIRMAN CLARK: Mr. Carver, what exactly
23 are you objecting to in this exhibit?

24 MR. CARVER: What I'm objecting to is that
25 he was asked questions about --

1 CHAIRMAN CLARK: I need to know the page
2 numbers. What in the exhibit are you objecting to?

3 MR. CARVER: I'm sorry. To tell you the
4 truth, I don't remember the specific question. But
5 this is the problem: He was asked about numbers that
6 were in the cost study. He in effect sort of defended
7 the cost study, talked about what it was in and what
8 it said. I don't believe he has the necessary
9 knowledge to do that, so I don't believe he should be
10 able to testify about anything in the cost study; and
11 I don't believe the cost study should be admitted in
12 his testimony because he simply doesn't know enough
13 about it to serve that purpose.

14 CHAIRMAN CLARK: I need to know what you
15 want stricken from that exhibit. What should I be
16 looking at in order to understand your objection?

17 MR. CARVER: If I may take just a moment?
18 (Pause)

19 I'm sorry, I just need a little help on
20 specifically what the questions were directed to. The
21 objection goes to Page 11, Item No. 12, and also
22 Page 20 through the end of the exhibit.

23 CHAIRMAN CLARK: So your objection is to the
24 admission of Item 11, starting on Page 9.

25 MR. CARVER: No, it would be Page 11 --

1 CHAIRMAN CLARK: Okay.

2 MR. CARVER: -- and there's a heading that
3 says No. 12 in the middle of the page. So it's Item
4 No. 12 on Page 11.

5 CHAIRMAN CLARK: Okay. You're objecting to
6 the admission of Item No. 12 on Pages 11 and 12 and
7 then all the pages in the exhibit from Page 20 --

8 MR. CARVER: Yes.

9 CHAIRMAN CLARK: -- to the end. Staff, this
10 is your exhibit. There's been an objection based on
11 the fact that the witness is not competent to vouch
12 for the validity.

13 MR. EDMONDS: I would respond by saying that
14 the witness also testified that the content of the
15 exhibit is true and correct to the best of his
16 knowledge; and that just because he didn't personally
17 compile the study, I don't think that means that he
18 can't rely on it.

19 MR. MELSON: Commissioner Clark, might I
20 respond as well?

21 CHAIRMAN CLARK: Yes, Mr. Melson, since it
22 is your witness.

23 MR. MELSON: Item 12, the question asks,
24 "Please provide detailed examples for the pricing
25 methodologies as discussed in Nina Cornell's direct

1 testimony."

2 This answer was prepared by Mr. Price and it
3 provides an example of that pricing methodology. He
4 prepared numbers in the table and then he references
5 the source for those numbers. So at least the
6 interrogatory answer I don't see how it can possibly
7 be objectionable because he is simply answering the
8 question as to how does this methodology work?

9 With respect to the attachment, it purports
10 to be and is a benchmark study prepared jointly by MCI
11 and a number of other parties. It is referenced in
12 the interrogatory answer because it is the source from
13 which the numbers came and is necessary to explain the
14 calculation.

15 I also point out that there were no
16 objections, no motions to strike at the time that the
17 testimony was elicited, so all the answers are in the
18 record. In any event, it will be very difficult to
19 follow if the exhibits are not.

20 CHAIRMAN CLARK: Mr. Carver, do you have a
21 response?

22 MR. CARVER: Well, if we look at the
23 response to No. 12, it begins by saying, "Based on the
24 benchmark cost model results recently furnished the
25 FCC," and then goes on to state numbers. These

1 numbers are derived directly from that study. I think
2 it's clear from my examination of Mr. Price that he
3 does not have personal knowledge of this study
4 adequate to say these numbers are accurate.

5 CHAIRMAN CLARK: What I understand in
6 reading the question for 12 is to provide examples of
7 the pricing methodology for the elements as discussed
8 in Dr. Cornell's direct testimony. That's in fact
9 what it does.

10 You have elicited through cross examination
11 that he doesn't have the knowledge to verify the
12 numbers in the studies, that they are true and
13 correct, and we understand that. I don't think he
14 offered it and offered his testimony to say that those
15 numbers, he will vouch for the validity of those
16 numbers.

17 Is that correct, Mr. Melson?

18 MR. MELSON: That's correct.

19 MR. CARVER: Perhaps I misunderstood.

20 Because I don't have an objection to it being elicited
21 simply as the basis for her opinion as long as it's
22 not being offered as something that's correct.

23 CHAIRMAN CLARK: Well, I understand that it
24 is being offered in response to this question and that
25 he has not offered it for the validity of the numbers

1 in the study.

2 MR. CARVER: Then I would not object to its
3 being in for that purpose.

4 CHAIRMAN CLARK: Okay. Exhibit --

5 MR. MELSON: Commissioner Clark, you might
6 want to check with Staff to see if that's the purpose
7 for which they offered it, if that's the purpose,
8 that's the way I justified it.

9 MR. EDMONDS: That's the purpose, yes.

10 CHAIRMAN CLARK: Exhibit 6 is admitted with
11 that understanding of the purpose for which it is
12 being offered.

13 MR. EDMONDS: Thank you.

14 (Exhibit Nos. 5 and 6 received in evidence.)

15 (Witness Price excused.)

16 - - - - -

17 CHAIRMAN CLARK: Mr. Melson?

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1 **NINA W. CORNELL**
2 was called as a witness on behalf of MCI Metro Access
3 Transmission Services, Inc. and, having been duly
4 sworn, testified as follows:

5 **DIRECT EXAMINATION**

6 BY MR. MELSON:

7 Q Dr. Cornell, would you please state your
8 name and business address?

9 A My name is Nina W. Cornell. My address is
10 1290 Wood River Road, three words, Meeteetse,
11 M-E-E-T-E-E-T-S-E, Wyoming 82433.

12 Q What is your occupation or profession?

13 A I am an economist.

14 Q On whose behalf are you appearing in this
15 proceeding?

16 A I'm appearing on behalf of MCI Metro Access
17 Transmission Systems, Inc., I think. I think I got
18 the name correct.

19 Q Would you accept Services, Inc., subject to
20 check?

21 A Yes.

22 Q Have you prefiled direct testimony in this
23 docket dated November 13 and consisting of eight
24 pages?

25 A Yes.

1 Q And have you prefiled rebuttal testimony in
2 this docket dated December 12 and consisting of seven
3 pages?

4 A Yes.

5 Q And do you have any changes or corrections
6 to either of those pieces of testimony?

7 A No.

8 MR. MELSON: Madam Chairman, I would ask
9 that Dr. Cornell's prefiled direct and prefiled
10 rebuttal testimony be inserted into the record as
11 though read.

12 CHAIRMAN CLARK: The prefiled direct
13 testimony of Dr. Nina Cornell will be inserted into
14 the record as though read; and that testimony is dated
15 November 13, 1995. And the prefiled rebuttal
16 testimony of Dr. Cornell filed December 12, 1995, will
17 be inserted into the record as though read.

18 Q (By Mr. Melson) Dr. Cornell, attached to
19 your direct testimony was there one exhibit identified
20 as NWC-1, being your resume?

21 A Yes.

22 Q Is the information in that true and correct?

23 A To the best of my knowledge.

24 MR. MELSON: Madam Chairman, I would ask
25 that that exhibit be marked as Exhibit 7.

1 CHAIRMAN CLARK: Exhibit NWC-1 attached to
2 Dr. Cornell's direct testimony will be marked as
3 Exhibit 7.

4 (Exhibit No. 7 marked for identification.)
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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 7 (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) the appropriate technical arrangements for the provision
18 to MCImetro of unbundled local loops; and 2) the appropriate price for the provision
19 to MCImetro of unbundled local loops and any associated concentration,
20 multiplexing, and transport. I recommend that the Commission require BellSouth to
21 provide unbundled loops, loop concentration, and loop transport to MCImetro. I
22 recommend that the price for these functions be set at their direct economic costs,
23 namely total service long run incremental cost.

24

25 Q. WHY SHOULD BELLSOUTH PROVIDE UNBUNDLED LOOPS TO

1 MCIMETRO?

2

3 A. The Commission should require BellSouth to provide unbundled loops because this
4 is essential if consumers in Florida are to receive the maximum possible benefits
5 from local exchange entry. It is unclear whether alternative loop providers can exist
6 in all locations. It is possible, at least for some time to come, that loop plant in some
7 locations may exhibit the characteristics of a natural monopoly, while alternative
8 originating switching service providers could exist in those same locations. The only
9 way that the market can allow effective competition for being the local exchange
10 switched service provider in those locations where loop plant may be a natural
11 monopoly is if loops are unbundled and supplied as an essential monopoly input
12 function or service, rather than being treated like a retail service. For this reason,
13 I consider loops to be an essential monopoly input function.

14

15 Q. WHAT OTHER FUNCTIONS SHOULD BELL SOUTH BE REQUIRED TO
16 PROVIDE ALONG WITH UNBUNDLED LOOPS?

17

18 A. BellSouth should also be required to provide loop concentration and loop transport.

19

20 Q. WHAT ARE LOOP CONCENTRATION AND LOOP TRANSPORT, AND WHY
21 SHOULD BELL SOUTH BE REQUIRED TO PROVIDE THEM?

22

23 A. Loop concentration is the function of concentrating the traffic from a number of loops
24 onto a single channel. Loop transport is the function of connecting concentrated
25 loops from the central office of the incumbent local exchange provider to the network

1 of an entrant. Loop concentration and loop transport are required if the offering of
2 unbundled loops is to be anything other than an empty gesture.

3 Loops today run from a customer's premise to the central office of the
4 incumbent local exchange carrier, where the loop gets connected to a switch through
5 a line card or its equivalent. An unbundled loop would still run all the way from a
6 customer's premise to the central office of the incumbent, but it would not be
7 connected to the incumbent's switch. Instead, the unbundled loop would be available
8 at the central office of the incumbent to be connected to the network of an entrant.

9 If an entrant is to use an unbundled loop, the loop now must continue on from
10 the incumbent local exchange carrier's central office to the location of the switch of
11 the entrant. To do this in an economically efficient manner requires loop
12 concentration and loop transport. Otherwise, it would be the equivalent either of
13 offering hot water pipes, connecting them to faucets with H on them, but refusing to
14 take those pipes all the way back to the hot water heater, or insisting that each faucet
15 must be connected separately to the hot water heater. Under the first scenario, the
16 user turning on a faucet with an H on it will get no water at all, hot or cold.
17 Similarly, an unbundled loop not carried all the way to the entrant's switch will get
18 no dial tone, whether from the entrant or the incumbent. Under the second scenario,
19 the user would get hot water, but at such a high cost for plumbing that few sinks
20 would have the H faucets connected. Similarly, unbundled loops that must be
21 connected individually, rather than being concentrated, to an entrant's network would
22 mean that very few, if any, unbundled loops would actually be used.

23 Loop concentration is the function of concentrating a number of different
24 loops onto a transport facility before the loops terminate in a switch. In essence,
25 loop concentration allows an entrant to take a given number of unbundled loops from

1 a given central office of the incumbent local exchange carrier and use many fewer
2 channels for loop transport between the incumbent's central office and the network
3 of the entrant to extend the feeder portion of those loops so that the loops can
4 terminate at the switch of the entrant. The concentration operates in a manner similar
5 to how traffic is concentrated onto interoffice trunks, allowing many fewer channels
6 to serve the traffic than the number of loops that were used to originate and terminate
7 that same traffic. Without loop concentration, an entrant would have to use a
8 separate facility for each unbundled loop to get that loop from the central office of
9 the incumbent to its own switch. This is very inefficient, and not how a modern
10 local exchange carrier provides new loop plant today.

11 Loop transport is the function of actually transporting the concentrated loops
12 between the incumbent local exchange carrier's central office and the location where
13 the entrant has the switch on which it wants to terminate those loops. In virtually all
14 locations, only the incumbent local exchange carrier has the facilities in place to
15 provide this function. Moreover, unless the rules are changed, even where an
16 alternative provider has transport capabilities, the incumbent local exchange carrier
17 currently does not allow the alternative transport provider to connect to facilities of
18 a third carrier as part of colocation, or does not allow any party to put a loop
19 concentrator in a colocation space. As long as any of these restrictions remain in
20 place, even where alternative transport providers have facilities that would be
21 sufficient for providing loop transport, that function remains a monopoly of the
22 incumbent local exchange provider because of the restrictions.

23

24 Q. HOW DOES A MODERN LOCAL EXCHANGE CARRIER PROVIDE NEW
25 LOOP PLANT?

1
2 A. Loop plant has two major parts: feeder and distribution. Feeder plant is closer to the
3 central office, while distribution plant takes a loop from the end of a feeder run to
4 the premise of the customer. Today, feeder plant for all but relatively short loops
5 no longer uses a separate set of wires for each loop, but rather combines a number
6 of loops onto a smaller number of facilities. The most modern equipment for
7 combining loops actually concentrates the traffic, making feeder plant more like
8 interoffice trunks than used to be the case. The result of this concentration is to
9 greatly reduce the cost of this portion of the loop, and changes the economic trade-off
10 between having longer loops and fewer switches versus having shorter loops and
11 more switches.

12 A local exchange provider must decide how many switches it wants to place
13 given the expected number and geographic location of its subscribers. The fewer
14 switches it deploys for a given number and geographic distribution of subscribers, the
15 longer the loops serving those customers will have to be. The more switches it
16 deploys, the shorter those loops will have to be. Thus, switches can substitute for
17 part of each loop, although not for the entire loop. How many switches to use versus
18 the length of loops depends upon the cost of having more switches versus the cost of
19 having longer loops. If loop concentration is used, the trade-off shifts towards longer
20 loops and fewer switches than without loop concentration. Thus, under present
21 technology, loop concentration allows the use of fewer of society's scarce resources
22 than would be the case without concentration.

23
24 Q. HOW SHOULD PRICES FOR UNBUNDLED LOOPS, LOOP CONCENTRATION,
25 AND LOOP TRANSPORT BE SET?

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A. The prices for these unbundled elements should be set at direct economic cost, which is total service long run incremental cost. Any other level of price above cost would have no ability to permit BellSouth to pass an imputation test, enabling BellSouth to create a price squeeze. A price squeeze exists whenever a firm that supplies essential inputs to a competitor recovers less in its end user rates for those essential inputs than it charges its competitors. Given the flat rates charged for local exchange service, and particularly residential local exchange service, a price for loops that was greater than TSLRIC would create a price squeeze for entrants.

Q. WHAT IS THE PROBLEM IF THERE IS A PRICE SQUEEZE?

A. If a price squeeze is allowed to exist, then an equally efficient firm will be prevented from entering the market. Whatever is the relationship of the price set for the monopoly inputs by the supplier to that supplier's cost of providing them, the price set by the monopolist is a cost for a purchasing firm. If that purchaser is equally efficient as the monopoly firm in supplying the end user service, that means that the rest of the purchasing firm's costs are equal to the monopolist's costs for everything but the monopoly input. If there is a price squeeze, however, that equally efficient firm cannot cover its costs at the price established by the monopoly firm for the end user service, and so it cannot enter the market.

Q. IS PRIVATE LINE SERVICE THE APPROPRIATE WAY TO PROVIDE UNBUNDLED LOOPS?

1 A. No. Private lines are an end to end service, not unbundled functions. For example,
2 BellSouth performs all of the testing and engineering for private lines, aspects of
3 service that entering local exchange firms would perform for unbundled local loops.
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6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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8 A. Yes.

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1 Q. WHAT IS YOUR NAME AND ADDRESS?

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

5

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

7

8 A. My rebuttal testimony responds to the testimonies of Dr. Banerjee and Mr. Scheye
9 filed on behalf of BellSouth.

10

11 Q. DR. BANERJEE CLAIMS THAT YOUR RECOMMENDATION THAT
12 UNBUNDLED LOOPS, LOOP CONCENTRATION, AND LOOP TRANSPORT
13 BE PRICED AT TOTAL SERVICE LONG RUN INCREMENTAL COSTS
14 (TSLRIC) VIOLATES THE "ECONOMICALLY PROPER" USE OF TSLRIC.
15 (BANERJEE TESTIMONY, PAGE 8, LINES 7-8) DO YOU AGREE?

16

17 A. No. Dr. Banerjee appears to believe that the only "economically proper" use of
18 TSLRIC is for testing for cross subsidies. I disagree. TSLRIC is also appropriate
19 for setting price floors in a number of circumstances, precisely because it is
20 inefficient for a service to be cross subsidized. Thus, TSLRIC should be the price
21 floor whenever there is only a single price for a service. It also should be the price
22 floor whenever there are a number of different prices for a service, but the
23 differences arise only because the service price varies to reflect cost differences, such
24 as having deaveraged loop prices that reflect that costs for loops vary by density and
25 distance.

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Q. DR. BANERJEE CLAIMS THAT BELLSOUTH SHOULD BE ALLOWED TO COLLECT "CONTRIBUTION" IN THE RATES FOR UNBUNDLED LOOPS, ARGUING THAT BELLSOUTH NEEDS TO USE "SECOND-BEST" PRICING PRACTICES, PARTICULARLY THE PRACTICE OF MARKING UP PRICES ABOVE COST IN INVERSE RELATION TO THE ELASTICITY OF DEMAND. (BANERJEE TESTIMONY, PAGE 9-10) DO YOU AGREE?

A. No. Dr. Banerjee has misstated the efficiency that would come with the use of the inverse elasticity rule for setting the prices for unbundled loops, loop concentration, and loop transport.

First of all, use of the inverse elasticity rule can only promote static economic efficiency, but not dynamic economic efficiency. If there is any sector of the economy that is dynamic, it is telecommunications. Thus, pricing rules adopted for telecommunications should work to promote dynamic, not static efficiency.

Second, the rule only has static efficiency effects when the elasticities used are market elasticities, not firm elasticities. The elasticities that would be available to BellSouth to follow this rule are firm elasticities, not market elasticities.

Third, Dr. Banerjee is wrong when he says that even static efficiency is enhanced using the inverse elasticity rule on prices for intermediate goods and services. Intermediate goods and services are goods and services that themselves are inputs into other goods and services. The static efficiency that can be gained from the use of the inverse elasticity rule only occurs when the services to which this rule applies are final services. Unbundled loops, loop concentration, and loop transport are intermediate services, and so should not be subject to the inverse elasticity rule.

1

2

3 Q. DR. BANERJEE ALSO SAYS THAT YOUR CONCERN THAT ANY PRICE
4 ABOVE TSLRIC WOULD RESULT IN A PRICE SQUEEZE IS WRONG
5 BECAUSE THIS PROBLEM CAN BE SOLVED BY USE OF HIS IMPUTATION
6 RULE. (BANERJEE TESTIMONY, PAGES 9-10) DO YOU AGREE?

7

8 A. No. First of all, Dr. Banerjee proposes the wrong imputation rule. Second, nowhere
9 does Dr. Banerjee produce any evidence at all that BellSouth would pass an
10 imputation test -- his or any other version -- at a price higher than TSLRIC.

11

12 Q. WHAT IS DR. BANERJEE'S VERSION OF IMPUTATION?

13

14 A. Dr. Banerjee claims that the proper version of imputation is to require the retail
15 service of the incumbent to recover its costs plus the same contribution that is
16 included in the price of essential inputs used by entrants. (Banerjee Testimony, page
17 9, line 23 to page 10, line 1)

18

19 Q. WHY IS THIS NOT THE CORRECT IMPUTATION STANDARD?

20

21 A. Dr. Banerjee's approach to imputation would allow the incumbent to raise the costs
22 imposed on entrants in order to engage in anticompetitive behavior. The proper
23 imputation standard is to require the incumbent local exchange carrier to recover
24 from its retail service the price it charges for bottleneck monopoly inputs plus all of
25 the remaining costs of providing the retail service. In this way, if the incumbent

1 local exchange carrier provides bottleneck monopoly inputs in less than the most
2 efficient manner, the entrants are not put under a price squeeze caused by the forced
3 inefficiency.

4 Dr. Banerjee's approach, which would look only at the "contribution"
5 contained in the rate for the bottleneck monopoly inputs, would allow the incumbent
6 to provide the bottleneck monopoly input inefficiently to the entrant, calculate the
7 "contribution," and then provide the bottleneck monopoly inputs to itself in a more
8 efficient manner. The result would be that the incumbent could charge a lower price
9 than the entrant not due to greater efficiency in the provision of the retail service, but
10 due to the ability of the incumbent to force inefficiency on the entrant. This would
11 force equally efficient firms from the market caused by the inefficient provision of
12 the bottleneck monopoly inputs by the incumbent, not the inefficiencies of the entrant.

13

14 Q. MR. SCHEYE STATES THAT BELLSOUTH DOES NOT PLAN TO OFFER
15 LOOP CONCENTRATION BECAUSE HE CLAIMS IT IS NOT TRUE
16 UNBUNDLING BUT RATHER A NEW NETWORK CAPABILITY. (SCHEYE
17 TESTIMONY, PAGE 15, LINES 3-6) DO YOU AGREE?

18

19 A. No. Mr. Scheye makes clear in his discussion that BellSouth now uses loop
20 concentration as part of providing loops in some circumstances. Thus, it is not a new
21 network capability. Instead, it is part of providing loops, and can be provided on an
22 unbundled basis.

23

24 Q. MR. SCHEYE ALSO SAYS THAT PLACING CONCENTRATION EQUIPMENT
25 IN BELLSOUTH'S CENTRAL OFFICES COULD LEAVE BELLSOUTH WITH

1 UNUSABLE EQUIPMENT IF MFS OR MCIMETRO CEASED USING IT.
2 (SCHEYE TESTIMONY, PAGE 15, LINES 10-15) DO YOU AGREE?

3

4 A. No. There are several ways to handle the payment for the loop concentration
5 equipment, including requiring the entrants to pay the full cost of the equipment,
6 albeit spread over the life of the equipment. This is not a valid reason to refuse to
7 provide the unbundled function of loop concentration.

8

9 Q. MR. SCHEYE CLAIMS THAT ALL BELL SOUTH WILL PROVIDE IS
10 MULTIPLEXING AND TRANSPORT OR VIRTUAL COLOCATION TO
11 TRANSPORT UNBUNDLED LOOPS TO THE ENTRANTS. IS THIS
12 APPROPRIATE?

13

14 A. No. The functions that Mr. Scheye proposes to provide are appropriate for
15 interoffice transport, not loop transport. If this is all BellSouth will provide, the
16 unbundled loops are unlikely to be very useful, as the costs would be too high.
17 Moreover, Mr. Scheye's proposals would prevent entrants from using the most
18 advanced technology. Modern loops over a given length are provisioned using loop
19 concentration, not multiplexing. The need to get unbundled loops from the central
20 office of BellSouth to the network of the entrant effectively requires these loops to
21 become longer than they were when used in the BellSouth network. BellSouth's
22 refusal to provide loop concentration is simply an attempt to prevent the entrants
23 from engineering the longer loops in the most efficient manner possible.

24

25 Q. MR. SCHEYE ALSO WANTS TO CHARGE SPECIAL ACCESS RATES FOR

1 THE UNBUNDLED LOOPS, MULTIPLEXING, AND LOOP TRANSPORT. DO
2 YOU AGREE?

3

4 A. No. As I discussed in my direct testimony, any charge above TSLRIC would impose
5 a price squeeze and prevent the offer of unbundled loops from being usable in most
6 cases.

7

8 Q. WHAT IS BELLSOUTH'S PROPOSAL FOR ADDITIONAL UNBUNDLING?

9

10 A. Mr. Scheye proposes that the Commission subject any further requests for unbundling
11 to the Open Network Architecture (ONA) framework. That framework requires that
12 the party requesting unbundled services must show the utility, technical feasibility,
13 cost feasibility, and market demand for the service.

14

15 Q. DO YOU AGREE WITH MR. SCHEYE'S PROPOSAL TO USE THE ONA
16 FRAMEWORK FOR FURTHER UNBUNDLING REQUESTS?

17

18 A. No. The ONA framework requires the requesting party to share too much of its
19 marketing, construction, and business plans with BellSouth as part of an attempt to
20 gain unbundled elements. This creates enormous barriers to use of any request
21 process, as it would allow BellSouth to learn in advance about almost every aspect
22 of the requesting party's business and respond in the market likely before it even
23 decides whether or not to unbundle. The Commission should not follow the ONA
24 process when determining whether to order further unbundling by BellSouth.

25

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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3 A. Yes.

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

3 A My direct testimony discusses why and how
4 BellSouth should provide unbundled loops, loop
5 concentration and loop transport to alternative local
6 exchange providers. It also explains why these should
7 be priced at direct cost; namely, total service
8 long-run incremental costs.

9 BellSouth should provide unbundled loops
10 because loops may, in some locations, at least, be a
11 natural monopoly. BellSouth should provide loop
12 concentration and loop transport because these are
13 needed to get loops from BellSouth's central offices
14 to the networks of the alternative local exchange
15 providers.

16 Now essentially it is important to
17 understand loop concentration is simply the
18 electronics that is currently the most efficient way
19 to provide feeder in a modern loop, whether it is
20 provided by BellSouth or anybody else. And, indeed,
21 my understanding from talking to people is that
22 BellSouth does indeed use loop concentration in modern
23 loop construction.

24 Loop transport is then the facilities, once
25 you have put loop, I'm going to say "traffic" for

1 better word, through a concentrator. Loop transport
2 is the facility that then goes from, in this case, the
3 central office of BellSouth on to the network of an
4 ALEC.

5 And in my direct testimony, I use the
6 analogy of hot water pipes. I use it because it
7 actually happened to me in the way it describe it,
8 which is that if you attach a pipe to a faucet that
9 says "H" but you do not attach it to the hot water
10 heater, you do not have a hot water system.

11 Similarly, if you do not get the loop in the
12 most efficient way from the central office of the LEC
13 where it now terminates to the network of the ALEC,
14 you do not have a dial tone line. It is just that
15 simple.

16 And loop concentration is the most efficient
17 electronics to hang on to the transport facility that
18 enables you literally to connect the Point A, the
19 customer premise, through the CO to Point B, the
20 network of the ALEC. That's all we're talking about.
21 And it is the equivalent of having a loop that has
22 distribution plant, as does BellSouth's now, the
23 feeder plants that BellSouth now has, and tacking an
24 additional piece of feeder in order to stretch the
25 loop all the way to the network of the ALEC. And

1 that's all we're talking about.

2 As I said before, the loop cannot provide
3 dial tone unless it is connected to a switch. If an
4 unbundled loop terminates in a central office of
5 BellSouth and then is left to be taken on to the
6 network of the entrant using inefficient facilities,
7 you have reduced, if not eliminated, the number of
8 unbundled loops that in fact economically can be used.
9 You have handicapped the entrant in its attempt to use
10 the loop.

11 So that's what loop transport and loop
12 concentration are all about is getting it efficiently
13 from the geographic location where it now ends to the
14 geographic location it must get to in order to provide
15 dial tone. That is literally all we're talking about.

16 The second piece of my testimony discusses
17 why this should be priced at TSLRIC, that awful
18 acronym again, in order to avoid a price squeeze; and
19 also, for the same reasons that I discussed in the
20 other docket, that as an essential input, if you put
21 contribution into the price an essential input and if
22 there is a natural monopoly over part of the loop,
23 that is then an essential input. If you put
24 contribution in that price, you have raised the floor
25 that prices could possibly fall to for consumers and

1 that's bad for consumers. That impedes competition
2 bringing its full benefits.

3 And finally, private lines to my
4 understanding are not the same as unbundled loops, nor
5 are special access lines, because they get
6 individually designed with characteristics that are
7 not necessarily the same as the way mass production,
8 if you will, of dial tone lines gets provided.

9 That's the end of my summary of my direct
10 testimony.

11 Should I summarize my rebuttal?

12 Q Yes, please do.

13 A My rebuttal responds to arguments made by
14 Dr. Banerjee and Mr. Scheye.

15 I disagree with Dr. Banerjee on a number of
16 points. The first is that TSLRIC cannot be used for
17 pricing. Indeed, it can.

18 That the Commission -- I disagree that the
19 Commission should look to the so-called inverse
20 elasticity rule for pricing unbundled loops. And this
21 goes to the whole issue of contribution and also
22 imputation.

23 I disagree with his version of imputation.
24 And I disagree that, even if it were met that, it
25 would prevent a price squeeze. And I would point out

1 he does not show that his version even of imputation
2 is met.

3 I disagree with Mr. Scheye that loop
4 concentration would be a new network capability.
5 Because, as I said earlier, BellSouth uses network --
6 excuse me, loop concentration. They just use it in a
7 different geographic location because their geography
8 of loops will be different than an entrant using an
9 unbundled loop.

10 I disagree that offering loop concentration
11 may leave BellSouth later with, quote, "unusable
12 equipment," unquote; and I discuss in my rebuttal how
13 to ensure that BellSouth is compensated. And just to
14 reinforce that TSLRIC of asking BellSouth to put in a
15 piece of loop concentration equipment would cover the
16 cost of putting in a piece of loop concentration
17 equipment.

18 I disagree that it is sufficient or
19 appropriate only to provide multiplexing and transport
20 for virtual collocation to transport unbundled loops
21 because that is less efficient in modern network
22 technology than loop concentration, so it is forcing
23 entrants to use backward-looking technology, not
24 advanced technology.

25 I disagree obviously that special access

1 rates are the appropriate pricing for unbundled loops,
2 multiplexing and loop transport.

3 And finally, I disagree that the ONA
4 framework should be used for further unbundling
5 requests.

6 And that concludes my summary of my
7 rebuttal.

8 MR. MELSON: Dr. Cornell is tendered for
9 cross.

10 CHAIRMAN CLARK: Ms. Weiske?

11 **CROSS EXAMINATION**

12 BY MS. WEISKE:

13 Q Good afternoon, Dr. Cornell.

14 A Good afternoon.

15 Q I would like to explore with you the pricing
16 recommendation you make for unbundled loops,
17 particularly your recommendation that this Commission
18 set that loop price at TSLRIC.

19 Are you intending by that recommendation to
20 put any use and user constraints on who could purchase
21 the unbundled loop at cost? I mean, are you making a
22 wholesale/retail distinction, first?

23 A I am not putting a restriction on who can
24 buy the unbundled loop at TSLRIC in a direct sense but
25 I would like to explain what I mean by that.

1 I would not require BellSouth to provide the
2 entire set of components that make up local exchange
3 service on an unbundled basis at TSLRIC; so that even
4 though the loop is priced at TSLRIC, other components
5 would not be, in order that it is not feasible to
6 simply buy the piece parts, put them back together and
7 arbitrage around whatever is the retail rate.

8 The retail rate should be set in competition
9 among other retail rates and not by being able to buy
10 all of the individual components from BellSouth at
11 TSLRIC and arbitrage. That's why I wanted to make
12 clear I'm not putting a use and user distinction --
13 excuse me, restriction -- on that particular tariff.
14 But if there is -- there's an effect that kind of
15 restriction by the rest of the pricing that if I set
16 prices I would set it at.

17 Q If I'm Time Warner and I wished to purchase
18 that unbundled loop from BellSouth, your
19 recommendation is that I could purchase it at cost or
20 at TSLRIC?

21 A That's correct.

22 Q If I'm AT&T and I wish to purchase a
23 comparable loop, is it also your recommendation that I
24 be able to purchase it at that cost?

25 A That's correct.

1 Q If I'm a similarly situated large business
2 user, is it your recommendation that I could purchase
3 that unbundled loop at cost?

4 A Yes. But once again, that large business
5 user is now going to have to go out and get switching,
6 and I have not recommended that that be produced by
7 BellSouth at cost.

8 Q And what would be your recommendation of if
9 that business user were situated to purchase
10 switching, how would that be priced under your
11 scenario?

12 A It would have to buy a port in order to buy
13 the switching, and that should be a price that could
14 contain contribution.

15 Q If I'm a residential end-user customer, is
16 it your recommendation that I could, if feasible in my
17 situation, purchase an unbundled loop at cost from
18 BellSouth?

19 A Yes.

20 Q Now would you agree with me that today the
21 local exchange rates that the unbundled loop is a
22 piece of includes not only shared and common costs but
23 often contribution markup?

24 A I'm sorry, could you repeat that again?

25 Q Sure, I'd be happy to. If you were looking

1 at a local exchange rate today, certainly you would
2 agree that that rate is not being offered at cost,
3 that price is not based -- does not equate to TSLRIC?

4 A Probably not, except in a few by chance
5 situations.

6 Q Do you have a sense from your perspective
7 the way that you define residential service whether
8 that rate today is priced above or below cost?

9 A That depends on the geographic location of
10 the customer. In relatively dense urban areas, in
11 what I'm going to call dense suburban areas, the
12 chances are good based on cost numbers I have seen
13 around the country that the cost of the loop plus the
14 cost of local usage and the directory listing and the
15 other components that come with residential service is
16 less than the price.

17 Out in long loops in rural areas, the
18 chances are that the price is less than the cost.

19 And there is some places that it is probably
20 right at cost, given that crossover.

21 Loop costs vary quite dramatically by
22 distance -- let me amend that statement. They vary
23 dramatically by density; they vary by distance but
24 less dramatically, as far as I can tell.

25 Q And given your response on what you think

1 some typical rate designs for residential service look
2 like today, if the Commission adopts your
3 recommendation of unbundled loops at cost, what
4 implications does that have for current rate design?

5 A I don't know that I can give you a
6 straightforward answer without throwing a third piece
7 into the hopper, if I can put it that way. And that
8 is the whole issue of a universal service fund.

9 If the Commission -- let me back up, I'm
10 sorry.

11 For the very short run, I do not believe
12 that my recommendation has any effect -- or maybe I
13 should say any necessary effect -- on residential
14 local exchange rate design. In time, it would be wise
15 to do what I have suggested in the other docket kind
16 of in passing, which is you should determine what is
17 the cost of providing residential local exchange
18 service including the full cost of the loop. You
19 should figure out what is the appropriate price for
20 that service. And if you want it geographically
21 averaged across a local exchange company's serving
22 territory, that's fine; I'm not making any
23 recommendation that you change that whatsoever.

24 And then you figure out what is in effect
25 the deaveraged support that would be needed to make

1 the company recover the TSLRIC of that service. And I
2 say "deaveraged" precisely because loop costs do vary
3 geographically, you would need to deaverage support in
4 order to maintain over a long run an averaged
5 residential local exchange service price.

6 Then you create a fund that raises that
7 amount of money. And my further recommendation, even
8 though it doesn't have to do with this docket, is that
9 it should be available to any provider who provides
10 that basic local exchange service, that just to ensure
11 you get the full benefits of competition in local
12 exchange service, including the full benefits coming
13 back to this docket from providing an unbundled loop.

14 Q Do you think it's fair to say, Dr. Cornell,
15 that today business local exchange service has a
16 healthy percentage of contribution built into the
17 current rates that BellSouth charges business users?

18 A I would expect that to be the case based on
19 what I have seen in other parts of the country, very
20 definitely, yes.

21 Q And if the unbundled loops that you are
22 advocating be offered at direct economic costs were
23 used by MCI, for example, on a resale basis to provide
24 local exchange service to business users, doesn't it
25 appear to you that there may be some lost contribution

1 that BellSouth is not going to have a way to recover
2 in that scenario?

3 A First of all, I think in a relatively prompt
4 period of time I would have the unbundled loop tariff
5 be a deaveraged price rather than an averaged across
6 the BellSouth serving territory price.

7 I don't really have the information to come
8 in and say, "Here's what I understand to be the cost
9 to BellSouth." I have the benchmark cost model
10 numbers, which are on density; there are BellSouth
11 loop cost numbers that are distance -- and I have been
12 saying "distance," I really mean length sensitive, if
13 the loop is 12,000 feet or 15,000 feet or whatever.
14 It actually ought to be more in some combination of
15 those two because density is probably I believe a more
16 important factor than length. And so you have some
17 density proxies showing up in those length numbers
18 that could cause a kind of arbitrage that you may not
19 want.

20 So again I go back to I would have a
21 deaveraged loop price tariff for the unbundled loop so
22 that BellSouth would then be free to redesign its
23 business rates to compete, taking into account loop
24 rates, loop costs and the like.

25 Q Dr. Cornell, am I correct that you have been

1 a participant in an unbundling proceeding involving US
2 West in Oregon for the last five years?

3 A It is at least that long.

4 Q Do you know if to date if the approach you
5 just recommended on business loop prices has been
6 implemented in that proceeding?

7 A I do not know if it has been implemented. I
8 know it has been proposed, and proposed by the Staff
9 as well as by MCI.

10 Q Do you have a sense, given your
11 participation in that proceeding, how quickly what you
12 recommended applicable to BellSouth could be
13 implemented in Florida?

14 A That depends upon whether BellSouth
15 cooperates or drags its feet, frankly. My experience
16 with dealing with local exchange companies is that
17 when they want something it can happen quite rapidly;
18 and when they don't, it takes a long time.

19 Q Do you appreciate that Time Warner is a
20 facilities-based new entrant slightly different in
21 some respects from maybe an MCI Metro or an AT&T?

22 A Yes.

23 Q Do you think that this Commission ordering
24 unbundled loops at cost encourages Time Warner to
25 continue to invest in facilities here in Florida to

1 offer local exchange service to residential and
2 business users?

3 A Basically yes, and I'd like to explain why.

4 My recommendation is that all providers be
5 required to make unbundled loops available where they
6 have facilities -- and that would, by the way, include
7 MCI Metro with its RING -- applies only in the sense
8 that nobody should be discovered that it has got so
9 many orders for unbundled loops that it has no plant
10 to provide retail services itself.

11 The fact that Time Warner or any other
12 provider might get asked to provide some amount of its
13 plant -- relatively small proportion of its plant --
14 as unbundled loops would not be so large, assuming
15 that it is in fact a successful competitor in the
16 retail market that it would not want to go on
17 constructing its own plant for its own retail
18 services.

19 Recall, if you don't know it, that TSLRIC
20 includes a return on the capital used to provide the
21 service. So we're not talking about anything less
22 than full forward-looking economic cost recovery. So
23 there is no loss to the firm for meeting this
24 recommendation. It simply is not in a position to
25 earn additional profits from additional services; but

1 it is made economically whole for the plant it is
2 providing at this cost, at this price equal to cost.

3 Q Are you generally familiar with the discount
4 provided for resale with Rochester Tel in New York?

5 A If I remember correctly, it is a 5%
6 discount.

7 Q Do you know with only a 5% discount how many
8 customers AT&T has obtained in the last year?

9 A I do not know how many customers it has
10 obtained. I have heard repeated sworn testimony from
11 AT&T that it is frankly losing large sums of money on
12 those customers and therefore at that discount it is
13 not going to stay in the market very long.

14 Q On another topic, you and Dr. Banerjee are
15 once again in disagreement on the appropriate
16 imputation that should take place involving unbundled
17 piece parts. And you state in your direct testimony
18 that the use of a special access loop, the pricing of
19 a special access loop -- I think you said it this way;
20 if I'm paraphrasing incorrectly at the bottom of
21 Page 7 of your direct, I apologize -- that the pricing
22 for private line service would act as an automatic
23 price squeeze?

24 A Yes.

25 Q Could you explain to me how it acts as an

1 automatic price squeeze.

2 A It acts as an automatic price squeeze
3 because the price is so high that when you take that
4 price plus the cost of usage and White pages listing
5 and the other things that go into providing the end
6 user service, the sum of those costs plus the special
7 access price is higher than the local exchange price.

8 Q Is there a way under your approach to
9 imputation to avoid that price squeeze?

10 A There are only two ways to avoid a price
11 squeeze, you can either raise the retail rate so it
12 passes an imputation test or you can reduce the
13 essential input price so it passes an imputation test.
14 Those are the only two choices available.

15 Q Back to your earlier recommendation of
16 unbundled loop transport and concentrate are being
17 offered at direct economic cost, are you aware of what
18 other state commissions have ordered unbundled loops
19 be provided at TSLRIC? For example, is it fair to say
20 that the City Signal decision in Michigan resulted in
21 an unbundled loop being offered at TSLRIC?

22 A I think that's correct. It's a while since
23 I have looked at what other states have ordered, but I
24 believe that's correct in Michigan; and I'm trying now
25 to remember what Washington ordered but I don't

1 remember.

2 Q Do you recall an interrogatory response that
3 quantified what the TSLRIC would be in Michigan for
4 the unbundled loop?

5 A No, I do not.

6 Q Would you accept subject to check that it
7 would be \$8?

8 A I will accept that subject to check.

9 Q And again I assume that quantification
10 doesn't change your earlier responses to me on how
11 your recommendation for unbundled loop pricing impacts
12 overall residential rate design?

13 A That's correct.

14 MS. WEISKE: That's all I have. Thank you,
15 Mr. Chairman.

16 CHAIRMAN CLARK: Mr. Tye.

17 MR. TYE: Thank you, Madam Chairman.

18 **CROSS EXAMINATION**

19 BY MR. TYE:

20 Q Dr. Cornell, you were talking with
21 Ms. Weiske a minute ago about an imputation standard
22 and how it relates to a price squeeze.

23 A Yes, sir.

24 Q In your rebuttal testimony, you say that
25 Dr. Banerjee is using an incorrect version of the

1 imputation standards. Is that correct?

2 A Yes, sir.

3 Q And the reason you use an imputation
4 standard, as I understand it, is to avoid a price
5 squeeze; is that correct?

6 A That is correct.

7 Q Now if the PSC found that applying
8 Dr. Banerjee's imputation test created a price
9 squeeze, would that price squeeze be worse or
10 mitigated if the Commission used the correct
11 imputation standard?

12 A It would be worse. It would be a bigger
13 price squeeze if it used the correct imputation
14 standard. But I would like to explain.

15 Q Go ahead.

16 A Briefly. In theory, obviously, it could be
17 either way. Because the difference between
18 Dr. Banerjee and myself is the issue of how you take
19 into account the cost of supplying an essential input
20 to a different firm versus the incumbent using it
21 itself for the same function.

22 One can theoretically imagine it would cost
23 less to supply to it a different firm than to use it
24 one's self. However, I would like to offer the
25 practical reality that I doubt very much you would

1 ever see a cost study that showed you that. And,
2 therefore, the only way it's going to be is either the
3 same cost or it will appear to be more expensive to
4 provide it to a different firm than for the firm to
5 use it itself. That's why I said it would be made
6 worse.

7 Q You responded to a couple of other questions
8 about the AT&T resale experience in Rochester. I
9 think you indicated that AT&T was buying local service
10 from Rochester Telephone at a 5% discount; is that
11 correct?

12 A That's my understanding.

13 Q Do you have an understanding as to what kind
14 of a discount AT&T has had to offer end users of that
15 service in order to attract customers to those resale
16 operations?

17 A I do not know what you have had to discount
18 it. What I do know is I have heard and been present
19 when a number of AT&T witnesses under oath have said
20 they are losing money and they have in fact frozen new
21 subscription.

22 MR. TYE: Thank you very much. I have no
23 further questions.

24 CHAIRMAN CLARK: Mr. Self.

25 MR. SELF: No questions.

1 CHAIRMAN CLARK: Mr. Fincher.

2 MR. FINCHER: No questions.

3 CHAIRMAN CLARK: Mr. Falvey.

4 MR. FALVEY: No questions.

5 MR. CARVER: No questions.

6 CHAIRMAN CLARK: Staff?

7 MR. ELIAS: Yes. I've asked that Exhibit
8 NWC-1, which is the deposition of Nina Cornell, be
9 marked for identification.

10 CHAIRMAN CLARK: Staff Exhibit NWC-1, the
11 deposition taken on December 18, transcripts will be
12 marked as Exhibit 8.

13 MR. ELIAS: Along with the errata sheet that
14 Ms. Canzano is passing out.

15 CHAIRMAN CLARK: That will be part of
16 Exhibit 8.

17 (Exhibit No. 8 marked for identification.)

18 **CROSS EXAMINATION**

19 BY MR. ELIAS:

20 Q Dr. Cornell, have you had an opportunity to
21 review what has just been identified as Exhibit No. 8?

22 A Yes, I have.

23 Q You were not under oath at the time this
24 deposition was taken; is that correct?

25 A That's correct.

1 Q Given that you are now under oath, are the
2 answers contained therein true and correct to the best
3 of your knowledge, information and belief?

4 A Taking into account the errata sheet, yes.

5 MR. ELIAS: That's all I have, thank you.

6 CHAIRMAN CLARK: Commissioners?

7 I would like to be clear. There are three
8 things that you recommend that BellSouth be required
9 to provide on an unbundled basis; is that correct?

10 WITNESS CORNELL: That's correct.

11 CHAIRMAN CLARK: Unbundled loop, loop
12 concentration and loop transport.

13 WITNESS CORNELL: Transport, yes.

14 CHAIRMAN CLARK: I just want to be clear,
15 how do you unbundle loop? It is your recommendation
16 that it be done at total service long-run incremental
17 cost?

18 WITNESS CORNELL: That's correct.

19 CHAIRMAN CLARK: What about loop
20 concentration and loop transport?

21 WITNESS CORNELL: Loop should also be
22 available at total service long-run incremental cost.

23 Loop transport I have an on-the-one-hand,
24 on-the-other-hand typical economist recommendation.

25 If collocation is provided at TSLRIC with no

1 contribution and then transported -- and one other
2 thing. And if MCI Metro can have, or any other
3 entrant could have, unbundled loops from BellSouth,
4 loop concentration from BellSouth, and have that all
5 connected to, just for an example, MFS's collocation,
6 for MFS to provide competitively the loop transport,
7 then loop transport does not have to be at TSLRIC.
8 But if those conditions are not met -- that is, both
9 that collocation is at TSLRIC and that MCI Metro can
10 in effect share the collocation with MFS -- then loop
11 transport also should be at TSLRIC.

12 CHAIRMAN CLARK: Well, let me ask maybe a
13 follow-up to that. I'm trying to understand when our
14 principle for pricing something should be the total
15 service long-run incremental cost. And in the other
16 docket I understood you to say that when it is an
17 essential service such as interconnect that's the way
18 you want to do it, and also at this point unbundled
19 loops are an essential service.

20 WITNESS CORNELL: That's correct.

21 CHAIRMAN CLARK: And yet when you were
22 answering questions to Time Warner you indicated that
23 some elements should not be done at that price because
24 those people can provide it themselves. For instance,
25 the example about the business, they would not, it

1 would not be attractive to them to buy the loops
2 because they also need the switch.

3 WITNESS CORNELL: That's right, but that --

4 CHAIRMAN CLARK: I guess I'm trying to
5 understand it. How do we determine what should be
6 offered on an unbundled basis and how do we determine
7 it should be offered at the long-run incremental cost?

8 WITNESS CORNELL: I would be happy to give
9 you an answer if I could.

10 I believe that when it is an essential
11 facility and available only from the incumbent or
12 available only from the firm from whom you are asking
13 it, it should be at total service long-run incremental
14 cost. When there is genuinely a competitive
15 alternative or the fairly clear ability for there to
16 be a competitive alternative, it does not need to be.

17 Now I would like, if I may, to use both the
18 answer I gave in response to Ms. Weiske from Time
19 Warner and this loop transport to try to make clear to
20 you the difference.

21 I believe that originating local switching,
22 which is what I assume you get when you buy a port,
23 essentially, if you were to subscribe to an unbundled
24 port, is competitively available. MCI Metro is going
25 to put in a switch, MFS is going to put in a switch.

1 A large business may want for whatever reason to buy
2 loops and ports rather than to buy a bundled service.
3 I'm not going to presume to say they shouldn't be able
4 to.

5 They should pay for the port whatever the
6 market sets for the port; and BellSouth should be
7 allowed to set a port rate that has contribution in
8 it, because presumably they could turn to MCI Metro
9 and buy an unbundled port.

10 But I answered the question from Ms. Weiske
11 on the assumption that the business in question is not
12 a business providing local exchange service but a
13 large business that's an insurance company or an
14 airplane manufacturer -- out in Washington the example
15 is always Boeing. It is some large firm like that
16 whose real business is not telephone service but whose
17 business is something else.

18 But notice that originating local switching
19 can be once all of this is done, if it has been done
20 correctly, provided competitively.

21 Similarly, when I said what I said --

22 CHAIRMAN CLARK: Let me interrupt you a
23 minute.

24 WITNESS CORNELL: All right.

25 CHAIRMAN CLARK: At this point, local

1 service cannot be provided competitively -- local
2 switching, I'm sorry.

3 WITNESS CORNELL: That is correct. But if
4 you were to take all of my recommendations, quite
5 bluntly, it could be provided competitively. You
6 clearly have entrants who have announced their
7 intentions to try to provide it competitively. That
8 is, MFS is installing a switch, MCI Metro is
9 installing a switch. People can install switches.

10 What is in front of you is dealing with the
11 economic and technical requirements so that in fact
12 these become potentially profitable ventures and
13 people want to do them.

14 What they cannot do is supply to themselves
15 unbundled loops across all the serving territory of
16 BellSouth or, for that matter, GTE, but we're here
17 with BellSouth. So that you really have to deal with
18 how to price the unbundled loop.

19 As I said before, if you set all of these
20 other things, local switching will be competitively
21 provided.

22 You're absolutely correct, today it is not.
23 But I thought we were really dealing with trying to
24 set terms and conditions that would last a year or
25 two; and MCI Metro, as I understand it, is supposed to

1 get a switch in sometime this year. And I assume -- I
2 apologize for not having listened as closely as I
3 should have to Mr. Devine to know when MFS's goes in.

4 So that's why I made the statement I made
5 differentiating switching where near term or
6 relatively near term competition is possible and
7 unbundled loops where it is not.

8 CHAIRMAN CLARK: All right. So if in the
9 relative near term it doesn't look like it can be
10 competitively provided then it should be considered an
11 essential facility and provided at total service
12 long-run incremental cost.

13 WITNESS CORNELL: That's correct. That's
14 the same reason I would like to go over the transport
15 quickly, if I may.

16 Collocation cannot be competitively
17 provided. I can't -- the ABC Corporation cannot
18 provide a collocation space in a BellSouth switch in a
19 central office, only BellSouth can. So collocation is
20 another essential input.

21 Collocation is essential for there to be any
22 competition for transport that has to go between a
23 central office or even a switch of BellSouth and any
24 place else. That's why I gave you the
25 on-the-one-hand, on-the-other-hand recommendation

1 about loop transport. If collocation is above --
2 sorry, let me start that sentence again.

3 If collocation is priced above total service
4 long-run incremental cost, you have handicapped
5 transport competition. And therefore, I said
6 transport becomes more like an essential input because
7 you have handicapped competition in it. If, on the
8 other hand, collocation is priced at TSLRIC and no
9 higher, you can have transport competition and you do
10 not have to impose the TSLRIC requirement on looped
11 transport.

12 But the second piece for there to be
13 transport competition is that MCI has to be able to
14 use MFS's collocated transport. Otherwise, you're
15 back to where you were before, it all becomes an
16 essential input.

17 CHAIRMAN CLARK: Okay. Mr. Melson.

18 MR. MELSON: No redirect --

19 COMMISSIONER DEASON: Let me ask a question
20 before redirect.

21 Is it possible for a company such as MCI
22 Metro to obtain the basic equivalent of an unbundled
23 loop from an existing cable television company?

24 WITNESS CORNELL: To the best of my
25 knowledge the answer at the moment is no. The reason

1 is that for the most part cable companies do not have
2 plant that has yet been proven capable of carrying
3 telephonic signals in two directions.

4 COMMISSIONER DEASON: If that capability is
5 developed, then would the need to price TSLRIC go away
6 or would that be maintained?

7 WITNESS CORNELL: If it is clearly
8 developed -- here's the dilemma that I'm wrestling
9 with in my answer to you.

10 If it is clearly developed but it is clearly
11 developed that there will only be two providers ever
12 of this functionality -- that is, you can either get
13 it from the phone company or the cable company or you
14 go without, period -- I am concerned about what a
15 duopoly is likely to do with prices.

16 If you really want the full benefits of
17 competition in local exchange service where it looks
18 as though you could have a much larger number of
19 switch providers, and then interexchange carriers we
20 already know there are a number of those out there,
21 you may want to prevent what is known as duopoly type
22 pricing and collusion.

23 And collusion doesn't have to be overt and
24 I'm not trying to make a nasty statement about it.
25 I'm just saying it takes the fear of entry to really

1 start people getting on their toes and trying to be
2 efficient. And if they know there are only the two of
3 them, it is not necessarily going to be quite as
4 efficient. We've seen that in a number of industries.

5 COMMISSIONER DEASON: Is the provisioning of
6 local loops always going to be either a monopoly or a
7 duopoly?

8 WITNESS CORNELL: That's what I said. The
9 answer is I don't know. You get the best way for the
10 market to give you that answer if you stick with the
11 requirement for the time being that unbundled loops
12 are provided at TSLRIC. Because you will get people
13 who will build nonetheless to get around having to
14 deal with the loop concentration, loop transport part
15 of it, if they can. Because it is always somewhat
16 more efficient to have it go directly to your switch
17 than to have it routed through somebody else's central
18 office before it comes to you, and so they will want
19 to build if they can.

20 But you will get the fastest benefits and
21 the most likely most rapid buildout if they can start
22 getting customers on their switch and selling other
23 services which will give them the capital to begin to
24 have their networks, if I can put it, integrate
25 backwards into the loop plant itself.

1 If they are struggling to stay alive, it is
2 harder for them to expand that outside plant rapidly
3 and it will be a longer time before the market tells
4 you whether this is going to be a monopoly, a duopoly,
5 or something larger than that.

6 COMMISSIONER DEASON: You recommended that a
7 deaveraged loop cost be utilized. Do you recommend
8 that even though Bell would not be able to deaverage
9 its local rates, at least for a five-year period?

10 WITNESS CORNELL: I would recommend moving
11 in that direction even sooner. The problem that I
12 have with using a strictly averaged cost is that you
13 are going to put the price of a deaveraged loop --
14 forgive me, a price of an unbundled loop at the level
15 that almost makes it unusable. Makes it economically
16 very unlikely that any of the entrants will be able to
17 use that unbundled loop in the places they enter
18 first.

19 And now we're back to what I just answered
20 you, that slows dramatically the ability to let the
21 market tell you how far back into providing loops the
22 noncable, nonincumbent LEC can go.

23 COMMISSIONER DEASON: Thank you.

24 CHAIRMAN CLARK: Mr. Melson.

25 MR. MELSON: No redirect. I would move

1 Exhibit 7.

2 CHAIRMAN CLARK: Exhibit 7 is admitted in
3 the record without objection.

4 MR. ELIAS: Staff would move Exhibit 8.

5 CHAIRMAN CLARK: Exhibit 8 is admitted in
6 the record without objection.

7 (Exhibit Nos. 7 and 8 received in evidence.)

8 CHAIRMAN CLARK: We'll go ahead and take a
9 break until a quarter of and then we'll start with
10 Mr. Guedel.

11 WITNESS CORNELL: Am I excused?

12 CHAIRMAN CLARK: Yes, Dr. Cornell, you are
13 excused.

14 WITNESS CORNELL: Thank you.

15 (Witness Cornell excused.)

16 (Brief recess.)

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18 (Transcript continued in sequence in
19 Volume 2.)

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