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April 19, 2001

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Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 000075-TP
Investigation into appropriate methods to compensate carriers for exchange of traffic subject to Section 251 of the Telecommunications Act of 1996

Dear Ms. Bayo:

Please find enclosed for filing an original and fifteen copies of the Rebuttal Testimonies of Edward C. Beauvais and Terry A. Haynes on behalf of Verizon Florida Inc. in the above matter. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this matter, please contact me at 813-483-2617.

Sincerely,

Kimberly Caswell

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Rebuttal Testimonies of Edward C. Beauvais and Terry A. Haynes on behalf of Verizon Florida Inc. in Docket No. 000075-TP were sent via U.S. mail on April 19, 2001 to the parties on the attached list.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into appropriate methods to compensate carriers for exchange of traffic subject to Section 251 of the Telecommunications Act of 1996.	)))))	DOCKET NO. 000075 - TP

REBUTTAL TESTIMONY OF

EDWARD C. BEAUVAIS, Ph.D.

ON BEHALF OF

VERIZON FLORIDA INC.

April 19, 2001

DOCUMENT NUMBER-DATE
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REBUTTAL TESTIMONY OF EDWARD C. BEAUVAIS, Ph.D.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A. My name is Edward C. Beauvais. My business address is 600 Hidden Ridge Drive, Irving, Texas, 75038. I am employed by Verizon Services Group as Director - Economic and Public Policy in the Regulatory and Governmental Affairs Department and am representing Verizon Florida Inc. ("Verizon") in this proceeding.

Q. ARE YOU THE SAME EDWARD BEAUVAIS WHO SUBMITTED TESTIMONY EARLIER IN THIS CASE?

A. Yes. I provided both prefiled direct and rebuttal testimony previously in Phase I of this docket. In addition, I prefiled direct testimony in this Phase.

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

A. The scope of the direct testimony filed in this phase of the docket covers a rather wide arc of topics, ranging from current and potential future calling scopes, to compensation arrangements for the provision of transport services, to scenarios for the provision of telecommunications services using Internet Protocols ("IP") and associated technologies. Although the coverage is very broad, it is possible to identify a few key policy points that especially merit rebuttal. In this regard, I will direct my rebuttal testimony to addressing the ALECs' positions on the topics of the

designation of points of interconnection and compensation for transport and tandem switching. Since the ALECs all took essentially the same position on these matters, I have addressed them collectively, rather than using a witness-by-witness approach.

Q. ARE THERE ANY AREAS IN WHICH THE PARTIES SEEM TO AGREE?

A. Yes. The one area in which there seems to be a general agreement among the parties is that it is too soon to consider the issues associated with IP telephony in any great detail. As Ms. Geddes pointed out in her direct testimony, there may not even be a unified notion of what will constitute IP telephony. It is clear that IP telephony is in its initial stages and will continue to evolve; the Commission is correct in attempting to stay at least current with that development. At a policy level, with respect to pricing issues associated with IP telephony, I would note my agreement with BellSouth that simply because a different technical protocol is utilized does not change a call or minute of use that would otherwise be subject to switched access charges under the Florida PSC definitions into any other classification of call, as the ALECs' witness Gillan would have the Commission believe. I can well agree that it might be far harder for all parties to identify and segregate those calls in the future as IP telephony develops. But this does seem to be the one area in this phase of the docket where there is reasonable agreement that the time is not ripe for the Commission to take any specific actions to establish a generic compensation scheme for IP telephony.

Q. THE ALECS BELIEVE THEY HAVE A UNILATERAL AND UNCONDITIONAL RIGHT TO SPECIFY A SINGLE POINT OF INTERCONNECTION (POI) FOR EXCHANGE OF TRAFFIC. DO YOU AGREE?

A. No. The ALECs claim an undisputed right to specify one point of interconnection within a LATA at which all traffic can be exchanged, so that the carrier with which traffic is being exchanged has no say in the matter. I would first point out that a LATA typically contains numerous local exchange areas, many of which would be toll calls to each other, subject to access interconnection arrangements, rather than "local" calls subject to local interconnection and reciprocal compensation under the Telecommunications Act. I would next point out that the Telecommunications Act calls for bi-lateral negotiations among interconnecting carriers on terms that are mutually advantageous to both parties. This latter consideration suggests that the parties should engage in negotiations to determine where one (or more) physical points of interconnection should be efficiently established.

I would readily agree that it is likely that many ALECs may intially desire a single point of interconnection, given their network architecture, as this would appear to minimize their costs. Indeed, there may well be ALECs with business plans utilizing number assignments and reciprocal compensation, as described more fully in Mr. Haynes' testimony, which may seek a single point of interconnection indefinitely. At the same time,

the ILEC may well prefer multiple interconnection points in an attempt to optimize its own network efficiency. This, of course, immediately suggests that contrary to the statements made by Dr. Selwyn, the ILECs will not be indifferent to the location of the point(s) of interconnection, as it does affect the costs incurred for transport facilities, as well as implicating pricing issues. At the very least, it suggests that negotiations between the interconnecting carriers are called for to attempt to reach a settlement.

Q. YOU MENTIONED ABOVE THAT THE NUMBER AND LOCATION OF PHYSICAL POINTS OF INTERCONNECTION AFFECT THE COSTS OF TRANSPORT FACILTIIES. DON'T DR. SELWYN AND OTHER ALEC WITNESSES ASSERT THAT TRANSPORT COSTS HAVE BEEN FALLING RAPIDLY AND THAT DISTANCE IS NO LONGER A COST DRIVER?

A. Yes, they do and I am in agreement that such costs have decreased. That is, if one asks the question as to how does the cost of an additional minute of use vary with the distance of the call transport, I believe Dr. Selwyn and I would agree that the answer is that they are far less significant than they once were. However, it is still the case that transport facilities do have a positive cost and that for any given capacity, building those facilities for twenty-five miles is more expensive than building them for only one mile. So the location of the physical point of interconnection does, in fact, matter, especially if additional facilities must be added to handle the increased traffic.

Q. YOU ALSO MENTIONED ABOVE THAT THERE ARE TYPICALLY NUMEROUS LOCAL CALLING AREAS WITHIN A LATA. IF A SINGLE POI IS ESTABLISHED, COULDN'T THIS LEAD TO SITUATIONS WHERE THE ILEC IS ASKED TO CARRY WHAT WOULD APPEAR TO IT TO BE TOLL TRAFFIC WITHOUT COMPENSATION AND BE RESPONSIBLE FOR THE COSTS OF THE TRANSPORT AT THE SAME TIME?

A. I would say that result is likely, depending upon the geographic distribution of an ALEC's customer base. The problem obviously arises from the difference in the definition of local calling scopes between pairs of carriers. I completely agree with the ALECs that they should be at liberty to define their local calling scopes as they desire for retail purposes (to their originating customers). Such a characteristic is likely a desirable element of rivalry in the marketplace and can indeed help differentiate one firm's offering from that of another to the end user making the purchasing decision. I would not advocate suppressing this element of inter-firm competition by imposing the ILEC's local calling scope on the ALEC for retail marketing to consumers. By the same token, the ALECs should not be able to force their definitions on the ILECs or any other carrier when it comes to inter-firm compensation.

This situation once again calls for compromise by both parties, rather than futile speculation about what the FCC may or may not have meant when it made particular statements. Again, Congress established bi-

lateral negotiations as the preferred process for determining interconnection terms and conditions.

Q. WHAT IS VERIZON'S POSITION WITH RESPECT TO THE POINT OF INTERCONNECTION?

A. The cleanest method from Verizon's point of view would be to have a POI in each of its local exchange/rate center areas. However, it is understood that ALECs, given their network architectures, would not be very amenable to such a physical arrangement. Verizon does not necessarily object to an ALEC being able to select a physical point of interconnection at any technically feasible point on the ILEC's network, within reason. At that physical point of interconnection, traffic can be exchanged between the carriers. However, keep in mind that we are talking about the exchange of "*local*" traffic. Thus, Verizon suggests, that in addition to the physical POI, each ALEC designate a virtual interconnection point ("VIP") in every local exchange/rate center. When a Verizon customer originates a "local" call to a customer served by an ALEC, then the ILEC assumes responsibility for delivering the call to the ALEC's VIP within or at the boundaries of that local exchange/rate center area. If that call goes beyond the local exchange/rate center area of the ILEC, then the ALEC is responsible for the costs associated with those facilities to the physical point where the carriers' networks meet--the POI.

Q. IS THIS WHAT THE ALEC WITNESSES REFER TO AS "COST SHIFTING?"

A. That is indeed how they characterize this approach when referring to BellSouth's position. It is certainly not Verizon's intention to inefficiently impose costs on other parties. But I view the above-described proposal as a method to effect a fair and reasonable compromise between the competing exchange definitions. Recall from my direct testimony that I stated that the cost of the transport facilities should be negotiated between the carriers. Assuming that an ILEC customer originates a call, there is no debate that the provision of the facilities up to the virtual IP within a local exchange/rate center area are the responsibility of the ILEC; likewise, there is no debate that from the physical POI onward, the responsibility is that of the ALEC. This means that a compromise must be reached on the facilities between the VIP(s) and the POI. One view of this position is that the ALEC should bear complete responsibility for all the costs between the VIP(s) and the POI -- what the ALECs describe as the BellSouth position; another view is that the ILEC should have one hundred percent of the cost responsibility for those facilities -- what I would describe as the ALECs' current position. The BellSouth or Verizon position is no more an attempt to shift costs to the ALECs than is the ALEC position an attempt to shift costs to the ILECs. I would recommend that the costs of these facilities be shared between the two carriers as negotiated and agreed to between the parties.

Q. MOVING ON TO A DIFFERENT MATTER, THE ALECS ARGUE THAT THEY SHOULD BE COMPENSATED FOR HANDLING CALLS AT A RATE WHICH INCLUDES LOCAL SWITCHING, TRANSPORT, AND

TANDEM SWITCHING, BASED ON THE ILEC'S RATES. DO YOU AGREE?

A. In a sense, I do agree, but with qualifications. To the extent that the ALECs provide such services, then *assuming a usage-sensitive compensation system*, they should indeed receive compensation for what services they provide in handling a call. The issue really is what services do they, in fact, provide and at what costs. While these factors can be discussed in general, I believe they will have to be addressed on a company-by-company basis, depending upon the network configuration of the ALEC involved.

Consider the simplified network diagram in Verizon Rebuttal Exhibit ECB-3, page 1 of 2. It is, obviously, quite basic, but it is useful for considering the issue before the Commission at a policy level. In all of the scenarios, I am assuming that the interconnected switching networks are in the rate center area of Verizon.

In the upper half of the exhibit on page 1, labeled Scenario 1, assume that the IP and POI are one and the same and that point is located at the ALEC's switching center. Further assume for purposes of exposition that the call is from an ILEC end user to an ALEC customer. In this case, the facilities connecting the ILEC end user to the network (labeled "A") are <u>not</u> part of the reciprocal compensation issue for "local" calls. The ILEC provides the originating end office switching ("B"), the interoffice transport to the tandem office ("C"), the tandem switching ("D") and the transport

("E") to the ALEC's switch. The ALEC then takes the call, provides the switching ("F") necessary to route the call onto the end user and the facilities to carry the call from the network to that end user ("G"). In this example, the ALEC has provided none of the functions or facilities traditionally associated with interoffice transport and tandem switching.

In the bottom portion of the exhibit, page 1 of 2, the POI has been moved to a point at the tandem switch. Again, that portion of the network, most typically known as the loop ("A"), is not part of the reciprocal compensation structure. The ILEC again provides the originating end office switching, that portion of the end office transport between the originating end office and the tandem, the tandem switching, but now hands the call off to the ALEC. The ALEC performs the same functions as before, but now the ALEC does, indeed, perform traditional transport functions, as well, in completing the call. In this case, the ALEC would be eligible for compensation for that portion of the transport it does provide ("E"), in addition to the switching services provided on that call ("F"). Note, however, that the ALEC still does not provide the tandem switching in this Scenario 2.

Scenario 3, at the top of page 2 of 2 of Rebuttal Exhibit ECB-3, illustrates a situation in which the POI has been placed at a meet point along interoffice transport facilities ("C"). In this scenario, I am assuming that all the facilities to the right of the designated interconnection point, including the tandem switch, are provided by the ALEC rather than the

ILEC. In Scenario 3, the ALEC would be eligible to receive compensation for some portion of the transport facilities it provides in competing the call from the IP onward, a portion of ("C") as negotiated in the contract between the carriers, the tandem switching ("D"), the transport between the tandem, and the switch serving the receiving customer ("E" and "F"), again assuming a usage based compensation arrangement. In this case, the ALEC has, indeed, provided tandem switching and a substantial portion of the transport facilities, as well, and would be compensated for those services.

In the bottom half of the exhibit on page 2 of 2, there is an interesting variation. Suppose that the ALEC has designated the POI to be at the originating carrier's originating switching location and then picks up this traffic on its fiber ring. In a very real sense, this is the case in which the ALEC is using its facilities as a substitute for the tandem and interoffice transport network that would normally be employed by the ILEC to deliver a local call. I would argue under these conditions that the ALEC is providing a service which is eligible for such transport compensation, as well as the switching service it provides.

Q. AT THE VERY END OF YOUR LAST RESPONSE YOU INDICATED THAT THE ALEC WOULD BE ELIGIBLE FOR TRANSPORT COMPENSATION. WHAT ABOUT THE TANDEM SWITCHING ELEMENT?

A. As I indicated in my direct testimony and here again, the carrier should

be paid for the services it actually performs. Unlike the previous case, in which the ALEC actually utilized a tandem switch and provided an end office routing function, in this last scenario, the call was only switched, at best, once by the ALEC at its office. Thus, while I believe that such a call would be eligible for compensation for transport and a single switching function, it is not appropriate or economically efficient to compensate for tandem switching the ALEC does not perform, given its network configuration.

In addition, of course, we have several ALEC witnesses stating that transport services are already considerably less expensive than switching and that their networks are more efficient than ILEC network arrangements, so to compensate ALECs at the higher rates would certainly lead to them receiving economic rents. Economic rents are payments over and above the amount necessary to induce a company to provide service in the market.

Q. BUT DR. SELWYN CONTENDS (AT PAGE 13 OF HIS DIRECT TESTIMONY) THAT IT IS POSSIBLE FOR ALECS TO GET A HIGHER TANDEM RATE EVEN THOUGH THE COSTS THEY INCUR TO PROVIDE THE FUNCTIONS ARE ACTUALLY BELOW THE ILECS' COSTS. HE FURTHER CONTENDS THAT SUCH AN OUTCOME IS A GOOD THING. DO YOU AGREE?

A. I agree that the presence of economic rents can be an incentive for carriers to engage in behaviors designed to maintain those rents or

attempt to capture them for themselves. However, I disagree with Dr. Selwyn when he states that the presence of such rents does not affect the end users. Payments to ALECs from ILECs are a legitimate cost of doing business in a multi-provider marketplace for local service, which is what we are discussing here. Likewise, any payments to ILECs from ALECs are a legitimate part of the ALECs' cost of providing service. We have certainly heard that same argument from the IXCs when the topic is access charges and they were quite correct in making it; switched access charges are a legitimate component of the IXCs' cost of service. Intercompany compensation costs are an integral part of a local exchange carrier's costs as well. If competition among carriers is to result in economically efficient outcomes, then the consumers must see those costs reflected in the prices they face in the marketplace. If those rents are present, as is likely to be the case--in that I agree with Dr. Selwyn--then while those rents are good for the ALEC, they also must be reflected in the prices seen by the consumers. That is, the prices consumers see will be higher than would otherwise be the case.

To the extent that the charges are on a usage-sensitive basis and that usage between carriers continues to increase (in what appears to be predominantly a single direction -- ILEC to ALEC, for most carrier pairs), the total economic rent received by the ALECs will continue to grow, everything else equal. Again, that increasing cost to the ILEC is properly reflected in the prices seen by the consumer. If those costs cannot be reflected in the end user prices, then the principal mechanism that could

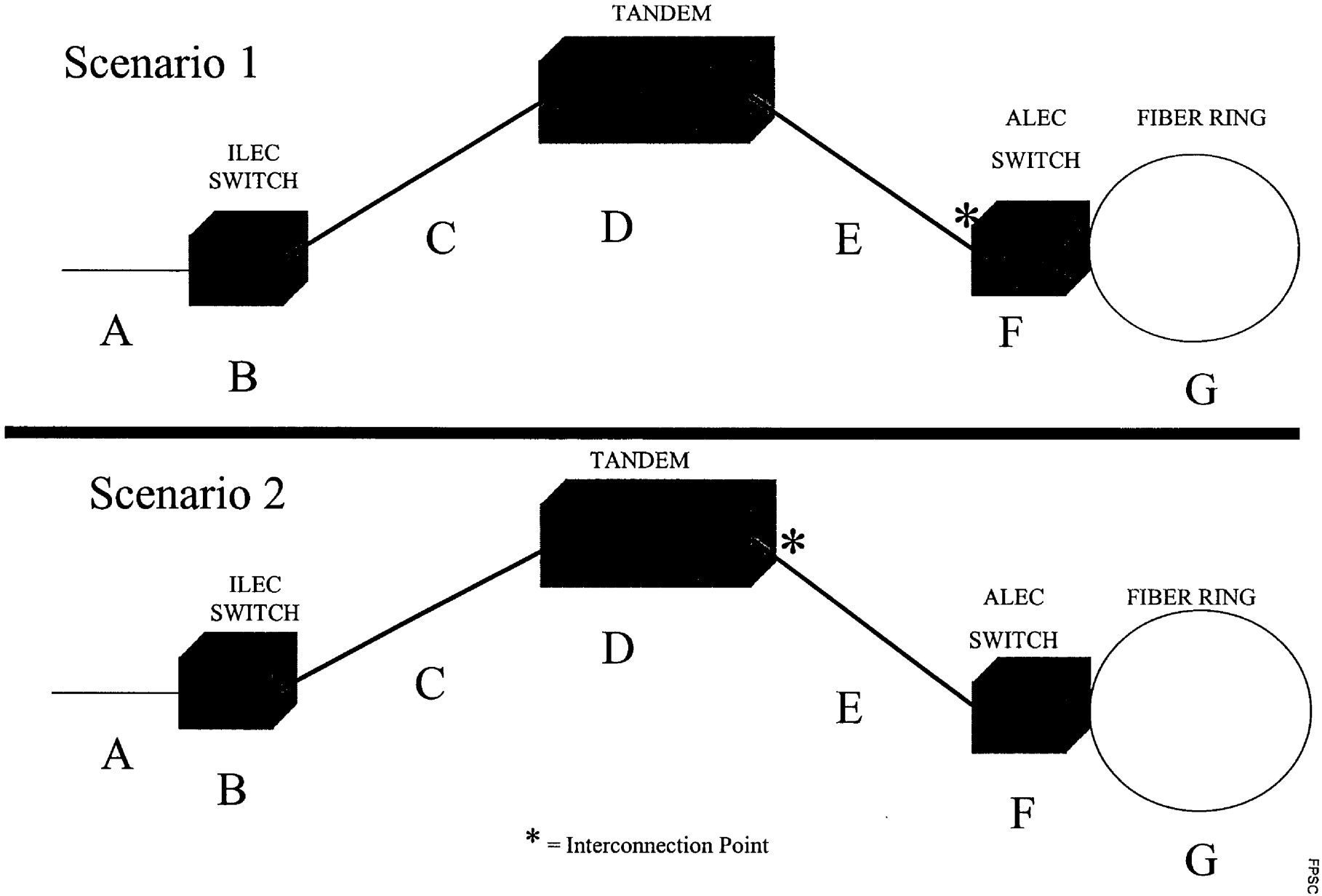
be employed to eliminate those rents is eliminated and carriers are incented to continue to receive the rents, rather than compete for the end user directly.

Q. SO WHAT WOULD YOU RECOMMEND TO THIS COMMISSION AS TO HOW TO PROCEED IN THIS AREA?

A Again, I would suggest that the Commission must examine the network configurations of the ALEC on a case-by-case basis, if the ALECs and ILECs cannot reach a compensation agreement. As I have attempted to show, different network arrangements are possible, and each will lead to different outcomes. There are cases in which ALECs might well qualify for compensation for the transport and switching services they provide, including tandem switching. However, there are other arrangements in which they will not. As a general principle, the carriers, both ILECs and ALECs should only be compensated for the services actually provided. Furthermore, to reduce the impact on end user rates, those intercompany compensation rates should be set as close to the relevant incremental cost of provision as possible.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.



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Rebuttal Testimony of Edward C. Beauvais, Ph D
Rebuttal Exhibit ECB-3
FPSC Exhibit No. ____
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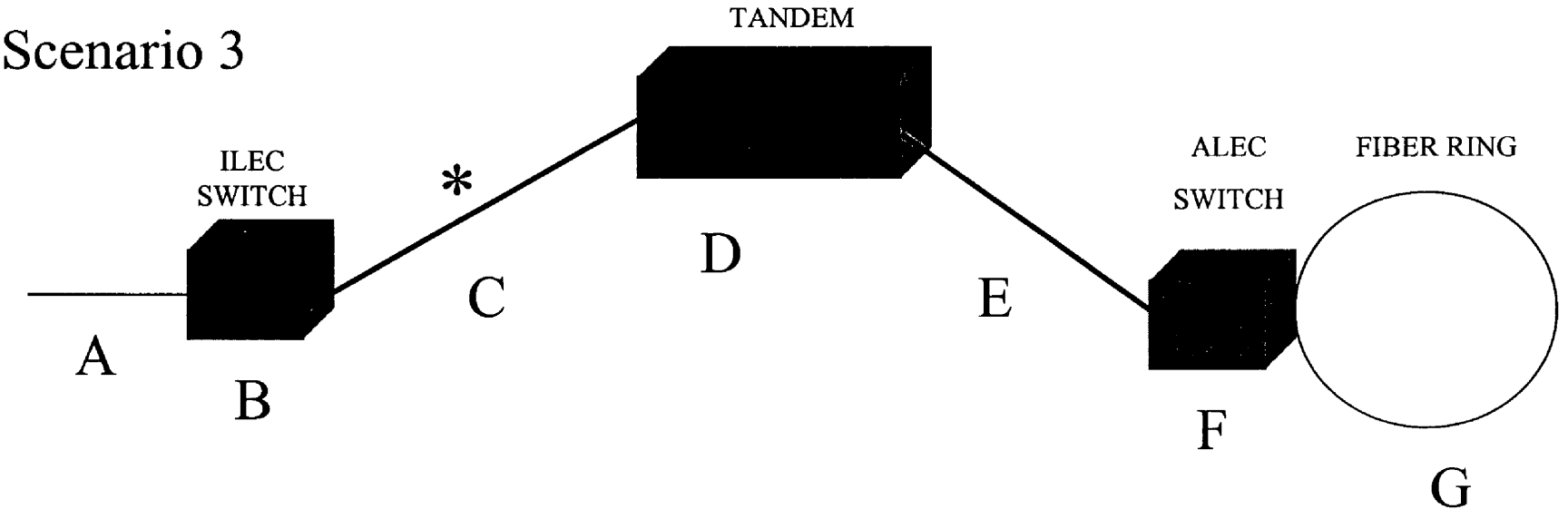
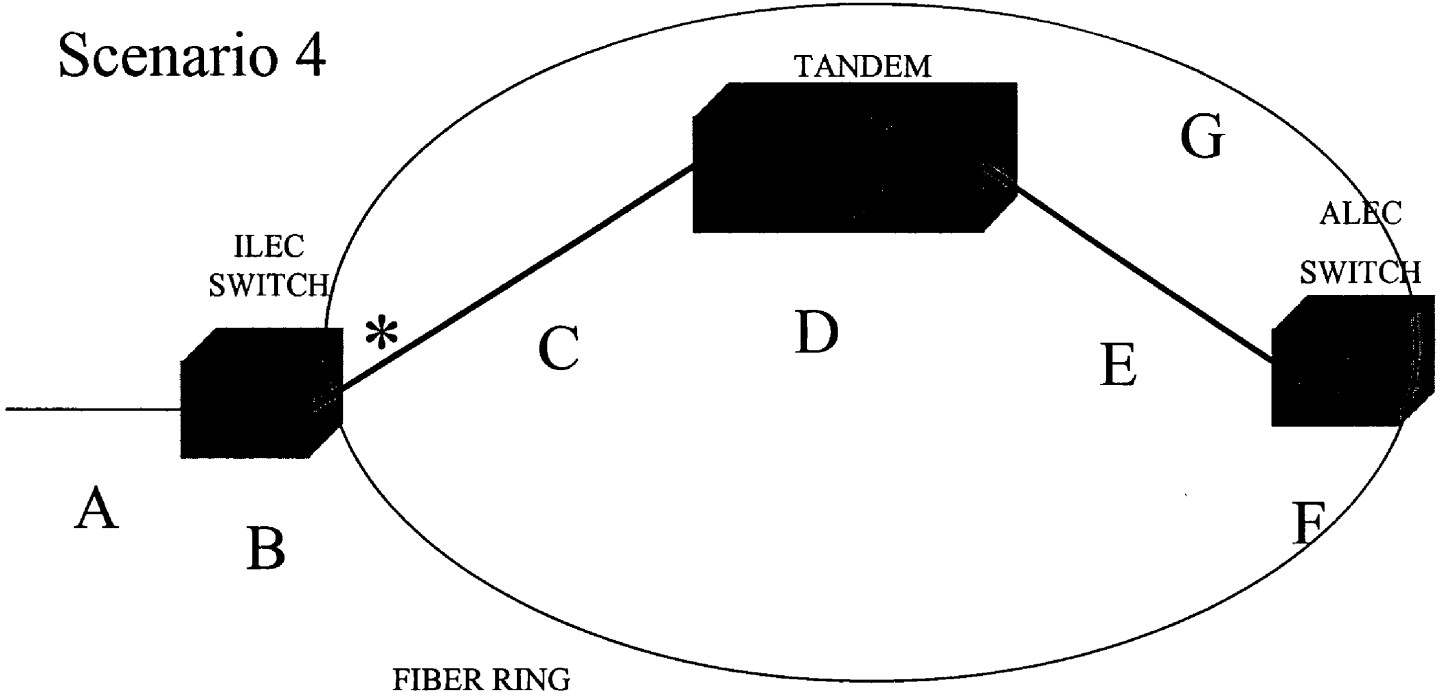
Page 1 of 2

Scenario 3



Scenario 4



* = Interconnection Point

Docket No. 000075-TP
Rebuttal Testimony of Edward C. Beauvais, Ph D
Rebuttal Exhibit ECB-3
FPSC Exhibit No. ____
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