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March 25, 2002

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Florida Public Service Commission
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Re: Docket No. 000075-TP

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are an original and fifteen copies of the prefiled Rebuttal Testimony of Paul E. Cain filed on behalf of AT&T Communications of the Southern States, LLC., AT&T Broadband Phone of Florida, LLC and TCG South Florida, Inc.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the copy to me.

Thank you for your assistance with this filing.

Sincerely,



Marsha E. Rule

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the Rebuttal Testimony of Paul E. Cain was furnished by U. S. Mail to the following this 25th day of March, 2002:

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By: 

MARSHA E. RULE, ESQ.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SUPPLEMENTAL REBUTTAL TESTIMONY OF PAUL E. CAIN

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, LLC,

AT&T BROADBAND PHONE OF FLORIDA, LLC

(formerly known as MediaOne Florida Telecommunications, Inc.),

AND TCG SOUTH FLORIDA, INC.

DOCKET NO. 000075-TP

March 25, 2002

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

2 A. My name is Paul E. Cain. I am employed by AT&T as a District Manager in the
3 Business Services organization. My business address is 900 Route 202/206,
4 Bedminster New Jersey, 07921.

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?**

6 A. Yes, I filed direct testimony on March 1, 2002.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

8 A. My testimony responds to the direct testimony of Elizabeth Shiroishi of
9 BellSouth, Dennis Trimble of Verizon, and Julie Ward of Sprint. Specifically, I
10 will rebut assertions of BellSouth, Verizon, and Sprint that misconstrue the effects
11 of LATAwide local calling and the implementation of a bill-and-keep reciprocal
12 compensation mechanism in Florida.

13 **ISSUE 13: HOW SHOULD A "LOCAL CALLING AREA" BE DEFINED, FOR**
14 **PURPOSES OF DETERMINING THE APPLICABILITY OF**
15 **RECIPROCAL COMPENSATION?**

16
17 **Q. PLEASE ADDRESS BELL SOUTH WITNESS SHIROISHI'S**
18 **POSITION REGARDING THE ESTABLISHMENT OF A DEFAULT**
19 **LOCAL CALLING AREA.**

20 A. BellSouth does not support the establishment of a default local calling area. If the
21 Commission decides to implement one, however, BellSouth would have the
22 Commission create a default local calling area that is identical to that of the
23 ILEC's local calling area. In other words, BellSouth wants to limit competitive
24 opportunities with a cost structure that forces other carriers to limit the options
25 available to their customers. Thus, BellSouth's proposal is anticompetitive.

1 Further, it would perpetuate the complexity of intercarrier compensation, a
2 complexity that even Ms. Shiroishi concedes in her testimony (Shiroishi
3 Supplemental Direct at Page 9). This complexity translates into an all-too-
4 confusing array of calling plans and artificial boundaries that consumers must
5 navigate to understand their telephone service.

6 **Q. PLEASE EXPLAIN.**

7 A. The telecommunications industry has a unique geography that is unlike the
8 political geography that we learn in school. Instead of villages, cities, counties,
9 and states, we have exchange areas, local calling areas, extended areas, local
10 access and transport areas (“LATAs”), state boundaries, and in the case of
11 wireless carriers, major trading areas (“MTAs”). Although most residents of
12 Florida understand the political boundaries, most would be hard-pressed to
13 explain what their local exchange area is or why the distinction is even necessary.
14 Their skepticism is well founded.

15 These boundaries translate into the costs that carriers must incur to
16 provide service to their customers. An IXC must pay interstate access charges
17 when it exchanges interstate traffic with local exchange carriers; such charges are
18 then passed on to the interexchange carrier’s customers. That same IXC must pay
19 a different set of access charges when it exchanges intrastate calls with the local
20 exchange carriers; again, those charges are recovered from the IXC’s customers.
21 Additional cost relationships are imposed when two local exchange carriers
22 directly exchange traffic. If a call is classified as intraLATA toll, the LEC
23 terminating the call collects access charges from the LEC that originated the call;

1 the originating LEC would recover those charges from its customer that initiated
2 the call. If a call is classified as local, the LEC terminating the call collects
3 reciprocal compensation – yet another set of intercarrier charges – from the LEC
4 that originated the call; again, the originating LEC would recover those charges
5 from its end users.

6 **Q. WHY WOULDN'T THE ADOPTION OF THE INCUMBENT LOCAL**
7 **EXCHANGE CARRIER'S LOCAL CALLING AREA (AS PROPOSED BY**
8 **VERIZON AND BELLSOUTH) ACCOMPLISH THE SAME GOAL AS A**
9 **LATA-WIDE DEFAULT?**

10 A. Adoption of the incumbent local exchange carrier's local calling area suffers from
11 two afflictions. First, it would preserve and perpetuate the complexities plaguing
12 the industry. The ILEC's local calling area is yet another artificial boundary that
13 few outside of this proceeding understand. Second, as a default, it would hold
14 ALECs and consumers hostage to the calling plans of the incumbent local
15 exchange carrier. Although it is true that ALECs are free to define their own
16 retail local calling areas, that freedom is constrained by the costs the ALEC must
17 incur. One of those costs is intercarrier compensation. If the ALEC must pay the
18 ILEC switched access for some calls within the LATA, and reciprocal
19 compensation for others, the ALEC's LATA-wide local calling areas will turn out
20 to be either unprofitable or uncompetitive, or both. If the ALEC wants to charge
21 its customers a uniform rate for all calls within the LATA and recover its costs, it
22 must charge a rate that equals the switched access charges (rates for switched
23 access generally exceed rates for reciprocal compensation) it is incurring from the

1 ILEC. The ALEC would have a difficult time competing against the ILEC with
2 such high rates. The alternative, of course, is for the ALEC to abandon a uniform
3 rate for LATA-wide calling and match the ILEC's calling areas. In both cases,
4 consumers lose: they must continue to pay higher rates and have fewer choices
5 than they would otherwise.

6 **Q. HOW WOULD THIS SITUATION CHANGE IF THE COMMISSION**
7 **ESTABLISHED THE LATA AS THE LOCAL CALLING AREA FOR**
8 **PURPOSES OF INTERCARRIER COMPENSATION PURPOSES?**

9 A. The Commission should still encourage local exchange carriers to negotiate the
10 definition of local traffic that best meets the requirements for both carriers. By
11 adopting the LATA as the default local calling area, however, the Commission
12 will be taking a small but significant step towards eliminating an anticompetitive
13 environment for ALECs. Florida consumers will benefit from the Commission's
14 move towards simplifying intercarrier compensation and eliminating a layer of
15 confusion. In the event that two carriers cannot agree on a definition of a local
16 calling area, a LATA-wide definition will reduce the number of intercarrier
17 compensation charges from two to one. Although the industry will be left with a
18 still-too-large number of other intercarrier compensation charges and artificial
19 boundaries, the Commission will have brought us one step closer to rational --and
20 understandable-- pricing of telecommunications services, to the benefit of Florida
21 consumers.

1 **Q. VERIZON WITNESS TRIMBLE ADVOCATES THE ILEC LOCAL**
2 **CALLING AREA AS THE DEFAULT IN ORDER TO MAINTAIN LOCAL**
3 **AND TOLL DISTINCTIONS. PLEASE ADDRESS HIS ARGUMENTS.**

4 **A.** Mr. Trimble argues, “LATA-wide reciprocal compensation will obliterate the
5 local/toll distinctions that this Commission has maintained for decades.”
6 (Trimble Supplemental Direct at Page 7). Mr. Trimble’s main argument and
7 testimony on this issue can be boiled down as follows: Verizon believes that
8 ILECs will lose revenue if forced to compete on a LATA-wide basis, and
9 therefore universal service will suffer unless the Commission keeps in place an
10 outdated cost structure that props up ILEC revenues. (Trimble Supplemental
11 Direct at Page 8). This argument is insupportable. ILECs are not entitled to their
12 current revenue stream in any event, and should not be able to limit competition
13 in Florida by imposing their own calling areas on ALECs.

14 **Q. PLEASE ADDRESS MR. TRIMBLE’S ARGUMENTS REGARDING THE**
15 **NEED TO RETAIN UNIVERSAL SERVICE SUBSIDIES IN THE FORM**
16 **OF ACCESS CHARGES.**

17 **A.** These are tired arguments, and I was a bit surprised to discover that the ILECs
18 were still making them. When an ILEC such as Verizon elected price regulation,
19 it gave up the right to a guaranteed level of revenue. One hopes that they
20 understood that at the time. Furthermore, in the years leading up to the 1996
21 Telecommunications Act, and ever since, enlightened universal service policy has
22 been based on the fundamental premise that subsidies should be explicit, not
23 hidden in the prices carriers or customers pay for their services. That certainly

1 seems to be the premise underlying Section 364.025 of the Florida statutes. The
2 statute provides Verizon, BellSouth and Sprint the opportunity to ask the PSC for
3 explicit universal service support. It is my understanding that no ILEC has done
4 so.

5 **Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION RULED ON ANY**
6 **TYPE OF INTERIM MECHANISM FOR UNIVERSAL SERVICE?**

7 A. Yes. The Commission spoke to this in 1995 by Order No. PSC-95-1592-FOF-TP,
8 issued December 27, 1995. The Commission determined that the appropriate
9 interim mechanism consisted of two components:

10 First, for the present, LECs should continue to fund
11 Universal Service obligations the way they currently do --
12 through markups on the various services they offer.

13
14 Second, the Commission created an expedited process for
15 addressing petitions for Universal Service funding, on a
16 case-by-case basis, wherein an ILEC must demonstrate that
17 competition has eroded its ability to maintain its Universal
18 Service obligations and quantify the shortfall in support due
19 to competition.

20
21 Although the Commission left the door open for ILECs to ask for universal
22 service support, as far as I know, no ILEC has done so.

23 **Q. IS VERIZON'S ARGUMENT REGARDING DEPLETION OF THE**
24 **ABILITY OF ILECS TO CONTRIBUTE TO UNIVERSAL SERVICE**
25 **VALID?**

26 A. No. Before ALECs began offering competing services in ILEC territories,
27 companies like Verizon had 100% of the customers on their local network. Thus,
28 when one of their customers made an intraLATA toll call, Verizon would bear
29 100% of the cost of the call, but had no opportunity to collect access charges for

1 these calls from other carriers. No subsidies, to the extent that they were
2 necessary, were available. Now that competitors serve a few of the customers
3 that Verizon previously served, Verizon claims that it depends on the switched
4 access revenue that Verizon collects from these ALECs when an ALEC customer
5 calls a Verizon customer. That seems more than a bit farfetched. Furthermore,
6 by reducing the rates that Verizon would pay ALECs for terminating intraLATA
7 calls, Verizon will realize an expense savings on intraLATA calls made by its
8 own customers.

9 **Q. MR. TRIMBLE ALSO APPEARS TO ARGUE THAT A LATA-WIDE**
10 **LOCAL CALLING AREA IS INCONSISTENT WITH SECTION**
11 **364.16(3)(A), FLORIDA STATUTES. DO YOU AGREE?**

12 **A.** The statute he cites does not prohibit the Commission from imposing a
13 LATA-wide default for purposes of intercarrier compensation. It provides that
14 telecommunications companies cannot knowingly deliver traffic through a local
15 interconnection arrangement “for which terminating access service charges would
16 otherwise apply...” If the Commission establishes that the entire LATA will be
17 considered local for reciprocal compensation purposes, then terminating access
18 charges would not apply.

19 **Q. MR. TRIMBLE ARGUES THAT ADOPTION OF A LATA-WIDE LOCAL**
20 **CALLING AREA FOR INTERCARRIER COMPENSATION PURPOSES**
21 **WOULD NOT BE COMPETITIVELY NEUTRAL BECAUSE IT WOULD**
22 **PUT ILECS AND IXCS AT A DISADVANTAGE (TRIMBLE**
23 **SUPPLEMENTAL DIRECT AT PAGE 8). SPRINT WITNESS JULIE**

1 **WARD MAKES SIMILAR ASSERTIONS (WARD SUPPLEMENTAL**
2 **DIRECT AT PAGE 6). ARE THEY CORRECT?**

3 **A.** No. ILECs and ALECs are affected the same way: both sacrifice switched access
4 revenue in exchange for lower costs of traffic termination. Each is free to respond
5 to this change in its revenue/cost structure as it sees fit (e.g., reduced rates to
6 customers, calling plans that are easier to understand, etc.) On the other hand,
7 IXCs that are not in the local telecommunications business might indeed face
8 erosion in their competitive position. That erosion can be traced to its source in
9 the irrational layers of non-cost-based prices that pervade intercarrier
10 compensation described earlier in my testimony. Furthermore, to the extent that
11 ALECs and ILECs reach LATA-wide local reciprocal compensation agreements,
12 that erosion is likely to happen regardless of the Commission's action in this
13 proceeding.

14 **Q.** **IS MR. TRIMBLE CORRECT WHEN HE STATES IN HIS TESTIMONY**
15 **THAT "THE ILECS WOULD, LIKEWISE, BE SUBJECT TO ACCESS**
16 **COMPENSATION RULES WHEN THEY HANDLE TOLL CALLS FOR**
17 **THEIR PRESUBSCRIBED CUSTOMERS BECAUSE FLORIDA LAW**
18 **REQUIRES THEM TO IMPUTE ACCESS COSTS INTO THEIR**
19 **INTRALATA TOLL RATES" [TRIMBLE SUPPLEMENTAL DIRECT AT**
20 **PAGE 9]?**

21 **A.** He is correct to a certain extent, but leaves out an important point. The whole
22 truth to this argument is that access is applicable only if ILECs choose to continue
23 to charge toll rates to their end users. Nothing forces them to do so; they are free

1 to compete and could choose to offer their customers the choice of non-basic or
2 expanded calling plans.

3 **Q. HOW WOULD COMPETITION BE FURTHER ACHIEVED WITH THE**
4 **IMPLEMENTATION OF A LATA-WIDE LOCAL CALLING AREA FOR**
5 **PURPOSES OF INTERCARRIER COMPENSATION?**

6 A. Any reduction in costs allows a carrier greater flexibility to respond to the
7 demands of its customers. LATAwide local reciprocal compensation will liberate
8 carriers to offer local calling plans better tailored to the needs of their customers,
9 at lower rates than would otherwise have been the case which, of course, fosters
10 greater competition.

11 **ISSUE 17: SHOULD THE COMMISSION ESTABLISH COMPENSATION**
12 **MECHANISMS CONCERNING THE TRANSPORT AND**
13 **DELIVERY OR TERMINATION OF TRAFFIC SUBJECT TO**
14 **SECTION 251 OF THE ACT TO BE USED IN THE ABSENCE OF**
15 **THE PARTIES REACHING AGREEMENT OR NEGOTIATING A**
16 **COMPENSATION MECHANISM? IF SO, WHAT SHOULD BE**
17 **THE MECHANISM?**

18
19 **Q. BELLSOUTH AND VERIZON SUPPORT BILL-AND-KEEP AS THE**
20 **DEFAULT INTERCARRIER COMPENSATION MECHANISM. DOES**
21 **AT&T AGREE WITH THIS POSITION?**

22 A. No. For the reasons I noted in my direct testimony, AT&T supports mutual
23 payment of cost-based rates as the default for intercarrier compensation.

24 **Q. DOES AT&T HAVE ANY OTHER OBJECTIONS TO BELLSOUTH'S**
25 **BILL-AND-KEEP PROPOSAL?**

26 A. Yes. If the Commission decides to adopt bill-and-keep as the default intercarrier
27 compensation mechanism, it must also adopt a default "out-of-balance" threshold

1 to determine when bill-and-keep is no longer appropriate. BellSouth suggests that
2 traffic should be considered in balance when the ratio of traffic exchanged
3 between two carriers is as high as 75% : 25% (3:1). This means that an ALEC
4 could terminate three times as many calls as BellSouth, yet BellSouth would pay
5 no reciprocal compensation. Such a definition of “in balance” greatly exceeds the
6 bounds of reasonableness.

7 **Q. WHAT IS THE BASIS FOR BELLSOUTH’S PROPOSAL?**

8 A. BellSouth bases its proposal on the FCC’s default definition of ISP traffic in its
9 May 2001 order establishing intercarrier compensation rates for ISP-bound traffic
10 (yet another layer of complexity!). In that Order, the FCC determined that if ISP-
11 bound traffic could not be identified explicitly, then any traffic exceeding a 3:1
12 ratio of inbound minutes to outbound minutes would be classified as ISP-bound
13 and thus subject to the FCC’s rates. BellSouth jumps to the incredible conclusion
14 that all traffic that is not ISP traffic must be in balance. So, according to
15 BellSouth, traffic patterns that are out of balance by as much as 50% (i.e., 75%
16 minus 25%) are actually “in balance.” That is an extremely “rough” definition of
17 “roughly in balance.”

18 **Q. WHAT DOES AT&T RECOMMEND AS THE DEFINITION OF “OUT OF**
19 **BALANCE?”**

20 A. As I stated in my direct testimony, traffic should be considered in balance when
21 the difference between the amounts of traffic terminated by each carrier is almost
22 insignificant.

1 Q. WOULD YOU SUPPORT ANY OF THE DEFINITIONS OF “ROUGHLY
2 BALANCED” PUT FORTH BY OTHER PARTIES TO THIS
3 PROCEEDING?

4 A. As noted in the testimony of Verizon witness Trimble, AT&T has agreed in the
5 past to 10% as the out-of-balance condition, but that is certainly not the definitive
6 benchmark or requirement for this Commission. That agreement was signed in
7 1997, and the Commission is free to determine a smaller percentage that meets the
8 definition of “out of balance” in order to meet the requirement where the
9 difference between the amounts of traffic terminated by each carrier is almost
10 insignificant.

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12 A. Yes.