

030869-TL

1 BELLSOUTH TELECOMMUNICATIONS, INC.

2 DIRECT TESTIMONY OF JERRY HENDRIX

3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

4 AUGUST 27, 2003

5  
6 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH  
7 TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS  
8 ADDRESS.

9  
10 A. My name is Jerry Hendrix. I am employed by BellSouth as Assistant Vice President,  
11 Interconnection Services Marketing. My business address is 675 West Peachtree Street,  
12 Atlanta, Georgia 30375.

13  
14 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL  
15 BACKGROUND AND EXPERIENCE WITH BELLSOUTH.

16  
17 A. I graduated from Morehouse College in Atlanta, Georgia, in 1975 with a Bachelor of Arts  
18 Degree. I began employment with Southern Bell in 1979 and have held various positions in  
19 the Network Distribution Department before joining the BellSouth Headquarters Regulatory  
20 organization in 1985. On January 1, 1996, my responsibilities moved to Interconnection  
21 Services Pricing in the Interconnection Customer Business Unit. As part of this transition I  
22 became BellSouth's representative in the negotiation of BellSouth's interconnection  
23 agreements including the BellSouth/AT&T Interconnection Agreement, among others.

24

1 In my current position as Assistant Vice President, Interconnection Services Marketing, I  
2 oversee the negotiation of interconnection agreements between BellSouth and Competitive  
3 Local Exchange Carriers (“CLECs”) in BellSouth’s nine-state region, relationships with  
4 Independent Telephone Companies and certain product management functions including  
5 Switched Access Services.

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7 Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

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9 A. My testimony deals with the switched network access issues associated with this filing. This  
10 testimony serves a four-fold purpose: (1) to describe the categorization of switched access  
11 services under revised Section 364.164, (2) to present two methodologies for the calculation  
12 of the reduction of intrastate switched network access revenues in which to achieve revenue  
13 neutrality, the “mirroring” methodology and the “typical network” methodology, (3) to  
14 demonstrate the achievement of rate parity between the composite intrastate switched  
15 network access rate with the composite interstate switched network access rate for each  
16 methodology , and (4) to present the plan to implement the revenue reduction.

17  
18 Q. HOW ARE SWITCHED NETWORK ACCESS SERVICES CATEGORIZED UNDER  
19 THE REVISED SECTION 364.164?

20 A. The new Florida legislation provides for a new revenue category consisting of basic local  
21 telecommunications service revenues and intrastate switched network access revenues. This  
22 new revenue category will include approximately 1,700 rate elements associated with  
23 intrastate switched network access. These rate elements in this new revenue category  
24 include the rate elements from these sections of the Access Services tariff – Carrier  
25 Common Line, BellSouth SWA Services, BellSouth Directory Assistance Services, and

1 Access Service for Local Exchange Companies completion of IntraLATA-Intercompany  
2 Long Distance MTS and WATS Calls. The switched network access rate elements are listed  
3 in Exhibit SB-3, which is attached to the testimony of BellSouth witness Steve Bigelow.

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5  
6 Q. WHAT IS THE APPROPRIATE METHODOLOGY FOR THE REDUCTION OF  
7 INTRASTATE SWITCHED NETWORK ACCESS REVENUES TO ACHIEVE  
8 REVENUE NEUTRALITY?

9  
10 A. There are two methodologies from which the Commission can choose in order to lower  
11 intrastate switched network access revenues for the achievement of revenue neutrality within  
12 the new revenue category. The first methodology is developed from a “mirroring” of the  
13 recurring rate elements in the new revenue category specified by the legislation: carrier  
14 common line, local channel/entrance facility, switched common transport, access tandem  
15 switching, interconnection charge, signaling, information surcharge, and local switching.  
16 The reduction of these elements to interstate parity is \$136.4M. Exhibit JH-1 provides the  
17 detail of the revenue reduction calculated under this methodology.

18  
19 The second methodology achieves parity by comparison of the “typical network” composite  
20 for interstate with the composite with intrastate switched network access rates utilizing the  
21 rate elements in BellSouth’s annual filing with the Commission, the Florida Access and Toll  
22 Report, Tables 1 and 2. The revenue reduction resulting from the achievement of parity  
23 using the typical network methodology is \$125.2M. Exhibit JH-2 contains a replication of  
24 Tables 1 and 2 as well as the revenue reduction calculations with this methodology.

25

1 Q. WHY IS THERE A DIFFERENCE IN THE REVENUE IMPACT BETWEEN THE TWO  
2 METHODOLOGIES?

3

4 A. The difference in the revenue impact stems from the number of rate elements utilized in  
5 each methodology. Both methodologies use the most recent 12 months demand to  
6 determine the intrastate switched network access revenue reduction.

7

8 The mirroring methodology utilizes all of the recurring switched network access rate  
9 elements as specified in Section 364.164(6) and included in the new revenue category  
10 (summary shown on Exhibit JH-1). The difference in the sum of the revenues calculated  
11 from the intrastate rates and the sum of the revenues calculated from the interstate rates is  
12 the intrastate switched network access revenue reduction.

13

14 On the other hand, the typical network methodology is based on the limited, specific rate  
15 elements as reported annually by BellSouth in the Florida Access and Toll Report, Tables 1  
16 and 2 (see Exhibit JH-2). These rate elements are considered to be representative of  
17 averages for BellSouth's network. The use of composites from a typical network is  
18 consistent with the Commission's past practice for determination of switched access revenue  
19 reductions. The typical network methodology relies on network averages regarding minutes  
20 of use per line and distances for interoffice mileage. The difference in the composite rates  
21 per minute of use for intrastate and interstate switched network access rates are then  
22 multiplied by the most recent 12-month demand for local switching. The resulting  
23 difference is the intrastate switched network access revenue reduction (see Exhibit JH-2,  
24 page 3).

1

2 Q. DOES BELLSOUTH'S MIRRORING METHODOLOGY ACHIEVE COMPOSITE RATE  
3 PARITY BETWEEN INTRASTATE AND BELLSOUTH'S INTERSTATE SWITCHED  
4 NETWORK ACCESS RATES?

5

6 A. Yes. Revenues for the recurring rate elements are totaled and divided by the most recent 12  
7 months local switching demand to provide composite rates. The composite intrastate  
8 switched network access rate proposed for the second year of this plan is equal to the  
9 composite interstate switched network access rate in effect on January 1, 2003. The  
10 demonstration of composite rate parity is shown on Exhibit JH-1.

11

12 Q. DOES BELLSOUTH'S TYPICAL NETWORK METHODOLOGY ACHIEVE  
13 COMPOSITE RATE PARITY BETWEEN INTRASTATE AND BELLSOUTH'S  
14 INTERSTATE SWITCHED NETWORK ACCESS RATES?

15

16 A. Yes. The composite intrastate switched network access rate proposed for the second year of  
17 this plan is equal to the composite interstate switched network access rate in effect on  
18 January 1, 2003. These composite rates are shown on Exhibit JH-2.

19

20 Q. HOW DOES BELLSOUTH PLAN TO IMPLEMENT THE PROPOSED ACCESS  
21 REVENUE REDUCTIONS ASSOCIATED WITH EACH METHODOLOGY?

22

23 A. In both methodologies, BellSouth proposes to implement one half of the access revenue  
24 reduction in each of the two years of the rebalancing period. The first reduction will be

1 taken at the beginning of year one, January 1, 2004 and the other half of the reduction at the  
2 beginning of year two, January 1, 2005. In year one of both methodologies, originating  
3 Carrier Common Line (CCL) will be eliminated and the remainder of the decrease will be  
4 taken from terminating CCL revenues. In the second year of both methodologies,  
5 terminating CCL will be eliminated and the remainder of the reduction will be taken in local  
6 switching. Exhibit JH-3, provides the details of the implementation of the access revenue  
7 reductions.

8  
9  
10 Q. HOW WILL THE MOST RECENT 12 MONTHS PRICING UNITS BE UTILIZED TO  
11 IMPLEMENT THE ACCESS REDUCTION?

12  
13 A. To determine the access revenue reduction for this filing, BellSouth used most recent 12  
14 months pricing units (July 2002 through June 2003) as required by the legislation and as  
15 described above. Therefore, for presentation of both methodologies, the same demand is  
16 utilized for each year.

17  
18 Upon the Commission's selection and approval of BellSouth's petition, BellSouth intends to  
19 update its filing with the most recent 12 months pricing units. It is anticipated that pricing  
20 units at least through September 2003 will be available. This procedure allows calculation  
21 of the impacts to switched network access and to the corresponding basic local  
22 telecommunications service revenues utilizing the most current pricing units available.

23  
24 Likewise, BellSouth intends to make a similar filing prior to beginning of year two.  
25 Accordingly, the most recent 12 months demand will be utilized to set rates to be

1 implemented on January 1, 2005. This procedure will allow for a more accurate  
2 demonstration of the achievement of revenue neutrality for year two.

3

4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5

6 A. Yes.

**SWA REVENUE SUMMARY  
 EXISTING AND PROPOSED  
 MIRRORING METHODOLOGY**

RATE CATEGORY	EXISTING REVENUES			PROPOSED REVENUES	
	FL Rates	FCC Rates	Difference	Year 1	Year 2
CARRIER COMMON LINE	\$ 90,247,839	\$ -	\$ (90,247,839)	\$ 22,026,853	\$ -
LOCAL CHANNEL/ENTRANCE FACILITY	\$ 21,397,758	\$ 19,473,405	\$ (1,924,353)	\$ 21,397,758	\$ 19,473,405
SWITCHED COMMON TRANSPORT	\$ 5,800,479	\$ 5,031,888	\$ (768,592)	\$ 5,800,479	\$ 5,031,888
ACCESS TANDEM SWITCHING	\$ 8,740,923	\$ 10,302,280	\$ 1,561,356	\$ 8,740,923	\$ 10,302,280
INTERCONNECTION CHARGE	\$ -	\$ -	\$ -	\$ -	\$ -
SIGNALING	\$ 1,903,867	\$ 1,903,867	\$ -	\$ 1,903,867	\$ 1,903,867
INFORMATION SURCHARGE	\$ -	\$ -	\$ -	\$ -	\$ -
LOCAL SWITCHING	\$ 66,693,003	\$ 21,630,458	\$ (45,062,545)	\$ 66,693,003	\$ 21,630,458
<b>TOTAL</b>	<b>\$ 194,783,869</b>	<b>\$ 58,341,897</b>	<b>\$ (136,441,972)</b>	<b>\$ 126,562,883</b>	<b>\$ 58,341,897</b>
REVENUE REDUCTION				<b>\$ (68,220,986)</b>	<b>\$ (68,220,986)</b>
LOCAL SWITCHING MINUTES	6,929,501,020	6,929,501,020			6,929,501,020
COMPOSITE RATE PER MOU	\$ 0.028109	\$ 0.008419			\$ 0.008419

Notes:

1. FCC rates as of 1-1-03
2. FL rates as of 8-20-03.
3. Local Switching minutes 12 months through 6-30-03



**Switched Access Charges**  
**Interstate Premium Rates\***  
 Table 1  
**BellSouth Telecommunications, Inc.**  
 (As of 1/01/03)

	<u>Originating</u>	<u>Terminating</u>
<b>Carrier Common Line</b>	\$0.0000000	\$0.0000000
<b>Switched Transport**</b>		
Local Channel/Entrance Facility	\$0.0003800	\$0.0003800
Switched Common Transport	\$0.0004060	\$0.0004060
Access Tandem Switching	\$0.0011770	\$0.0011770
<b>Interconnection Charges</b>	\$0.0000000	\$0.0000000
<b>Information Surcharge</b>	\$0.0000000	\$0.0000000
<b>End Office</b>		
Local Switching	\$0.0021580	\$0.0021580
Common End Office Trunk Port per MOU	\$0.0008000	\$0.0008000
<b>Feature Group D Access per Minute: Total</b>	\$0.004921	\$0.004921

<b>ORIGINATING + TERMINATING ACCESS:</b>	<b>\$0.0098</b>
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\* Rates shown are those actually billed and, thus, exclude long term support. Numbers may not appear to add correctly because the total number is rounded to 4 decimal places.

\*\* Switched Common Transport calculation:

<u>Local Channel/Entrance Facility - Zone 1</u>		
DS1: Per System (monthly)	\$	121.57
Estimated MOU Equivalent	\$	0.0003800
<u>Switched Common Transport - Zone 1 (SCT)</u>		
Facility (MOU/airline mile)	\$	0.0000230
Termination (MOU/term)	\$	0.0001760
SCT - Interoffice Channel	\$	0.0004060

Local Channel/Entrance Facility and SCT rates are for Zone 1 and first system, if applicable.  
 Local Channel/Entrance Facility = (DS1 monthly charge)/(24 voice grade equivalents\*13,330 MOU)  
 SCT Interoffice Channel = (SCT Termination + (10 miles \* SCT Facility))

**Switched Access Charges**  
**Florida Intrastate Premium Rates\***  
 Table 2  
**BellSouth Telecommunications, Inc.**  
 (Current)

	<u>Originating</u>	<u>Terminating</u>
<b>Carrier Common Line</b>	\$0.0078590	\$0.0158470
<b>Switched Transport**</b>		
Local Channel/Entrance Facility	\$0.0004183	\$0.0004183
Switched Common Transport	\$0.0007600	\$0.0007600
Access Tandem Switching	\$0.0005000	\$0.0005000
<b>Interconnection Charges</b>	\$0.0000000	\$0.0000000
<b>Information Surcharge</b>	\$0.0000000	\$0.0000000
<b>End Office</b>		
Local Switching	\$0.0086610	\$0.0086610
Common End Office Trunk Port per MOU	\$0.0008000	\$0.0008000
<b>Feature Group D Access per Minute: Total</b>	\$0.018998	\$0.026986

<b>ORIGINATING + TERMINATING ACCESS:</b>	<b>\$0.0460</b>
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\* Rates shown are those actually billed and, thus, exclude long term support. Numbers may not appear to add correctly because the total number is rounded to 4 decimal places.  
 \*\* Switched Common Transport calculation:

<u>Local Channel/Entrance Facility - Zone 1</u>		
DS1: Per System (monthly)	\$	133.81
Estimated MOU Equivalent	\$	0.0004183
<u>Switched Common Transport - Zone 1 (SCT)</u>		
Facility (MOU/airline mile)	\$	0.0000400
Termination (MOU/term)	\$	0.0003600
SCT - Interoffice Channel	\$	0.0007600

Local Channel/Entrance Facility and SCT rates are for Zone 1 and first system, if applicable.  
 Local Channel/Entrance Facility = (DS1 monthly charge)/(24 voice grade equivalents\*13,330 MOU)  
 SCT Interoffice Channel = (SCT Termination + (10 miles \* SCT Facility))

**TYPICAL NETWORK METHODOLOGY  
INTRASTATE - INTERSTATE RATE COMPARISON  
AND  
REVENUE REDUCTION**

FL Composite Rate (Orig + Term)	\$ 0.0459845
FCC Composite Rate (Orig + Term)	\$ 0.0098420
Composite Rate Difference (Orig + Term)	\$ 0.0361425
Composite Rate Difference per MOU	\$ 0.0180713
Local Switching Minutes	6,929,501,020
Total Access Revenue Reduction	\$ 125,224,812

**SWA REVENUE REDUCTION  
RATE ELEMENT DETAIL  
BOTH METHODOLOGIES**

METHODOLOGY	RATE ELEMENT	DEMAND (MINUTES)	YEAR 1			YEAR 2		
			EXISTING RATE	PROPOSED RATE	REVENUE REDUCTION	EXISTING RATE	PROPOSED RATE	REVENUE REDUCTION
MIRRORING	CARRIER COMMON LINE - ORIG	2,405,982,988	\$ 0.007859	\$ -	\$ (18,908,620)	\$ -	\$ -	\$ -
	CARRIER COMMON LINE - TERM	4,501,749,126	\$ 0.015847	\$ 0.004893	\$ (49,312,366)	\$ 0.004893	\$ -	\$ (22,026,853)
	LOCAL SWITCHING	6,929,501,020	\$ 0.008661	\$ 0.008661	\$ -	\$ 0.008661	\$ 0.001995	\$ (46,194,133)
	TOTAL				\$ (68,220,986)	\$ 0		\$ (68,220,986)
TYPICAL NETWORK	CARRIER COMMON LINE - ORIG	2,405,982,988	\$ 0.007859	\$ -	\$ (18,908,620)	\$ -	\$ -	\$ -
	CARRIER COMMON LINE - TERM	4,501,749,126	\$ 0.015847	\$ 0.006139	\$ (43,703,786)	\$ 0.006139	\$ -	\$ (27,635,433)
	LOCAL SWITCHING	6,929,501,020	\$ 0.008661	\$ 0.008661	\$ -	\$ 0.008661	\$ 0.003613	\$ (34,976,973)
	TOTAL				\$ (62,612,406)	\$ 0		\$ (62,612,406)

Notes:

1. FCC rates as of 1-1-03
2. FL rates as of 8-20-03.
3. Local Switching minutes 12 months through 6-30-03