

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REVISED DIRECT TESTIMONY OF JERRY HENDRIX
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 030869-TL
5 SEPTEMBER 30, 2003
6

7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH
8 TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS
9 ADDRESS.
10

11 A. My name is Jerry Hendrix. I am employed by BellSouth as Assistant Vice President,
12 Interconnection Services Marketing. My business address is 675 West Peachtree Street,
13 Atlanta, Georgia 30375.
14

15 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL
16 BACKGROUND AND EXPERIENCE WITH BELLSOUTH.
17

18 A. I graduated from Morehouse College in Atlanta, Georgia, in 1975 with a Bachelor of Arts
19 Degree. I began employment with Southern Bell in 1979 and have held various positions in
20 the Network Distribution Department before joining the BellSouth Headquarters Regulatory
21 organization in 1985. On January 1, 1996, my responsibilities moved to Interconnection
22 Services Pricing in the Interconnection Customer Business Unit. As part of this transition I
23 became BellSouth's representative in the negotiation of BellSouth's interconnection
24 agreements including the BellSouth/AT&T Interconnection Agreement, among others.
25

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.

6
7 Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

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

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

21
22 A. The new Florida legislation provides for a new revenue category consisting of basic local
23 telecommunications service revenues and intrastate switched network access revenues. This
24 new revenue category will include approximately 1,700 rate elements associated with
25 intrastate switched network access. These rate elements in this new revenue category

1 include the rate elements from these sections of the Access Services tariff – Carrier
2 Common Line, BellSouth SWA Services, BellSouth Directory Assistance Services, and
3 Access Service for Local Exchange Companies completion of IntraLATA-Intercompany
4 Long Distance MTS and WATS Calls. The switched network access rate elements are listed
5 in Exhibit SB-3, which is attached to the testimony of BellSouth witness Steve Bigelow.

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

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

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

1

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

4

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

8

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

14

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

1 difference is the intrastate switched network access revenue reduction (see Exhibit JH-2,
2 page 3).

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

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

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

17
18 A. Yes. The composite intrastate switched network access rate proposed after implementation
19 of the third reduction is equal to the composite interstate switched network access rate in
20 effect on January 1, 2003. These composite rates are shown on Exhibit JH-2.

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

24

1 A. In both methodologies, BellSouth proposes to implement the access revenue reduction
2 during the twenty-four (24) month period. The first reduction will be taken during the first
3 quarter, 2004 (1Q04), the second reduction during the first quarter, 2005 (1Q05), and the
4 third reduction during the first quarter, 2006 (1Q06). The proposed reductions will be taken
5 in the following manner:

6 1Q04 – 40 percent

7 1Q05 – 35 percent

8 1Q06 – 25 percent

9 For both methodologies proposed by BellSouth, implementation of the 1Q04 reduction will
10 eliminate originating Carrier Common Line (CCL) revenues and reduce terminating CCL
11 revenues. For both methodologies again, the 1Q05 reduction will eliminate terminating
12 CCL revenues and reduce local switching revenues. For both methodologies again, the
13 1Q06 reduction will be taken in local switching revenues. Revised Exhibit JH-3 provides
14 the details of the implementation of the access revenue reductions.

15
16
17 Q. HOW WILL THE MOST RECENT 12 MONTHS PRICING UNITS BE UTILIZED TO
18 IMPLEMENT THE ACCESS REDUCTION?

19
20 A. To determine the access revenue reduction for this filing, BellSouth used most recent 12
21 months pricing units (July 2002 through June 2003) as required by the legislation and as
22 described above. Therefore, for presentation of both methodologies, the same demand is
23 utilized for each year.

24

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

6
7 Likewise, BellSouth intends to make similar filings prior to the beginning of the last two
8 reductions. Accordingly, the most recent 12 months demand will be utilized to set rates to
9 be implemented on 1Q05 and 1Q06. This procedure will allow for a more accurate
10 demonstration of the achievement of revenue neutrality for the second and third reductions.

11
12 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

13
14 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	Year 3
CARRIER COMMON LINE	\$ 90,247,839	\$ -	\$ (90,247,839)	\$ 35,671,050	\$ -	\$ -
LOCAL CHANNEL/ENTRANCE FACILITY	\$ 21,397,758	\$ 19,473,405	\$ (1,924,353)	\$ 21,397,758	\$ 19,473,405	\$ 19,473,405
SWITCHED COMMON TRANSPORT	\$ 5,800,479	\$ 5,031,888	\$ (768,592)	\$ 5,800,479	\$ 5,031,888	\$ 5,031,888
ACCESS TANDEM SWITCHING	\$ 8,740,923	\$ 10,302,280	\$ 1,561,356	\$ 8,740,923	\$ 10,302,280	\$ 10,302,280
INTERCONNECTION CHARGE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SIGNALING	\$ 1,903,867	\$ 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	\$ 55,740,951	\$ 21,630,458
TOTAL	\$ 194,783,869	\$ 58,341,897	\$ (136,441,972)	\$ 140,207,080	\$ 92,452,390	\$ 58,341,897
REVENUE REDUCTION				\$ (54,576,789)	\$ (47,754,690)	\$ (34,110,493)
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
COMPOSITE RATE (Orig + Term)	\$ 0.056219	\$ 0.016839				\$ 0.016839

Notes:

1. Total Revenue Reduction based on FCC rates as of 1-1-03 and FL Rates of 9-26-03.
2. Annual Revenue Reductions are: Year 1 - 40 percent, Year 2 - 35 percent, Year 3 - 25 percent.
3. Local Switching minutes are 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>
Carrier Common Line	\$0.0000000	\$0.0000000
Switched Transport**		
Local Channel/Entrance Facility	\$0.0003800	\$0.0003800
Switched Common Transport	\$0.0004060	\$0.0004060
Access Tandem Switching	\$0.0011770	\$0.0011770
Interconnection Charges	\$0.0000000	\$0.0000000
Information Surcharge	\$0.0000000	\$0.0000000
End Office		
Local Switching	\$0.0021580	\$0.0021580
Common End Office Trunk Port per MOU	\$0.0008000	\$0.0008000
Feature Group D Access per Minute: Total	\$0.004921	\$0.004921

ORIGINATING + TERMINATING ACCESS:	\$0.0098
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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>
Carrier Common Line	\$0.0078590	\$0.0158470
Switched Transport**		
Local Channel/Entrance Facility	\$0.0004183	\$0.0004183
Switched Common Transport	\$0.0007600	\$0.0007600
Access Tandem Switching	\$0.0005000	\$0.0005000
Interconnection Charges	\$0.0000000	\$0.0000000
Information Surcharge	\$0.0000000	\$0.0000000
End Office		
Local Switching	\$0.0086610	\$0.0086610
Common End Office Trunk Port per MOU	\$0.0008000	\$0.0008000
Feature Group D Access per Minute: Total	\$0.018998	\$0.026986
ORIGINATING + TERMINATING ACCESS:		\$0.0460

* 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
 MIRRORING AND TYPICAL NETWORK METHODOLOGIES**

METHODOLOGY	RATE ELEMENT	DEMAND (MINUTES)	YEAR 1			YEAR 2		YEAR 3	
			EXISTING RATE	PROPOSED RATE	REVENUE REDUCTION	PROPOSED RATE	REVENUE REDUCTION	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	\$ 0.007924	\$ (35,668,168)	\$ -	\$ (35,671,050)	\$ -	\$ -
	LOCAL SWITCHING	6,929,501,020	\$ 0.008661	\$ 0.008661	\$ -	\$ 0.006917	\$ (12,083,640)	\$ 0.001995	\$ (34,110,493)
	TOTAL				\$ (54,576,789)		\$ (47,754,690)		\$ (34,110,493)
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	\$ 0.008921	\$ (31,181,304)	\$ -	\$ (40,157,914)	\$ -	\$ -
	LOCAL SWITCHING	6,929,501,020	\$ 0.008661	\$ 0.008661	\$ -	\$ 0.008131	\$ (3,670,770)	\$ 0.003613	\$ (31,306,203)
	TOTAL				\$ (50,089,925)		\$ (43,828,684)		\$ (31,306,203)

Notes:

1. Total Revenue Reduction based on FCC rates as of 1-1-03 and FL Rates of 9-26-03.
2. Annual Revenue Reductions are: Year 1 - 40 percent, Year 2 - 35 percent, Year 3 - 25 percent.
3. Demand (Minutes) are 12 months through 6-30-03.