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P R O C E E D I N G S

(Hearing reconvened at 9:35 a.m.)

(Transcript follows in sequence from Volume II.)

COMMISSIONER CLARK: I call the hearing to order. I think Mr. Denton was the next witness.

MR. HOFFMAN: Madam Chairman, a preliminary matter. Teleport's witness, Mr. Kouroupas, has a conference scheduled in Connecticut tomorrow. We'd like to try to accommodate him, if that meets the pleasure of the Commission.

I've discussed this with the parties, and I don't think there were any objections voiced yesterday. Mr. Fons is not here this morning, so I'm going to have to check back with him, but I wanted to put the Commission on notice that we'd like to try to accomplish that. He has a 2:40 flight this afternoon, and we'd like to try to take him out of order if there are no objections.

COMMISSIONER CLARK: When do you propose to take his testimony?

MR. HOFFMAN: I would propose, if Mr. Fons is here, that we take him after Mr. Denton.

COMMISSIONER CLARK: I think Mr. Willis is here in place of Mr. Fons.



1 MR. WILLIS: That's right. I would -- can we  
2 go off --

3 COMMISSIONER CLARK: Do you want to think  
4 about it?

5 MR. WILLIS: I'll talk with him off the  
6 record.

7 COMMISSIONER CLARK: We'll just leave that  
8 pending for now.

9 Mr. Carver, your witness.

10

- - - - -

11

DAVID B. DENTON

12

was called as a witness on behalf of BellSouth

13

Telecommunications, Inc., d/b/a Southern Bell Telephone

14

and Telegraph Company, and, having been duly sworn,

15

testified as follows:

16

DIRECT EXAMINATION

17

BY MR. CARVER:

18

Q Mr. Denton, would you please state your full

19

name and business address?

20

A I am David B. Denton. My address is 675 West

21

Peachtree Street, Atlanta, Georgia.

22

Q Mr. Denton, were you sworn in yesterday?

23

A Yes, I was.

24

Q Could you please state by whom you're

25

employed and in what capacity?

1           A     I am employed by BellSouth, doing business as  
2 Southern Bell here, as an operations manager,  
3 regulatory policy and planning.

4           Q     And have you caused direct testimony to be  
5 filed in this docket consisting of 16 pages?

6           A     Yes, I have.

7           Q     Do you have any changes to make to that  
8 testimony?

9           A     No, I don't.

10          Q     If I were to ask you the questions that  
11 appear in your testimony today, would your answers be  
12 the same?

13          A     Yes, they would.

14                MR. CARVER: I would like to request that  
15 Mr. Denton's testimony be inserted into the record as  
16 if read.

17                COMMISSIONER CLARK: It will be inserted into  
18 the record as though read.

19

20

21

22

23

24

25

1 SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY

2 TESTIMONY OF DAVID B. DENTON

3 BEFORE THE

4 FLORIDA PUBLIC SERVICE COMMISSION

5 DOCKET NO. 921074-TP

6 JUNE 24, 1993

7

8

9

10 Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

11

12 A. I AM DAVID B. DENTON. MY BUSINESS ADDRESS IS 675 WEST  
13 PEACHTREE STREET, ATLANTA, GEORGIA.

14

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

16

17 A. I AM EMPLOYED BY BELLSOUTH TELECOMMUNICATIONS INC., D/B/A  
18 IN FLORIDA AS SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY  
19 ("SOUTHERN BELL"), AS OPERATIONS MANAGER IN THE REGULATORY  
20 POLICY AND PLANNING DEPARTMENT.

21

22 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND  
23 EXPERIENCE.

24

25 A. I SERVED IN THE UNITED STATES MARINE CORPS FROM 1954 TO

1 1958. I WAS GRADUATED FROM THE UNIVERSITY OF MIAMI IN 1961  
2 WITH A BACHELOR OF BUSINESS ADMINISTRATION DEGREE CUM LAUDE  
3 IN ECONOMICS AND WAS AWARDED A MASTER OF ARTS DEGREE IN  
4 ECONOMICS IN 1964 FROM THE SAME UNIVERSITY. IN 1979, I WAS  
5 AWARDED A MASTER OF SCIENCE DEGREE IN ADVANCED MANAGEMENT  
6 FROM PACE UNIVERSITY.

7  
8 I BEGAN EMPLOYMENT WITH SOUTHERN BELL IN 1962 AND HELD  
9 VARIOUS POSITIONS IN THE COMMERCIAL DEPARTMENT BEFORE  
10 JOINING THE HEADQUARTERS RATES ORGANIZATION IN 1966. I  
11 HAVE HELD VARIOUS POSITIONS AT SOUTHERN BELL HEADQUARTERS  
12 IN ATLANTA AND AT AT&T HEADQUARTERS IN NEW YORK CITY IN THE  
13 RATES AND TARIFF AREA. SINCE NOVEMBER 1991, I HAVE BEEN IN  
14 THE BELL SOUTH TELECOMMUNICATIONS INC., HEADQUARTERS  
15 REGULATORY POLICY AND PLANNING DEPARTMENT. I HAVE  
16 TESTIFIED BEFORE THIS COMMISSION (HEREINAFTER "FPSC" OR  
17 "COMMISSION") AND BEFORE THE GEORGIA, NORTH CAROLINA, AND  
18 SOUTH CAROLINA COMMISSIONS. ATTACHED TO MY TESTIMONY IS AN  
19 APPENDIX LISTING THE SPECIFIC STATE DOCKETS IN WHICH I HAVE  
20 TESTIFIED.

21  
22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

23  
24 A. THE PURPOSE OF MY TESTIMONY IS TO ADDRESS THE ISSUES  
25 IDENTIFIED IN THIS DOCKET.

1 Q. IS EXPANDED INTERCONNECTION FOR SPECIAL ACCESS AND/OR  
2 PRIVATE LINE IN THE PUBLIC INTEREST?

3  
4 A. ASSUMING, AS THIS COMMISSION DID IN THE ALTERNATE ACCESS  
5 VENDOR DOCKET, THAT AAV COMPETITION IS IN THE PUBLIC  
6 INTEREST, THEN ALLOWING EXPANDED INTERCONNECTION WILL  
7 RESULT IN MORE COMPETITIVE OPTIONS FOR SPECIAL ACCESS AND  
8 PRIVATE LINE SERVICE. HOWEVER, THERE IS A CONTRIBUTION  
9 THAT INTRASTATE SPECIAL ACCESS AND PRIVATE LINE SERVICES  
10 PROVIDE TO RESIDENTIAL LOCAL EXCHANGE SERVICE. IF THAT  
11 CONTRIBUTION IS LOST AND NO COMPETITIVE FLEXIBILITIES ARE  
12 GAINED BY THE LOCAL EXCHANGE COMPANIES (LECs), THEN THERE  
13 IS THE POTENTIAL THAT THE PUBLIC INTEREST MAY NOT BE WELL  
14 SERVED.

15  
16 BY ALLOWING EXPANDED INTERCONNECTION, TELECOMMUNICATIONS  
17 ALTERNATIVES TO THE LECs' SERVICES WILL GAIN A GREATER  
18 MARKET SHARE. THEREFORE, THE LECs MUST HAVE THE PRICING  
19 FLEXIBILITIES NECESSARY TO MEET THESE COMPETITIVE  
20 CHALLENGES HEAD ON. THESE COMPETITIVE FLEXIBILITIES, IF  
21 AVAILABLE TO ALL TELECOMMUNICATIONS SERVICE PROVIDERS,  
22 WOULD RESULT IN TRUE PRICE COMPETITION, WHICH WOULD SERVE  
23 THE PUBLIC INTEREST.

24  
25 Q. HOW DOES THE FCC'S ORDER ON EXPANDED INTERCONNECTION IMPACT

1 THE COMMISSION'S ABILITY TO IMPOSE FORMS AND CONDITIONS OF  
2 EXPANDED INTERCONNECTION THAT ARE DIFFERENT FROM THOSE  
3 IMPOSED BY THE FCC'S ORDER?  
4

5 A. THE FPSC HAS THE AUTHORITY TO ALLOW FOR EXPANDED INTER-  
6 CONNECTION ON AN INTRASTATE BASIS IN ORDER TO SERVE THE  
7 PUBLIC INTEREST. THE FCC'S ORDER, WHILE NOT NECESSARILY  
8 IMPOSING A FRAMEWORK FOR EXPANDED INTERCONNECTION ON THE  
9 FPSC, MAY MAKE ANY SUBSTANTIAL DEPARTURE FROM THAT ORDER  
10 MORE DIFFICULT AND EXPENSIVE TO ADMINISTER FOR THOSE  
11 PROVIDING EXPANDED INTERCONNECTION. VASTLY DIFFERENT  
12 EXPANDED INTERCONNECTION STRUCTURES FOR INTRASTATE AND  
13 INTERSTATE SERVICES COULD HINDER THE DEVELOPMENT OF  
14 SERVICES THAT COULD BE OFFERED AS A RESULT OF EXPANDED  
15 INTERCONNECTION.  
16

17 Q. UNDER WHAT CIRCUMSTANCES SHOULD THE COMMISSION IMPOSE  
18 DIFFERENT FORMS AND CONDITIONS OF EXPANDED INTERCONNECTION?  
19

20 A. THE FPSC SHOULD NOT MANDATE THE TERMS AND CONDITIONS OF  
21 EXPANDED INTERCONNECTION ON LECs WHO PROVIDE EXPANDED  
22 INTERCONNECTION AS A SERVICE OFFERING. SOUTHERN BELL  
23 BELIEVES THAT THE COMMISSION SHOULD ALLOW THE LECs TO  
24 PROVIDE EITHER VIRTUAL OR PHYSICAL COLLOCATION AT THEIR  
25 OPTION. INDEED, SOUTHERN BELL HAS APPEALED THE FCC'S ORDER



1 BECAUSE OF ITS MANDATORY PHYSICAL COLLOCATION REQUIREMENT.

2  
3 FOR THE PURPOSES OF THIS TESTIMONY, PHYSICAL COLLOCATION  
4 REFERS TO THAT SITUATION WHERE THE INTERCONNECTING PARTY  
5 PAYS FOR LEC CENTRAL OFFICE SPACE IN WHICH TO LOCATE THE  
6 EQUIPMENT NECESSARY TO TERMINATE ITS TRANSMISSION LINKS,  
7 AND HAS A PHYSICAL ACCESS TO THE LEC CENTRAL OFFICE TO  
8 INSTALL, MAINTAIN AND REPAIR ITS EQUIPMENT.

9  
10 VIRTUAL COLLOCATION, ON THE OTHER HAND, PERMITS THE  
11 COLLOCATORS TO DESIGNATE THE CENTRAL OFFICE TRANSMISSION  
12 EQUIPMENT DEDICATED FOR THEIR USE. THE EQUIPMENT USED TO  
13 TERMINATE INTERCONNECTED CIRCUITS WOULD BE LOCATED IN THE  
14 LEC CENTRAL OFFICE UNDER EITHER VIRTUAL OR PHYSICAL  
15 COLLOCATION. WITH VIRTUAL COLLOCATION, HOWEVER, THE LEC  
16 WOULD BE REQUIRED TO INSTALL, MAINTAIN AND REPAIR THE  
17 COLLOCATOR'S EQUIPMENT.

18  
19 Q. DOES CHAPTER 364 FLORIDA STATUTES ALLOW THE COMMISSION TO  
20 ORDER EXPANDED INTERCONNECTION?

21  
22 A. I AM NOT A LAWYER, BUT SOUTHERN BELL'S ATTORNEYS ADVISE ME  
23 THAT THERE IS NOTHING IN CHAPTER 364, FLORIDA STATUTES THAT  
24 WOULD PROHIBIT THIS COMMISSION FROM ORDERING EXPANDED  
25 INTERCONNECTION. HOWEVER, EXPANDED INTERCONNECTION COULD



1 NOT BE USED AS A WAY TO DO SOMETHING THAT WOULD OTHERWISE  
2 BE PROHIBITED BY CHAPTER 364. FOR EXAMPLE, UNDER SECTION  
3 364.337 OF THE STATUTE, AN ALTERNATE ACCESS VENDOR CANNOT  
4 PROVIDE SWITCHED SERVICES TO AN END USER. THEREFORE,  
5 EXPANDED INTERCONNECTION COULD NOT BE USED IN ANY SITUATION  
6 WHERE THAT USE WOULD VIOLATE THIS PART OF THE STATUTE.

7  
8 Q. DOES A PHYSICAL COLLOCATION MANDATE RAISE FEDERAL AND/OR  
9 STATE CONSTITUTIONAL QUESTIONS ABOUT THE TAKING OR CON-  
10 FISCATION OF LEC PROPERTY?

11  
12 A. THIS IS ANOTHER LEGAL QUESTION, BUT I KNOW SOUTHERN BELL  
13 HAS APPEALED THE FCC'S ORDER BECAUSE IT BELIEVES IT  
14 CONSTITUTES AN UNLAWFUL TAKING OF PROPERTY. THIS ISSUE  
15 WILL BE ADDRESSED IN FURTHER DETAIL IN SOUTHERN BELL'S  
16 POST-HEARING BRIEF.

17  
18 Q. SHOULD THE COMMISSION REQUIRE PHYSICAL AND/OR VIRTUAL  
19 COLLOCATION?

20  
21 A. THE FPSC SHOULD NOT MANDATE ANY FORM OF COLLOCATION.  
22 RATHER, THE LOCAL EXCHANGE COMPANIES SHOULD HAVE THE OPTION  
23 OF PROVIDING EITHER PHYSICAL OR VIRTUAL INTERCONNECTION  
24 ARRANGEMENTS, TAKING INTO ACCOUNT COLLOCATOR REQUESTS.  
25 ALLOWING THE LECs TO PROVIDE EITHER PHYSICAL OR VIRTUAL

1       ARRANGEMENTS WILL ENABLE THE COORDINATION OF INTRASTATE AND  
2       INTERSTATE COLLOCATION ARCHITECTURES FOR THOSE  
3       INTERCONNECTORS WHO HAVE A NEED FOR BOTH JURISDICTIONAL  
4       ARRANGEMENTS.

5

6   Q.   WHAT LECs SHOULD PROVIDE EXPANDED INTERCONNECTION?

7

8   A.   UNDER THE FCC'S ORDER MANDATING PHYSICAL COLLOCATION, ONLY  
9       TIER 1 LECs ARE REQUIRED TO PROVIDE EXPANDED  
10      INTERCONNECTION.  THE FCC'S RATIONALE FOR THIS DECISION WAS  
11      THAT MANY SMALLER LECs MAY HAVE INADEQUATE CENTRAL OFFICE  
12      SPACE TO ACCOMMODATE COLLOCATION.  THE FPSC IS, OF COURSE,  
13      FREE TO EITHER ADOPT THIS SAME APPROACH OR TO DECIDE THIS  
14      ISSUE DIFFERENTLY.  HOWEVER, IF THIS COMMISSION WERE TO  
15      GIVE ALL LECs THE OPTION OF OFFERING EITHER PHYSICAL OR  
16      VIRTUAL COLLOCATION, THEN MANY SMALLER LECs COULD OFFER  
17      COLLOCATION EVEN THOUGH THEY MIGHT NOT BE ABLE TO COMPLY  
18      WITH A MANDATORY PHYSICAL COLLOCATION REQUIREMENT.

19

20   Q.   WHERE SHOULD EXPANDED INTERCONNECTION BE OFFERED?

21

22   A.   EXPANDED INTERCONNECTION COULD BE OFFERED IN ALL SOUTHERN  
23      BELL CENTRAL OFFICES IN FLORIDA WHERE SUFFICIENT SPACE IS  
24      AVAILABLE.  THERE IS A POSSIBILITY THAT SOME CENTRAL  
25      OFFICES MAY NOT HAVE SUFFICIENT SPACE TO ACCOMMODATE EITHER

1       PHYSICAL OR VIRTUAL COLLOCATION. IF SO, THEN NO  
2       COLLOCATION SHOULD BE REQUIRED AT SUCH OFFICES.

3

4   Q.   WHO SHOULD BE ALLOWED TO INTERCONNECT?

5

6   A.   THOSE WHO DESIRE TO INTERCONNECT THEIR OWN BASIC  
7       TRANSMISSION FACILITIES ASSOCIATED WITH OPTICAL TERMINATING  
8       EQUIPMENT AND MULTIPLEXERS SUCH AS INTEREXCHANGE CARRIERS,  
9       ALTERNATE ACCESS VENDORS, CABLE COMPANIES, AND END USERS  
10      SHOULD BE ALLOWED TO INTERCONNECT ON AN INTRASTATE BASIS.

11

12  Q.   SHOULD THE SAME TERMS AND CONDITIONS OF EXPANDED INTER-  
13      CONNECTIONS APPLY TO AT&T AS APPLY TO OTHER INTER-  
14      CONNECTORS?

15

16  A.   YES. THE SAME TERMS AND CONDITIONS FOR EXPANDED INTER-  
17      CONNECTION SHOULD APPLY TO ALL INTERCONNECTORS.

18

19  Q.   SHOULD THE COMMISSION REQUIRE STANDARDS FOR PHYSICAL AND/OR  
20      VIRTUAL COLLOCATION? IF SO, WHAT SHOULD THEY BE?

21

22  A.   IF THE FPSC ALLOWS THE LECs THE OPTION OF PHYSICAL OR  
23      VIRTUAL COLLOCATION, SOUTHERN BELL WOULD PROPOSE THE  
24      FOLLOWING STANDARDS. FIRST, CENTRAL OFFICE SPACE SHOULD BE  
25      PROVIDED ON A "FIRST COME, FIRST SERVED" BASIS. THE

1 DETERMINATION OF THE AVAILABILITY OF SPACE SHOULD BE THE  
2 RESPONSIBILITY OF THE LEC.

3  
4 SECOND, THE POINT OF INTERCONNECTION SHOULD CONSTITUTE THE  
5 DEMARCATION POINT FOR LEC AND INTERCONNECTOR  
6 RESPONSIBILITIES. FOR PHYSICAL COLLOCATION, THE  
7 INTERCONNECTION POINT IS THE LOCATION IN THE CENTRAL OFFICE  
8 DESIGNATED BY THE LEC WHERE THE LEC'S DS1 AND DS3 SERVICES  
9 ARE TERMINATED FOR INTERCONNECTION TO THE COLLOCATOR'S  
10 TERMINATION EQUIPMENT. FOR VIRTUAL COLLOCATION, THE POINT  
11 OF INTERCONNECTION SHOULD BE AS CLOSE AS REASONABLY  
12 POSSIBLE TO THE CENTRAL OFFICE, SUCH AS THE CENTRAL OFFICE  
13 MANHOLE.

14  
15 THE REQUIREMENTS FOR EXPANDED INTERCONNECTION SHOULD APPLY  
16 ONLY TO CENTRAL OFFICE EQUIPMENT NEEDED TO TERMINATE BASIC  
17 TRANSMISSION FACILITIES ASSOCIATED WITH OPTICAL TERMINATING  
18 EQUIPMENT AND MULTIPLEXERS. INTERCONNECTION SHOULD NOT BE  
19 ALLOWED FOR OTHER TYPES OF EQUIPMENT, SUCH AS ENHANCED  
20 SERVICES, SWITCHES AND CUSTOMER PREMISES EQUIPMENT.

21  
22 FINALLY, BECAUSE OF THE POTENTIAL FOR ADVERSE EFFECTS  
23 REGARDING THE AVAILABILITY OF CONDUIT AND RISER SPACE, THE  
24 INTERCONNECTION OF NON-FIBER OPTIC CABLE SHOULD NOT BE  
25 ALLOWED. INTERCONNECTION SHOULD BE LIMITED TO DS1s AND

1 DS3s PROVIDED BY FIBER OPTICS WITH FUTURE ENHANCEMENTS TO  
2 INCLUDE NEW TECHNOLOGIES AS THEY MAY BE DEPLOYED.

3

4 Q. SHOULD COLLOCATORS BE REQUIRED TO ALLOW LECs AND OTHER  
5 PARTIES TO INTERCONNECT WITH THEIR NETWORKS?

6

7 A. YES, RECIPROCITY SHOULD BE PART OF ANY INTERCONNECTION/  
8 COLLOCATION ORDER IN FLORIDA. THE ABILITY TO BENEFIT FROM  
9 INCREASED COMPETITION IN THE MARKETPLACE SHOULD BE  
10 AVAILABLE TO ALL TELECOMMUNICATIONS PROVIDERS.

11

12 Q. WHAT STANDARDS SHOULD BE ESTABLISHED FOR THE LECs TO  
13 ALLOCATE SPACE FOR COLLOCATORS?

14

15 A. CENTRAL OFFICE SPACE FOR COLLOCATION SHOULD BE ALLOCATED ON  
16 A "FIRST COME, FIRST SERVED" BASIS. CONSISTENT WITH THE  
17 INTERSTATE EXPANDED INTERCONNECTION SERVICE OFFERING, THE  
18 INTRASTATE TARIFF SHOULD ALLOW THE LECs TO MAKE FLOOR SPACE  
19 AVAILABLE TO EACH COLLOCATOR IN 100 SQUARE FOOT MODULES,  
20 PER CENTRAL OFFICE. ADDITIONAL SPACE WOULD ALSO BE MADE  
21 AVAILABLE, WHERE FEASIBLE, IN 100 SQUARE FOOT MODULES.

22

23 VIRTUAL COLLOCATION SHOULD ALSO FOLLOW THE SAME TERMS AND  
24 CONDITIONS ESTABLISHED IN THE INTERSTATE JURISDICTION.  
25 WITH VIRTUAL INTERCONNECTION, EACH REQUEST FOR COLLOCATION



1        WOULD BE REVIEWED BY THE LECs TO DETERMINE THE AMOUNT OF  
2        FLOOR SPACE AND POWER REQUIRED TO PROVISION THE  
3        ARRANGEMENT. SPACE WOULD THEN BE ALLOCATED ACCORDINGLY.  
4

5    Q.    SHOULD THE COMMISSION ALLOW EXPANDED INTERCONNECTION FOR  
6        NON-FIBER OPTIC TECHNOLOGY?  
7

8    A.    AS MENTIONED PREVIOUSLY, BECAUSE OF THE POTENTIAL LIMITED  
9        AVAILABILITY OF CONDUIT AND RISER SPACE THE INTERCONNECTION  
10       OF NON-FIBER OPTIC CABLE SHOULD NOT BE ALLOWED. IN  
11       ADDITION, THE TELECOMMUNICATIONS NETWORK IS MOVING TOWARDS  
12       A FIBER OPTICS-BASED NETWORK. SOUTHERN BELL IS IN THE  
13       PROCESS OF MODERNIZING ITS NETWORK AND DEPLOYING FIBER  
14       OPTIC TECHNOLOGY. ANY EXPANDED INTERCONNECTION OFFERING  
15       SHOULD BE COMPATIBLE WITH THESE TECHNOLOGICAL DEVELOPMENTS.  
16

17   Q.    IF THE COMMISSION PERMITS EXPANDED INTERCONNECTION, WHAT  
18        PRICING FLEXIBILITY SHOULD THE LECs BE GRANTED FOR SPECIAL  
19        ACCESS AND PRIVATE LINE SERVICES?  
20

21   A.    THE LECs SHOULD RETAIN THE PRICING FLEXIBILITY THEY  
22        CURRENTLY HAVE FOR PRIVATE LINE SERVICES. CONTRACT SERVICE  
23        ARRANGEMENTS (CSAs) FOR PRIVATE LINE SERVICES ARE ALLOWED  
24        TODAY, AND IT IS APPROPRIATE TO CONTINUE THIS PRICING  
25        STRUCTURE.

1 BECAUSE SOUTHERN BELL IS CURRENTLY UNABLE TO PROVIDE CSAs  
2 FOR INTRASTATE SPECIAL ACCESS SERVICES, AT A MINIMUM  
3 SOUTHERN BELL SHOULD BE PERMITTED TO IMPLEMENT ZONE PRICING  
4 ON THE BASIS OF WIRE CENTER GROUPINGS RATHER THAN AT  
5 AVERAGED STATEWIDE RATES.

6  
7 ALL SIMILARLY SITUATED SPECIAL ACCESS SERVICE CUSTOMERS IN  
8 A GIVEN WIRE CENTER WOULD BE CHARGED THE SAME RATES FOR THE  
9 SAME SERVICE.

10  
11 Q. IF THE COMMISSION PERMITS COLLOCATION, WHAT RATES, TERMS,  
12 AND CONDITIONS SHOULD BE TARIFFED BY THE LECs?

13  
14 A. THE LECs SHOULD NOT BE REQUIRED TO FILE A TARIFF THAT SETS  
15 FORTH RATES FOR FLOOR SPACE AND UTILITY COSTS. WITH THOSE  
16 EXCEPTIONS, ALL OTHER RATE ELEMENTS FOR VIRTUAL COLLOCATION  
17 SHOULD BE TARIFFED. FOR PHYSICAL COLLOCATION THE RATE  
18 STRUCTURE SHOULD MIRROR THE ONE FILED WITH THE FCC WITH THE  
19 EXCEPTIONS FOR FLOOR SPACE AND UTILITY COST ELEMENTS  
20 MENTIONED ABOVE.

21  
22 Q. SHOULD ALL SPECIAL ACCESS AND PRIVATE LINE PROVIDERS BE  
23 REQUIRED TO FILE TARIFFS?

24  
25 A. IF TARIFFS ARE A REQUIREMENT FOR ANY PROVIDER OF SPECIAL



1 ACCESS OR PRIVATE LINE SERVICES, THEN THEY SHOULD BE  
2 REQUIRED OF ALL PROVIDERS OF THESE SERVICES. A BETTER  
3 COURSE, HOWEVER, WOULD BE TO REMOVE THESE COMPETITIVE  
4 SERVICES FROM THE VERY DETAILED REGULATORY REQUIREMENTS  
5 THAT APPLY TODAY. THE PROCESS SHOULD NOT IMPOSE ADDITIONAL  
6 REGULATORY BURDENS BUT INSTEAD SHOULD SEEK TO LESSEN AND  
7 EVENTUALLY ELIMINATE THE EXISTING REGULATORY REQUIREMENTS  
8 IN PLACE TODAY.

9

10 Q. WHAT SEPARATIONS IMPACT WILL EXPANDED INTERCONNECTION HAVE  
11 ON THE LECs?

12

13 A. AT THE PRESENT TIME, SOUTHERN BELL HAS NOT DEVELOPED A  
14 FORECAST OF DEMAND FOR COLLOCATION AND THEREFORE CANNOT  
15 QUANTIFY THE POTENTIAL JURISDICTIONAL SEPARATIONS IMPACT OF  
16 EXPANDED INTERCONNECTION.

17

18 Q. HOW WOULD RATEPAYERS BE FINANCIALLY AFFECTED BY EXPANDED  
19 INTERCONNECTION?

20

21 A. RESIDENTIAL RATEPAYERS MAY BE FINANCIALLY AFFECTED IF THE  
22 LECs ARE NOT ABLE TO COMPETE FOR THE PROVISION OF  
23 TELECOMMUNICATIONS SERVICES THAT CURRENTLY PROVIDE A  
24 CONTRIBUTION TO RESIDENTIAL SERVICE. TELECOMMUNICATIONS  
25 SERVICES PROVIDED BY THE LECs CANNOT BE VIEWED SINGULARLY

1 AND IN A VACUUM. THERE ARE CROSS-ELASTICITIES BETWEEN  
2 DEDICATED AND SWITCHED SERVICES. IF THE PRICE FOR  
3 DEDICATED SERVICES DROPS BECAUSE OF COMPETITION, THEN MORE  
4 DEDICATED SERVICES WILL BE USED AS SUBSTITUTES FOR SWITCHED  
5 SERVICES. BOTH SERVICES PROVIDE A LEVEL OF CONTRIBUTION TO  
6 RESIDENTIAL EXCHANGE SERVICE BUT THE AMOUNT PROVIDED BY  
7 SWITCHED SERVICES IS SIGNIFICANTLY GREATER THAN THAT FROM  
8 DEDICATED SERVICES. THERE IS A NEED TO RECOGNIZE THAT  
9 UNDER THE CURRENT PRICING STRUCTURE, THE SERVICES THAT  
10 PROVIDE THE MOST CONTRIBUTION TO RESIDENTIAL EXCHANGE  
11 SERVICE WILL EVENTUALLY BE UNDER THE GREATEST COMPETITIVE  
12 PRESSURES.

13

14 Q. SHOULD THE COMMISSION GRANT ICI'S PETITION?

15

16 A. THIS COMMISSION SHOULD RESOLVE THE QUESTIONS RAISED BY THE  
17 PETITION OF ICI IN LIGHT OF ALL THE ISSUES CONSIDERED IN  
18 THIS DOCKET. IN OTHER WORDS, ANY ACTION THIS COMMISSION  
19 TAKES ON THE ICI PETITION SHOULD BE CONSISTENT WITH ITS  
20 GENERAL RULINGS IN THIS DOCKET.

21

22 Q. SHOULD EXPANDED INTERCONNECTION BE SUBJECT TO A "NET  
23 REVENUE TEST" REQUIREMENT IN ORDER TO AVOID POSSIBLE CROSS-  
24 SUBSIDY CONCERNS?

25

1 NO. SOUTHERN BELL ROUTINELY PRICES ALL NEW PRODUCTS AND  
2 SERVICES ABOVE THEIR LONG RUN INCREMENTAL COST FLOOR, AND  
3 PROPOSES TO DO THE SAME WITH EXPANDED INTERCONNECTION.  
4 THEREFORE, EVEN IF AVOIDING A CROSS-SUBSIDY FOR EXPANDED  
5 INTERCONNECTION WERE AN APPROPRIATE CONCERN, SOUTHERN  
6 BELL'S NORMAL PRICING PROCEDURE IS SUFFICIENT TO AVOID ANY  
7 CROSS-SUBSIDY.

8  
9 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

10  
11 A. EXPANDED INTERCONNECTION FOR SPECIAL ACCESS AND PRIVATE  
12 LINE SERVICES IS ANOTHER STEP TOWARD FULL COMPETITION IN  
13 THE LOCAL EXCHANGE. THEREFORE, THE LONG RUN EFFECTS OF  
14 THIS DOCKET ARE NOT SIMPLY LIMITED TO THE SERVICES WHICH  
15 ARE THE PRIMARY FOCUS OF THIS PROCEEDING. THE COMMISSION  
16 MUST PROVIDE REGULATORY FLEXIBILITY SO THAT LECs CAN MEET  
17 THE CHALLENGES OF PROVIDING SERVICE IN AN INCREASINGLY  
18 COMPETITIVE ENVIRONMENT. THE COMMISSION SHOULD VIEW THIS  
19 PROCEEDING AS THE LEADING EDGE OF THE TRANSITION TO FULL  
20 COMPETITION IN THE LOCAL EXCHANGE ARENA. LIKEWISE, THE  
21 COMMISSION MUST BALANCE THE CONTINUING ADVANCE OF  
22 COMPETITION FOR TELECOMMUNICATIONS SERVICES WITH ITS  
23 CONCERN FOR UNIVERSAL SERVICE. AS COMPETITION IN THESE  
24 MARKETS DEVELOPS, ALL PROVIDERS SHOULD BE SUBJECT TO THE  
25 SAME RULES, REQUIREMENTS AND OBLIGATIONS. NO PROVIDER

1 SHOULD BE ARTIFICIALLY CONSTRAINED IN ITS EFFORTS TO BE A  
2 VIABLE PLAYER IN THE TELECOMMUNICATIONS MARKETPLACE.

3

4

5 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

6

7 A. YES IT DOES.

8

1           Q     (By Mr. Carver) Mr. Denton, could you  
2 summarize your testimony, please?

3           A     Yes, I would. The issue of expanded  
4 interconnection that is before the Commission today is  
5 just another step in the number of steps that have been  
6 taken toward introducing competition to a previously  
7 regulated monopoly environment. There is going to be  
8 more steps. The issue today is special and private  
9 line. The next issue on the table is going to be  
10 switched switches, which is a bigger issue.

11                     The Commission in the past has broadened  
12 comparative opportunities, done it in the sense that  
13 this enhances the public interest and they're going to  
14 have to make the same decision in this docket.

15                     Now, if you decide that expanded  
16 interconnection is in the public interest, it seems to  
17 me that the rules and regulations, the technical terms  
18 that are being hammered out at the FCC, are probably  
19 going to be, to a large extent, prevailing. It would  
20 be very difficult, I think, to have two different sets  
21 of technical standards and rules and try to administer  
22 that for the Commission, for the telephone companies,  
23 for the interconnecting parties. So I think if you  
24 decide to go along with the expanded interconnection,  
25 the FCC's model is going to have to be very

1 controlling.

2 Now, with respect to the pricing flexibility,  
3 that's another issue in itself. The Commission has a  
4 lot of flexibility in terms of what to do and when to  
5 do it in pricing flexibility. There has been some  
6 discussion here that there ought to be some trigger  
7 point, some threshold, some delay in the time before  
8 which the established local telephone companies are  
9 allowed some additional pricing flexibilities.

10 I can think of at least three good reasons  
11 why that should not occur, at least three reasons why  
12 they should not be asked to wait. But aside that, the  
13 Commission in its past decisions to open up competition  
14 has never stopped the existing carrier from expanding  
15 their comparative pricing options; they never have.  
16 The FCC itself has authorized, from the very beginning  
17 of expanded interconnection, the carriers to have  
18 additional pricing flexibility.

19 So to conclude my summary, I would like to  
20 suggest that the Commission continue on this point its  
21 past tradition of when it expands competition, expands  
22 interest, it also allows the existing carriers  
23 additional pricing flexibilities.

24 That concludes my summary.

25 MR. CARVER: Thank you, Mr. Denton. The



1 witness is available for cross examination.

2 COMMISSIONER CLARK: Mr. Erwin?

3 MR. ERWIN: None.

4 COMMISSIONER CLARK: Ms. Caswell?

5 MS. CASWELL: No questions.

6 COMMISSIONER CLARK: Mr. Willis?

7 MR. WILLIS: No, no questions.

8 MR. WAHLEN: No questions.

9 MS. WILSON: No questions.

10 MR. DUNBAR: No questions.

11 MR. HOFFMAN: No questions.

12 MR. WIGGINS: No questions.

13 COMMISSIONER CLARK: Staff?

14 MR. HATCH: It could be a shorter day than we  
15 thought. I have a few.

16 CROSS EXAMINATION

17 BY MR. HATCH:

18 Q Mr. Denton, have you received a number of  
19 Staff exhibits, DD-1 through DD-6?

20 A Yes, I have.

21 Q Were they prepared by you or under your  
22 supervision?

23 A Some were and some, I believe, were not.

24 Q Were the ones that were not prepared under  
25 your supervision?



1           A     I beg your pardon?

2           Q     Were the ones that were not prepared directly  
3 by you prepared under your supervision?

4           A     No. They were reviewed by me but not  
5 prepared under my supervision.

6           Q     Is everything in there, to the best of your  
7 knowledge and belief, true and correct?

8           A     Yes, it is.

9           MR. HATCH: Commissioners, could we have  
10 those exhibits marked for identification, please?

11           COMMISSIONER CLARK: Mr. Pruitt, I left off  
12 with Exhibit 17, is that correct?

13           MR. PRUITT: That is correct.

14           COMMISSIONER CLARK: Okay. DD No. 1 will be  
15 Exhibit 18?

16           MR. HATCH: Yes, ma'am, and that's "Responses  
17 to Staff Interrogatories."

18           COMMISSIONER CLARK: DD-2 will be Exhibit 19.

19           MR. HATCH: And that is "Staff's First  
20 Request for Production of Documents."

21           COMMISSIONER CLARK: And DD-3 will be Exhibit  
22 20.

23           MR. HATCH: And that's illustrated by a  
24 yellow sheet in your packages. It's a very voluminous  
25 copy, the FCC tariffs. If you request a copy, we'll be

1 glad to provide one.

2 COMMISSIONER CLARK: Okay. FCC tariffs.

3 Exhibit 21 is DD-4?

4 MR. HATCH: Yes, ma'am, that's the deposition  
5 transcript. DD-5 is a confidential exhibit, and DD-6  
6 is the a redacted version of that confidential exhibit,  
7 just so you'll have the context for the information.

8 COMMISSIONER CLARK: So the confidential  
9 exhibit, DD-5, is Exhibit 22. The redacted version,  
10 DD-6, is Exhibit 23.

11 (Exhibit Nos. 18 through 23 marked for  
12 identification.)

13 COMMISSIONER CLARK: Go ahead, Mr. Hatch.

14 Q (By Mr. Hatch) Mr. Denton, do you recall  
15 during your deposition that we discussed the  
16 Commission's current contract serving arrangements  
17 policy?

18 A Yes.

19 Q I believe in your deposition that you  
20 mentioned that Southern Bell was in the process of  
21 reviewing its procedures for following the CSA  
22 policies, is that correct?

23 A That's correct.

24 Q Has that review been completed?

25 A No, it has not. We're trying to make the

1 process a little quicker internally and we have not  
2 finished the review yet.

3 Q Have you gotten further along in that review  
4 in terms of trying to determine whether it works as  
5 it's supposed to or whether any changes are needed?

6 A We've had one more meeting since the  
7 deposition, Tracy.

8 COMMISSIONER CLARK: "CSA," what is that?

9 WITNESS DENTON: Contract --

10 MR. HATCH: Contract serving arrangement.

11 COMMISSIONER CLARK: Thank you.

12 WITNESS DENTON: Contract service

13 arrangement, gives us a chance to make an individual  
14 price bid on a competitive situation.

15 COMMISSIONER CLARK: That is your flexible  
16 pricing?

17 WITNESS DENTON: That is an existing version  
18 of flexible pricing. What we're talking about here is  
19 adding another version, such as zone pricing, that we  
20 have at the interstate level.

21 COMMISSIONER CLARK: That's what they call  
22 density zone pricing?

23 WITNESS DENTON: Yes, that's correct.

24 COMMISSIONER CLARK: Go ahead, Mr. Hatch.

25 Q (By Mr. Hatch) Have you reviewed an FCC

1 order, it's 93-726 regarding zone density pricing?

2 A I don't know that order by number. Is that  
3 the one that authorized?

4 Q That's correct, that's my understanding.

5 A I have reviewed it.

6 Q You have?

7 A Yes, casually.

8 Q Were you involved in the preparation of  
9 BellSouth's zone density pricing plan?

10 A No, I was not.

11 Q How familiar are you with it on terms of its  
12 details as proposed to the FCC?

13 A If you ask me some questions, Tracy, I'm sure  
14 we're going to find out.

15 Q Generally, I believe it's your position that  
16 the Commission should follow what the FCC has done with  
17 respect to expanded interconnection; is that correct?

18 A With respect to the rules, regulation, terms,  
19 the technical items, I think the only practical thing  
20 to do is to do that.

21 Now, we have a strong objection to the  
22 physical collocation mandatory order. I think until  
23 that's resolved in the courts, we ought to keep that as  
24 an option. But other than that, I think, as a  
25 practical matter, it would be hard to deviate very much

1 from what they're doing.

2 Q But with respect to the pricing philosophy, I  
3 believe in your summary of your testimony you said that  
4 we should retain expanded flexibility for pricing for  
5 intrastate expanded interconnection; is that correct?

6 A Yes. In fact, the example that they set is a  
7 pretty good example because they have authorized  
8 pricing flexibility in terms of the zoned deaveraging  
9 of state averages from the very beginning of expanded  
10 interconnections. They're not waiting for a trigger  
11 point or a threshold; they figure that when people are  
12 allowed to compete, then others should be allowed to  
13 compete back.

14 Q I believe we talked about this at fair length  
15 in your deposition. The Commission's contract serving  
16 arrangements is more flexible and gives you more  
17 latitude than the FCC's zone density pricing plan, does  
18 it not?

19 A Yes, it does.

20 Q Did you propose anything similar to our CSAs  
21 at the FCC?

22 A Yeah. In the comments that we filed early in  
23 the game with the FCC, we proposed what is called  
24 "contract carriage" as compared with "common carriage."  
25 A contract carriage arrangement would be where we could

1 quote their price to a specific customer. We proposed  
2 that in our comments to the FCC. That would be  
3 equivalent, in effect, to a CSA here in Florida.

4 Q Mr. Denton, do you know what states, are you  
5 aware of any other states that have approved expanded  
6 interconnection at the state level?

7 A At the state level?

8 Q Yes.

9 A I believe Illinois has done that. I believe  
10 New York has done it. I believe Massachusetts has done  
11 it. Incidentally, in each of the these three states I  
12 just named, the commissions in those states authorized  
13 expanded pricing flexibility for the LECs. When they  
14 expanded interconnection, they gave them at the same  
15 time additional pricing flexibility to compete.

16 Q Are there any in BellSouth's territory that  
17 have adopted expanded interconnection at the state  
18 level?

19 A None that I know of.

20 Q With those states that have that you're aware  
21 of, have they done it on a physical or a virtual  
22 collocation arrangement?

23 A The New York arrangement started virtual and  
24 evolved to physical. The Illinois arrangement, I  
25 think, started virtual; I think is still virtual. I'm



1 not sure about Massachusetts.

2 Q I'm going to read you a statement -- I  
3 believe you have a copy of it so you can refer to the  
4 writing -- to see if you agree with this statement just  
5 as a context. The source of the statement is an  
6 interrogatory that Staff sent to FIXCA. They're not  
7 present. It's a response that FIXCA provided to one of  
8 the interrogatories.

9 "Expanded interconnection, which is purchase  
10 of cross-connection inside the FCC LEC central office,  
11 is by definition a monopoly product for which there are  
12 no competitive substitutes."

13 Do you agree with that statement?

14 A I think, essentially, if you're talking about  
15 expanded interconnection, the central office, yes.

16 Q Would you agree that it is "a monopoly  
17 product for which there are no competitive  
18 substitutes"?

19 A No, not entirely.

20 Q What would you class as substitutes?

21 A The customers, obviously -- or the  
22 competitors, obviously, have the option of building  
23 their own network, building their own switches, having  
24 an overlay network.

25 Q Let's move to the second statement. It says,



1 "Furthermore, it is an access product for pricing  
2 flexibility to translate into discrimination between  
3 interexchange carriers." Would you agree with that  
4 statement?

5 A I'm not entirely sure what the statement  
6 means, "an access product." I suppose you can call it  
7 an access product, at least at the interstate level  
8 it's filed in the access tariff, I think. I'm not sure  
9 where it would be filed here. So it either is or is  
10 not an access product.

11 Whether it is or it isn't, I'm not sure how  
12 that would bring up the question of discrimination  
13 between interexchange carriers. I don't understand  
14 what that means.

15 Is there a discussion here about different  
16 prices for different levels of service, different  
17 volumes of service, different contract periods? Yes.  
18 That's not discrimination. Beyond that, I'm not sure  
19 what this means.

20 Q If the LECs do not tariff expanded  
21 interconnection, if it's left solely to a contractual  
22 basis, does that not present opportunities for price  
23 discrimination among various customers of expanded  
24 interconnection?

25 A Certainly, if it was not tarified, there

1 would be more opportunities for that to happen. The  
2 Commission is here as a recipient of complaints. Were  
3 that to happen, I'm sure that you would hear about it  
4 and the situation would be corrected pretty quickly.

5 Q Your review of how you handle contract  
6 service arrangements is not complete. This question  
7 deals with how you perceive of the Commission's general  
8 allowance of contract service arrangements. Are there  
9 any problems with how the Commission -- or could the  
10 Commission create a more flexible arrangement than the  
11 existing contract serving arrangements?

12 A I don't think there's any problems with what  
13 the Commission has laid out at this point. And I think  
14 at this point, in terms of what you've laid out, there  
15 is sufficient flexibility for -- to use it for what  
16 it's been intended for use for.

17 Q Were you present yesterday during Dr.  
18 Beauvais' testimony?

19 A Yes.

20 Q Did you hear him make the statement that in  
21 general, this is a paraphrase, "as a practical matter,  
22 now that the FCC has ruled, in a sense the die is cast  
23 and the states really can't do much significantly  
24 different from what the FCC has now proposed." Would  
25 you agree with that?

1           A     No. He was speaking in terms of what exactly?

2           Q     It was in the context of a conversation about  
3 having different tariffing arrangements with different  
4 requirements and standards with respect to the  
5 interstate versus the intrastate expanded  
6 interconnections, as I recall.

7           A     Okay. I agree with that.

8           Q     It is your general position, I believe, that  
9 expanded interconnection should not be mandated in any  
10 form that it should be left to essentially your  
11 negotiated arrangement; is that correct?

12          A     Yes, sir.

13          Q     The FCC has, I believe, mandated expanded  
14 interconnection for the top 10% COs, I think we talked  
15 about yesterday. Is that your understanding?

16          A     That's not entirely correct. They've  
17 mandated collocation, they started with a percentage of  
18 the COs less than 100% because as a practical matter,  
19 that's all that could be accomplished initially.

20          Q     If the Commission were to follow your  
21 proposal then essentially everything would be left to a  
22 case-by-case determination; is that correct?

23          A     The proposal being that we have the option as  
24 to whether it's physical or virtual. Is that the  
25 question?

1 Q And at any given CO as well?

2 A Yes, that's correct.

3 Q With respect to the allocation of floor  
4 space, is 100 square feet any magic number for you?

5 A No, other than if that is the standard and  
6 that's what we ought to follow. The 100 square feet  
7 came out of the New York Telephone Company experience,  
8 as I recall, and that was a size that was developed there.  
9 And I believe that was the first case of a physical  
10 collocation and it seemed to fit with the general  
11 requirements, and that was the standard that's been used.

12 Q If the Commission were to allow interconnection  
13 on essentially a contract case-by-case basis, wouldn't it  
14 make fair sense to have variability in the 100 square foot  
15 requirement as well, since you used only as much space as  
16 you needed?

17 A It could. But, again, it's a question of how  
18 you would administer the process.

19 Q Would there be an administrative difficulty in  
20 that process as compared to your FCC interstate tariffs?

21 A I'm not sure I follow your question.

22 Q Well, the FCC tariffs are pretty much set in  
23 stone at this point, are they not?

24 A Subject to the review they're going through,  
25 yes, they will be eventually.

1           Q     And there may be some minor modifications, but  
2 you wouldn't expect any significant changes, would you?

3           A     Well, significant would be in the eyes of the  
4 beholder.

5           COMMISSIONER CLARK: Are you challenging it  
6 in the same way that United -- no, GTE is?

7           WITNESS DENTON: We're defending the tariff that  
8 we filed as GTE is probably defending their tariff. There  
9 are others who are attacking the tariffs --

10          COMMISSIONER CLARK: Let me ask it this way.  
11 Is it your company's position that it is a taking of  
12 property to mandate physical collocation?

13          WITNESS DENTON: Yes, it is.

14          COMMISSIONER CLARK: Okay.

15          Q     (By Mr. Hatch) My question to you is: if the  
16 Commission had a more flexible system in terms of its  
17 tariffing requirements or even on a contract basis  
18 where it would not mandate the same specific 100 square  
19 foot allocation, for example, would that create an  
20 administrative difficulty for you in administering  
21 those programs?

22          A     Yes, I think it would.

23          Q     How so? Why would it be any more difficult  
24 than perhaps your interstate access versus your  
25 intrastate access tariffs now?

1           A     Well, if the interstate access is established  
2 -- let's use a 100 square feet cage as an example. How  
3 you come up with something different on an intrastate,  
4 when they're going to want to locate facilities in that  
5 space to handle intrastate traffic and interstate  
6 traffic. They're going to commingle traffic through  
7 those facilities.

8                     Now, here's a situation for you. Your  
9 interstate traffic and your space, here's 100 square  
10 feet, but if you're going to go in there and only work  
11 on your intrastate, 50 square feet is what we're going  
12 to let you have. So you can't go into this other half  
13 of that cage. We're going to have to put two doors in  
14 there: one when you're doing intrastate and had to  
15 leave and come back in when you're doing interstate.  
16 It just seems that it would create ridiculous  
17 administrative problems. If you're mingling traffic,  
18 which most carriers would probably do, have some of  
19 both in there.

20           Q     Your existing central offices have a finite  
21 amount of usable space in them now, do they not?

22           A     Given the description of the word "finite,"  
23 yesterday, yes.

24           Q     Subject to building new COs and collapsing  
25 equipment because of technology, subject to those



1 caveats, right?

2 A Right.

3 Q If the Commission were to create a system  
4 that would, say, if somebody wanted it on an intrastate  
5 basis, they could purchase less than 100 square feet,  
6 then wouldn't that enable you to provide more space to  
7 more people if they don't need 100 square feet?

8 A I would think that if this was to be used  
9 only for intrastate traffic and if a space smaller than  
10 that was practical and acceptable, you could come up  
11 with a smaller space in intrastate traffic.

12 Q Wouldn't that allow you to -- I'm sorry.  
13 Wouldn't that allow you to offer more services to more  
14 people?

15 A Probably not. I think most people who are  
16 going to be in these spaces, who are going to be  
17 collocating, have traffic in both jurisdictions. It's  
18 more efficient for them to combine their facilities,  
19 their space usage and carry both jurisdictional  
20 traffic, rather than having something over here for  
21 intrastate, something over here for interstate.

22 Q Should the Florida Commission's rate elements  
23 and rate levels mirror those of the FCC's?

24 A I think, in general, yes, there may be  
25 exceptions. But as a general rule, they probably should.

1 Q I believe it's your position that floor space  
2 should not be tariffed; is that correct?

3 A That's correct.

4 Q If you have a tariff for floor space at the  
5 interstate, why would you not want to tariff for floor  
6 space at the intrastate level for consistency?

7 A Well, as a practical matter, in terms of  
8 being consistent, we probably, given the option having  
9 commingled interstate/intrastate traffic, would  
10 probably tariff the floor space if we're ordered to do  
11 that at the interstate. It was not our first choice.

12 MR. HATCH: That's all we've got.

13 COMMISSIONER CLARK: Commissioners? I have a  
14 question. You recommend that nonfiberoptic cable  
15 should not be allowed for interconnection because of space?

16 WITNESS DENTON: That's correct.

17 COMMISSIONER CLARK: What about microwave  
18 interconnection? I mean, is it -- let me put it  
19 differently. Is it your position that whatever means  
20 interconnection is accomplished it should not take up  
21 more space than the fiber optic does?

22 WITNESS DENTON: That is correct. That's the  
23 FCC's position, it's our position as well. Microwave  
24 is a separate issue. That goes in a different place.  
25 It goes kind of on top of the building.

1                   **COMMISSIONER CLARK:** Okay. And you have to  
2 bring a cable down from the microwave?

3                   **WITNESS DENTON:** Yes.

4                   **COMMISSIONER CLARK:** And you're saying that  
5 cable ought to be fiber?

6                   **WITNESS DENTON:** Well, I don't know. I'm not  
7 sure in that case. But the microwave has been ordered  
8 by the FCC, and they've ordered that it be done on an  
9 individual case basis because each one is unique. And  
10 how they get the microwave signal from the roof to  
11 connecting with those, I'm just not sure, but however  
12 they do it would be okay because the FCC has ordered  
13 that. And why we didn't think that was a good idea and  
14 were objecting to it, we would probably go along with  
15 it there and here, too, if you order it.

16                   **COMMISSIONER CLARK:** Why are you objecting to it?

17                   **WITNESS DENTON:** Because microwave is a  
18 passing technology that this whole operation was  
19 intended to try and enhance development of fiber optic  
20 technology, digital technology, modern technology. It  
21 just didn't fit that model. We thought --

22                   **COMMISSIONER CLARK:** You mean expanded  
23 interconnection is designed to promote deployment of  
24 new technology?

25                   **WITNESS DENTON:** Yes, exactly.

1                   COMMISSIONER CLARK: And microwave is not a  
2 new technology?

3                   WITNESS DENTON: Exactly.

4                   COMMISSIONER CLARK: But other parties think  
5 that microwave ought to be allowed?

6                   WITNESS DENTON: Yes, and we will accept that.

7                   COMMISSIONER CLARK: Okay. Do I understand zone  
8 pricing correctly to be density, I guess, a deaveraging in  
9 the sense that you can charge less for access in central  
10 offices that have more traffic because it, in fact, costs  
11 you less per unit of traffic?

12                   WITNESS DENTON: That's exactly right.

13                   COMMISSIONER CLARK: And it's your view that  
14 if you allow expanded interconnection, it ought to  
15 include that deaveraging?

16                   WITNESS DENTON: My view is that if expanded  
17 interconnection is allowed, then we should have the  
18 option of filing a zone pricing tariff, for example,  
19 and have that accepted by the Commission as a  
20 competitive pricing response just as the FCC has done.

21                   The distinction I guess I might make between  
22 the two is the FCC in their order dealing with expanded  
23 interconnection also dealt with the zone pricing in  
24 that particular order and came up with the concept,  
25 laid it out.

1           What I would suggest this Commission do is that  
2 if you're going to order expanded interconnection, do  
3 that; and then we will, in turn, subsequent to that, file  
4 tariffs that we think are responsive, such as its own  
5 pricing tariff. And at that time you can review that tariff.

6           COMMISSIONER CLARK: What if we don't allow  
7 you to do that? That puts you at a competitive  
8 disadvantage.

9           WITNESS DENTON: Well, that's correct. And  
10 what does that do to the consumer? If you don't allow  
11 us to do that, there are a number of things that could  
12 be a result of that event.

13           One is that by not letting us be as  
14 competitive with prices as we can be, you are, in  
15 effect, allowing into the market or incurring into the  
16 market, competitors who don't have to face a real tough  
17 competitive price test. You may introduce some  
18 insufficient competitors because they have a lot of  
19 margin they can play with. I don't think that's a good  
20 thing for the consumers in the state.

21           Secondly, the pricing philosophy of CAPs is  
22 the price below the LECs, 5% or 15%. So if our prices  
23 are kept at a higher level and their philosophy is the  
24 price below that, you have denied the consumers their  
25 services, the chance to have even lower prices. If we

1 can lower our prices, they're going to follow us down.  
2 So you deny the consumers that benefit.

3 I guess the other thing is that, in no case  
4 in which this Commission that I'm aware of has  
5 authorized new entrants into the market if they had not  
6 also authorized the existing entrance, existing players  
7 competition. And I think the case of Microtel back in  
8 '84, '85. I'm not sure how many people in this room  
9 were here back then, but right after the divestiture,  
10 Microtel, which was a long distance service in Florida,  
11 came to the Commission and asked for certification to  
12 be a competitive long distance company to compete with,  
13 I guess, AT&T and the LECs for interEAEA traffic. And  
14 they won approval from the Commission to become the  
15 competitor with the established entrants. And right  
16 after that there were some other carriers that came  
17 along and said, "Me, too. You let this company in. We  
18 want to be competitors, too." There was a hearing held  
19 here and Microtel said, "Wait a minute, you've just  
20 allowed us into the market and now you're going to  
21 allow other people in the market to compete with us.  
22 You can't do that. We're just a struggling infant  
23 industry. We need some protection. We need time to  
24 get our foot in the door. We've got to get capital.  
25 We have to get customers. We have to get a revenue



1 base. I mean, if you want to us to survive, you've got  
2 to give us some protection." And the Commission said,  
3 "No, our interest is in competition, which we think  
4 will bring benefits to the consumers. Our interest is  
5 not in making sure this one company survives." And so  
6 you authorized other competitors. Microtel, by the  
7 way, survived. They made it.

8           The other point in that whole episode is that  
9 at the time that this company, Microtel, got into the  
10 market and others also got certified, AT&T and the  
11 exchange companies of this state were allowed to have  
12 pricing flexibility to offer new service plans where there  
13 is no threshold test, no trigger point, no -- where you've  
14 got to lose a certain market share before they will allow  
15 you to compete. Right from the start, the existing  
16 players were allowed to compete with the new players. So  
17 with strong lessons in history that I think would apply in  
18 this case.

19           COMMISSIONER CLARK: What did the Commission  
20 do in those cases? Did they set a floor for your rates  
21 for long distance service?

22           WITNESS DENTON: The floor has always been  
23 incremental cost. That has been the floor in the past,  
24 it's the floor today. It's our floor as managers.

25           COMMISSIONER CLARK: On Page 15 you make a

1 comment, you say, starting on Line 4, you say,  
2 "Therefore, even if avoiding cross-subsidy or expanded  
3 interconnection were an appropriate concern, Southern  
4 Bell's normal pricing procedures is sufficient to avoid  
5 any cross-subsidy." My question is: isn't avoiding  
6 cross-subsidy in this case an appropriate concern for us?

7 WITNESS DENTON: Appropriate?

8 COMMISSIONER CLARK: Yeah.

9 WITNESS DENTON: I think it's always an  
10 appropriate concern. And the test that's been, I  
11 guess, established is an incremental cost test, and  
12 that's the one that we followed.

13 COMMISSIONER CLARK: Well, the statement seems  
14 to indicate it shouldn't be a concern in this case.

15 WITNESS DENTON: Well, the statement is in  
16 the context of the question, which is about a net  
17 revenue test, which is, I think, not an issue anymore  
18 in this docket. And, yes, you should always be  
19 concerned about cross-subsidy. Yes, you have an  
20 incremental cost test. Yes, we use that test.

21 COMMISSIONER CLARK: We should be concerned  
22 about cross-subsidization of noncompetitive services  
23 cross-subsidizing competitive services.

24 WITNESS DENTON: Yes, you should.

25 COMMISSIONER CLARK: Should we likewise be

1 concerned about one competitive service cross-subsidizing  
2 another?

3 WITNESS DENTON: This brings up echos of an  
4 earlier hearing. I'm trying to think of what the  
5 response back then was. (Laughter)

6 Consistency, uh? I think the answer then was  
7 no, and I think the answer now would be no. But, first of  
8 all, it wouldn't make sense, I guess, for a company to  
9 subsidize one competitive product with another. And I  
10 think your primary concern ought to be what the question  
11 of noncompetitive versus competitive is.

12 COMMISSIONER CLARK: Thank you, Mr. Denton.

13 WITNESS DENTON: You're welcome.

14 COMMISSIONER CLARK: Redirect?

15 MR. CARVER: No. No redirect.

16 COMMISSIONER CLARK: Thank you. You're  
17 excused, I guess, until your next turn.

18 (Witness Denton excused.)

19

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20 MR. HATCH: Staff would move Exhibits 18  
21 through 23.

22 COMMISSIONER CLARK: Without objection,  
23 they're moved in the record.

24 (Exhibit Nos. 18 through 23 received into evidence.)

25 COMMISSIONER CLARK: Mr. Willis?

1 MR. WILLIS: We have conferred off of the  
2 record and have no objection to that, then going ahead.

3 COMMISSIONER CLARK: Should we take him up now  
4 or decide to take him up at a time certain, say, 11:30?

5 MR. HOFFMAN: He's ready to go now.

6 COMMISSIONER CLARK: All right. Let's take  
7 him up now.

8 MR. HOFFMAN: Thank you.

9 COMMISSIONER LAUREDO: Your client should  
10 know the kind of clout you have around this Commission.

11 WITNESS KOUROUPAS: I thank the Commission  
12 for their indulgence.

13 PAUL KOUROUPAS  
14 was called as a rebuttal witness on behalf of Teleport  
15 Communications Group, Inc., and, having been duly  
16 sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. HOFFMAN:

19 Q Mr. Kouroupas, have you been sworn?

20 A Yes, I have.

21 Q Are you the same Paul Kouroupas who prefiled  
22 direct testimony in this proceeding?

23 A Yes.

24 Q Have you prepared and caused to be filed six  
25 pages of rebuttal testimony in this proceeding?

1           A     Yes, I have.

2           Q     Do you have any changes or revisions to your  
3 prefiled rebuttal testimony?

4           A     No, I do not.

5           Q     So that if I asked you the same questions  
6 contained in your rebuttal testimony today, would your  
7 answers be the same?

8           A     Yes, they would.

9           MR. HOFFMAN: Madam Chairman, I would ask  
10 that Mr. Kouroupas' prefiled rebuttal testimony be  
11 inserted into the record as though read.

12           COMMISSIONER CLARK: It will be inserted into  
13 the record as though read.

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TELEPORT COMMUNICATIONS GROUP  
REBUTTAL TESTIMONY OF PAUL KOUROUPAS  
DOCKET NO. 921074-TP

- 1 Q. What is your name?
- 2 A. Paul Kouroupas
- 3
- 4 Q. Did you already file direct testimony on behalf of
- 5 Teleport Communications Group Inc. (TCG) in this
- 6 proceeding?
- 7 A. Yes.
- 8
- 9 Q. Have you read the other parties' direct filed
- 10 testimony?
- 11 A. Yes.
- 12
- 13 Q. Are there any additional issues you would like to
- 14 address after reading the direct testimony?
- 15 A. Yes, I would like to address the issue of universal
- 16 service and "contributions" to residential ratepayers
- 17 raised by Mr. Poag on behalf of United Telephone
- 18 Company (page 2, lines 10-25, page 3, lines 1-2) and by
- 19 Mr. Denton on behalf of Southern Bell Telephone (page
- 20 3, lines 4-14).
- 21
- 22 Q. Do you believe a policy authorizing expanded



1 interconnection for intrastate special access services  
2 in any way jeopardizes residential ratepayers or  
3 universal service?

4 A. No. First, the Commission should remember that local  
5 exchange carriers (LECs) have always raised this fear  
6 when confronted with any competitive challenge. Yet,  
7 each time new markets opened up (long distance,  
8 customer premises equipment (CPE), inside wiring,  
9 etc.), universal service remained secure. Indeed,  
10 universal service penetration rates -- in terms of the  
11 percentage of people served by the LECs -- have  
12 steadily increased in the face of competition. I would  
13 expect this trend to continue as competition grows for  
14 local telecommunications service.

15  
16 Second, competition for local telecommunications  
17 services can contribute to the goal of universal  
18 service. Competition in states in which intrastate  
19 special access interconnection is permitted (New York,  
20 Illinois, Massachusetts, Michigan) has spurred LECs to  
21 improve efficiencies and reduce costs. To the extent  
22 that these efficiencies are flowed through to customers  
23 --as they should be -- rates for local  
24 telecommunications services decrease. For example, in  
25 the CPE market, competition has delivered to consumers  
26 CPE that is smaller, more powerful, more feature rich,

1 and mobile, with new products coming to the market more  
2 quickly than ever, all at lower costs. Competition for  
3 local telecommunications services can deliver the same  
4 benefits to consumers.

5  
6 Third, competition for intrastate special access  
7 services will actually keep consumers on the LECs'  
8 networks. As consumer demand for local  
9 telecommunications services continues to diversify, it  
10 is increasingly difficult for one carrier to satisfy  
11 the needs of the entire market, especially the need for  
12 vendor and route diversity. More and more, large and  
13 sophisticated consumers look to private network  
14 solutions for their needs. These consumers may then  
15 completely abandon the LEC network. A policy  
16 permitting interconnection for access services  
17 alleviates this problem by permitting access  
18 competitors to satisfy the diverse needs of the public.  
19 Because expanded interconnection for access competitors  
20 encourages them to interconnect to the LEC networks --  
21 rather than build entirely separate networks -- the LEC  
22 retains the revenue associated with the  
23 interconnector's use of the LEC's network services.  
24 Contrasted with the potential of a total loss of the  
25 revenues which would result from construction of an  
26 entirely separate network, authorization of expanded

1 interconnection gives the LECs an ability to derive  
2 revenues from the interconnector.

3

4 Finally, until the LECs can identify and quantify  
5 exactly which consumers are in danger of losing service  
6 as a result of competition, it is impossible to fully  
7 evaluate their claims.

8

9 Q. Mr. Poag and Mr. Denton claim that there are cross-  
10 elasticities between dedicated access and switched  
11 access services and that if the price for dedicated  
12 services drops because of competition, then customers  
13 will migrate from switched services to dedicated  
14 services to take advantage of the cost "savings". This  
15 will then cause the LECs' switched revenues to  
16 decrease, argue Mr. Poag and Mr. Denton, which will  
17 endanger residential rates. (Poag testimony, pages 8-9,  
18 page 10, lines 13-21, pages 12-14; Denton testimony,  
19 page 14, lines 1-12). Do you agree with this theory?

20 A. No. Only a limited number of end users need dedicated  
21 telecommunication services. They need the redundancy  
22 of dedicated circuits and most importantly, they need  
23 the capacity. However, most end users do not need to  
24 use special access facilities. Based on the logic of  
25 the arguments made by Mr. Poag and Mr. Denton, a single  
26 rail commuter would purchase a ticket for every seat on

1 the train if he could get a bulk rate discount.  
2 Obviously, the commuter would never do this and neither  
3 will a telecommunications user purchase dedicated  
4 access facilities if it does not need them.

5  
6 In states, such as New York, in which intrastate  
7 special access expanded interconnection is already in  
8 place, there is no evidence of any shift of customers  
9 from switched access to special access services, much  
10 less any evidence that the LECs' residential ratepayers  
11 have been affected. Any possible increase in the  
12 cross-elasticity between these two classes of service  
13 is far outweighed by the benefits of competition for  
14 consumers in these states.

15  
16 Even if the LECs discovered that customers were  
17 actually migrating from switched access to special  
18 access, it is unlikely that expanded interconnection  
19 for special access services -- which as a procedural  
20 matter is limited in geographic scope and customers  
21 served -- would be the cause for the shift. Even  
22 without expanded interconnection, LECs offer large term  
23 and volume discounts for high capacity services and  
24 have been aggressively seeking the ability to offer  
25 even larger discounts. If LECs were truly fearful  
26 about such migration, they would be seeking to increase

1        these special access rates, rather than implement sharp  
2        discounts.

3    Q.   Does this conclude your rebuttal testimony?

4    A.   Yes

1 Q (By Mr. Hoffman) Do you have a brief summary  
2 of your rebuttal testimony?

3 A Yes.

4 Q Would you please provide that.

5 A The rebuttal testimony was filed in response  
6 to charges that expanded interconnection will have an  
7 adverse impact on rates for local residential service.  
8 It's TCG's position that no such effect has been  
9 demonstrated in other states where expanded  
10 interconnection has been in effect and history shows  
11 that competition does not pose any threat to universal  
12 service but, rather, enhances consumer's ability to  
13 afford service and therefore increases universal  
14 service.

15 In addition to which TCG responded to charges  
16 that price decreases in the special access arena will  
17 cause customers to migrate from switched access  
18 services to special access services. TCG finds no  
19 basis in these charges and asks if it is such a concern  
20 why such a degree of pricing flexibility is desirable so  
21 that prices can continue to decrease, thus, frustrating  
22 the problem.

23 So that's it in a nutshell.

24 MR. HOFFMAN: Thank you, Mr. Kouroupar. He's  
25 available for cross.



1 COMMISSIONER CLARK: Mr. Erwin?

2 MR. ERWIN: Mr. Kouroupas, if I were to ask  
3 you a probing concise, even, perhaps brilliant  
4 questions on cross examination, would I be able to get  
5 you to change your opinion about anything? (Laughter)

6 COMMISSIONER LAUREDO: Or even answer your  
7 question?

8 Q (By Mr. Erwin) Or even answer my question?

9 WITNESS KOUROUPAS: No, I guess you wouldn't.

10 MR. ERWIN: Then I have no questions.

11 (Laughter) (Applause)

12 COMMISSIONER CLARK: Mr. Carver?

13 MR. CARVER: No, questions.

14 COMMISSIONER CLARK: Ms. Caswell?

15 MS. CASWELL: No.

16 MR. TYE: No.

17 MR. WILLIS: No.

18 MR. WAHLEN: No.

19 MS. WILSON: No.

20 MR. DUNBAR: No.

21 COMMISSIONER CLARK: Staff?

22 MR. HATCH: No, questions.

23 COMMISSIONER CLARK: Thank you, Mr.

24 Kouroupas, I hope you make your flight.

25 WITNESS KOUROUPAS: Well done. Well done.

1 MR. HOFFMAN: He may be excused?

2 COMMISSIONER CLARK: He may be excused.

3 WITNESS KOUROUPAS: Thank you.

4 (Witness Kouroupas excused.)

5 - - - - -

6 COMMISSIONER CLARK: Mr. Rock?

7 MS. BRYANT: Sprint calls Fred Rock.

8 FRED I. ROCK

9 was called as a witness on behalf of Sprint Communications  
10 Company Limited Partnership and, having been duly sworn,  
11 testified as follows:

12 DIRECT EXAMINATION

13 BY MS. BRYANT:

14 Q Mr. Rock, you have been previously sworn,  
15 right?

16 A Yes, I have.

17 Q Would you please state your name and business  
18 address for the record?

19 A My name is Fred I. Rock. My address is 7171  
20 West 95th Street, Overland Park, Kansas, 66212.

21 Q And Mr. Rock, by whom are you employed and in  
22 what capacity?

23 A I'm employed by Sprint Communications Company  
24 Limited Partnership, I'm manager of regulatory access  
25 planning.

1 Q And are you the same Fred Rock that caused to be  
2 prefiled in this proceeding 16 pages of direct testimony?

3 A Yes, I an.

4 Q Do you have any corrections or revisions to  
5 that testimony?

6 A No, I do not.

7 Q So if I asked you the same questions today  
8 that are in your prefiled direct testimony, your  
9 answers would be the same?

10 A Yes, they would.

11 MS. BRYANT: Madam Chairman, I move that Mr.  
12 Rock's testimony be copied into the record as if read.

13 COMMISSIONER CLARK: It will be inserted into  
14 the record as though read.

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## SPRINT COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

## TESTIMONY OF FRED I. ROCK

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 921074-TP

JUNE 23, 1993

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

2 A. My name is Fred I. Rock and my business address is 7171  
3 W. 95th Street, Overland Park, KS 66212. I am employed  
4 by Sprint Communications Limited Partnership ("Sprint")  
5 as Manager - Regulatory Access Planning.

6

7 Q. WILL YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND?

8 A. I received a Masters in Business Administration from  
9 Rockhurst College, Kansas City, Missouri in 1993 and a  
10 Bachelor of Science Degree in Accounting from Kansas  
11 State University in 1983. I am a Certified Public  
12 Accountant in the State of Kansas.

13

14 Q. PLEASE STATE YOUR PREVIOUS WORK EXPERIENCE IN  
15 TELECOMMUNICATIONS.

16 A. I began working for the Sprint Long Distance Division in  
17 July, 1992 where I have the responsibility of monitoring  
18 state and federal regulatory activity relating to access  
19 services in the BellSouth region. Prior to my current  
20 position, I was employed by United Telephone - Midwest  
21 for four years. At United, my responsibilities included

1 revenue budgets, financial analysis, and service costing  
2 and pricing.

3

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5 A. The purpose of my testimony is to address issues relating  
6 to expanded interconnection in Florida. The Florida  
7 Public Service Commission ("Commission") has the  
8 opportunity to take important steps towards the  
9 development of a more competitive local access market and  
10 more rational pricing of Local Exchange Company ("LEC")  
11 special access services by adopting a policy requiring  
12 expanded interconnection for special access. At the same  
13 time, this Commission can establish the framework for  
14 switched access interconnection in Florida.

15

16 Q. IS EXPANDED INTERCONNECTION FOR SPECIAL ACCESS AND/OR  
17 PRIVATE LINE IN THE PUBLIC INTEREST?

18 A. Yes, expanded interconnection policy is designed to  
19 encourage competitive entry in the provision of access  
20 service, which today is almost exclusively provided by  
21 local exchange companies. With competitive entry come  
22 the benefits of product innovation, higher quality  
23 service, network diversity and lower prices. These  
24 long-term advantages would be realized by both the  
25 end-user and the telecommunications industry in Florida  
26 and all other states and is therefore in the public  
27 interest.

1 Without an intrastate expanded interconnection offering  
2 in Florida that corresponds to interconnection ordered by  
3 the Federal Communications Commission ("FCC") in Docket  
4 91-141, this Commission would be ignoring an important  
5 intrastate revenue stream for the LECs and would only be  
6 delaying the inevitable transformation of the access  
7 marketplace from monopoly to competition.

8

9 Q. HOW DOES THE FCC'S ORDER ON EXPANDED INTERCONNECTION  
10 IMPACT THE COMMISSION'S ABILITY TO IMPOSE FORMS AND  
11 CONDITIONS OF EXPANDED INTERCONNECTION THAT ARE DIFFERENT  
12 FROM THOSE IMPOSED BY THE FCC'S ORDER?

13 A. Sprint believes the best alternative for the Florida  
14 Commission is to structure its policy on expanded  
15 interconnection for special access based on the framework  
16 established by the FCC. The standards for equipment,  
17 technologies, interconnection points, entry points and  
18 rate structure ultimately set by the FCC should be  
19 considered the basis for the interconnection policy  
20 adopted in Florida. However, the Commission is not  
21 obligated to adopt the FCC requirements in all aspects.

22

23 Q. UNDER WHAT CIRCUMSTANCES SHOULD THE COMMISSION IMPOSE  
24 DIFFERENT FORMS AND CONDITIONS OF EXPANDED  
25 INTERCONNECTION?

26



1 A. Any enhancements to the policy set by the FCC should  
2 ensure further promotion of the benefits of expanded  
3 interconnection, i.e., diversity, lower prices,  
4 innovation, etc. A Florida specific enhancement to the  
5 FCC Order in Docket 91-141 as released on October 19,  
6 1992, should require LECs to originate and terminate  
7 switched traffic at interconnector collocation sites  
8 established under the special access interconnection  
9 offerings. This would allow the shared and efficient use  
10 of collocation facilities. This does not constitute  
11 switched interconnection. Under such a dual use of  
12 special collocation sites, an interconnector would still  
13 be required to purchase LEC provided local transport for  
14 switched access service (until switched interconnection  
15 is permitted), as is required today.

16

17 This approach makes much more sense than restricting the  
18 special interconnection site to special circuits and  
19 interconnectors could derive greater trunking  
20 efficiencies through aggregation. The purpose of  
21 competitive access entry is to encourage innovation,  
22 lower costs and higher quality service. Such entry will  
23 be limited, however, if entrants are automatically  
24 excluded from 70 or 80 percent of access traffic, as they  
25 would be under a non-dual use standard. Sprint's  
26 recommendation overcomes this problem.

1 If dual use is not permitted under special access  
2 interconnection, Competitive Access Providers ("CAPs")  
3 and more likely CAP customers, will be forced to  
4 inefficiently reconfigure networks to serve their special  
5 access needs separately from their switched access needs.  
6 This would represent a poor use of resources, especially  
7 given that LECs today operate a shared switched and  
8 special access network, primarily because it is more  
9 efficient to do so. Also, attempting to nurture  
10 competition while simultaneously prohibiting development  
11 of an efficient shared use network is perverse from a  
12 public policy standpoint because the point of promoting  
13 interconnection is to encourage competitive entry.  
14 Precluding entry to a large segment of the market is  
15 counter-productive.

16

17 Finally, from a LEC revenue management standpoint,  
18 permitting dual use of special collocation sites has no  
19 impact on LEC revenue flows in Florida since LEC local  
20 transport revenue is recovered via a fixed non distance  
21 sensitive per minute of use ("MOU") charge.

22

23 Q. SHOULD THE COMMISSION REQUIRE PHYSICAL AND/OR VIRTUAL  
24 COLLOCATION?

25 A. The Florida Public Service Commission should mirror the  
26 interstate requirements regarding collocation

1 arrangements. In FCC Docket 91-141, the FCC Ordered LECs  
2 to provide physical collocation arrangements, with  
3 exemptions for lack of central office space, negotiated  
4 virtual arrangements or in cases where a state has  
5 established a virtual collocation requirement.  
6 Technologically, Sprint believes that the same  
7 interconnection opportunities can be made available on a  
8 virtual basis as on a physical basis. Sprint believes  
9 there is minimal cost difference between provisioning for  
10 physical and virtual arrangements. As long as LECs offer  
11 "virtual" interconnectors the same level of service as if  
12 they were located in the central office, and provide a  
13 virtual arrangement at the same price for common rate  
14 elements, Sprint does not believe the requirement of  
15 physical interconnection is necessary. However, the FCC  
16 has established a policy for physical collocation and  
17 this requirement would have to apply to any arrangement  
18 providing both interstate and intrastate interconnection  
19 that is not covered by an exemption.

20

21 Q. WHAT LECs, IF ANY, SHOULD BE REQUIRED TO PROVIDE EXPANDED  
22 INTERCONNECTION?

23 A. The Florida PSC should adopt the same requirements as the  
24 FCC established. The FCC, in its Order in Docket 91-141,  
25 has required all Tier 1 LECs to file expanded  
26 interconnection tariffs for the provisioning of special

1 access.

2

3 Q. WHERE SHOULD EXPANDED INTERCONNECTION BE OFFERED?

4 A. Sprint supports the application of competition-based  
5 requirements in locations most likely to experience  
6 competitive entry. Specifically, expanded  
7 interconnection should be required where interconnectors  
8 have indicated a desire to collocate (as determined in  
9 FCC Docket 91-141). Tier 1 LECs control the major  
10 metropolitan areas in Florida which are most likely to  
11 warrant and benefit from competition. While the  
12 Commission should nurture the competitive process, the  
13 decision of where an interconnector wants to collocate  
14 must be left up to the interconnector. Therefore, LECs  
15 should be required to set rates for any subsequent bona  
16 fide request in a reasonable period of time. Limiting  
17 interconnection to specific central offices would enable  
18 the LEC to determine where competitive entry is feasible.

19

20 Q. WHO SHOULD BE ALLOWED TO INTERCONNECT?

21 A. Expanded interconnection should be available to any party  
22 meeting the applicable standards that desires locating  
23 its transmission and multiplexing facilities at a LEC  
24 central office. In addition, LECs and other  
25 interconnectors should have the right to interconnect  
26 with an interconnector.

1 Q. SHOULD THE SAME TERMS AND CONDITIONS OF EXPANDED  
2 INTERCONNECTION APPLY TO AT&T AS APPLY TO OTHER  
3 INTERCONNECTORS?

4 A. Yes, Sprint agrees with the FCC that any party currently  
5 located at a LEC central office must interconnect "in  
6 the same manner as other interconnectors", "using fiber  
7 optic facilities" and "under the same general terms and  
8 conditions".

9

10 Q. SHOULD THE COMMISSION REQUIRE STANDARDS FOR PHYSICAL  
11 AND/OR VIRTUAL COLLOCATION? IF SO, WHAT SHOULD THEY BE?

12 A. Yes. As I have stated above, the Florida PSC should  
13 mirror the FCC policy of physical collocation with its  
14 exemptions. Virtual collocation should be required when  
15 physical space becomes exhausted. In addition, LECs  
16 should be required to establish interconnection points as  
17 close to the central office as possible, provide multiple  
18 points of entry into the central office, and allow  
19 shared use of an interconnection point for both special  
20 access termination and switched transport termination as  
21 explained in response to Issue No. 3.

22

23 Q. SHOULD COLLOCATORS BE REQUIRED TO ALLOW LECs AND OTHER  
24 PARTIES TO INTERCONNECT WITH THEIR NETWORKS?

25 A. Yes, as I have stated, interconnectors should be required  
26 to offer interconnection at its point of collocation.

1 Q. WHAT STANDARDS SHOULD BE ESTABLISHED FOR THE LECs TO  
2 ALLOCATE SPACE FOR COLLOCATORS?

3 A. Space should be allocated on a first-come first-served  
4 basis. If central office space is exhausted, the LEC  
5 should be required to offer a virtual arrangement  
6 equitable to physical.

7

8 Q. SHOULD THE COMMISSION ALLOW EXPANDED INTERCONNECTION FOR  
9 NON-FIBER OPTIC TECHNOLOGY?

10 A. Expanded interconnection for non-fiber technologies  
11 should be limited to microwave transmission.

12

13 Q. IF THE COMMISSION PERMITS EXPANDED INTERCONNECTION, WHAT  
14 PRICING FLEXIBILITY SHOULD THE LECs BE GRANTED FOR  
15 SPECIAL ACCESS AND PRIVATE LINE SERVICES?

16 A. With the following modifications, the Florida PSC should  
17 adopt density zone pricing. There is no doubt that LECs  
18 should have a certain degree of pricing flexibility in  
19 relation to expanded interconnection for special and  
20 switched access. The FCC has adopted density zone  
21 pricing for special access where competition exists as  
22 evidenced by an operational special access  
23 interconnection. Upon availability of switched  
24 interconnection, a similar density zone pricing system  
25 can be adopted for switched services as well. This  
26 pricing methodology would allow LECs to be competitive in



1 the pricing of their special access services, while  
2 limiting uneconomic interconnection.

3

4 Q. DOES SPRINT SUPPORT THE FCC'S ADOPTION OF DENSITY ZONE  
5 PRICING?

6 A. While Sprint generally supports the FCC's adoption of  
7 density zone pricing, Sprint believes the FCC has been  
8 overly restrictive in allowing LECs to initiate a zone  
9 pricing system in a study area only after expanded  
10 interconnection offerings are operational in that study  
11 area. Density-based pricing should facilitate fair  
12 competition between the LECs and interconnectors after  
13 competitive entry has occurred. Additionally, it is even  
14 more important that the LECs' access prices reflect their  
15 underlying costs so that interconnectors can determine  
16 whether or not entry would be economic to begin with and  
17 allow interexchange carriers ("IXCs") to fully assess the  
18 pricing that will be available from LECs as IXCs review  
19 their existing access arrangements thereby utilizing the  
20 benefits of access competition. Furthermore, allowing  
21 the local exchange industry to price by density zones,  
22 whether or not competitive entry and expanded local  
23 interconnection has occurred in any study area, will send  
24 the correct economic signals more promptly and should  
25 facilitate sound entry decisions from the competitive  
26 access industry.

1 A second modification to the FCC's density zone pricing  
2 plan that Sprint suggests the Commission adopt is that  
3 LECs be permitted to propose different initial rates in  
4 each density zone. It is beyond dispute that the true  
5 economic cost of providing service in the interoffice  
6 portion of the local exchange carriers' networks varies  
7 much more substantially than adoption of the FCC's  
8 density plan which would require equal initial rates in  
9 each zone and that these prices can vary thereafter only  
10 by +5/-10% annually. (The pricing rules are further  
11 constrained by other FCC price cap pricing rules.) If  
12 LECs' density-based rates are unduly constrained, their  
13 prices will convey improper economic signals to potential  
14 competitive entrants and will hinder the IXCs' ability to  
15 engage in sound, long-run access planning.

16  
17 In the absence of the ability to price their services on  
18 the basis of underlying costs, particularly in areas  
19 where competition is most likely to occur, the LECs will  
20 have an incentive to engage in other forms of pricing,  
21 such as uneconomic volume discounts or deep discounts for  
22 long-term commitments, that are, in effect, "second-best"  
23 substitutes for density-deaveraged prices. Since  
24 transmission costs in the LECs' interoffice networks are  
25 driven by the total volume of traffic carried on those  
26 networks, rather than the volume carried for any

1 particular customer, volume discounts and term discounts  
2 can produce perverse effects on both local competition  
3 and interexchange competition, and will tend to favor the  
4 largest IXC at the expense of small and medium-sized IXCs  
5 and other special access customers.

6

7 Q. IF THE COMMISSION PERMITS COLLOCATION, WHAT RATES, TERMS  
8 AND CONDITIONS SHOULD BE TARIFFED BY THE LEC?

9 A. The Florida Commission should establish a policy that  
10 expanded interconnection offerings and central office  
11 space usage will be tarified. The main reason for  
12 establishing this requirement is the potential for  
13 anticompetitive pricing and discrimination on the part of  
14 the LECs. Given the level of control in the hands of the  
15 LECs, it is appropriate that interconnection and central  
16 office space offerings must be tarified. Sprint believes  
17 the framework of terms, conditions, and rates approved by  
18 the FCC should be adopted by this Commission. However,  
19 the Florida Commission should review rate elements and  
20 levels for reasonableness. If the Commission believes a  
21 rate element is unwarranted or that a rate is excessive,  
22 it should use its authority to change the rate  
23 application for the intrastate portion of the service.  
24 It is in the best interest of competitive entry, and  
25 therefore the end-user, that terms, conditions and rates  
26 are reasonable and are similar to those incurred by the

1 LEC and included in the pricing of its access services.

2

3 Q. SHOULD ALL SPECIAL ACCESS AND PRIVATE LINE PROVIDERS BE  
4 REQUIRED TO FILE TARIFFS?

5 A. Yes, but only because non-dominant carriers are currently  
6 required to file tariffs in Florida. Given that non-  
7 dominant carriers may be interconnectors and required to  
8 file tariffs, all interconnectors must be required to  
9 file tariffs to prevent discrimination. Generally,  
10 Sprint believes a non-dominant carrier has a limited  
11 ability to effect the market with its pricing and  
12 certainly has limited ability to price discriminately.  
13 Therefore, rules requiring price lists would normally be  
14 sufficient.

15

16 The LEC offering of special access expanded  
17 interconnection does not translate into special access  
18 competition. Special access competition exists only  
19 where there is more than one provider of special access  
20 service in a particular central office. Competition is  
21 then confined only to that location, not to all LEC  
22 provided special access. Therefore, LECs should continue  
23 offering special access as a tariffed service, presumably  
24 under a system of density zone pricing as previously  
25 defined.

26

1 Q. WHAT SEPARATIONS IMPACT WILL EXPANDED INTERCONNECTION  
2 HAVE ON THE LECs?

3 A. Sprint believes the overall effect of expanded  
4 interconnection and competition in general will be a more  
5 efficient local exchange carrier, lower prices, higher  
6 quality and benefits to the end-user. While traditional  
7 cost separations tend to force costs to follow revenues,  
8 competition, with safeguards against cross-subsidization,  
9 will require LECs to cut unnecessary expenditures,  
10 increase productivity and make decisions that face other  
11 firms in competitive industries rather than merely  
12 shifting costs from one jurisdiction to another and from  
13 one service to another. The LECs must be encouraged to  
14 react to the current environment with actions that will  
15 allow them to be quality, low cost providers of  
16 telecommunications services. Therefore, any effect on  
17 LEC costs should be to reduce the overall cost level and  
18 thereby benefiting consumers, other LEC customers and LEC  
19 shareholders.

20

21 To the extent the LEC is unable to cover "lost  
22 contribution" from reduced special access demand through  
23 productivity gains, the Commission must look at the  
24 current overall rate levels. Indeed, LECs in Florida  
25 have among the highest intrastate switched access rates  
26 in the United States. Given the fact that switched

1 access currently contributes greatly to subsidized basic  
2 local rates, Sprint believes any LEC revenue shortfall  
3 should be recovered in local rates.

4

5 Q. HOW WOULD RATEPAYERS BE FINANCIALLY AFFECTED BY EXPANDED  
6 INTERCONNECTION?

7 A. As I explained above, expanded interconnection and  
8 competition in general will stimulate the efficient  
9 provision of all telecommunications services. Ratepayers  
10 may need to bear more of the costs attributable to  
11 providing local service but only to a point short of  
12 impacting universal service. Sprint supports targeted  
13 assistance to ratepayers in need and is willing to  
14 contribute a fair share to provide such assistance.  
15 Across the board subsidization of local rates is  
16 unwarranted.

17

18 Q. SHOULD THE COMMISSION GRANT ICI'S PETITION?

19 A. Yes. The Florida Commission should allow ICI to  
20 interconnect under the terms and conditions for expanded  
21 interconnection as developed in this proceeding.

22

23 Q. SHOULD EXPANDED INTERCONNECTION BE SUBJECT TO A "NET  
24 REVENUE TEST" REQUIREMENT IN ORDER TO AVOID POSSIBLE  
25 CROSS-SUBSIDY CONCERNS?

26



1 A. No. It is hard to imagine that LECs will price expanded  
2 interconnection below cost since the result is to allow  
3 competition for its access services. (This assumption  
4 has been validated by the LECs with excessive rates filed  
5 in their interstate collocation tariffs.)

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes, it does.

1 Q (By Ms. Bryant) Mr. Rock, have you prepared  
2 a summary of your testimony?

3 A Yes, I have.

4 Q Would you please give it at this time?

5 A Over the pass several years the  
6 telecommunications industry has seen the many benefits  
7 of competition in the interLATA toll markets. Through  
8 the adoption of an overall expanded interconnection  
9 policy, the Florida Public Service Commission will  
10 finish paving the way for a new form of competition and  
11 its benefits.

12 In this phase of Docket 921074, it is  
13 important that the appropriate structure is put into  
14 place. Services and, more importantly, end users  
15 benefiting from expanded interconnection for special  
16 access will be limited, given the relatively small piece  
17 of the total access market made up by intrastate special  
18 access. The real benefits to all end users will come in  
19 Phase II, when the Commission addresses expanded  
20 interconnection for switched access bulk transport.

21 Given the fact that interstate and intrastate  
22 services will be offered from the same collocation  
23 arrangement, this Commission should development a  
24 policy based upon the findings of the FCC in Docket  
25 91141.

1           One enhancement that Sprint suggests to the  
2 federal policy includes allowing local exchange  
3 carriers to developed cost-based rates within  
4 geographic zones instead of the narrow pricing range  
5 adopted by the FCC.

6           As the industry has seen, preventing LECs to  
7 implement cost-based pricing nurtures unfair  
8 competition. However, off-tariff pricing or contract  
9 service arrangements are limited and customer-specific  
10 and are potentially discriminatory.

11           In the wake of the FCC also ordering expanded  
12 interconnection for switched access, another addition  
13 to the Florida policy should be the dual and efficient  
14 use of collocation sites for termination of intrastate  
15 switched access local transport. This would have no  
16 financial impact on the local exchange carriers.  
17 Excluding this remaining piece of the access market  
18 from being terminated at collocation sites forces  
19 inefficient use of interconnection facilities.

20           This concludes my summary.

21           MS. BRYANT: Thank you. The witness is  
22 available for cross examination.

23           MR. ERWIN: No questions.

24           MS. CASWELL: No questions.

25           MR. WILLIS: No questions.

1 MR. WAHLEN: No questions.

2 MS. WILSON: No questions.

3 MR. DUNBAR: No questions.

4 MR. HOFFMAN: No questions.

5 MR. WIGGINS: No questions.

6 COMMISSIONER CLARK: Maybe I'll just, from  
7 now on, anyone who has questions can raise their hand.  
8 Staff?

9 MR. MURPHY: We have just a few questions.

10 COMMISSIONER CLARK: While he's asking, I'm  
11 not sure I understood what you said about pricing, the  
12 zone pricing. Did the FCC allow that?

13 WITNESS ROCK: They allowed zone pricing, but  
14 there's a great deal of --

15 COMMISSIONER CLARK: Is that the plus or  
16 minus five --

17 WITNESS ROCK: Exactly.

18 COMMISSIONER CLARK: -- and ten? Okay.

19 WITNESS ROCK: And it's not related to the  
20 cost of providing the service whatsoever. At the FCC  
21 or at the federal level, prices, at least for those who  
22 have chosen price caps, are set based upon the plus or  
23 minus -- let me back up.

24 Prices at the federal level for access  
25 services are not cost-based. At one point, they were

1 based on separations; but under price caps, they have  
2 gotten away from that and, depending upon the change in  
3 the GNPPI and the other factors that go into the  
4 calculation of the development of their rates, they  
5 have gone away from being cost-based. So interstate  
6 access rates are no longer cost-based.

7 But, under the price cap rules, the FCC said,  
8 "We'll give you a range of plus five or minus ten,"  
9 which --

10 COMMISSIONER CLARK: From what?

11 WITNESS ROCK: From where they are at that  
12 point.

13 COMMISSIONER CLARK: Okay.

14 WITNESS ROCK: So given that limited  
15 flexibility, you still don't address the cost question.  
16 And when the LEC is trying to compete for services,  
17 they need the ability to understand what their cost  
18 base is and price according to their costs versus some  
19 arbitrary level.

20 COMMISSIONER CLARK: And you think that  
21 should be done, as I understand your testimony, so that  
22 they don't give discounts to large users. Their costs,  
23 given central office, their price will be based on cost  
24 and even the smaller access users can take advantage of  
25 the fact that it, in fact, costs less in that

1 particular central office?

2 WITNESS ROCK: Exactly. Exactly. We feel  
3 that the cost of providing access is the same; it's the  
4 total demand that develops the cost for access, not one  
5 carrier versus another. And that our portion or Sprint's  
6 portion of the use of that total cost should be  
7 proportional to a larger user or a smaller user of access.

8 And to allow the contract service agreements  
9 or the off-tariff pricing, you get into a position  
10 where you can have the discriminatory pricing. If  
11 we're bidding to provide service for an end user and  
12 another IXC is bidding to provide service for the same  
13 end user, we go to the local exchange carrier for a  
14 quote on the access piece, we want to make sure that  
15 we're getting the same quote as our competitor just  
16 because the cost is the same. If it's the same volume  
17 to provide service for me as it is for them, then I  
18 should be able to get the same price for that service.

19 I don't think I made that clear.

20 COMMISSIONER CLARK: So initially I thought  
21 you were in agreement with Southern Bell on pricing.  
22 But perhaps you're not, because they would like to  
23 retain customer-specific pricing as opposed to central  
24 office-specific pricing, which is what you're  
25 recommending?



1           **WITNESS ROCK:** No. Within zones, within the  
2 same geographic zones that they have at the FCC. But  
3 the cost in Zone 1, say that's the large metropolitan  
4 areas where there is the potential for a great deal of  
5 competition within the central office with competitive  
6 access providers, that the amount of traffic there, as  
7 you stated earlier, that the unit cost of that is a lot  
8 lower than it is out in the rural -- the suburban areas  
9 and even the rural areas.

10           So once you identify your zones and  
11 understand that the costs are different and set your  
12 prices based on those differences within those zones, then  
13 they have the pricing flexibility that we feel they need  
14 and I think the majority of the local exchange carriers  
15 support the zone density concept.

16           When you get to the contract service  
17 agreements, though, you go a step beyond that. And if  
18 you're pricing at cost, there's really no farther for  
19 them to go because they're pricing at cost, they can't  
20 take the prices below cost under an off-tariff  
21 arrangement, so they would be probably exercising the  
22 dominant carrier power that they shouldn't.

23           **COMMISSIONER CLARK:** Well, if you had, say,  
24 100 lines available for access, it would cost you less  
25 to serve, say, two customers, one needing 90 of them

1 and another needing ten, as opposed to 20 of them needing  
2 just five; so maybe there are less costs that they  
3 couldn't pass on through contract service arrangements.

4 WITNESS ROCK: Okay. I don't disagree with  
5 you. But if I'm bidding for the same, the exact same,  
6 job -- if you want to call it a job -- or providing  
7 service to the same customer, I should be able to get that  
8 same price as the other person, because the facilities are  
9 going to be exactly identical.

10 COMMISSIONER CLARK: So you oppose contract  
11 service arrangements?

12 WITNESS ROCK: I think with the zone density,  
13 with the zone density arrangement, with the prices  
14 based on cost, there's no need for the CSAs.

15 COMMISSIONER CLARK: Go ahead, Mr. Murphy.

16 CROSS EXAMINATION

17 BY MR. MURPHY:

18 Q Mr. Rock, I'm Charles Murphy on behalf of the  
19 Commission Staff. Have you received a copy of Exhibit  
20 FR-1?

21 A Yes, I have.

22 Q Have you reviewed it?

23 A Yes, I have.

24 Q Is it accurate to the best of your knowledge  
25 and belief?

1           A     To the best of my knowledge, it is, yes.

2           MR. MURPHY: Staff would ask that the exhibit  
3 be marked for identification.

4           COMMISSIONER CLARK: That will be Exhibit 24,  
5 and it's FR-1, Staff Interrogatories.

6                     (Exhibit No. 24 marked for identification.)

7           Q     (By Mr. Murphy) Mr. Rock, it is your  
8 position that ratcheting will have no financial impact,  
9 isn't that correct?

10          A     You use the word "ratcheting," which the  
11 concept that I've introduced here is not ratcheting.

12          Q     Could you elaborate on the differences?

13          A     Sure. Ratcheting would be a situation in fact  
14 when switched interconnection for local transport is  
15 implemented, essentially at that point you will have  
16 ratcheting.

17                     You do not, you won't -- the interexchange  
18 carriers or the collocators will not be paying for  
19 local transport to the local exchange carriers. The  
20 traffic will be dropped at the interconnection site or  
21 the collocation sight and there will be no local  
22 transport involved therefore, it's really not even the  
23 best way to describe this, either, but the local  
24 transport will be ratcheted off the switched access  
25 bill for the IXC. That's what would happen under a

1 switched interconnection.

2           What I'm proposing is that you still have  
3 local transport, which is terminated to that point.  
4 Another way of looking at it might be that it becomes a  
5 closet POP. But that is your point of termination for  
6 local transport. You still have local transport; we would  
7 still pay the 1.6 cent-per-minute local transport charge  
8 that we have for intrastate traffic in Florida, but it  
9 would be delivered to that point.

10           If we have chosen to use a CAP to provide  
11 access services out of that central office, we would  
12 have a better ability to correctly size initially what  
13 their network should look like and we wouldn't have to  
14 reconfigure that once we do have, if we do have,  
15 switched interconnection.

16           COMMISSIONER CLARK: I don't understand how  
17 "ratchet" is being used in this question. And I'm not  
18 sure I understood the question or the answer. I mean,  
19 I guess it's because "ratchet" means something else in  
20 the electric industry.

21           MR. MURPHY: Can we have a minute? (Pause)

22           Commissioner, Mr. Rock's reference to  
23 ratcheting is inappropriate. What we're really  
24 interested in is the testimony on Pages 4 and 5. Mr.  
25 Rock has recommended changes to the expanded

1 interconnection ordered by the FCC; we'd like him to  
2 elaborate on that.

3 COMMISSIONER CLARK: I agree. If you're on  
4 Lines 4 through 8, I didn't understand what that was  
5 all about.

6 WITNESS ROCK: Okay. This was hard to write,  
7 it's going to be even more difficult to speak to.

8 COMMISSIONER CLARK: Well, if it's important,  
9 you've got to make it clear to us.

10 WITNESS ROCK: It is. It is important. (Pause)

11 A If you can picture the cage within the  
12 central office, which is that of the competitive access  
13 provider; and we have ordered from the CAP, let's say,  
14 special access, both interstate and intrastate special  
15 access, services from that collocation site; and under  
16 the FCC's allowance of switched access interconnection,  
17 we can also order interstate switched access to be  
18 delivered from our point of presence to that  
19 collocation site. So if you look at it like there's  
20 four separate types of traffic that can be flowing  
21 through this point of collocation, three of them --  
22 assuming that we have collocation for expanded  
23 interconnection for special access on the intrastate  
24 level -- we would have three of the four types of  
25 traffic covered.



1           There's one more piece, which is a substantial  
2 piece, and that's intrastate switched access, which, until  
3 we order on it here in Florida, it's kind of left out  
4 there hanging.

5           Our proposal is we'll still pay the transport  
6 like it was going through the LEC network because  
7 technically we can't get it or we can't have it delivered  
8 to that collocation site; still pay them the transport  
9 because they are transporting the traffic to that point;  
10 but let us take it to that point. Because, assuming that  
11 we have interconnection for switched access at some point  
12 in Florida, I would need a certain number of facilities  
13 ordered from the CAP to provide all or to handle all of  
14 the services that I want to run between that point and my  
15 point of presence.

16           If in the beginning I have to or I size it to  
17 meet only the three types of services, then I will be  
18 required at some point to back and reconfigure that --  
19 reconfigure the network so I can have the fourth service.

20           COMMISSIONER CLARK: You're presuming that  
21 somewhere down the line we will allow -- that expanded  
22 interconnection for switched access will be allowed?

23           WITNESS ROCK: It would be under that  
24 assumption.

25           COMMISSIONER CLARK: Yeah. So what you're



1 saying is, let us go ahead and put our network in to  
2 accomplish that, and we'll go ahead and carry it and,  
3 therefore, obviate the need for the local transfer but  
4 will continue to pay for it.

5 WITNESS ROCK: That's right. Yeah.

6 COMMISSIONER CLARK: Okay.

7 WITNESS ROCK: If Florida never allows  
8 switched interconnection or switched -- expanded  
9 interconnection for switched access, then no harm has  
10 been done. The LEC has still been compensated for  
11 transport to that point. Our traffic is getting from  
12 the central office to our point of presence, and  
13 there's no harm done.

14 Q (By Mr. Murphy) On Page 5, Lines 9 through  
15 15, you refer to inefficiencies. Are those the  
16 inefficiencies that you've just described --

17 A Yes.

18 Q -- about duplicating? Okay. (Pause)

19 And if the recommendation -- if your  
20 recommendations are not implemented until the second  
21 phase, then the problem which would be created would be  
22 those same inefficiencies. Is that -- or what  
23 inefficiencies would be created if the Commission did  
24 not adopt those recommendations until the switched  
25 access phase of this proceeding in April?

1           A     Okay. We would either need to plan for  
2 intrastate switched interconnection at some point and  
3 size our -- go ahead and size the facilities between  
4 the cap and our point of presence and, therefore, have  
5 excess capacity sitting there waiting. Or we would  
6 order the appropriate capacity today and then at the  
7 point when we can haul the intrastate switched traffic  
8 over the CAP network, then we would have to  
9 reconfigure, go through the same process that the LEC  
10 does when they reconfigure their network. So it's that  
11 inefficiency that I'm talking about.

12           Q     And as I understand it, you've stated that  
13 there is no financial impact to your proposal because  
14 you would compensate the LEC?

15           A     Exactly. Today in Florida, like I said, the  
16 local transport rate is, I think it's 1.6 cents per  
17 minute. It's nondistance sensitive, and so whether I'm  
18 paying to the zero mile band or to the -- if I'm  
19 hauling the traffic 20 miles over the LEC network, I'm  
20 paying 1.6 cents per minute. I'm still going to pay  
21 that 1.6 to deliver to that zero mile band.

22           Q     On Page 3, Lines 1 through 7 of your  
23 testimony, you state that "without an intrastate  
24 expanded interconnection policy which corresponds with  
25 the FCC, the Commission would be ignoring an important

1 intrastate revenue stream."

2           Could you be more specific about the effect  
3 of not having an intrastate expanded interconnection  
4 policy?

5           A     Yeah. There are a couple of issues that come  
6 into play here. The first one is that we know that  
7 there is a certain amount of bypass going on, bypassing  
8 of the LEC network; and the reason for that is because  
9 those services can be provided by someone else at a  
10 cost or at a price less than the LECs have today.

11 (Pause) That's happening today.

12           With the FCC allowing expanded  
13 interconnection for interstate traffic, it gives the  
14 CAPs, or the competitive access providers, the ability  
15 to go into the central office and provide services not  
16 bypassing but provide services to haul the traffic from  
17 that point to the interexchange carrier POP. (Pause)

18           To tie the two together, if you have the  
19 ability on the interstate side, and if you don't allow  
20 it on the intrastate side, you're still going to have  
21 bypass for intrastate traffic, okay? So you're going  
22 to be letting that or you're going to be causing a  
23 decrease in revenues there. At the same time you have  
24 a collocation site which could not only -- which  
25 wouldn't have to only provide interstate services but

1 could also provide intrastate services.

2 I think we're all familiar with the percent  
3 interstate usage factor that would apply here, too.  
4 That you have a collocation site, you have the  
5 facilities within the cage, and a certain amount of the  
6 facilities, floor space, et cetera, is attributable to  
7 interstate services and another portion to intrastate  
8 services.

9 There's a portion of that floor space and  
10 facilities that the LEC leases, or however you want to  
11 term it, to the competitive access provider which  
12 belongs to the state jurisdiction.

13 MR. MURPHY: Staff has no further questions.  
14 Thank you.

15 COMMISSIONER CLARK: Commissioners? (Pause)

16 I do have a question on Page 6. You believe  
17 there's -- Page 8 through 10 it says, "Sprint believes  
18 there is minimal cost difference between provisioning  
19 for physical and virtual arrangements." That's  
20 substantially different from Intermedia, their  
21 position. Or have I understood it wrong? Do you mean  
22 from your standpoint not being an alternative access  
23 provider?

24 WITNESS ROCK: Right. Well, we don't -- of  
25 course, I made it clear that we are not a competitive

1 access provider and in the short term we have no  
2 intentions of getting into that market. But at the  
3 same time we take a look at this and we see that there  
4 doesn't really appear to be any difference in cost  
5 because you still have the facilities, you have still  
6 have a certain amount of floor space, and the makeup of  
7 the network doesn't necessarily change. It's more of a  
8 control issue. And so the cost of providing physical  
9 collocation versus virtual collocation has --

10 COMMISSIONER CLARK: Then you're not  
11 persuaded by their argument that if you have to  
12 contract with the LEC to do maintenance and take care  
13 of the equipment for you that provides this  
14 interconnection as opposed to you putting your  
15 equipment in there and being able to service it, you  
16 don't agree that there is a cost difference?

17 A Well, to me it would be minimum because if  
18 you're maintaining your own equipment, I mean you have  
19 to hire somebody to do that, so I think that cost  
20 difference is going to be minimum.

21 COMMISSIONER CLARK: Well, maybe I can cut  
22 off Mr. Wiggins just by asking this: But you don't  
23 have any experience with regard to --

24 WITNESS ROCK: No, I don't.

25 COMMISSIONER CLARK: -- how much these things

1 would cost.

2 WITNESS ROCK: No.

3 COMMISSIONER CLARK: Redirect?

4 MS. BRYANT: I don't have any.

5 COMMISSIONER CLARK: Thank you.

6 MR. HATCH: Staff would move the exhibit.

7 COMMISSIONER CLARK: Show Exhibit 24 moved  
8 into the record without objection.

9 (Exhibit No. 24 received into evidence.)

10 COMMISSIONER CLARK: I propose we take a  
11 15-minute break. Is Mr. Poag next?

12 MR. WILLIS: Yes, he is.

13 COMMISSIONER CLARK: That will give you time  
14 to set up the slides, right?

15 MR. WILLIS: Yes.

16 COMMISSIONER CLARK: Okay.

17 (Witness Rock excused.)

18 (Brief recess.)

19 - - - - -

20 COMMISSIONER CLARK: Let's call the hearing  
21 back to order.

22 MR. WILLIS: We call Mr. Poag.

23

24

25





1 "originating," instead of "and," it would be "or." And  
2 then it would be "originating or terminating"; scratch  
3 out "basis," and make that "minute."

4 And then on Line 13, scratch out "composite,"  
5 before "basis," the second word from the end of the  
6 sentence.

7 On Line 19, change "approximately \$53  
8 million" to "approximately \$60 million." And that  
9 would be "\$3.20," instead of "\$2.70," in that same  
10 line.

11 Like I say, I've got extra pages. The court  
12 reporter has it, and they're passed out, three-hole  
13 punched.

14 Q Do you have any other additions or  
15 corrections?

16 A I'm sorry?

17 Q Any other corrections to your testimony?

18 A No.

19 Q Did you also prepare an exhibit consisting of  
20 schedules which have been labeled FBP-1 through 4?

21 A Yes.

22 MR. WILLIS: I would request that Mr. Poag's  
23 exhibits be identified, please.

24 COMMISSIONER CLARK: That will be Exhibit 25.

25 (Exhibit No. 25 marked for identification.)

1                   MR. WILLIS: We request that Mr. Poag's  
2 prepared testimony be inserted into the record as  
3 though read.

4                   COMMISSIONER CLARK: His prepared testimony  
5 will be inserted into the record as though read.

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1                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2                               PREPARED DIRECT TESTIMONY

3   OF

4   F. BEN POAG

5

6       Q.    Please state your name, present position, and business  
7            mailing address.

8

9       A.    My name is F. Ben Poag. I am employed as Director-Tariff  
10            and Regulatory Management for United Telephone Company of  
11            Florida. My business mailing address is Post Office Box  
12            165000, Altamonte Springs, Florida 32716-5000.

13

14       Q.    What is your business experience and education?

15

16       A.    I have over 25 years experience in the telecommunications  
17            industry. I started my career with Southern Bell, where  
18            I held positions in Marketing, Engineering, Training,  
19            Rates and Tariffs, Public Relations, and Regulatory. In  
20            May 1985, I assumed a position with United Telephone  
21            Company of Florida as Director-Revenue Planning and  
22            Services Pricing. I held the position until February  
23            1988 at which time I was appointed to the position of  
24            Director- Tariffs and Regulatory. In January 1990, the  
25            pricing and tariffs organizations were combined and I was

1 appointed Director-Revenue Planning and Regulatory. In  
2 June 1993, in conjunction with a restructuring, I have  
3 assumed new responsibilities and title. In my current  
4 position, I am responsible for costing, tariffs and  
5 regulatory matters. I am a graduate of Georgia State  
6 University with a Bachelor's Degree in Business.

7  
8 Q. What is the purpose of your testimony in this proceeding?

9  
10 A. The purpose of my testimony is to provide United  
11 Telephone Company of Florida's (hereinafter "United  
12 Telephone" or the "Company") position with respect to the  
13 principal policy and operational issues raised by the  
14 proposed implementation of expanded interconnection.  
15 More importantly, however, my testimony addresses how  
16 implementation of expanded interconnection for special  
17 access and private line services changes forever the  
18 regulatory equation for the support of local exchange  
19 residential rates. I also address how United Telephone  
20 must be provided with pricing flexibility to meet the  
21 competition for those services which historically have  
22 been priced to provide the lion's-share of the  
23 contribution to the support of local exchange residential  
24 rates. Ultimately, the Commission and the  
25 telecommunications industry will have to come to grips

1 with the issue of local exchange residential rates and  
2 the mechanisms for addressing universal service concerns.  
3 My testimony underscores the need for keeping these  
4 matters in view as technology and regulatory changes are  
5 rapidly increasing competition for traditionally LEC-  
6 provided services. Such changes include the Federal  
7 Communication Commission's (FCC's) approval of expanded  
8 interconnection, the subject of this docket for  
9 intrastate services.

10  
11 Q. What exactly is expanded interconnection?

12  
13 A. Currently customers and carriers obtain special access  
14 and private line services from United Telephone for  
15 intrastate and interstate telecommunications purposes on  
16 terms and conditions and at rates prescribed or approved  
17 by this Commission and the FCC. In addition, there are  
18 other providers known either as alternative access  
19 vendors (AAVs) or competitive access providers (CAPs)  
20 that have been authorized to provide special access and  
21 point-to-point private line services linking a customer's  
22 premises with other locations of the same customer or  
23 linking the customer with an interexchange carrier (IXC).  
24 Until the recent FCC decisions on expanded  
25 interconnection, the facilities provided by AAVs, IXCs or



1 the customers themselves were not required to be  
2 interconnected with United Telephone's network and  
3 facilities. Expanded interconnection simply means that  
4 these previously stand-alone networks must be allowed to  
5 be interconnected with the Company's network either  
6 through physical collocation in the Company's central  
7 office or through virtual collocation on or off the  
8 Company's premises. Bottom line, it means that as  
9 expanded interconnection is implemented, as surely it  
10 will be, customers, AAVs and IXC's will be able, for  
11 purely economic reasons, to replace certain United  
12 Telephone facilities with their own facilities and still  
13 be able to use the Company's network when it suits their  
14 purposes to do so (i.e., it is not economic for them to  
15 provide the facilities). In other words, expanded  
16 interconnection begins the inevitable process of  
17 "piecing-out" the Company's local exchange network for  
18 the most desirable customers, with multiple suppliers  
19 providing what was previously an end-to-end local  
20 exchange service.

21  
22 Q. If expanded interconnection is limited to special access  
23 and private line services, how can it significantly  
24 impact United Telephone's revenues and earnings?  
25

1     **A.**    The impact on United Telephone's revenues and earnings  
2            from expanded interconnection for special access and  
3            private line services will be dramatic. Any change in  
4            regulatory policy which allows a customer to choose who  
5            will provide piece-parts of the local exchange network  
6            while at the same time requiring the Company to  
7            interconnect with these piece-parts creates the  
8            opportunity for significant revenue erosion. Clearly,  
9            expanded interconnection principally will involve the  
10           replacement of lower-cost United Telephone facilities  
11           which have the higher profit margins. Even if the  
12           Company is granted pricing flexibility to price these  
13           "competitive" facilities at levels which allows the  
14           Company to retain a portion of the business, the revenues  
15           from these services will, nevertheless, be lower than  
16           current revenues for these services.

17  
18           Let me make one thing clear at this point: While  
19           expanded interconnection will accelerate competition in  
20           the local exchange market and thereby create pressure for  
21           significant changes in regulatory policy relative to  
22           local exchange pricing, United Telephone is not opposed  
23           to expanded interconnection provided all parties are  
24           given the same opportunities to compete on the basis of  
25           price, quality and technology. Thus, the issue is not

1 whether or not there should be competition, but rather  
2 whether the pace of competition should be accelerated by  
3 allowing expanded interconnection and what will be the  
4 terms of competition. For all practical purposes this is  
5 a moot issue with regard to special access  
6 interconnection. This Commission is already on record  
7 with its comments to the Federal Communications  
8 Commission in CC Docket No. 41-141, dated August 5, 1991.  
9 In its comments, with regard to special access, the  
10 Florida Commission states on page 4:

11 "In conclusion the FPSC believes that expanded  
12 interconnection with LEC facilities will bring  
13 substantial benefits to a large number of users.  
14 Unlike in today's interstate access environment, the  
15 benefits to interstate access competition will not  
16 be limited to large volume customers."

17 However, with regard to switched access, the Florida  
18 Commission's comments on pages 19 and 20 are as follows:

19 "We believe that the transition to switched access  
20 competition may be inevitable, however, this change  
21 should occur with great caution. The opening up of  
22 the switched network could potentially have profound  
23 effects on the local exchange companies and the  
24 local service subscriber. Most of these impacts  
25 will result from changes in historical pricing of

1 services and the change in local network usage as a  
2 result. As regulators we created the economic  
3 incentives that are currently present in the  
4 telecommunications market, therefore, it is our  
5 responsibility to mitigate any extreme effects to  
6 the local exchange company or the local service  
7 subscribers through prudent actions."  
8

9 In its comments, this Commission correctly recognizes the  
10 dilemma that results when competition is introduced for  
11 services which historically have been priced to provide  
12 contributions that support below cost basic residential  
13 services. That is, as these historical price supports  
14 are eroded by competition, the prices of subsidized  
15 services, such as local dial tone, will necessarily have  
16 to be increased. However, the true economic benefits of  
17 competition will not be realized if pricing supports are  
18 not removed and all competitors are not allowed to price  
19 based on relative economic costs. Without pricing  
20 flexibility, the Commission imposed artificially high  
21 access rates serve as a pricing umbrella for inefficient  
22 producers to enter the market and be profitable.

23  
24 What is missing from the Florida Commission's comments is  
25 the link between switched and special access services and

1 the non-jurisdictional nature of special access usage.  
2 The Commission's comments indicate that special access  
3 competition will benefit consumers with lower prices for  
4 these services. United Telephone generally agrees with  
5 this position. However, the missing link is that as  
6 special access prices are reduced relative to switched  
7 access prices, customers will migrate from switched  
8 access to special access. Further, when a customer  
9 installs a dedicated special access circuit to an IXC, it  
10 is used for both intrastate and interstate services. In  
11 addition, when a customer uses special access for toll  
12 traffic, fewer local access lines or PBX trunks are  
13 required. Schedule FBP-1 provides three examples of  
14 United Telephone customers that installed interstate  
15 special access services in lieu of both interstate and  
16 intrastate switched access service. In one example, the  
17 customer also reduced recurring local service charges by  
18 \$200 per month.

19  
20 Alfred E. Kahn appropriately identifies the cross  
21 elasticity of demand between switched and special access  
22 and the potential revenue impact on the local exchange  
23 carriers at page 2 of his August 5, 1991, affidavit in  
24 the FCC's Docket No. 91-141, wherein he states:

25 "While I will devote most of my attention to the

1 proposed rules affecting special access services, I  
2 emphasize at the outset that the effects of adopting  
3 them will not be confined to those services, but  
4 will instead have repercussions on the demand for  
5 switched services as well, on the much larger  
6 revenues that they generate, on the viability of the  
7 equal charge rules affecting switched access and  
8 therefore on the conditions under which  
9 interexchange services generally are provided. The  
10 reason for this is that there is some cross-  
11 elasticity of demand between switched and special  
12 access. Since the proposed rules are likely to make  
13 available to a wider range of customers services  
14 that bypass the switched access services of the  
15 LECs, they threaten ultimately to diminish the  
16 ability of the LECs to generate the net revenues  
17 from switched access necessary to cover their common  
18 costs and contribute to other public policy  
19 objectives."

20  
21 Q. Please elaborate on how expanded interconnection for  
22 special access and private line services will impact  
23 switched access revenues.

24  
25 A. From the very inception of interexchange access, there



1 has been the opportunity for IXCs and customers to use  
2 special access as a substitute for switched access  
3 whenever a customer has large enough volumes of  
4 interexchange traffic to be delivered to a single IXC.  
5 If the customer uses United Telephone's special access to  
6 deliver switched traffic to the IXC, this is known as  
7 service bypass. If the customer elects to provide the  
8 facility himself or to use an AAV to link the customer  
9 with an IXC, this is known as facilities bypass. The  
10 implementation of expanded interconnection will only  
11 intensify the pressure for both forms of bypass.

12  
13 Likewise, competition for special access service will be  
14 intensified with expanded interconnection. This  
15 increased competition will drive special access rates  
16 lower, thus more customers will migrate to special access  
17 from "over-priced" switched access. This is the worst  
18 form of competition because it drives customers to a less  
19 efficient alternative because of the wrong economic  
20 pricing signals, i.e., excessive switched access rates,  
21 rather than for true economic reasons.

22  
23 On the other hand, if switched access prices were to be  
24 reduced to their economic costs, the opportunity for  
25 bypass would be greatly diminished. But, as long as

1 switched access prices are maintained at such  
2 astronomically high levels, regulatory exercises, such as  
3 implementing expanded interconnection, without addressing  
4 the underlying economics of access pricing, will only  
5 place greater pressure on access customers to bypass.  
6 This problem was identified as a major financial risk of  
7 the Company by Duff and Phelps in its June 1992 financial  
8 report on United Telephone Company of Florida. A copy of  
9 the Duff and Phelps report is identified as Schedule FBP-  
10 2.

11  
12 It is my understanding that the Commission recognizes  
13 there is a linkage between switched access rates and  
14 special access and private line bypass and that the  
15 Commission intends to address the issue of switched  
16 access rates and expanded interconnection in Phase II of  
17 this proceeding. Yet, these realities cannot be ignored  
18 in Phase I of this proceeding. Granting United Telephone  
19 pricing flexibility for special access and private line  
20 services will at least allow the Company to remain a  
21 viable player. In other words, expanded interconnection  
22 makes the Company more vulnerable to bypass than ever  
23 before, especially if switched access prices are not  
24 reduced and if United Telephone is not granted pricing  
25 flexibility to meet the bypass competitors.

1 Q. What evidence do you have to support the service bypass  
2 problem and its impact on United Telephone?  
3

4 A. Although quantification of the impact of bypass on an  
5 aggregate basis would require extensive resources, the  
6 Company has been able to identify several specific  
7 customer service bypass examples. These examples  
8 indicate that customers will migrate to special access  
9 service in lieu of switched access service when switched  
10 access costs and local exchange access line costs exceed  
11 special access costs. As previously identified, Schedule  
12 FBP-1 consists of three service bypass examples which  
13 show the economics of service bypass and the revenue  
14 effect on United Telephone.  
15

16 In example Number 1, Customer A, in February 1992 was  
17 paying a total of \$900 per month in intrastate and  
18 interstate switched access and \$500 per month for local  
19 service. By going to interstate special access in April  
20 1992, Customer A was able to reduce his local service  
21 expense by \$200 per month by eliminating PBX trunks that  
22 were used primarily to haul toll traffic. Likewise, in  
23 example Number 2, Customer B was able to reduce access  
24 charges from \$1,100 to \$900 per month by replacing  
25 interstate and intrastate switched access with an

1 interstate special access facility from United Telephone.  
2 Finally, in example Number 3, Customer C was able to  
3 reduce his access charges by \$1900 per month by  
4 purchasing an interstate special access facility from  
5 United Telephone.

6  
7 There are three major points that this data demonstrates:

8  
9 First, special access from a customer's perspective is  
10 non-jurisdictional, that is, these customers all  
11 installed jurisdictionally interstate access service, but  
12 they are using it for both intrastate intraLATA toll and  
13 interLATA access and interstate access.

14  
15 Second, as special access rates decrease, customers have  
16 a progressively greater economic incentive to buy special  
17 access in place of switched access. Special access  
18 competition will reduce special access rates and there  
19 will be greater migration of switched access revenues to  
20 special access.

21  
22 Third, special access is an alternative to PBX trunks as  
23 a transport facility for access and toll-type services.

24  
25 Because of the first point above, points two and three

1 will occur regardless of what this Commission does in  
2 this docket. That is, interstate special access rates  
3 will be priced lower, hence, interstate special access  
4 will become a more economic alternative to intrastate and  
5 interstate switched access and local access lines such as  
6 PBX trunks. Thus, the FCC's expanded interconnection  
7 initiative will impact United Telephone's Florida  
8 intrastate revenues.

9  
10 To give some order of magnitude to the potential revenue  
11 losses from implementing expanded interconnection, United  
12 Telephone had \$197 million in interstate access revenues  
13 during 1992. Of this amount, \$103 million is switched  
14 access, \$29 million is transport, \$13 million is special  
15 access and \$52 million comes from end user charges.  
16 Similarly, United Telephone's intrastate access revenues  
17 for 1992 were \$118 million. Of this amount \$5 million  
18 came from special access, while \$20 million came from  
19 transport and \$93 million came from other switched  
20 access.

21  
22 What is significant about this is the revenue impact of  
23 implementing expanded interconnection is not limited just  
24 to United Telephone's special access revenues. Because  
25 of the cross elasticity of the services, all of the

1           Company's transport and switched access revenues are  
2           subject to increased competition and associated revenue  
3           reductions.

4  
5           Q.    Could you elaborate on the economic impact of reducing  
6           intrastate switched access prices to the interstate  
7           levels?

8  
9           A.    When a customer evaluates the economics of substituting  
10           special access for switched access, both interstate and  
11           intrastate access charges are included in the analysis.  
12           This is why it is critical that United Telephone's  
13           intrastate access rates, which are approximately twice  
14           its interstate rates, be reduced. Subsidies from these  
15           competitive services cannot continue to be sustained at  
16           current levels. They will be lost - one way or another -  
17           to competition or to service bypass. This ultimately  
18           will force basic local service rate increases.  
19           Unfortunately, if the situation is not corrected until  
20           after-the-fact, the uneconomic investments and  
21           inefficiencies in the network will have already occurred,  
22           thereby further increasing the network cost burden that  
23           eventually must fall primarily to local service  
24           ratepayers.

25



1 Although there have been some reductions in United  
 2 Telephone's intrastate Busy Hour Minute of Capacity  
 3 (BHMOC) rate element, interstate switched access prices  
 4 have decreased much further than United Telephone's  
 5 intrastate switched access service prices during that  
 6 same period. A comparison of the Company's interstate  
 7 and intrastate switched access prices on a per minute of  
 8 use basis is detailed in Schedule FBP-3. This schedule  
 9 shows that for the period post July 1, 1993, the  
 10 *Average* interstate switched access <sup>Change</sup> ~~amount~~, <sup>For an</sup> ~~on a composite~~  
 11 <sup>or</sup> ~~and~~ terminating <sup>minute</sup> ~~basis~~, is 3.8 cents per  
 12 minute, while the intrastate switched access amount is  
 13 7.3 cents per minute on the same ~~composite~~ basis.

14  
 15 If intrastate switched access rates in Florida were to be  
 16 reduced to the current interstate switched access rate  
 17 levels, including the elimination of the BHMOC, the  
 18 annual revenue impact on United Telephone would be  
 19 approximately \$<sup>60</sup>53 million, or about \$<sup>3.20</sup>2.70 per month per  
 20 residential access line on average. Even with reducing  
 21 intrastate switched access prices to the interstate  
 22 switched access price levels, the Company's intrastate  
 23 switched access prices will remain above the economic  
 24 cost of providing switched access service, and local  
 25 exchange residential rates will remain below the

1 incremental cost of providing local exchange residential  
2 service.

3  
4 Q. In a previous answer you mentioned transport revenues.  
5 Could you please explain the significance of the  
6 transport revenues?

7  
8 A. First let me tell you what transport is and how it will  
9 be impacted by expanded interconnection. Switched access  
10 consists of three principal rate elements: a  
11 contribution rate element for the local loop, a switching  
12 rate, and a transport rate. Transport consists of all  
13 the facilities from the Company's end office to the IXC,  
14 including the wire center serving the IXC, and in some  
15 cases a tandem switch. Pursuant to FCC decisions  
16 regarding the expiration of the provision in the Modified  
17 Final Judgment (MFJ) that the access transport element be  
18 charged to each IXC on an equal rate per unit of traffic  
19 basis, the transport element can now be purchased on a  
20 dedicated or per unit of capacity basis. United  
21 Telephone's switched access revenues may be significantly  
22 impacted by this change when interstate switched access  
23 expanded interconnection is permitted - which is just a  
24 matter of time. It is important that the Commission keep  
25 this development in mind as it crafts the conditions,

1 terms and rates for expanded interconnection.

2

3 Q. What pricing flexibility is required for United  
4 Telephone's access and private line services?

5

6 A. Access prices must be reduced, especially in areas where  
7 the volumes are sufficient to attract competition.  
8 First, as noted previously, because of the cross  
9 elasticity of switched and special access, intrastate  
10 switched access rates should be reduced significantly, at  
11 a minimum to the current interstate level. Second, zone  
12 density pricing for both switched and special access  
13 should be implemented. The FCC has already addressed  
14 pricing flexibility in Order No. 92-440, CC Docket No.  
15 91-141, issued October 19, 1992, wherein the FCC  
16 authorized the LECs to implement a system of traffic  
17 density-related rate zones. The FCC requires that rates  
18 for special access must be averaged within each zone, but  
19 may differ between zones. Also, the Company may  
20 establish a number of density pricing zones (up to three  
21 zones without further justification) within each existing  
22 study area, assigning each of the central offices to one  
23 of the zones. Finally, the FCC insists that the  
24 assignment of central offices to a zone must reflect  
25 cost-related characteristics, such as traffic density,

1           although geographic contiguity may also be considered.

2  
3           United Telephone has filed with the FCC for approval of  
4           its density pricing zones with accompanying illustrative  
5           tariff pages. This filing is identified as Schedule FBP-  
6           4 to my direct testimony.

7  
8           Q.   With respect to the mechanics of expanded  
9           interconnection, how should the Florida Commission  
10          proceed?

11  
12          A.   Generally, the Florida Commission should adopt the terms  
13          and conditions prescribed by the FCC for expanded  
14          interconnection. In view of the user's ability to send  
15          both intrastate and interstate traffic across the same  
16          facility, the terms and conditions for use of the  
17          facility should be the same, regardless of jurisdiction,  
18          to avoid forum shopping. For example, only Tier 1 local  
19          exchange companies ("LECs") should be required to offer  
20          expanded interconnection, and only in those central  
21          offices for which there is a bona fide request for  
22          expanded interconnection. Expanded interconnection  
23          should be available to any customer, IXC or AAV for the  
24          interconnection of transmission and multiplexing  
25          equipment only. In this regard, there should be no

1 requirement for expanded interconnection of non-fiber  
2 optic transmission facilities.

3  
4 However, because the FCC's pricing flexibility plan does  
5 not provide adequate flexibility for appropriate Company-  
6 competitive responses, the FCC's pricing flexibility  
7 limitations should not be adopted. Instead, the price  
8 floor for the Company's competitive services should be  
9 incremental cost. This approach is similar to that  
10 contained in the Company's intrastate tariff for contract  
11 service arrangements, except this flexibility should be  
12 based on the zone and not limited to an individual case-  
13 by-case customer basis.

14  
15 Q. In your previous answer, you made no mention of physical  
16 and virtual collocation. In view of the fact that the  
17 FCC has mandated physical collocation, shouldn't the  
18 Florida Commission do the same for intrastate  
19 collocation?

20  
21 A. United Telephone is not opposed to providing physical  
22 collocation to any qualified entity when it is  
23 demonstratively appropriate to do so. The Company is,  
24 however, opposed to being unconditionally required to  
25 provide any specific form of collocation, either physical

1 or virtual. Moreover, the FCC's imposition of mandatory  
2 physical collocation is currently on appeal on the basis  
3 of an unconstitutional taking of the LEC's property.  
4 Until that appeal has been concluded, the imposition of  
5 mandatory physical collocation is still an open issue.  
6

7 In any event, United Telephone believes that physical and  
8 virtual collocation can be treated as a line of business.  
9 Today, United Telephone has customers/IXCs physically  
10 collocated in a number of its central offices. These  
11 collocations were negotiated on an arms-length basis with  
12 terms and conditions which are mutually beneficial to  
13 both parties. Based on this experience, the Company  
14 believes that rather than mandating any form of  
15 collocation, the Commission ought to adopt rules and  
16 regulations which permit and encourage the parties to  
17 negotiate physical or virtual collocation arrangements on  
18 a case-by-case basis with the same terms and conditions  
19 available to all interconnectors.  
20

21 Q. Does this conclude your testimony?  
22

23 A. Yes, it does.



1           MR. WILLIS: Commissioners, we would also  
2 request your indulgence to allow Mr. Poag to present to  
3 you a slide summary of his testimony. We believe that  
4 the purpose of this hearing is to educate the  
5 Commission; and that after you have heard a number of  
6 witnesses testify and you get to this stage of the  
7 hearing that you sort of settle down and it becomes  
8 sort of a drone. And I believe this will help put what  
9 you've heard in perspective and will educate you, and  
10 we would beg your indulgence to make this presentation.

11           MR. BECK: Commissioner, may I address that?

12           COMMISSIONER CLARK: Yes.

13           MR. BECK: I have been advised that Mr.  
14 Poag's presentation is not going to be -- well, in my  
15 opinion, it's not going to be a summary. I have been  
16 advised that it is intended to last 20 to 30 minutes,  
17 if no questions are asked.

18           If the purpose of this slide presentation is  
19 to summarize Mr. Poag's testimony, we could read his  
20 entire testimony more quickly than go through this  
21 presentation. If it is not just a summary, it has no  
22 place because the Commission rules require the  
23 testimony to be prefiled.

24           In any event, there have been occasions where  
25 the Commission has rebuked witnesses for spending three

1 or four minutes summarizing, and it is just not the  
2 proper place to allow a witness to get up and do a  
3 lecture for 20 or 30 minutes where a summary is called  
4 for. So I object to the presentation.

5 MR. WILLIS: Just briefly --

6 COMMISSIONER CLARK: Just on general  
7 principles that we don't allow this summary?

8 MR. BECK: No.

9 COMMISSIONER CLARK: Our standard procedure  
10 is we allow summaries to be a couple of minutes and, as  
11 part of the summaries, we don't allow people to go on  
12 for 20 minutes.

13 MR. BECK: Yes. I have been told it's 20 to  
14 30 minutes if no questions are asked. Which it seems  
15 hard to believe that would be just a summary of his  
16 testimony. And if it's intended to go beyond his  
17 summary, he's violating the rule about prefiling  
18 testimony so people can do discovery on it and prepare  
19 for it.

20 COMMISSIONER CLARK: Any other objections?  
21 Do you respond?

22 MR. WILLIS: Yes. Again, the purpose of this  
23 hearing is to educate the Commission, and I believe  
24 that these slides and Mr. Poag's presentation will help  
25 place the evidence that you have heard in perspective;

1 it will be helpful to you in making a decision in this  
2 case.

3 It does summarize his testimony, it does take  
4 will take a little bit of time; but we've had four days  
5 set aside for this hearing, we're well on schedule for  
6 that, and I think it would be time well spent and we  
7 urge you to do so.

8 COMMISSIONER CLARK: When you say it's going  
9 to -- you said it will summarize that evidence  
10 presented? You mean his? Is this actually a summary  
11 of his testimony?

12 MR. WILLIS: It is. It is a summary of his  
13 testimony. It will take a little bit of time to do  
14 that, and it does contain in there some of the slides  
15 of what physical collocation is, what virtual  
16 collocation is, and will help bring all of this in  
17 perspective.

18 COMMISSIONER CLARK: There are two  
19 Commissioners that would like to see it, just for  
20 purposes of further educating ourselves. You all have  
21 the advantage of going through all the depositions and  
22 discovery on this and sometimes it does help to do  
23 that.

24 I do understand your objection, Mr. Beck, and  
25 we are going to allow an exception in this case but it

1 is not going to become common practice. If it is, if  
2 parties feel it's necessary, let's do this ahead of  
3 time and say, "We think it will be helpful," so we can  
4 get it done, we can all agree to it in the first  
5 instance at a prehearing.

6 So at this point I'll overrule the objection.

7 MR. POAG: Is Commissioner Lauredo returning?  
8 Do we get another chair out for him? (Pause)

9 MR. DUNBAR: Lee, do you have copies of  
10 these slides for everybody? Can we get a copy after  
11 it's done?

12 MR. WILLIS: Yes.

13 A Thank you for the opportunity to do the slide  
14 presentation. And I did put it together specifically  
15 because I thought it would be a way to present some of  
16 the technical information that is involved in this  
17 docket.

18 I guess, basically, though, this docket was  
19 sort of started and what kicked off the petition was  
20 the decision by the FCC. And I would like to point out  
21 some comments that Alfred Sikes made in that docket.  
22 Attached to the order was, "On September 17 my  
23 colleagues and I adopted three interrelated policy  
24 items that collectively take a historic step in opening  
25 the local exchange market to the benefits of

1 competition."

2           When we're talking about the local exchange  
3 market here, we're talking about access; and I've got  
4 some slides that I'll show you that address the pieces  
5 of the local exchange market that that's talking about.

6           The decisions that the FCC made, though, were  
7 interrelated. They made a lot of decisions; they made  
8 the decision for the expanded interconnection to  
9 introduce that competition but they didn't do that in  
10 isolation of other decisions, and I'm sort of trying to  
11 tie together what those other decisions were.

12           Again, in September they had the expanded  
13 special access interconnection. Those tariffs were  
14 effective on the interstate side in June of '93.

15           Something else that they did in the related  
16 docket was they reallocated general support facility  
17 costs. These were costs that were assigned to  
18 transport in special access services inappropriately as  
19 determined by the FCC. So those costs were moved out  
20 to make our local transport and our local special  
21 access services on the interstate side more  
22 competitive.

23           In August of '93, they ordered the local  
24 exchange companies to implement expanded  
25 interconnection for switched access, and that's going

1 to be effective February the 16th.

2           Related to this switched access  
3 interconnection is the transport restructure. Before  
4 they made the switched access competition effective,  
5 they went through this transport restructure, which  
6 basically, reduced the prices for the transport  
7 element. I've got some figures in my testimony to show  
8 you what those numbers are, and when I get to those,  
9 I'll show you how that changed. February is the  
10 scheduled effective date for that.

11           Basically, what we're talking about in this  
12 docket is something called physical collocation. And I  
13 don't know how many of these diagrams you've looked at,  
14 but let me just kind of walk through this. And I have  
15 about five or six slides that I took at a location that  
16 we have someone collocated. If you want to look at  
17 those, I'll be glad to show you those as well. So  
18 you'll have to tell me on that.

19           We're talking about putting a physical cage  
20 in our telephone company's central office. Within this  
21 cage on a physical collocation basis, that collocater  
22 would have all this space to locate their equipment.  
23 They would bring their fiberoptic facility; somehow we  
24 would interface with them in our manhole; they would go  
25 through something we call our "vault," through our



1 ducts and our risers overhead to get to this space.

2 We would connect our customers up to them  
3 through a something called a "digital cross-connect" or  
4 a "DSX."

5 Now, in most cases where we have someone  
6 collocated, where we have a number of people  
7 collocated, we will actually put this box over here and  
8 give them a separate entrance into our central office.

9 Would you like to see the slides of the  
10 equipment that goes into one of these locations?

11 COMMISSIONER CLARK: Yes, I would.

12 WITNESS POAG: Okay.

13 COMMISSIONER LAUREDO: Saves me a trip.

14 WITNESS POAG: This is a picture of the  
15 digital cross-connect itself. This side is really for  
16 testing and making rearrangements in the circuits, but  
17 this particular one will be located in our central  
18 office on our side.

19 Now from this, you would go over to the  
20 collocater's cage. And this is a drywall partition  
21 that was put up to separate the collocater's equipment  
22 from the telephone central office equipment. And these  
23 are the actual cables that are going in.

24 I think I've got -- yes, here's another  
25 situation. In this particular situation, these are

1 both coaxial and are fiberoptic cables. This isn't as  
2 bad as it looks. These little bags are actually  
3 fireproof bags that are stuffed into the slack in the  
4 hole to prevent fire from spreading in the event that  
5 that happens.

6 This is the actual conduit that's bringing in  
7 the cable for the collocater.

8 Now, this is the outside door. And I will  
9 tell you, our people do not have access to that  
10 building. There's one key that we have that's  
11 maintained by our building management services and our  
12 technicians and no one else has access to that. We got  
13 in by permission.

14 We'll point out these slides are kind of dark  
15 because I couldn't use a flash in there because you  
16 have light terminal equipment and there was concern it  
17 might have impact on this optical light termination  
18 equipment. But these are the cables that are coming in  
19 to the collocater's space in an overhead rack. This is  
20 that light terminal equipment, not the attache case but  
21 the legal case that John Canis was talking about; and  
22 these are numerous vertical racks of those.

23 On the inside, they would have a DACS  
24 cross-connect, the same as we had on the outside or on  
25 our premises. I might back up to that one.

1           In this case, we're talking about DS-1s and  
2 there are 28 of these that are in a DS-3. Actual  
3 cross-connecting and everything takes place on the  
4 back side of that. And then when you move up to what  
5 they call a DS-3, which is 28 of the DS-1s, you use  
6 these coaxial type cables to do the cross-connect type  
7 work. But this just gives you an idea of the amount of  
8 equipment.

9           Now, this is a very large installation. This  
10 is an interexchange carrier, and that room is probably  
11 25-by-20, so it's bigger than a 10-by-10. This gives  
12 you an idea of what some of the equipment is and  
13 everything that's associated with that type of an  
14 installation.

15           Back to slide three, please.

16           Virtual collocation, that equipment would be  
17 maintained and either owned or leased from the  
18 collocater in the central office. The interconnection  
19 would actually be somewhere outside of the central  
20 office. It would obviously take less space, and it  
21 would be built into the telephone company's existing  
22 frames and relays and things without the special  
23 equipment. So there are some advantages to that.

24           In our situation, we're not opposed to  
25 physical collocation; we just don't feel like it ought

1 to be mandatory.

2 We talk for a minute about switched access.

3 As I said in my testimony, and made some --

4 COMMISSIONER LAUREDO: Can I interrupt you a  
5 minute?

6 WITNESS POAG: Yes, sir.

7 COMMISSIONER LAUREDO: Because that  
8 statement, I haven't been able to figure out what that  
9 means. I've read it in several places, one is not  
10 opposed to physical collocation, but one is opposed to  
11 having a mandate. If I agree with you, what does that  
12 mean, as far as Intermedia would come to you and say,  
13 "We want to negotiate physical collocation," and what?

14 WITNESS POAG: Well, I guess at this point in  
15 time, I don't know the exact number, but I would say  
16 that I've probably got 15 situations where I have  
17 people collocated in my central offices and nobody had  
18 to mandate to tell me to do it.

19 COMMISSIONER CLARK: You need to get to a  
20 microphone.

21 COMMISSIONER LAUREDO: I'll wait until later.

22 WITNESS POAG: I want to talk about switched  
23 access a minute and how it relates to special access.

24 But I want to start out here with a situation  
25 where I have a residential home and they're placing

1 long distance calls, and this is the interexchange  
2 carrier or POP or point of presence. This, basically,  
3 is the residential dial tone line. All right.

4 For this situation that I'm talking about  
5 here, I've got the central office switch, and I've got  
6 an access tandem and I've got an access tandem switch.  
7 Don't be confused by this access tandem. Rather than  
8 having every central office with cables to every other  
9 central office, if you think of this thing as a wagon  
10 wheel with a hub and they all run through the hub and  
11 this serves as the cross-connect point, it's a  
12 situation where we can bring large volumes of traffic  
13 and use that -- for example, in this case, to hand it  
14 off to an interexchange carrier. But, basically, it is  
15 a large central office that's used to gather traffic.

16 A customer places a long distance call. We  
17 charge that to the interexchange carrier, something  
18 called a carrier common line charge, a termination -- a  
19 line termination charge a switching charge and  
20 transport. And that's included in the interexchange --  
21 I'm sorry, in the toll call cost that goes to the  
22 interexchange carrier. And we charge it on both an  
23 originating basis and terminating basis. Now, to that  
24 extent that it's a residential customer, you don't have  
25 the volumes to justify other alternatives. But look at



1 a business customer, the same scenario, but in this  
2 case they have a PBX out here. And then, say, instead  
3 of the four lines that I've got drawn here, say that  
4 that represents 20 lines. When they've got that many  
5 lines, they're generating an awful lot of toll calls  
6 over these types of lines, or could be generating an  
7 awful lot of toll calls, or they could be terminating  
8 an awful lot of toll calls.

9 All right. In this scenario, they can put in  
10 the special access type service that goes directly to  
11 the interexchange carrier POP, and they're not paying  
12 those other charges that I had up on the other slide.  
13 In this case, they pay a service termination charge on  
14 this end, they pay the channel mileage in here, and  
15 they pay a service termination charge on this end.  
16 It's flat rate, though; they don't pay on a per-minute  
17 basis. And that's the big difference and the point I'm  
18 trying to get to here with the expanded  
19 interconnection.

20 In the FPSC comments in this docket, back in  
21 August of '91, you said that, "We agree that expanded  
22 interconnection for special access services offer the  
23 potential benefits to improve LEC efficiency, expand  
24 customer choice, and encourage a more rapid deployment  
25 of new technology."



1           When it came to switched access, you weren't  
2 as enthusiastic. And everybody has got copies of this,  
3 and I'm not going to read it, but there was some  
4 concern about "the economic incentives that are  
5 currently present in the telecommunications market,"  
6 and I think that means the pricing, and that there were  
7 some needs to do some things to mitigate the impact on  
8 the local exchange companies and customers.

9           So in your comments, you said, "This is  
10 okay," but you said, "Don't do this." And this is the  
11 kind of point I'm trying to get to is that when I have  
12 competition for this service right here, the price is  
13 going to come down. And as the price comes down, I'm  
14 going to lose some of my switched access services.

15           Commissioner Barrett said that it will be  
16 increased pressure for cost-based prices. So,  
17 effectively, without expanded interconnection today --  
18 I talked about these service terminations? Well, if  
19 we're bringing a circuit in, a high capacity circuit  
20 in, to an alternative access provider or a competitive  
21 access provider that's located in our central office,  
22 today, or before expanded interconnection on the  
23 interstate side, we would charge \$540, \$270 for each of  
24 those high-capacity service connections.

25           Now, the competitive access provider via

1 their facilities would take this out to the  
2 interexchange carrier, bypassing the local exchange  
3 company's transport, access tandem, and those types of  
4 facilities. So that's what it provides. With the  
5 expanded interconnection in effect on the interstate  
6 side, the price of this drops from the \$2.70 down to  
7 \$3. Now, I won't get into why that happens, because  
8 quite frankly, those charges were cost-based in the  
9 first place, did have a lot of contribution in them,  
10 but this is driving it down to what they call direct  
11 cost for this very short jumper piece. The main point  
12 is that there's a significant decrease in that price.  
13 When that happens, this drops down and you've got the  
14 potential for substantial losses of these switched  
15 access services.

16 Now, you're talking about the zone-density  
17 pricing earlier? On average, we charge approximately  
18 \$800, \$900 to \$1,000 for an interstate special access  
19 service. The information we presented to the FCC  
20 showed that on average our cost, on a direct cost  
21 basis, was about \$435. But if you looked at the high  
22 density routes, the cost gets down to around \$52.

23 So when we're talking about where the  
24 competition is going to come, it's going to come into  
25 these high density areas. If it comes into these high

1 density areas and, as the Commissioners have indicated,  
2 the prices drop, then you're going to lose substantial  
3 portions of your switched access market.

4           This is some information that just supports  
5 that. These are three actual customers that I'm going  
6 to show you. And we looked at their customer bills and  
7 we -- since we don't bill access charges to customers,  
8 you bill it to the interexchange carrier and the  
9 interexchange carrier includes that in their charges to  
10 the customer -- what we did was we took their actual  
11 toll bills and came up with an estimate of what they  
12 were paying in access charges. And these customers are  
13 customers who have recently installed an interstate  
14 service, and that's how they were identified, customers  
15 who had put in a special access service in lieu of  
16 using switched access.

17           In February of '92, this particular customer  
18 had \$200 a month or equivalent in intrastate switched  
19 access, \$700 month in interstate switched access and  
20 \$500 a month in local service. Installed one  
21 interstate special access service at \$900. They were  
22 able to cut their local bill \$176. There was some  
23 rounding in here, but the net impact was that they  
24 reduced their local service bill by installing special  
25 access \$176. It showed up as 200 here, but I wanted to

1 kind of clarify that.

2           The important thing I think is that notice  
3 that this is all interstate revenue and a reduction in  
4 local service revenue. There are no intrastate  
5 revenues in here now, because this is nonjurisdictional  
6 once that customer puts it in.

7           I'll show you another customer. This  
8 customer had \$800 a month in intrastate switched  
9 access, \$300 a month in interstate switched access.  
10 And in this case, they put in an interstate circuit at  
11 \$900, an interstate special access service, and they  
12 got off that switched network and they went to that  
13 dedicated facility. Again, in this case, you have no  
14 intrastate toll revenues.

15           The allocation -- well, you've got this  
16 interstate traffic across the network, you're getting  
17 an allocation of that network to the interstate  
18 jurisdiction on a switched basis, you're transporting  
19 part of your switches. That allocation, as a result of  
20 that switched traffic being moved, drops that  
21 allocation of investments and expenses back to the  
22 intrastate side.

23           Third customer. In this particular case the  
24 customer had the equivalent of \$1700 in intrastate  
25 access, switched access, \$200 a month in interstate

1 switched access, \$1,000 a month in intraLATA toll, put  
2 in one interstate circuit \$1,000 and eliminated all of  
3 those charges. So in this case, I lost the toll and  
4 \$1700 of intrastate switched access equipment type  
5 services.

6           What I'm trying to address is that  
7 cross-elasticity. In my testimony I quoted Alfred Kahn  
8 on that issue. And there's a little section in there  
9 -- this is not something I thought of, but it's  
10 something that he submitted to the FCC as well.

11           Now, also in my testimony I tried to identify  
12 what the revenues were associated with the various  
13 components of access. On the interstate side -- and  
14 the reason I'm dealing with the interstate and the  
15 intrastate side is that from the customer's  
16 perspective, you're not going to be able to separate  
17 the two and say, you know, "Don't do this over here on  
18 this interstate business, because that's intrastate  
19 business." Once they go to that special access line,  
20 it doesn't make any difference where that call is  
21 going, they've avoided that switched access charge.

22           On the interstate side, we've got about \$13  
23 million in special access, in special access service.  
24 We've got 29 million in transport. Now, this was based  
25 on 1992; and the reason I point that out is that when



1 the FCC reduced the allocation of the general support  
2 facility's cost to these two categories, it reduced  
3 these two categories of revenues, the transport went  
4 from 29 million to about 25 million. And I don't know  
5 what the impact was on the special access side, but on  
6 a couple of circuits I looked at it was about 8%.

7           As the end result, this piece of the pie got  
8 a little bit bigger. Now, what I'm trying to drive to  
9 by putting these up is that with the expanded  
10 interconnection on the interstate side, on the switch  
11 side, this is the bucket of revenues which would be  
12 subject to competitive entry with expanded  
13 interconnection. They've restructured this bucket so  
14 that the entire bucket wouldn't be subject to that, and  
15 actually by the time you've restructured it only about  
16 \$6 million of that total bucket is subject to expanded  
17 interconnection, to competition. Of course, all of  
18 this is -- the bulk of that is.

19           The problem, though, is as they make those  
20 rearrangements, they've forced this size of the pie to  
21 get bigger, and when they force that side of the pie to  
22 get bigger, they've forced either special access bypass  
23 or total facilities bypass.

24           Now, intrastate, basically, the same  
25 scenario. We have not done the restructure over here.



1 I talk about that a little bit in my testimony as  
2 something that we need to do before we have expanded  
3 interconnection on the switch side. A smaller bucket  
4 of special access. The rest of this is the other  
5 switched access elements. Now put this all together  
6 including my intraLATA toll and say I've got a \$694  
7 million bucket back in 1992. Now what has happened  
8 here is that Commissioner Marshall said, "Rates for  
9 special access and switched transport service decreases  
10 competition, increases."

11 So we've got two things that's happening to  
12 us. We're going to have price reductions in these  
13 services. We're also going to have some competitive  
14 losses in these services. And I'll point out it's  
15 going to happen on the interstate side and it's going  
16 to impact intrastate revenues.

17 Now, if you look at our access charges in  
18 Florida compared to our interstate access revenues --  
19 and I want to deal with 1993 out here -- our interstate  
20 charges are 3.8 cents per minute on the originating  
21 side, 3.8 cents per minute on the terminating side on  
22 the average. Our intrastate charges are 7.3 cents.  
23 Now one of things that we've had is some discussions  
24 about well, why does it cost more to call Tallahassee  
25 than it does to call California?

1           If you originate and terminate a call in  
2 Florida, you've got 14.6 minutes on the average because  
3 you have an originating -- excuse me, if this was in  
4 United's service territory and you originate and  
5 terminate the call in United's service territory,  
6 you've got 14.6 minutes; depending on what the  
7 terminating interstate rate is, you've got an  
8 originating rate of 3.8 cents and maybe 4 or 5 cents on  
9 the other end. But that's a significant difference in  
10 that.

11           Now, previous Commissioners in other orders  
12 going back to 1988 have recognized that there was a  
13 need to reduce access charges on the intrastate side.  
14 And just, basically, going back, this I believe was a  
15 nontraffic sensitive docket order. We're talking about  
16 reducing the BHMOC. Again, in one of the Bell  
17 documents, BHMOC reductions were reduced to disparity  
18 between interstate and intrastate access charges. This  
19 will help clear the way for lower intrastate toll ways.  
20 And that's the other side of the coin.

21           So if we're talking about changing that pie  
22 around, the pie will stay the same size. We're just  
23 talking about where the dollars get distributed. In  
24 the Centel docket, again, the Commission said, "We need  
25 to reduce access charges." In United's docket, "We

1 need to reduce access charges," and all I'm saying is  
2 we're not doing enough, we're not getting there. The  
3 interstate prices come down more than the intrastate  
4 prices come down. That's creating that disparity.  
5 This is also in this case -- it's driving people to go  
6 get that special access, that customer that had all  
7 those intrastate access charges, had this been dropped  
8 to this price, that customer might still be on the  
9 switched network.

10           This problem with the high access charges in  
11 United's case was pointed out in June of 1992. This  
12 is, again, an attachment to the testimony. I just want  
13 to highlight that portion of it that says, "A high  
14 proportion of revenues continue to be derived from  
15 access charges identified as a major risk by the  
16 financial raters."

17           On the other hand, if you look at residential  
18 one-party service rates, United on average within its  
19 service territory, \$8.68; GTE and Southern Bell in  
20 Florida, \$11.35 and about \$10. If you look at other  
21 states, Alabama, Georgia, Louisiana, Mississippi, North  
22 Carolina and South Carolina were far below them. If  
23 you look at per capita personal income, Florida is much  
24 higher. And this suggests to me that there's some  
25 room to make some changes.

1           In summary, the FCC's decisions will increase  
2 competition or reduce prices for toll and access  
3 services. That's a given. That's going to happen.  
4 The FCC also said, "Noncost-based restrictions on LEC  
5 responses to competition create incentives for  
6 uneconomic investments, which deprive customers of the  
7 benefits of LEC rate reductions." If we don't have  
8 pricing flexibility, the consumers really aren't going  
9 to benefit from this.

10           The FCC's decisions, as I've shown you with  
11 those charts, will impact interstate revenue  
12 investments and expenses.

13           And then I'll just close with your comments  
14 in that order, paraphrasing it, "We created the  
15 economic incentives that are currently present in the  
16 telecommunications market; therefore, it is our  
17 responsibility to mitigate any extreme effects to the  
18 local exchange company or the local service subscribers  
19 through prudent actions."

20           That concludes my summary. Thank you for the  
21 opportunity.

22           MR. WILLIS: We appreciate your indulgence,  
23 Commissioners, for viewing.

24           COMMISSIONER LAUREDO: Can we get copies of  
25 the slides?

1 MR. WILLIS: Yes, sir, I'll get you one.

2 MR. DUNBAR: Commissioner, if I could, we  
3 were going to ask the same question, if hard copies of  
4 the slides could be provided as a late-filed exhibit to  
5 all of the parties. Great.

6 MR. WILLIS: You want to identify this as an  
7 exhibit, please?

8 COMMISSIONER CLARK: Yes. I will make this  
9 Exhibit 26.

10 (Late-Filed Exhibit No. 26 identified.)

11 COMMISSIONER LAUREDO: I would like to follow  
12 up on that. I need to preface my preamble, and, I  
13 guess, by in the way of apologizing to the gentlemen  
14 from GTE yesterday, that I have a tendency in my search  
15 for information, and to try to put it into plain  
16 English and sometimes my choice of words -- and I hope  
17 you didn't take offense to the scenario I described as  
18 "go build your own network." I didn't mean to be quite  
19 that -- but I am intrigued by the concept of -- I don't  
20 understand the concept of how do you negotiate if you  
21 don't want us to mandate physical collocation. You  
22 want us to let the players, and as you know, I'm  
23 philosophically very promarket oriented, so I would  
24 rather have the parties negotiate, but there seems to  
25 be -- and superficially to be parties at some



1 disadvantage. And I wonder how you can explain that  
2 for me. I interrupted you when you were up here. This  
3 idea, I don't oppose it; I would like to have it on a  
4 negotiated basis.

5 WITNESS POAG: There's a potential for  
6 competing interest for that space, and, for example,  
7 central office space is generally ideal for a computer  
8 operation. And, in fact, we are negotiating with a  
9 company today that wants to put some computer equipment  
10 in one of our central offices. The fact that we've got  
11 a conditioned environment, we've got emergency backup  
12 power, we are attractive to these alternative users.  
13 And we could price that based on the additional value  
14 that that provides to that particular type of vendor or  
15 potential collocator, I should say.

16 Again, we have negotiated the leases that we  
17 have by looking at the market value of floor space in  
18 that area, identifying the additional value that we  
19 have associated with this, its security, the parking,  
20 the emergency backup power, and have been able to reach  
21 very agreeable terms with these collocators on that  
22 basis.

23 COMMISSIONER LAUREDO: Just so that I can  
24 understand, what you're saying by "negotiating," you're  
25 talking about the terms of physical collocation and not



1 the denial of physical collocation. Is that what  
2 you're saying?

3 WITNESS POAG: I'm not sure I understand you,  
4 Commissioner Lauredo.

5 COMMISSIONER LAUREDO: Perhaps somebody can  
6 help me because I'm having trouble understanding this  
7 concept.

8 COMMISSIONER CLARK: Physical versus virtual?

9 COMMISSIONER LAUREDO: No. I thought he made  
10 a statement. We do not oppose physical collocation.  
11 What we oppose is mandated physical collocation. You  
12 should let us decide and negotiate physical  
13 collocation. Now, that has a nice ring to it.

14 I want you to give me a real-life scenario.  
15 Lauredo Communications comes to you and wants to  
16 physically collocate. What is it that you want to  
17 negotiate? The terms that I have to pay you to  
18 physically be in, or the very premise of whether I will  
19 be in or not in physical?

20 WITNESS POAG: If I have space, then we're --  
21 and I don't have any other planned use for it, and I  
22 don't have anybody else that is wanting to use that  
23 space and pay a higher price, then we'll negotiate the  
24 terms and the conditions: how long do you want it, how  
25 much of it do you want?

1           **COMMISSIONER LAUREDO:** And you don't have a  
2 problem that is attached to physical collocation, like  
3 direct access and all of that. You have no problem  
4 with those? I mean, my people will go in and fix my  
5 equipment, my people will go in and change the  
6 equipment, my people will have access.

7           **WITNESS POAG:** That is the way we operate  
8 today where we do not have a separate entrance and a  
9 separate cage facility. We do require an escort for  
10 security reasons. However, we try to set it up so  
11 that's not necessary.

12           **COMMISSIONER CLARK:** Do you currently rent  
13 out your central office space?

14           **WITNESS POAG:** Yes, ma'am.

15           **COMMISSIONER CLARK:** What happens to those  
16 revenues? Are they above or below the line?

17           **WITNESS POAG:** They're above the line.

18           **COMMISSIONER CLARK:** So that what you're  
19 saying is you want the ability to manage your real  
20 estate, including your central office facilities. And  
21 if it's a better deal for you to lease it to IBM or  
22 somebody else, maybe an airline that wants to put its  
23 computer equipment in there, you want to be able to  
24 chose them over an alternative access provider who  
25 refuses to pay the same rental that you can get from

1 this other company.

2 WITNESS POAG: Yes, Commissioner, exactly.

3 COMMISSIONER CLARK: And you also want to be  
4 able to retain that space for yourself, for your  
5 company, if you might need it in the future.

6 WITNESS POAG: Exactly.

7 COMMISSIONER CLARK: But all of those  
8 decisions would then be subject to our review that  
9 you're getting -- you are managing your company  
10 prudently in obtaining revenues from those sources to  
11 reduce rate base in effect?

12 WITNESS POAG: I would be very satisfied with  
13 that arrangement.

14 COMMISSIONER CLARK: You just want the first  
15 say as to whether it would be virtual or physical.  
16 Would you have any objection to an AAV or CAP being  
17 allowed to come in and say, "We should have physical --"  
18 I guess, do you have any objection to using the  
19 complaint process for the AAV to obtain physical  
20 collocation?

21 WITNESS POAG: I do not. And, again, we do  
22 have ICI collocated in our Orangewood remote office.  
23 And we were able to reach terms with them, and they  
24 didn't come see you, so I think they're happy.

25 COMMISSIONER LAUREDO: So if I go in, and

1 what you're saying is, what needs to be negotiated are  
2 the economics of it and not the premise of whether I'll  
3 be in or not, but let's just say that I go into your  
4 office and you tell me, "Well, all this space I have  
5 available, I already leased to Winn-Dixie because they  
6 wanted to do something." What recourse does that CAP  
7 or alternative access vendor have, given that? What is  
8 the alternative? Virtual collocation?

9 WITNESS POAG: Well, virtual collocation is  
10 one alternative. They also have the alternative of  
11 directly bypassing us and going to the end user  
12 customers. And, quite frankly, part of my decision to  
13 lease central office space was based on the fact that  
14 well, if I'm going to have competition and I've got  
15 floor space available, if I can get them to rent at  
16 floor prices, and if I can get them to relocate in my  
17 central office, then I have the capability to at least  
18 lease them, the local loops, and to get some return in  
19 revenues for that floor space. However, I don't think  
20 mandating me to make a good management decision is  
21 necessary.

22 COMMISSIONER LAUREDO: You've heard me  
23 earlier concerned -- what bothers me about this docket  
24 is that it's all very technical and all of that. And  
25 we're talking about a major step and what we do to the

1 telephone system as we know it, and, yet, we don't talk  
2 about it. We talk about it in all these other  
3 wonderful terms. But I guess we don't have room in the  
4 docket somewhere to kind of say what it is that we want  
5 the Citizens of Florida to have as a public telephone  
6 or local exchange companies ten years from now.

7 But one of the things you heard me being  
8 concerned about is the impact on the 105 million  
9 land-line people. And then you or one of your slides  
10 alluded to the disparity, or I guess you were alleging  
11 that there was significantly lower prices in Florida.

12 Is that a way of answering my concerns and  
13 one way to bring these equations to a more equitable  
14 market is that we need to raise local rates?

15 WITNESS POAG: Yes, sir. Let me see if I can  
16 address that in a couple of ways.

17 We, as a telephone company, we have that same  
18 concern. We don't want to push any of those customers  
19 off the network. We want to keep every one of them.  
20 But on the other hand, we have competition that's  
21 coming in and it's saying, "We're going to take your  
22 toll revenues, we're going to take your access revenues  
23 and those services that have been keeping local  
24 residential service rates lower than they otherwise  
25 would be. So we see that you just can't expect to



1 continue into the future in a competitive environment  
2 and keep local residential service rates where they  
3 are.

4           The chart that I showed with the other states  
5 and where their prices for local residential service  
6 are sort of suggests to you that the market for  
7 residential service is much higher than what we're  
8 charging for it.

9           Now, I recognize that there is a need out  
10 there for certain economic segments of the population  
11 to have some help. And there's a plan that can be put  
12 in place to take care of that.

13           Let's say, for example, in my testimony I'm  
14 saying that to get me to the interstate level would  
15 require a \$60 million reduction in my access charges.  
16 Now, beyond that, I should have some similar reductions  
17 in my intraLATA toll revenues as well to bring them in  
18 line and to keep me competitive in that market. But  
19 just for the access piece, I'm saying that would  
20 increase my local service rates by \$3.20. Well, let's  
21 say -- and I don't know what the number is -- but let's  
22 just say that the reduction in the intraLATA toll rates  
23 adds another dollar to that requirement. So I would  
24 say to you, "I would like for you to raise my average  
25 residential local service rate by \$4.20."



1           Now, recognizing there are some people out  
2 there who have economic needs, there are plans, such as  
3 the Lifeline plan, which would allow me to say, "Okay,  
4 when people meet certain criteria, then I can get an  
5 approved plan from the FCC where I have an equal offset  
6 on the state side that would allow me to reduce rates  
7 to these customers by up to \$7."

8           Effectively what you do is there's such plans  
9 as supplemental social security, children with --

10           COMMISSIONER LAUREDO: How do you get around  
11 the discriminatory Florida statute?

12           WITNESS POAG: But Medicare -- but you can  
13 identify those people who need subsidies in other areas  
14 to maintain their lifestyle. And what we're saying is,  
15 go ahead and give them that \$3.50 subscriber line  
16 charge offset on the interstate side and match it on  
17 the state side. So I have a \$7 cut to those people.

18           On the other hand, for those people who don't  
19 need to be subsidized, and we just flat out, we do not  
20 need to subsidize so many people out there that are  
21 being subsidized. I mean, 70, 80% of the people that  
22 are getting subsidy for local residential service don't  
23 need it.

24           Let's target the subsidy to those that need  
25 it and not subsidize the entire class of residential

1 local service customers. And there's a way to do that,  
2 and we need to do it as we move into the competitive  
3 environment.

4 COMMISSIONER LAUREDO: And you can do that  
5 without tripping over the nondiscriminatory aspects of  
6 our rate.

7 WITNESS POAG: Yes, sir.

8 COMMISSIONER LAUREDO: Or I guess we can  
9 always go to -- we can start another trend, reverse  
10 privatization. While the rest of the world is  
11 privatizing, we'll just buy the telephone company so  
12 the regular R-1 customer has a lower-than-cost-based  
13 pricing; the government will buy it.

14 WITNESS POAG: Well, you know --

15 COMMISSIONER LAUREDO: But the end result --  
16 I'm being funny.

17 WITNESS POAG: In the best of all worlds, you  
18 know, frankly, we'd rather see the subsidy come from  
19 somewhere else. But I'm saying that that's the way to  
20 do it and the mechanisms are there that are in place to  
21 do it and I'm willing to step up to that one.

22 COMMISSIONER CLARK: Anything else?

23 COMMISSIONER LAUREDO: No.

24 COMMISSIONER CLARK: Mr. Willis, is he  
25 available for cross examination? Mr. Erwin?

1 MR. ERWIN: No questions.

2 COMMISSIONER CLARK: Mr. Carver?

3 MR. CARVER: No questions.

4 COMMISSIONER CLARK: Ms. Caswell?

5 MS. CASWELL: No questions.

6 COMMISSIONER CLARK: Is there anyone who has  
7 questions?

8 MR. TYE: I have a few questions,  
9 Commissioner Clark.

10 CROSS EXAMINATION

11 BY MR. TYE:

12 Q Mr. Poag, I'm really glad I didn't object to  
13 your summary. (Laughter)

14 Let me ask you a couple of questions about  
15 the price and the cost of intrastate switched access.

16 Is it correct that the price of intrastate  
17 switched access, both originating and terminating, is  
18 around 14 cents a minute?

19 A Yes, approximately.

20 Q Now, is it also correct that your incremental  
21 cost of providing that service is around a penny a  
22 minute?

23 A Yes.

24 Q Okay. So that's a 1400% markup; is that  
25 right?

1           A     13.

2           Q     13.  Sorry.  (Pause)

3                     Now, United has sought to reduce those  
4 charges on at least two occasions that I'm aware of  
5 before this Commission; is that correct?

6           A     Yes, sir.

7           Q     Okay.  Now, looking at the slides that you  
8 handed out, the third from the last, the one that's  
9 titled "one-party residential service."

10          A     Yes, sir.

11          Q     United's weighted average local rate there is  
12 \$8.68 a month; is that correct?

13          A     Yes, sir.

14          Q     Does that \$8.68 a month come near or come  
15 anywhere close to covering United's cost of providing  
16 that service?

17          A     No, sir.

18          Q     If you were to take the entire markup that  
19 you indicated a few minutes ago would be necessary to  
20 bring intrastate access charges down to interstate  
21 rates, that would only be, that would make this rate  
22 somewhere around \$12 a month; is that correct?

23          A     Yes, sir.

24          Q     Okay.  And that would still be lower than the  
25 rates in any of the other states that you show on here

1 with the possible exception of North Carolina would be  
2 roughly the same; is that correct?

3 A Yes, sir.

4 MR. TYE: Thank you very much, Mr. Poag. I  
5 have no further questions.

6 COMMISSIONER CLARK: Mr. Wahlen?

7 MR. WAHLEN: No questions.

8 COMMISSIONER CLARK: Ms. Wilson?

9 MS. WILSON: No questions.

10 COMMISSIONER CLARK: Mr. Beck?

11 MR. BECK: Thank you, Commissioner.

12 CROSS EXAMINATION

13 BY MR. BECK:

14 Q Mr. Poag, in your slide presentation and in  
15 your testimony, you give three examples of service  
16 bypass, do you not?

17 A Yes.

18 Q You've labeled them "Customer A, B and C"?

19 A Yes, sir.

20 Q And that starts at the bottom of Page 12 of  
21 your prefiled testimony where you discuss that; is that  
22 right?

23 A Yes, sir.

24 Q Now, with respect to Customer A, would you  
25 agree that that customer's toll usage was by far

1 predominantly interstate?

2 A Yes.

3 COMMISSIONER CLARK: What customer are you  
4 talking about?

5 MR. BECK: Customer A.

6 COMMISSIONER CLARK: And his toll usage was  
7 predominantly what?

8 MR. BECK: Interstate.

9 Q (By Mr. Beck) In fact, Mr. Poag, on a  
10 minute-of-use basis, that customer's toll usage was  
11 more than ten to one weighted in favor of interstate,  
12 was it not, compared to intrastate?

13 A I didn't vaguely -- I looked at the backup  
14 materials slightly and as you well know, as we've  
15 discussed, and the interstate was substantially more  
16 use than the intrastate. I don't know if it was ten to  
17 one or whatever, it might have even been higher.

18 Q Would you agree that that customer's decision  
19 to go to service bypass, then, was driven by their  
20 interstate usage more so than their intrastate?

21 A Yes.

22 Q And at least in the instance of that  
23 customer, reducing the access charges for intrastate  
24 down to interstate levels might not have had any  
25 difference on that customer's decision to go to service



1 bypass, would it?

2 A It may or may not have. If you take the --  
3 if you reduce the intrastate charges and if you reduce  
4 them by 50%, that would take them down to \$800 in  
5 switched access savings, roughly. So it would -- then  
6 you had 176 in local service, so then the economic  
7 tradeoff would have still been to go with the  
8 interstate. That's correct. It probably would not  
9 have impacted that decision.

10 In the case of Customer B and Customer C,  
11 then, if you look at that data, then clearly the  
12 reduction in intrastate switched access charges would  
13 have made a significant decision, difference in the  
14 revenues and possibly the decision that could have been  
15 made.

16 Q Mr. Poag, in your testimony on Page 12, at  
17 Lines 20 and 21, you point out that Customer A was able  
18 to reduce their local service expense by \$200 a month;  
19 is that right?

20 A I'm sorry. You're on what page?

21 Q Page 12.

22 A And Line 20?

23 Q 20, 21.

24 A Yes.

25 Q How about with Customer B, what was the

1 effect on that customer's local service? You don't  
2 mention that for Customer B.

3 A Based on the backup records that we provided  
4 to you, that customer over, I believe it was a  
5 two-month period, reflected a \$50 reduction in his  
6 local -- I'm sorry it was a reduction or an increase --  
7 increase in his local service rate even though they  
8 installed the special access service.

9 Now, that doesn't prove anything in the  
10 world. All that says is that the customer's bill went  
11 up. It's illogical to believe that it went up because  
12 he installed special access. His requirements for  
13 local services would have gone down when he installed  
14 special access.

15 COMMISSIONER CLARK: Let me ask you a  
16 question: Why did his requirements for local service  
17 go down?

18 WITNESS POAG: Let's do it this way: If I  
19 have 20 trunks coming into my switchboard and I'm using  
20 ten of them to make long distance calls, if I put in  
21 that dedicated high-capacity service from my  
22 switchboard to the interexchange carrier. And let's  
23 use that thousand, say it costs \$1,000. All right.  
24 Say I put that in at \$1,000. All right. Since half of  
25 my local trunking traffic was being used to get to that

1 interexchange carrier anyway, then I can take those ten  
2 trunks out.

3 Now, this is the interesting thing: Based on  
4 my -- my highest rate route, PBX trunk rates, my price  
5 for that is around \$56. So I'm going to save, in that  
6 case, \$560 in local trunking by taking those ten trunks  
7 out. So then that suggests the additional savings I  
8 need out of access is just over \$400. And that  
9 high-capacity circuit at \$1,000 gives me 24 voice grade  
10 lines. So I not only have the capability to replace  
11 those ten but the capability to increase my capacity.  
12 And that's why the line of questioning that Mr. Beck is  
13 pursuing is illogical. (Laughter)

14 Q (By Mr. Beck) Mr. Poag, you favor zone  
15 pricing, do you not?

16 A Yes, sir.

17 Q And generally zone pricing would allow your  
18 company to reduce the prices for access in the more  
19 dense zones and increase it in the less dense zones; is  
20 that right?

21 A Yes, sir.

22 Q Okay. Were you here yesterday when Dr.  
23 Beauvais from GTE expressed concern about the FCC's  
24 method of doing that; has them increase the price in  
25 the less dense zones by more than they would care to

1 do?

2 A I don't recall that part of his testimony. I  
3 must not have been in the room.

4 Q Okay. But do you have a concern about  
5 raising the price in the less dense zones?

6 A I have a concern anytime that I'm talking  
7 about raising the price to the customer. But in the  
8 world that we're in today, we're going to have to make  
9 some tough decisions. And that tough decision may mean  
10 that we've got to increase our prices in those less  
11 dense zones more in line with the cost of providing  
12 services in those zones.

13 That was what was reflected by that chart  
14 that I showed you earlier; that on average our rates --  
15 our costs for a high density DS-1 was \$435, but in our  
16 high density zones it was only \$52, which suggests to  
17 you in our low density areas it's a lot higher. And  
18 it's appropriate in a competitive environment for your  
19 prices to move towards your cost, and if the costs are  
20 higher, then the price is going to move up.

21 Q Okay. Would it be true that the density  
22 zones correlate roughly with an urban rural  
23 distinction?

24 A Generally, yes.

25 Q Do you want zone pricing for all of your

1 private line and access services or just the  
2 high-capacity services?

3 A I would like it for all of them.

4 COMMISSIONER CLARK: Mr. Beck, would you ask  
5 that question again?

6 Q (By Mr. Beck) Are you seeking zone pricing  
7 flexibility just for your high-capacity services or for  
8 all of your special and access services?

9 A I would like it for all of them.

10 COMMISSIONER CLARK: All right. Let me  
11 understand high capacity. Are you talking about the  
12 DS-1 and the DS-3 as opposed to DS-0?

13 WITNESS POAG: Yes, Commissioner. Thank you.

14 Q (By Mr. Beck) So if you had a customer just  
15 taking a single private line, you would want the zone  
16 pricing availability there, too; is that right?

17 A Yes.

18 Q Mr. Poag, has United been going through some  
19 downsizing in employee levels over the last few years?

20 A As a result of the merger, we are looking at  
21 some downsizing; that's correct.

22 Q Not as a result of the merger, just as a  
23 result of the general industry trend.

24 A Yes, we're looking downsizing.

25 Q And would you agree that all the local

1 companies or all the major local companies over the  
2 last few years have been generally reducing their level  
3 of employees?

4 A Absolutely.

5 Q And that tends to reduce your revenue  
6 requirement when you do that, does it not?

7 A Yes, it should.

8 Q Do you have an opinion about whether the  
9 reduction of employee levels has any correlation with  
10 the prospect of increased competition?

11 A Repeat that, please.

12 Q Do you have any opinion about whether the  
13 trend towards reducing the number of employees in the  
14 larger local exchange companies is related to the  
15 prospect of increased competition?

16 A Yes.

17 MR. BECK: Could I have an exhibit marked for  
18 identification, please?

19 COMMISSIONER CLARK: Sure. I believe the  
20 next one is 27. (Pause)

21 Give us a title, please.

22 MR. BECK: "United's Response to Request for  
23 Production of Documents Filed."

24 COMMISSIONER CLARK: That's Exhibit 27. Go  
25 ahead.



1 MR. BECK: Thank you.

2 (Exhibit No. 27 marked for identification.)

3 Q (By Mr. Beck) Mr. Poag, do you have Exhibit  
4 27 for identification in front of you?

5 A Yes.

6 Q And do you recall our office asking you to  
7 produce all of the documents had supporting your  
8 statement about the incremental cost of local exchange  
9 residential service?

10 A I'm sorry. What was the question?

11 Q Do you recall our request to your company for  
12 that?

13 A Not specifically but I know you did.

14 Q And do you recognize the documents underneath  
15 the cover page as your response to our request?

16 A Yes.

17 Q Okay. Mr. Poag, the costs of local loop for  
18 jurisdictional purposes are separated between the  
19 interstate and intrastate jurisdiction; is that right?

20 A Yes.

21 Q And would it be a rough rule of thumb for a  
22 loop cost at about 25% of that cost is allocated to the  
23 interstate jurisdiction?

24 A 25% of the embedded fully-allocated cost is  
25 allocated to the interstate jurisdiction, of not the

1 residential service but of the local loop portion.

2 Q Okay. Now, could you turn to the first page  
3 underneath the cover of this Exhibit 27?

4 A Yes.

5 Q In response to our request for support for  
6 your statement about the incremental cost of  
7 residential service, you provided this information on  
8 business service, did you not?

9 A That's correct.

10 Q And that was the closest surrogate you had  
11 for a cost study on residential -- incremental cost  
12 residential service when we asked you this; is that  
13 right?

14 A At the time that you asked, yes.

15 Q So you didn't actually provide any cost  
16 studies on the incremental cost of residential service  
17 to our office, did you?

18 A No, sir.

19 Q And at the time you filed your testimony this  
20 is all you had in the way of documents to support your  
21 statement; is that right?

22 A Yes.

23 Q On the first page, let me go through a few  
24 lengths, if I could, of loop plants to go through the  
25 methodology used in your study.

1           First of all, this is the total cost of the  
2 loops on study here, is it not, that's represented  
3 here?

4           COMMISSIONER CLARK: What is?

5           Q     (By Mr. Beck) All of the costs that are here  
6 are not separated jurisdictionally, are they?

7           A     No. None of these costs are separated  
8 jurisdictionally. And this is a portion of the  
9 business drop, and it does not include the line  
10 termination.

11          Q     Okay. Now, what your company did is you  
12 looked at the cost of different loop points of loop,  
13 did you not?

14          A     Yes.

15          Q     And for each thousand feet in loop lengths,  
16 your Company looked at the cost using three different  
17 technologies, did it not?

18          A     Yes.

19          Q     So, for example, under the 5,000 foot loop,  
20 the monthly cost for a copper loop was \$8.63, was it  
21 not?

22          A     Yes.

23          Q     And then you had pair gain on copper for  
24 11.33?

25          A     Yes.

1 Q And fiber would have been 13.75; is that  
2 right?

3 A Yes.

4 Q And then in each instance in each loop  
5 length, you looked at the least-cost method of  
6 providing the loop at that specific distance; is that  
7 right?

8 A That's correct.

9 Q And so the monthly economical cost is the  
10 lowest in each row for those three different  
11 technologies; is that right?

12 A The theoretical lowest cost. And the only  
13 reason I suggest that to you is that in the real world,  
14 you know, the theory doesn't match perfectly with the  
15 practicalities of the physical plant that's out there.  
16 So, theoretically, the world's best case, excluding the  
17 line termination charge and some of the transport and  
18 switching costs, this is a business local loop. It  
19 also excludes the bridge CAP, the res bridge CAP, by  
20 the way.

21 Q What was your purpose of conducting the  
22 study, by the way?

23 A I don't specifically know what this  
24 particular study was done for.

25 Q And even at the 41,000 foot length of a loop,

1 the most economical cost was \$11.79; is that right?

2 A That's correct.

3 Q And again, this doesn't allocate any of the  
4 cost to the interstate jurisdiction at all in this  
5 study?

6 A That's correct.

7 Q Now, on the next page, Mr. Poag, what your  
8 study does, then, is take the most economical cost at  
9 each length and applies that against a probability  
10 weighting for what proportion of the loops are at each  
11 distance; is that right?

12 A That's correct.

13 Q And the weighted average over all the lengths  
14 for business services comes out to a monthly cost of  
15 \$10.09; is that right?

16 A That's correct.

17 Q Now, residential loops may have a different  
18 weighting than business loops; is that right?

19 A Absolutely. And they would be longer.

20 Q But even if every single residential loop was  
21 41,000 feet from your central office, this study would  
22 still have a cost at no more than \$11.79, wouldn't it?

23 A Excluding the other elements of cost  
24 associated with that, that's correct.

25 Q Okay. Could you turn to the next page?

1           A     Yes.

2           Q     Is this the other costs that you were  
3 referring to reflected on this page?

4           A     Yes.

5           Q     And you look at it from two different  
6 perspectives: a usage sensitive cost and a flat rate  
7 cost, do you not?

8           A     Well, the flat rate cost is rolled into it.  
9 And for some reason it's costed as if it's part of the  
10 switch. It's in there, it's not really  
11 usage-sensitive, but it's included as part of the  
12 switching cost.

13          Q     Okay. And what are the costs that are  
14 represented by the --

15          A     The only cost that's pertinent on that is the  
16 \$2.87.

17          Q     And what types of facilities are covered by  
18 that cost?

19          A     That, and this is subject to check, Charlie.  
20 I am not -- this is a SCIS model, and I am not an  
21 expert on the SCIS model. Okay. So --

22                   COMMISSIONER CLARK: What kind of model?

23                   WITNESS POAG: I'm sorry. It's an acronym,  
24 or it says it's switching information cost system, or  
25 something along those lines. But it's a



1 Bellcore-developed costing model. And, we, through  
2 contract, use that, and I'm just -- we don't even know  
3 what all the algorithms are that go into the actual  
4 thing, but I think it's been looked at by the FCC and  
5 some other folks and been determined to be, you know,  
6 relatively appropriate.

7 Q (By Mr. Beck) Mr. Poag, on the recovery of  
8 costs, the interstate jurisdiction, you use a fully  
9 allocated, embedded cost analysis for recovery?

10 A I'm sorry, Charlie, I wasn't paying  
11 attention. Could you say that again?

12 Q I want to go now and direct your attention to  
13 the recovery of costs. You use a different costing  
14 methodology for setting your interstate rates, do you  
15 not, and for allocating between the jurisdictions?

16 A A different methodology than what?

17 Q An embedded, fully-allocated costing  
18 methodology?

19 A That was generally how it was done prior to  
20 price caps.

21 Q Okay. For these facilities -- in other  
22 words, for the looped plant -- part of that cost is  
23 allocated to the interstate jurisdiction, is it not?

24 A That's correct.

25 Q And you receive at least \$3.50 for every loop

1 on the subscriber line charge in the interstate  
2 jurisdiction, do you not?

3 A For residential and single line business.

4 Q Okay. And for a multiline business, it would  
5 be \$6 per line, would it not?

6 A Correct.

7 Q In fact, your slide showed your Company in  
8 1992 receiving \$52 million a year for subscriber line  
9 charge; is that right?

10 A Correct, residence and business.

11 COMMISSIONER CLARK: I'm sorry?

12 WITNESS POAG: Residence and business.

13 Q (By Mr. Beck) Mr. Poag, if you were to cost  
14 out TouchTone service, would you charge any of the loop  
15 cost to that service?

16 A No.

17 Q Okay. In fact, you want to charge the entire  
18 cost of the loop to the local service category, do you  
19 not? (Pause)

20 In other words, you're not going to allocate  
21 the cost of the loop to anything other than local  
22 service for costing purposes?

23 A No.

24 Q Okay. And you wouldn't try to recover any  
25 portion of that from Custom Calling services, either?

1           A     No.

2           Q     Okay.

3           MR. BECK: Mr. Poag, thank you. That's all I  
4 have.

5           COMMISSIONER CLARK: Mr. Wiggins, how much do  
6 you have?

7           MR. WIGGINS: We can take a lunch break. I  
8 was in the middle --

9           COMMISSIONER CLARK: That's not the answer to  
10 the question.

11          MR. WIGGINS: I probably have about, I don't  
12 know, anywhere from five to 15 minutes.

13          COMMISSIONER CLARK: I think we will go ahead  
14 and take a lunch break. We'll come back at a quarter  
15 till 1:00.

16                   (Thereupon, lunch was taken at 12:10 p.m.)

17                                   - - - - -

18                   (Transcript continues in sequence in Volume  
19 IV.)

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