

1 FLORIDA PUBLIC SERVICE COMMISSION

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4 In the Matter of : Docket No. 921074-TP

5 Expanded Interconnection : Docket No. 930955-TP

6 Phase II and Local : Docket No. 940014-TP

7 Transport Restructure. : Docket No. 940020-TP

8 ----- : Docket No. 931196-TP

9 : Docket No. 940190-TP

10

11 SECOND DAY - MORNING SESSION

12 VOLUME 4

13 Pages 392 through 525

14 PROCEEDINGS:

15 HEARING

16 BEFORE:

17 CHAIRMAN J. TERRY DEASON

18 COMMISSIONER SUSAN F. CLARK

19 COMMISSIONER JULIA L. JOHNSON

20 DATE:

21 Tuesday, August 23, 1994

22 TIME:

23 Reconvened at 9:30 a.m.

24 PLACE:

25 FPSC Hearing Room 106

101 East Gaines Street

Tallahassee, Florida

REPORTED BY:

JOY KELLY, CSR, RPR

Chief, Bureau of Reporting

SYDNEY C. SILVA, CSR, RPR

Official Commission Reporter

and

LISA GIROD JONES, RPR, CM

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER-DATE

FLORIDA PUBLIC SERVICE COMMISSION

09234 SEP-78

FPSC-RECORDS/REPORTING

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P R O C E E D I N G S

(Hearing reconvened at 9:30 a.m.)

(Transcript continues in sequence from Volume
3.)

CHAIRMAN DEASON: Call the hearing to order.

Ms. Canzano, any preliminary matters?

MS. CANZANO: Yes, Staff would like to take
official recognition of two Commission orders. And that
would be Commission Order No. 24877 issued on August 2nd,
1991, and Order No. 25546 issued 12-26, 1991. And both of
these are in Docket No. 890183-TL.

MS. PEED: What was the docket number again, I'm
sorry, Donna?

MS. CANZANO: 890183-TL. Which is the generic
investigation into operations of alternate access vendors.

CHAIRMAN DEASON: And what was that first order
number again, please?

MS. CANZANO: 24877.

MR. FONS: Is this going to be an exhibit?

MS. CANZANO: We just ask that it be recognized.

MR. FONS: Add that to Exhibit No. 1?

MS. CANZANO: Yes. If that's okay.

CHAIRMAN DEASON: And the Commission will take
recognition of its own orders.

MS. CANZANO: Thank you.

1 **CHAIRMAN DEASON:** Any other preliminary matters?
2 **Mr. Carver, I believe your witness is next.**

3 **MS. PEED:** Southern Bell calls Jerry Hendrix,
4 **please.**

5 **CHAIRMAN DEASON:** Mr. Hendrix was here yesterday
6 **and was sworn yesterday; is that correct?**

7 **MS. PEED:** Yes, he was.

8 **JERRY D. HENDRIX**
9 **was called as a witness on behalf of Southern Bell**
10 **Telephone and Telegraph Company and, having been duly**
11 **sworn, testified as follows:**

12 **DIRECT EXAMINATION**

13 **BY MS. PEED:**

14 **Q** **Good morning, Mr. Hendrix. Could you state**
15 **your name and work address for the record, please?**

16 **A** **My name is Jerry D. Hendrix. My work address**
17 **is 675 West Peachtree Street, Atlanta, Georgia.**

18 **Q** **And by whom are you employed and could you**
19 **briefly describe your job responsibilities?**

20 **A** **Yes. I am employed by BellSouth as a manager.**
21 **I manage switched access services for the nine BellSouth**
22 **states.**

23 **Q** **Did you cause to be filed on May 23rd, 1994,**
24 **30 pages of testimony with three exhibits?**

25 **A** **Yes, I did.**

1 Q And do you have any corrections to that
2 testimony?

3 A I believe I have one, and that change is on
4 Page 26, Line 13, I wanted to add two other states:
5 South Carolina and Tennessee.

6 Q And with the exception of those corrections,
7 if I asked you these same questions, would your answers
8 be the same?

9 A Yes.

10 Q Do you have any corrections to your exhibits?

11 A No, I do not.

12 MS. PEED: Mr. Chairman, I'd like to have these
13 exhibits marked for identification purposes.

14 CHAIRMAN DEASON: They will be identified as
15 Composite Exhibit 26.

16 (Composite Exhibit No. 26 marked for
17 identification.)

18 MS. PEED: And I would also ask that the
19 testimony be entered into the record as if read from the
20 stand.

21 CHAIRMAN DEASON: Without objection, it will be
22 so inserted.

23

24

25

1 **SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY**
2 **TESTIMONY OF JERRY D. HENDRIX**
3 **BEFORE THE**
4 **FLORIDA PUBLIC SERVICE COMMISSION**
5 **DOCKET NO. 921074-TP**
6 **MAY 23, 1994**

7
8
9 **Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS**
10 **ADDRESS?**

11
12 **A. YES. I AM JERRY D. HENDRIX. MY BUSINESS ADDRESS**
13 **IS 675 WEST 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,**
18 **INC., D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH**
19 **COMPANY IN FLORIDA ("SOUTHERN BELL"), AS A MANAGER**
20 **IN REGULATORY AND EXTERNAL AFFAIRS.**

21
22 **Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND**
23 **AND EXPERIENCE.**

24
25 **A. I WAS GRADUATED FROM MOREHOUSE COLLEGE IN ATLANTA,**

1 GEORGIA IN 1975 WITH A BACHELOR OF ARTS DEGREE. I
2 BEGAN EMPLOYMENT WITH SOUTHERN BELL IN 1979 AND
3 HELD VARIOUS POSITIONS BEFORE JOINING THE
4 HEADQUARTERS REGULATORY ORGANIZATION IN 1985.

5

6 Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

7

8 A. I AM CURRENTLY RESPONSIBLE FOR INTERSTATE AND
9 INTRASTATE SWITCHED ACCESS SERVICE ISSUES
10 THROUGHOUT THE NINE STATE BELLSOUTH REGION. MY
11 PRIMARY JOB RESPONSIBILITIES INCLUDE HANDLING
12 SWITCHED ACCESS TARIFFS AND RATE DEVELOPMENT AS
13 WELL AS RESOLVING OTHER SWITCHED ACCESS ISSUES.
14 PRIOR TO ASSUMING MY CURRENT RESPONSIBILITIES, I
15 HANDLED TOLL ISSUES AS WELL.

16

17 IN ADDITION TO DAILY MANAGEMENT OF ISSUES CONNECTED
18 WITH MY RESPONSIBILITIES, I HAVE TESTIFIED OR
19 PARTICIPATED IN PROCEEDINGS BEFORE THE GEORGIA,
20 KENTUCKY, LOUISIANA, MISSISSIPPI, NORTH CAROLINA,
21 SOUTH CAROLINA, TENNESSEE AND THE FLORIDA PUBLIC
22 SERVICE COMMISSIONS ("COMMISSIONS") REGARDING TOLL
23 AND/OR SWITCHED ACCESS MATTERS AND ISSUES.

24

25 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

1

2 A. THE PURPOSE OF MY TESTIMONY IS TO EXPLAIN SOUTHERN
3 BELL'S PROPOSED SWITCHED ACCESS LOCAL TRANSPORT
4 RESTRUCTURE TARIFF FILED WITH THIS COMMISSION ON
5 SEPTEMBER 22, 1993 AND SUBSEQUENTLY REVISED ON
6 JANUARY 5, 1994 AND MAY 16, 1994. ADDITIONALLY, I
7 WILL RESPOND TO CERTAIN ISSUES IDENTIFIED IN THIS
8 DOCKET.

9

10 THE SWITCHED ACCESS LOCAL TRANSPORT RESTRUCTURE, AS
11 PROPOSED BY SOUTHERN BELL, WILL ENSURE RATE AND
12 STRUCTURE UNIFORMITY BETWEEN THE INTRASTATE AND
13 INTERSTATE JURISDICTIONS. IT WILL ALSO PROMOTE
14 EFFICIENT USE OF SOUTHERN BELL'S NETWORK BY
15 ALLOWING PRICING OF SWITCHED ACCESS TRANSPORT
16 SERVICE WHICH MORE CLOSELY REFLECTS THE WAY THE
17 SERVICE IS PROVIDED AND COSTS ARE INCURRED.

18

19 Q. CAN YOU PROVIDE A BRIEF DISCUSSION OF THE
20 DEVELOPMENTS THAT LED TO THE FILING OF THIS TARIFF?

21

22 A. YES. IN 1982, THE UNITED STATES DISTRICT COURT FOR
23 THE DISTRICT OF COLUMBIA ENTERED THE MODIFICATION
24 OF FINAL JUDGMENT (MFJ) IN UNITED STATES V. WESTERN
25 ELECTRIC AND AMERICAN TELEPHONE AND TELEGRAPH

1 COMPANY. THE MFJ IN PART REQUIRED THAT CHARGES FOR
2 BELL OPERATING COMPANY (BOC) ORIGINATING AND
3 TERMINATING TRAFFIC OF THE SAME TYPE BETWEEN BOC
4 END OFFICES AND FACILITIES OF INTEREXCHANGE
5 CARRIERS (IXCS), WITHIN AN EXCHANGE AREA, BE EQUAL
6 FOR EACH UNIT OF TRAFFIC DELIVERED OR RECEIVED.
7 THIS MEANT THAT SIMILARLY SITUATED IXCS WOULD BE
8 CHARGED THE IDENTICAL RATE FOR EACH UNIT OF TRAFFIC
9 THAT WAS ORIGINATED OR TERMINATED ON THE SYSTEM OF
10 AN INDIVIDUAL BOC. THE COURT'S PURPOSE IN IMPOSING
11 THIS "EQUAL CHARGE" REQUIREMENT WAS TO ENSURE THAT
12 "NEW" IXCS WERE NOT DISADVANTAGED BY THE
13 PRE-EXISTING COLLOCATION ARRANGEMENTS OF AT&T.
14 UNDER THE TERMS OF THE MFJ, THIS REQUIREMENT
15 EXPIRED ON SEPTEMBER 1, 1991.

16
17 IN AUGUST 1991, JUST PRIOR TO THE EXPIRATION OF THE
18 "EQUAL CHARGE" REQUIREMENT WHICH HAD BEEN EMBEDDED
19 IN VARIOUS TARIFFS, THE FEDERAL COMMUNICATIONS
20 COMMISSION, (FCC) ISSUED AN ORDER AND NOTICE OF
21 PROPOSED RULEMAKING, IN DOCKET NO. 91-213,
22 ADDRESSING THE SWITCHED ACCESS TRANSPORT RATE
23 STRUCTURE. THE COMMISSION CONCLUDED THAT THE
24 "EQUAL CHARGE" RATE STRUCTURE SHOULD BE CHANGED.
25 SPECIFICALLY, THE FCC PROPOSED A MORE COST-BASED

1 **TRANSPORT RATE STRUCTURE AND PRICING PLAN.**

2

3 **THE GOALS OF THE FCC IN SUGGESTING ITS PROPOSED**
4 **CHANGES WERE TO:**

5

6 1. **ENCOURAGE EFFICIENT USE OF TRANSPORT**
7 **FACILITIES BY ALLOWING PRICING THAT**
8 **REFLECTS THE WAY COSTS ARE INCURRED,**

9 2. **FACILITATE FULL AND FAIR**
10 **INTEREXCHANGE COMPETITION, AND**

11 3. **AVOID INTERFERENCE WITH THE**
12 **DEVELOPMENT OF INTERSTATE ACCESS**
13 **COMPETITION.**

14

15 **AFTER CONSIDERING THE EXTENSIVE EVIDENCE PRESENTED**
16 **BY THE INTERVENORS IN DOCKET NO. 91-213, THE FCC**
17 **ADOPTED A NEW SWITCHED TRANSPORT RATE STRUCTURE,**
18 **REPLACING THE "EQUAL CHARGE" RATE STRUCTURE. THE**
19 **NEW STRUCTURE WAS EFFECTIVE DECEMBER 30, 1993.**

20

21 **Q. ISSUE 1. [TURNING TO FLORIDA'S INTRASTATE SWITCHED**
22 **ACCESS SERVICE] HOW IS SWITCHED ACCESS PROVISIONED**
23 **AND PRICED TODAY?**

24

25 **A. SWITCHED ACCESS, WHICH IS AVAILABLE MAINLY TO IXCS**

1 FOR THEIR USE IN FURNISHING THEIR SERVICES TO END
2 USERS, PROVIDES A COMMUNICATIONS PATH BETWEEN AN
3 IXC'S TERMINAL LOCATION AND THE END USER'S
4 PREMISES.

5
6 SWITCHED ACCESS SERVICE IS PROVIDED IN EIGHT
7 SERVICE CATEGORIES. THERE ARE FOUR SERVICE
8 CATEGORIES OF STANDARD AND OPTIONAL FEATURES CALLED
9 FEATURE GROUPS (I.E., FEATURE GROUPS A, B, C, AND
10 D). THERE IS ALSO AN 800 ACCESS TEN DIGIT
11 SCREENING SERVICE, A 900 ACCESS SERVICE AND TWO
12 UNBUNDLED BASIC SERVING ARRANGEMENTS WHICH ARE OPEN
13 NETWORK ARCHITECTURE TYPE SERVICES. THESE SWITCHED
14 ACCESS SERVICE CATEGORIES ARE DIFFERENTIATED BY
15 THEIR TECHNICAL CHARACTERISTICS, E.G., WHETHER THE
16 CONNECTION TO THE CENTRAL OFFICE SWITCH IS LINE
17 SIDE OR TRUNK SIDE, AND HOW THE END USER ACCESSES
18 THE IXC'S SERVICE FOR MAKING LONG DISTANCE CALLS.

19
20 THERE ARE THREE CATEGORIES OF RATES AND CHARGES
21 THAT APPLY TO SWITCHED ACCESS SERVICES. THESE ARE
22 MONTHLY RECURRING RATES, USAGE RATES AND
23 NONRECURRING CHARGES. THE MONTHLY RATES ARE
24 FLAT RECURRING RATES THAT APPLY TO A SPECIFIC RATE
25 ELEMENT FOR SERVICES PROVIDED BY SOUTHERN BELL.

1 **USAGE RATES ARE RATES THAT APPLY ONLY WHEN A**
2 **SPECIFIC RATE ELEMENT IS USED AND ARE ACCUMULATED**
3 **OVER A BILLING PERIOD, TYPICALLY 30 DAYS, AND**
4 **BILLED ALONG WITH THE MONTHLY CHARGES. THESE APPLY**
5 **ON A PER ACCESS MINUTE BASIS OR ON A PER CALL**
6 **BASIS. NONRECURRING CHARGES ARE ONE-TIME CHARGES**
7 **THAT APPLY FOR A SPECIFIC WORK ACTIVITY (I.E.,**
8 **INSTALLATION OF NEW SERVICE OR CHANGES TO AN**
9 **EXISTING SERVICE).**

10

11 **Q. WHAT ARE THE MAJOR SWITCHED ACCESS USAGE RATE**
12 **ELEMENTS?**

13

14 **A. THERE ARE FOUR MAJOR SWITCHED ACCESS RATE ELEMENTS.**
15 **THEY ARE:**

16

17 **1. CARRIER COMMON LINE,**

18 **- ORIGINATING**

19 **- TERMINATING**

20 **2. LOCAL SWITCHING,**

21 **- LOCAL SWITCHING 1**

22 **(FEATURE GROUPS A AND B)**

23 **- LOCAL SWITCHING 2**

24 **(FEATURE GROUPS C AND D)**

25 **- LOCAL SWITCHING 3 AND 4**

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(LINE SIDE AND TRUNK SIDE BASIC SERVICE ARRANGEMENTS)

- 3. CARRIER ACCESS CAPACITY (BHMOC), AND
- 4. LOCAL TRANSPORT

ALL OF THESE RATE ELEMENTS ARE ASSESSED ON A PER MINUTE OF USE BASIS EXCEPT FOR THE BHMOC. THIS ELEMENT, WHICH HAS BEEN IN PLACE SINCE JANUARY, 1984, IS BILLED ON A MONTHLY BASIS PER ORDERED BHMOC INSTALLED, ALTHOUGH SOUTHERN BELL DOES NOT CHARGE FOR THIS ELEMENT.

Q. ISSUE 2. HOW IS LOCAL TRANSPORT STRUCTURED AND PRICED TODAY?

A. CURRENTLY, SWITCHED ACCESS LOCAL TRANSPORT HAS A USAGE SENSITIVE RATE STRUCTURE. LOCAL TRANSPORT SERVICE IN FLORIDA IS NOT DISTANCE SENSITIVE AS IS THE CASE THROUGHOUT THE OTHER BELLSOUTH STATES AND IN THE INTERSTATE JURISDICTION.

IN DOCKET NO. 820537, ORDER NO. 12765, ISSUED DECEMBER 9, 1983, THE COMMISSION ORDERED THAT AN AVERAGE MINUTE OF USE TRANSPORT CHARGE BE IMPLEMENTED WITHIN EACH ACCESS AREA. THE

1 COMMISSION DEFINED ACCESS AREA AS THE GEOGRAPHIC
2 AREA SERVED BY AN EXISTING TOLL CENTER. THE BOTTOM
3 LINE IS, REGARDLESS OF THE DISTANCE, ALL TRANSPORT
4 MINUTES OF USE ARE ASSESSED THE SAME RATE PER
5 MINUTE OF USE. FURTHER, BECAUSE OF THE EQUAL
6 CHARGE RULE, THE RATES FOR SOUTHERN BELL'S SWITCHED
7 ACCESS TRANSPORT SERVICES ARE ON A PER MINUTE OF
8 USE BASIS REGARDLESS OF WHETHER THE CUSTOMER IS
9 USING DEDICATED FACILITIES OR TANDEM FACILITIES.

10

11 A DEPICTION OF SOUTHERN BELL'S CURRENT INTRASTATE
12 SWITCHED ACCESS RATE STRUCTURE IS SHOWN IN HENDRIX
13 EXHIBIT 1.

14

15 Q. ISSUE 19. SHOULD THE COMMISSION MODIFY ITS PRICING
16 AND RATE STRUCTURE REGARDING SWITCHED TRANSPORT
17 SERVICE?

18

19 A) WITH THE IMPLEMENTATION OF SWITCHED EXPANDED
20 INTERCONNECTION.

21

22 B) WITHOUT THE IMPLEMENTATION OF SWITCHED
23 EXPANDED INTERCONNECTION.

24

25 A. THE COMMISSION SHOULD MODIFY ITS POLICY ON PRICING

1 AND RATE STRUCTURE REGARDING SWITCHED TRANSPORT
2 SERVICE REGARDLESS OF WHETHER SWITCHED EXPANDED
3 INTERCONNECTION IS IMPLEMENTED. EQUALLY IMPORTANT
4 IS THAT SWITCHED EXPANDED INTERCONNECTION SHOULD
5 NOT BE IMPLEMENTED PRIOR TO THE IMPLEMENTATION OF
6 LOCAL TRANSPORT RESTRUCTURE.

7
8 THE COMMISSION'S PRICING POLICY IS GROUNDED IN ITS
9 DESIRE TO FOSTER INTEREXCHANGE COMPETITION. THE
10 TELECOMMUNICATIONS INDUSTRY HAS EXPERIENCED
11 SIGNIFICANT CHANGES AND THE PREVIOUSLY STATED GOAL
12 HAS NOW BEEN REALIZED. IN FACT, AS OF MAY 1994,
13 THERE ARE MORE THAN 300 FIRMS CERTIFICATED TO
14 PROVIDE IXC SERVICES IN FLORIDA. BY FOSTERING SUCH
15 COMPETITION, THE COMMISSION ENCOURAGED INEFFICIENT
16 USE OF THE LOCAL EXCHANGE COMPANY'S PUBLIC SWITCHED
17 NETWORK. IT IS NOW APPROPRIATE TO MOVE TO AN
18 INTERIM STRUCTURE AND PRICING PLAN ADOPTED BY THE
19 FCC AND PROPOSED HERE BY SOUTHERN BELL. THE
20 PROPOSED STRUCTURE WILL FOSTER IXC CARRIER
21 COMPETITION AS WELL AS ACCESS COMPETITION AND WILL
22 PROMOTE MORE EFFICIENT USE OF THE PUBLIC SWITCHED
23 NETWORK.

24

25 Q. ISSUE 21. SHOULD SOUTHERN BELL'S PROPOSED LOCAL

1 **TRANSPORT RESTRUCTURE TARIFF BE APPROVED?**

2

3 **A. YES. SOUTHERN BELL'S PROPOSED RESTRUCTURE OF**
4 **SWITCHED ACCESS TRANSPORT SERVICE TARIFF SHOULD BE**
5 **APPROVED FOR MANY REASONS:**

6

7 **I. TO MIRROR THE INTERSTATE SWITCHED**
8 **TRANSPORT RATES AND STRUCTURE**
9 **APPROVED BY THE FCC (EXCLUDING THE**
10 **INTERCONNECTION CHARGE);**

11

12 **II. TO MORE CLOSELY REFLECT THE WAY**
13 **TRANSPORT IS PROVIDED AND COSTS ARE**
14 **INCURRED;**

15

16 **III. TO PROMOTE EFFICIENT USE OF SOUTHERN**
17 **BELL'S NETWORK;**

18

19 **IV. TO MOVE TOWARD A MORE COMPETITIVE**
20 **ENVIRONMENT FOR THE PROVISION OF**
21 **INTEREXCHANGE SERVICE; AND**

22

23 **V. TO FACILITATE THE DEVELOPMENT OF**
24 **ACCESS COMPETITION.**

25

1 Q. COULD YOU ADDRESS IN MORE DETAIL EACH OF THE
2 REASONS SET FORTH ABOVE?

3

4 A. YES.

5

6 I. TO MIRROR THE INTERSTATE SWITCHED TRANSPORT
7 RATES AND STRUCTURE APPROVED BY THE FCC;

8

9 SOUTHERN BELL IS PROPOSING TO RESTRUCTURE THE
10 SWITCHED TRANSPORT SERVICE TO MIRROR THE INTERSTATE
11 SWITCHED TRANSPORT RATES AND STRUCTURE APPROVED BY
12 THE FCC IN 1993 (EXCLUDING THE INTERCONNECTION
13 CHARGE) TO SIMPLIFY TRANSPORT ISSUES. HAVING THE
14 SAME RATES AND STRUCTURE WILL ELIMINATE THE
15 INEFFICIENCY OF MAINTAINING A DIFFERENT SET OF
16 RATES AND STRUCTURES FOR THE INTERSTATE AND THE
17 INTRASTATE JURISDICTIONS, AND WILL ELIMINATE
18 CONFUSION FOR OUR SWITCHED ACCESS CUSTOMERS. IN
19 ADDITION, APPROVAL OF THIS TARIFF FILING WILL
20 LESSEN ANY INCENTIVE FOR MISREPORTING PERCENT
21 INTERSTATE USAGE (PIU).

22

23 II. TO MORE CLOSELY REFLECT THE WAY TRANSPORT IS
24 PROVIDED AND COSTS ARE INCURRED;

25

1 UNDER THE PROPOSED STRUCTURE, THE SPECIFIC
2 APPLICATION OF SWITCHED TRANSPORT RATES WILL BE
3 DEPENDENT UPON THE IXC'S ORDER FOR SWITCHED
4 TRANSPORT, THE IXC'S ROUTING REQUEST AS WELL AS THE
5 CAPACITY OF THE TRANSPORT DEDICATED TO THAT IXC FOR
6 ITS USE. THE UNDERLYING PREMISE IS THAT DIFFERENT
7 COSTS ARE ASSOCIATED WITH THE SWITCHED ACCESS
8 ROUTING OPTIONS (I.E., ACCESS TANDEM SWITCHED
9 (COMMON) OR DEDICATED) AVAILABLE TO SWITCHED
10 TRANSPORT CUSTOMERS.

11

12 III. TO PROMOTE EFFICIENT USE OF SOUTHERN BELL'S
13 NETWORK;

14

15 UNDER THE "EQUAL CHARGE" STRUCTURE, THERE ARE FEW,
16 IF ANY, INCENTIVES FOR IXCS TO BE EFFICIENT WITH
17 RESPECT TO THE SWITCHED ACCESS SERVICES ORDERED
18 BECAUSE EVERY IXC IS CHARGED ON A MINUTE OF USE
19 BASIS NO MATTER WHAT FACILITIES ARE UTILIZED. THIS
20 CAUSES IXCS TO ORDER FACILITIES THEY DO NOT NEED
21 AND/OR CANNOT FULLY UTILIZE. UNDER THE PROPOSED
22 RESTRUCTURE, HOWEVER, THERE WILL BE A GREATER
23 INCENTIVE TO UTILIZE TRANSPORT EFFICIENTLY IN THAT
24 CUSTOMERS ORDERING DEDICATED TRANSPORT WILL PAY THE
25 COST OF THE TYPE OF TRANSPORT ORDERED (I.E., IN THE

1 **CAPACITY OF VOICE GRADE AND/OR DS0, DS1, DS3)**
 2 **REGARDLESS OF THE NUMBER OF MINUTES OF USE FOR**
 3 **WHICH IT IS UTILIZED. ALSO, THE PROPOSED STRUCTURE**
 4 **RECOGNIZES DIFFERENCES IN ROUTING ARRANGEMENTS AND**
 5 **ENCOURAGES IXCS TO ORDER THE ROUTING ARRANGEMENTS**
 6 **WHICH ARE MOST EFFICIENT FOR CARRYING THEIR**
 7 **TRAFFIC.**

8
 9 **IV. TO MOVE TOWARD A MORE COMPETITIVE**
 10 **ENVIRONMENT FOR THE PROVISION OF**
 11 **INTEREXCHANGE SERVICE; AND**

12
 13 **THE PROPOSED RESTRUCTURE, WHICH REFLECTS THE WAY**
 14 **COSTS ARE INCURRED, MOVES TOWARD A MORE COMPETITIVE**
 15 **ENVIRONMENT FOR THE PROVIDERS OF INTEREXCHANGE**
 16 **SERVICES. UNDER THE PRESENT EQUAL CHARGE**
 17 **STRUCTURE, IXCS WHICH EFFICIENTLY UTILIZE**
 18 **FACILITIES DEDICATED TO THEM ARE REQUIRED TO**
 19 **SUBSIDIZE IXCS WHICH DO NOT. FOR INSTANCE, IXCS**
 20 **WHICH UTILIZE DEDICATED TRANSPORT AT THE FULL**
 21 **CAPACITY BEAR NOT ONLY THE COSTS OF THAT SERVICE,**
 22 **BUT ALSO A PORTION OF THE COSTS OF THE TRANSPORT**
 23 **SERVICES USED BY OTHER IXCS WHO ARE NOT EFFICIENT.**
 24 **THE PROPOSED STRUCTURE MOVES CLOSER TO AN**
 25 **ARRANGEMENT IN WHICH EACH IXC WILL BEAR THE COSTS**

1 OF THE TRANSPORT SERVICE IT ORDERS, BASED UPON
 2 ROUTING AND CAPACITY. ON THE OTHER HAND, THE
 3 PROPOSED RESTRUCTURE STILL RECOGNIZES THE EXISTENCE
 4 OF IXCS WHICH MAY NOT BE POSITIONED TO TAKE FULL
 5 ADVANTAGE OF A DEDICATED RATE STRUCTURE. SUCH
 6 CUSTOMERS CAN ALSO CONTINUE TO ORDER USAGE-BASED
 7 ACCESS TANDEM SWITCHED (COMMON) TRANSPORT.

8
 9 V. TO FACILITATE THE DEVELOPMENT OF ACCESS
 10 COMPETITION.

11
 12 THE ADOPTION OF THIS RATE STRUCTURE FACILITATES THE
 13 DEVELOPMENT OF ACCESS COMPETITION IN THE SWITCHED
 14 TRANSPORT ARENA. THE PROPOSED STRUCTURE ALLOWS
 15 SOUTHERN BELL TO OFFER ITS SWITCHED ACCESS
 16 CUSTOMERS AN EFFICIENT STRUCTURE WHICH MORE CLOSELY
 17 REFLECTS THE FACILITIES UTILIZED AND COSTS INCURRED
 18 BY EACH CUSTOMER. THE ACCESS ENVIRONMENT TODAY IS
 19 INCREASINGLY COMPETITIVE, AS IS EVIDENCED BY THE
 20 FACT THAT IXCS AND OTHER LARGE CUSTOMERS ARE ABLE
 21 TO BYPASS SOUTHERN BELL'S SERVICE ARRANGEMENTS.
 22 GIVEN THE INCREASINGLY COMPETITIVE ACCESS
 23 ENVIRONMENT, SOUTHERN BELL MUST BE AFFORDED A
 24 SWITCHED ACCESS RATE STRUCTURE THAT ALLOWS IT TO
 25 COMPETE OR THE CONTRIBUTION FROM SWITCHED ACCESS

1 SERVICES TO BASIC SERVICE WILL BE JEOPARDIZED.

2

3 Q. HAVING DISCUSSED THE NEEDS AND REASONS FOR THE
4 CHANGES YOU HAVE PROPOSED, CAN YOU GIVE A MORE
5 DETAILED DESCRIPTION OF THE TARIFF ITSELF?

6

7 A. YES. UNDER THE SWITCHED TRANSPORT RESTRUCTURE,
8 RATES WILL BE MORE CLOSELY ALIGNED WITH THE WAY
9 TRANSPORT IS PROVIDED AND COSTS ARE INCURRED. AS
10 STATED ABOVE, THE APPLICATION OF SWITCHED TRANSPORT
11 RATES WILL BE DEPENDENT UPON THE IXC'S ROUTING
12 REQUEST (ACCESS TANDEM SWITCHED (COMMON) OR
13 DEDICATED) AND THE CAPACITY ORDERED. SWITCHED
14 TRANSPORT WILL HAVE THREE GENERAL RATE COMPONENTS:

15

- 16 1. INTEROFFICE TRANSPORT
 - 17 A. SWITCHED COMMON TRANSPORT
 - 18 B. SWITCHED DEDICATED TRANSPORT,
- 19 2. SWITCHED LOCAL CHANNEL, AND
- 20 3. INTERCONNECTION.

21 PLEASE SEE HENDRIX EXHIBIT 2 ILLUSTRATING THESE
22 COMPONENTS.

23

24 Q. PLEASE DISCUSS THE RATE ELEMENTS ASSOCIATED WITH
25 SWITCHED COMMON TRANSPORT.

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A. SWITCHED COMMON TRANSPORT INVOLVES TRAFFIC THAT IS SWITCHED THROUGH SOUTHERN BELL'S ACCESS TANDEM. THIS TRAFFIC WILL BE USAGE SENSITIVE AND DISTANCE SENSITIVE WITH THE RATE BEING ASSESSED ON A PER MINUTE OF USE, PER MILE BASIS. GENERALLY, THE TRANSPORT MILEAGE WILL BE MEASURED FROM THE IXC'S SERVING WIRE CENTER TO THE IXC'S DESIGNATED END OFFICE JUST AS IT IS TODAY. THE RATE ELEMENTS ASSOCIATED WITH SWITCHED COMMON TRANSPORT INCLUDE:

- 1. ACCESS TANDEM SWITCHING - CHARGED PER MINUTE OF USE, AND**
- 2. SWITCHED COMMON TRANSPORT - CHARGED PER MINUTE OF USE, PER MILE.**

Q. PLEASE DISCUSS THE RATE ELEMENTS ASSOCIATED WITH SWITCHED DEDICATED TRANSPORT.

A. SWITCHED DEDICATED TRANSPORT INVOLVES TRAFFIC THAT WILL BE CARRIED OVER DEDICATED FACILITIES BETWEEN THE IXC'S SERVING WIRE CENTER AND DESIGNATED END OFFICE OR OTHER DESIGNATED POINTS. THESE FACILITIES WILL BE BILLED A MONTHLY FLAT-RATE CHARGE, BASED ON THE CAPACITY ORDERED BY THE IXC.

1 THE CAPACITY OPTIONS ARE:

2

3 1. VOICE GRADE (1 VOICE GRADE CIRCUIT),

4 2. DS0 (1 VOICE GRADE CIRCUIT),

5 3. DS1 (EQUIVALENT TO 24 VOICE GRADE
6 CIRCUITS), AND

7 4. DS3 (EQUIVALENT TO 672 VOICE GRADE
8 CIRCUITS)

9

10 Q. PLEASE DISCUSS THE SWITCHED LOCAL CHANNEL.

11

12 A. ALL CUSTOMERS, WHETHER USING SWITCHED COMMON OR
13 SWITCHED DEDICATED FACILITIES, ARE REQUIRED TO
14 PURCHASE A SWITCHED LOCAL CHANNEL. THE SWITCHED
15 LOCAL CHANNEL WILL PROVIDE THE IXC AN ENTRANCE
16 FACILITY FOR THE TRANSPORT OF TRAFFIC BETWEEN THE
17 IXC'S PREMISES AND THE IXC'S SERVING WIRE CENTER.
18 THE SWITCHED LOCAL CHANNEL WILL BE BILLED AT A
19 MONTHLY FLAT-RATE CHARGE, BASED ON THE CAPACITY
20 ORDERED. THE CAPACITY OPTIONS ARE:

21

22 1. VOICE GRADE (1 VOICE GRADE CIRCUIT),

23 2. DS1 (EQUIVALENT TO 24 VOICE GRADE
24 CIRCUITS), AND

25 3. DS3 (EQUIVALENT TO 672 VOICE GRADE

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CIRCUITS)

Q. PLEASE DISCUSS THE INTERCONNECTION RATE COMPONENT.

A. THE INTERCONNECTION CHARGE IS THE THIRD COMPONENT OF THE PROPOSED TARIFF. THIS RESIDUALLY PRICED RATE COMPONENT IS DESIGNED TO ENSURE THAT THE FILING IS REVENUE NEUTRAL TO SOUTHERN BELL IN ORDER TO MAINTAIN THE CONTRIBUTION FLOW TO BASIC SERVICE.

Q. HOW WILL SOUTHERN BELL'S FILING AFFECT ITS SWITCHED ACCESS SERVICES CUSTOMERS?

A. SOUTHERN BELL ANTICIPATES THE IMPACT TO BE MINIMAL. AS HENDRIX EXHIBIT 3 SHOWS, ALL SWITCHED ACCESS SERVICE CUSTOMERS WILL CONTINUE TO PAY THE SAME RATES FOR CARRIER COMMON LINE (CCL), LOCAL SWITCHING AND INTERCONNECTION. THESE CHARGES REPRESENT MORE THAN 95% OF THE AVERAGE SWITCHED ACCESS RATE PER ACCESS MINUTE. THE SWITCHED ACCESS CHARGES THAT ARE NOT INCLUDED IN THE 95% WILL VARY DEPENDING ON THE CUSTOMER'S ORDERING OPTION, I.E., ACCESS TANDEM SWITCHED (COMMON) OR DEDICATED. THE DIFFERENCE IN THE HIGHEST RATE (TANDEM SWITCHING)

1 PER ACCESS MINUTE OF USE (\$.04686) AND THE LOWEST
2 RATE (DS3) PER ACCESS MINUTE OF USE (\$.04573) IS
3 APPROXIMATELY ONE TENTH (1/10TH) OF A CENT.

4

5 Q. ISSUE 20. IF THE COMMISSION CHANGES ITS POLICY ON
6 THE PRICING AND RATE STRUCTURE OF SWITCHED
7 TRANSPORT SERVICE, WHICH OF THE FOLLOWING SHOULD
8 THE NEW POLICY BE BASED ON:

9

10 A) THE INTRASTATE PRICING AND RATE STRUCTURE OF
11 LOCAL TRANSPORT SHOULD MIRROR EACH LEC'S
12 INTERSTATE FILING, RESPECTIVELY.

13

14 B) THE INTRASTATE PRICING AND RATE STRUCTURE OF
15 LOCAL TRANSPORT SHOULD BE DETERMINED BY
16 COMPETITIVE CONDITIONS IN THE TRANSPORT
17 MARKET.

18

19 C) THE INTRASTATE PRICING AND RATE STRUCTURE OF
20 LOCAL TRANSPORT SHOULD REFLECT THE UNDERLYING
21 COST BASED STRUCTURE.

22

23 D) THE INTRASTATE PRICING AND RATE STRUCTURE OF
24 LOCAL TRANSPORT SHOULD REFLECT OTHER METHODS.

25

1 A. IF THE COMMISSION CHANGES ITS POLICY ON THE PRICING
2 AND RATE STRUCTURE OF SWITCHED TRANSPORT SERVICE,
3 THE NEW POLICY SHOULD BE BASED ON THE COMPETITIVE
4 CONDITIONS IN THE MARKETPLACE AND SHOULD MIRROR
5 EACH LEC'S INTERSTATE FILING. THE MARKET-BASED
6 RATES, OF COURSE, MUST COVER THEIR INCREMENTAL
7 COSTS. ONCE THIS COST TEST IS MET, THE LEC SHOULD
8 HAVE THE FLEXIBILITY TO PRICE TRANSPORT SERVICES
9 CONSISTENT WITH MARKET CONDITIONS AND DEMANDS.
10 FURTHER, A POLICY OF MIRRORING THE SWITCHED ACCESS
11 TRANSPORT SERVICES RATE STRUCTURE AND PRICING PLAN
12 ELIMINATES THE INEFFICIENCIES OF MAINTAINING A
13 DIFFERENT SET OF RATES AND STRUCTURES, LESSENS ANY
14 IMPETUS FOR MISREPORTING PIU AND ELIMINATES
15 CONFUSION FOR OUR CUSTOMERS.

16

17 Q. HOW WERE THE PROPOSED TRANSPORT RATES ESTABLISHED?

18

19 A. AS STATED ABOVE, THE PROPOSED TRANSPORT RATES
20 MIRROR THE EFFECTIVE INTERSTATE RATES WITH THE
21 EXCEPTION OF THE INTERCONNECTION CHARGE. THE
22 PROPOSED INTERCONNECTION CHARGE IS AT A LEVEL TO
23 ENSURE REVENUE NEUTRALITY FOR THIS FILING AND TO
24 HELP MAINTAIN SATISFACTORY LEVELS OF CONTRIBUTION
25 TO BASIC SERVICE.

1

2 Q. ISSUE 14. SHOULD ALL SWITCHED ACCESS TRANSPORT
3 PROVIDERS BE REQUIRED TO FILE TARIFFS?

4

5 A. THE COMMISSION SHOULD NOT REQUIRE THE LECS AND
6 OTHER TRANSPORT PROVIDERS TO FILE TARIFFS. THIS
7 DECISION SHOULD BE LEFT TO THE TRANSPORT PROVIDERS.
8 FEDERAL RULES REQUIRE SOUTHERN BELL TO FILE TARIFFS
9 AND SOUTHERN BELL WILL COMPLY WITH THOSE RULES AS
10 LONG AS THEY ARE IN PLACE. ONCE THESE RULES ARE
11 REMOVED, SOUTHERN BELL WOULD EXPECT EQUAL PRICING
12 FLEXIBILITY AS IS ENJOYED BY ITS COMPETITORS.

13

14 Q. ISSUE 17. SHOULD THE LECS PROPOSED INTRASTATE
15 SWITCHED ACCESS INTERCONNECTION TARIFFS BE
16 APPROVED?

17

18 A. SOUTHERN BELL FILED AN ILLUSTRATIVE EXPANDED
19 INTERCONNECTION TARIFF ON MARCH 31, 1994. THE
20 ILLUSTRATIVE TARIFF MIRRORS THE INTERSTATE FILING
21 FOR THE SAME SERVICE. SUBJECT TO ANY REQUIRED
22 REVISIONS THAT MAY COME OUT OF THIS DOCKET,
23 SOUTHERN BELL SHOULD BE ALLOWED TO FILE ITS FINAL
24 TARIFF WITH THE COMMISSION AND IT SHOULD BE
25 APPROVED.

1

2 Q. ISSUE 18. SHOULD THE LECS BE GRANTED ADDITIONAL
3 PRICING FLEXIBILITY? IF SO, WHAT SHOULD IT BE?

4

5 A. YES. AT A MINIMUM, THE COMMISSION SHOULD ALLOW THE
6 LOCAL EXCHANGE COMPANIES TO HAVE THE OPTION OF
7 IMPLEMENTING ZONE PRICING FOR TRANSPORT SERVICES
8 WITH A RATE CHANGE INTERVAL OF 14 DAYS AS ALLOWED
9 BY THE FCC RULES AND PROCEDURES PURSUANT TO PRICE
10 CAP REGULATIONS. THIS OF COURSE WILL REQUIRE A
11 WAIVER OF THE 60 DAY REQUIREMENT IN THE FLORIDA
12 STATUTE 364.05(1). BEING ABLE TO MAKE RATE CHANGES
13 WITH A SHORTER APPROVAL INTERVAL WILL ALLOW
14 SOUTHERN BELL TO RESPOND MORE QUICKLY TO
15 COMPETITIVE PRESSURES AND MEET COMPETITION IN A
16 MORE TIMELY FASHION. ADDITIONALLY, THE LOCAL
17 COMPANIES SHOULD BE GRANTED THE FLEXIBILITY TO ZONE
18 PRICE OTHER ACCESS SERVICES AS WELL. THE NEED FOR
19 THIS FLEXIBILITY IS EXPLAINED MORE FULLY IN THE
20 TESTIMONY OF DAVID B. DENTON IN RESPONSE TO ISSUES
21 4 AND 15.

22

23 Q. ISSUE 22. SHOULD THE MODIFIED ACCESS BASED
24 COMPENSATION (MABC) AGREEMENT BE MODIFIED TO
25 INCORPORATE A REVISED TRANSPORT STRUCTURE (IF LOCAL

1 TRANSPORT RESTRUCTURE IS ADOPTED) FOR INTRALATA
2 TOLL TRAFFIC BETWEEN LECS?

3

4 A. NO. SOUTHERN BELL'S RECOMMENDATION IS THAT THE
5 CURRENT MABC PLAN, RATES AND RATE STRUCTURE REMAIN
6 IN PLACE. ONCE LOCAL TRANSPORT RESTRUCTURE IS
7 FULLY IMPLEMENTED AND THE COMMISSION DETERMINES
8 THAT IT IS APPROPRIATE TO INTRODUCE THE PROPOSED
9 TRANSPORT STRUCTURE INTO THE MABC, THEN ALL
10 TRANSPORT RATES SHOULD REFLECT THE WAY THE SERVICE
11 IS PROVISIONED BETWEEN THE LOCAL EXCHANGE
12 COMPANIES. THIS PROVISIONING ARRANGEMENT COULD BE
13 EITHER COMMON OR DEDICATED, AND SHOULD EXCLUDE THE
14 LOCAL CHANNEL RATE ELEMENTS SINCE IT DOES NOT
15 REFLECT THE WAY SERVICES ARE JOINTLY PROVIDED.

16

17 Q. ISSUE 23. HOW SHOULD THE COMMISSION'S IMPUTATION
18 GUIDELINES BE MODIFIED TO REFLECT A REVISED
19 TRANSPORT STRUCTURE (IF LOCAL TRANSPORT RESTRUCTURE
20 IS ADOPTED)?

21

22 A. FIRST, SOUTHERN BELL BELIEVES THAT IT IS NOT
23 APPROPRIATE TO ADDRESS ACCESS IMPUTATION IN THIS
24 PROCEEDING. FURTHERMORE, IMPUTATION REQUIREMENTS
25 ARE NO LONGER NEEDED AND SHOULD BE ELIMINATED SINCE

1 IT IS CONTRARY TO THE INTENT OF COMPETITION. ONLY
2 A SELECT FEW ARE ASSURED OF BENEFITING FROM
3 IMPUTATION - IXCS AND OTHER TOLL PROVIDERS. THESE
4 REQUIREMENTS ARTIFICIALLY RAISE TOLL RATES FOR LECS
5 SUCH THAT IT MASKS THE TRUE LOW COST TOLL SERVICE
6 PROVIDER.

7
8 IF THE DECISION IS TO MAINTAIN SUCH BURDENSOME AND
9 UNNECESSARY REQUIREMENTS, THE COMMISSION'S
10 IMPUTATION GUIDELINES SHOULD BE MODIFIED TO REFLECT
11 THE AVERAGE TRANSPORT COST, NOT RATE, PER ACCESS
12 MINUTE OF USE. THE AVERAGE TRANSPORT COST SHOULD
13 BE DETERMINED BY WEIGHTING THE TRANSPORT OPTIONS
14 BASED ON DEMAND. THIS IS A REASONABLE APPROACH
15 SINCE IT TAKES INTO CONSIDERATION ALL TRANSPORT
16 RATE ELEMENTS.

17
18 SECOND, THE REQUIREMENT FOR A SEPARATE ACCESS LINE
19 FOR SOUTHERN BELL'S AND OTHER LECS' HIGH VOLUME
20 TOLL OFFERINGS SHOULD BE ELIMINATED. WITH THE
21 LEVEL OF COMPETITION IN THIS STATE AND THE SERVICE
22 OPTIONS THAT ARE AVAILABLE IN THE MARKETPLACE, THIS
23 REQUIREMENT IS NO LONGER APPROPRIATE.

24
25 LASTLY, IXCS AND OTHER TOLL PROVIDERS SHOULD BE

1 **REQUIRED TO FOLLOW THE SAME IMPUTATION GUIDELINES**
2 **FOR THEIR INTRASTATE TOLL SERVICES. THERE IS NO**
3 **EQUITY IN PLACING THESE REQUIREMENTS ON THE LECS**
4 **WHILE THE IXCS AND OTHER TOLL PROVIDERS HAVE**
5 **FREEDOM FROM THESE ONEROUS AND UNNECESSARY**
6 **IMPUTATION REQUIREMENTS.**

7

8 **Q. HAS LOCAL TRANSPORT RESTRUCTURE BEEN APPROVED IN**
9 **OTHER BELLSOUTH STATES?**

10

11 **A. YES. AS OF THIS DATE, LOCAL TRANSPORT RESTRUCTURE**
12 **HAS BEEN APPROVED IN ALABAMA, KENTUCKY, ~~AND~~ NORTH**
13 **CAROLINA, *South Carolina And Tennessee.***

14

15 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

16

17 **A. SOUTHERN BELL IS PROPOSING TO RESTRUCTURE ITS**
18 **SWITCHED ACCESS TRANSPORT SERVICE IN FLORIDA. ITS**
19 **PROPOSED TRANSPORT RESTRUCTURE SHOULD BE APPROVED**
20 **FOR MANY REASONS:**

21

22 **I. TO MIRROR THE INTERSTATE SWITCHED TRANSPORT**
23 **RATES AND STRUCTURE APPROVED BY THE FCC;**

24

25 **HAVING THE SAME STRUCTURE AND RATES THAT ARE IN THE**

1 INTERSTATE JURISDICTION WILL SIMPLIFY TRANSPORT
2 ISSUES, ELIMINATE THE INEFFICIENCY OF MAINTAINING A
3 DIFFERENT SET OF RATES AND STRUCTURES FOR THE
4 INTERSTATE AND THE INTRASTATE JURISDICTIONS, AND
5 WILL ELIMINATE CONFUSION FOR OUR SWITCHED ACCESS
6 CUSTOMERS. IN ADDITION, APPROVAL OF THIS TARIFF
7 FILING WILL LESSEN ANY INCENTIVE FOR MISREPORTING
8 PERCENT INTERSTATE USAGE (PIU).

9

10 II. TO MORE CLOSELY REFLECT THE WAY TRANSPORT IS
11 PROVIDED AND COSTS ARE INCURRED;

12

13 UNDER THE PROPOSED STRUCTURE, THE SPECIFIC
14 APPLICATION OF SWITCHED TRANSPORT RATES WILL BE
15 DEPENDENT UPON THE IXC'S ORDER FOR SWITCHED
16 TRANSPORT, THE IXC'S ROUTING REQUEST AS WELL AS THE
17 CAPACITY OF THE TRANSPORT DEDICATED TO THAT IXC FOR
18 ITS USE. THE UNDERLYING PREMISE IS THAT DIFFERENT
19 COSTS ARE ASSOCIATED WITH THE SWITCHED ACCESS
20 ROUTING OPTIONS (I.E., ACCESS TANDEM SWITCHED
21 (COMMON) OR DEDICATED) AVAILABLE TO SWITCHED
22 TRANSPORT CUSTOMERS.

23

24 III. TO PROMOTE EFFICIENT USE OF SOUTHERN BELL'S
25 NETWORK;

1
2 UNDER THE PROPOSED RESTRUCTURE THERE WILL BE A
3 GREATER INCENTIVE TO UTILIZE TRANSPORT EFFICIENTLY
4 IN THAT CUSTOMERS ORDERING DEDICATED TRANSPORT WILL
5 PAY THE COST OF THE TYPE OF TRANSPORT ORDERED
6 (I.E., IN THE CAPACITY OF VOICE GRADE AND/OR DS0,
7 DS1, DS3) REGARDLESS OF THE NUMBER OF MINUTES OF
8 USE FOR WHICH IT IS UTILIZED. ALSO, THE PROPOSED
9 STRUCTURE RECOGNIZES DIFFERENCES IN ROUTING
10 ARRANGEMENTS AND ENCOURAGES IXCS TO ORDER THE
11 ROUTING ARRANGEMENTS WHICH ARE MOST EFFICIENT FOR
12 CARRYING THEIR TRAFFIC.

13
14 IV. TO MOVE TOWARD A MORE COMPETITIVE ENVIRONMENT
15 FOR THE PROVISION OF INTEREXCHANGE SERVICE;
16 AND

17
18 THE PROPOSED RESTRUCTURE, WHICH REFLECTS THE WAY
19 COSTS ARE INCURRED, MOVES TOWARD A MORE COMPETITIVE
20 ENVIRONMENT FOR THE PROVIDERS OF INTEREXCHANGE
21 SERVICES. THE PROPOSED STRUCTURE MOVES CLOSER TO
22 AN ARRANGEMENT IN WHICH EACH IXC WILL BEAR THE
23 COSTS OF THE TRANSPORT SERVICE IT ORDERS, BASED
24 UPON ROUTING AND CAPACITY. ON THE OTHER HAND, THE
25 PROPOSED RESTRUCTURE STILL RECOGNIZES THE EXISTENCE

1 OF IXCS WHICH MAY NOT BE POSITIONED TO TAKE FULL
2 ADVANTAGE OF A DEDICATED RATE STRUCTURE. SUCH
3 CUSTOMERS CAN ALSO CONTINUE TO ORDER USAGE-BASED
4 ACCESS TANDEM SWITCHED (COMMON) TRANSPORT.

5

6 V. TO FACILITATE THE DEVELOPMENT OF ACCESS
7 COMPETITION

8

9 THE ADOPTION OF THIS RATE STRUCTURE FACILITATES THE
10 DEVELOPMENT OF ACCESS COMPETITION IN THE SWITCHED
11 TRANSPORT ARENA. THE PROPOSED STRUCTURE ALLOWS
12 SOUTHERN BELL TO OFFER ITS SWITCHED ACCESS
13 CUSTOMERS AN EFFICIENT STRUCTURE WHICH MORE CLOSELY
14 REFLECTS THE FACILITIES UTILIZED AND COSTS INCURRED
15 BY EACH CUSTOMER. GIVEN THE INCREASINGLY
16 COMPETITIVE ACCESS ENVIRONMENT, SOUTHERN BELL MUST
17 BE AFFORDED A SWITCHED ACCESS RATE STRUCTURE THAT
18 ALLOWS IT TO COMPETE OR THE CONTRIBUTION TO BASIC
19 SERVICE WILL BE JEOPARDIZED.

20

21 ADDITIONALLY, AT A MINIMUM, THE COMMISSION SHOULD
22 ALLOW THE LOCAL EXCHANGE COMPANIES TO HAVE THE
23 OPTION OF IMPLEMENTING ZONE PRICING FOR TRANSPORT
24 SERVICES WITH A RATE CHANGE INTERVAL OF 14 DAYS AS
25 ALLOWED BY THE FCC RULES AND PROCEDURES PURSUANT TO

1 PRICE CAP REGULATIONS. BEING ABLE TO MAKE RATE
2 CHANGES WITH A SHORTER APPROVAL INTERVAL WILL ALLOW
3 SOUTHERN BELL TO RESPOND MORE QUICKLY TO
4 COMPETITIVE PRESSURES AND MEET COMPETITION IN A
5 TIMELY FASHION. THE LOCAL COMPANIES SHOULD BE
6 GRANTED THE FLEXIBILITY TO ZONE PRICE OTHER ACCESS
7 SERVICES AS WELL.

8
9 FINALLY, IMPUTATION REQUIREMENTS ARE NO LONGER
10 NEEDED AND SHOULD BE ELIMINATED. IF THE DECISION
11 IS TO MAINTAIN SUCH BURDENSOME REQUIREMENTS, THE
12 COMMISSION'S IMPUTATION GUIDELINES SHOULD BE
13 MODIFIED TO REFLECT THE AVERAGE TRANSPORT COST, NOT
14 RATE, PER ACCESS MINUTE OF USE. THE REQUIREMENT
15 FOR A SEPARATE ACCESS LINE FOR SOUTHERN BELL'S AND
16 OTHER LECS' HIGH VOLUME TOLL OFFERINGS SHOULD BE
17 ELIMINATED. WITH THE LEVEL OF COMPETITION IN THIS
18 STATE AND THE SERVICE OPTIONS THAT ARE AVAILABLE IN
19 THE MARKETPLACE, THIS REQUIREMENT IS NO LONGER
20 APPROPRIATE.

21

22 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

23

24 A. YES.

25

1 Q (By Ms. Peed) Have you prepared a summary of
2 your testimony?

3 A Yes, I have.

4 Q Would you please give that summary at this
5 time?

6 A Yes. Thank you.

7 Southern Bell filed to restructure switched
8 transport to mirror the interstate filing that was made
9 in compliance with the FCC order. The filing was made
10 here in Florida on September 22nd, 1993.

11 The current structure is a usage-sensitive
12 structure. The charge is assessed on a
13 per-minute-of-use basis; unlike the other states the
14 current structure is not a distance-sensitive structure.

15 Under the new structure, transport is being
16 changed to more closely reflect the way Southern Bell
17 and the other LECs incur costs.

18 Southern Bell filed to mirror the interstate
19 rate for many reasons.

20 The first reason is parity with interstate was
21 an item that has been expressed to Southern Bell by
22 various customers.

23 The second reason is if you had the same rates
24 in both inter- and intrastate, it helps the customers in
25 trying to reconcile their bills. That was one of the

1 main reasons, as well as the third reason is that it
2 eliminates a problem that we have in the reporting of
3 the percent interstate usage. And that is a real
4 problem for us even now given that the structure is in
5 place in the interstate, but not in all of the states.

6 Furthermore, and finally, the main reason is
7 that it will promote efficient use of the services that
8 we provide to our customers.

9 There are many customers purchasing access in
10 this state, hundreds. Only two in this hearing are
11 opposing the rates, and then only certain rates.

12 The switched transport filing, the restructure
13 has been filed in all nine states with the same rates.
14 It has been approved in five states; two states we've
15 not gone to hearings where the tariff is in place, and
16 in Tennessee the hearing officer approved a tariff. But
17 there are further arguments that will take place. So
18 we're waiting for four other states, all of which have
19 either gone to hearings, or will be going to hearings.
20 So of the nine states, we have the tariff in place in
21 five.

22 There was a lot of talk yesterday about what
23 actually all we were doing. I'm sorry for bending the
24 chart, but they have been used in various states.

25 But very simply what we're talking about is

1 this piece of transport here, and I'll come back to this
2 chart. First, let me get just point out exactly what we
3 have now.

4 Currently, in switched access there are
5 various charges, you have the carrier common line
6 charge. We're not talking about the carrier common line
7 charge. What I've done I've made copies, made them a
8 little easier to follow. They are attached to the
9 testimony that was filed.

10 We're not talking about the carrier common
11 line charge.

12 COMMISSIONER CLARK: Where is that again?

13 WITNESS HENDRIX: Right there. We're not
14 talking about the local switching charge that takes place
15 at the end office. We're not talking about any other
16 charges that some of the other carriers, local companies
17 may have, such as the busy hour minute charge. What we're
18 talking about is the transport fees between this point and
19 that point; that's all we're talking about. This is the
20 current structure.

21 COMMISSIONER JOHNSON: I'm sorry. I was looking
22 down when you said "all we're talking about is this point
23 to that point." Which point, the end office?

24 WITNESS HENDRIX: The transport piece between
25 the end office and the serving wire center and the

1 customer premises, that's all we're speaking of.

2 The question was asked yesterday, well, isn't
3 that a small part of the revenues? Yes, it's about 16%
4 of our switched access. We're talking millions and
5 millions of dollars. So it may be small as far as a
6 percentage; it is a large pot of dollars that we're
7 talking about.

8 COMMISSIONER CLARK: Let me interrupt you just
9 for a minute. When you have a wire serving center, wire
10 center serving customers.

11 WITNESS HENDRIX: Yes.

12 COMMISSIONER CLARK: All right. And then you
13 also have a little piece that has customer premises.

14 WITNESS HENDRIX: Right.

15 COMMISSIONER CLARK: And I assume that means an
16 IXC.

17 WITNESS HENDRIX: That's correct.

18 COMMISSIONER CLARK: All right. So they are not
19 necessarily located at the wire center, that's an issue of
20 virtual collocation or actual. Okay.

21 WITNESS HENDRIX: That's correct. As a matter
22 of fact, the piece between the customers premises and the
23 serving wire center, as I will show you later, it's called
24 the local channel. Okay. And this piece between the
25 customer serving wire center and the end office is called

1 the interoffice channel.

2 COMMISSIONER CLARK: Okay.

3 WITNESS HENDRIX: Then, of course, you have the
4 access tandem where calls can be routed directly from this
5 point to that point, or may very well be routed through
6 the access tandem. And that is the way transport is
7 provided to customers now.

8 There are options available to customers in
9 the need structure. Yesterday the focus was on
10 dedicated transport. And what that means, in a general
11 sense, is transport that is dedicated to a given
12 customer, between this point and that point here.
13 (Indicating) It may be a DS0; it may be a DS1; it could
14 be a voice rate service or it very well could be a DS3
15 service.

16 And yesterday we talked a lot about, well,
17 what actually are we talking about is DS1s, DS3s and DS0
18 services. The DS0 service, in simple terms, is a single
19 voice grade path. The DS1 is 24 voice grade path. And
20 DS3, 28 DS1s, 672 voice grade paths.

21 Then when we talk about tandem switch we're
22 talking about the usage-sensitive type service option
23 that the customer could come in and purchase from us.
24 So these are dedicated and this is a usage-sensitive
25 type service.

1 The other option, as I just mentioned, which
2 is under the usage here, is whether the term is
3 "common." Common simply means that it is used in a
4 common network for all customers; all customers may be
5 going through the tandem. And that is a usage-sensitive
6 service. That's also known as tandem switching. So I
7 don't want to throw out new terms, but I'm wanting to
8 ensure that the focus is on exactly what we're talking
9 about, which is still the transport piece.

10 Now, Florida is the first state where issues
11 have been taken with the local channel. And when I say
12 the first state, the first BellSouth state. And the
13 states where we've gone to hearings, it's been on the
14 interoffice piece, not the local channel. The local
15 channel is the piece between the customer's premises and
16 the circuit wire center. But here we have issue with
17 both, or they are taking issue with both the local
18 channel as well as the interoffice.

19 Under the new structure, there are new
20 elements. We talked about the carrier common line. We
21 also have what has been termed as the RIC, that is the
22 charge that customers would pay us to interconnect with
23 us. We talked about the local switching. We talked
24 about the access tandem switching, calls that are being
25 switched through the tandem.

1 Now, all of those charges, the carrier common
2 line, the RIC, local switching, the access tandem
3 switching, are all usage charges.

4 In other words, if I were to look at those
5 usage charges and look at the average carrier common
6 line rate that is paid by customers, the local
7 switching, the RIC, total those up by the options, the
8 three options, the tandem switching, the DS1 and DS3,
9 you can see in every case more than 95 -- which
10 represents more than 95% of the total access charge, all
11 customers are paying the same. The difference, as I
12 mentioned our reason for being here, is the transport
13 piece. That transport piece will vary depending on the
14 option that is chosen by the customer. And those
15 options again are DS1, DS3 and the tandem switching.

16 So what we're talking about in this case is
17 the 5% of the total access charges that a customer would
18 actually pay. That's what we're talking about. And at
19 issue is whether the rates filed by Southern Bell are
20 the appropriate rates. And we believe that they are.

21 One, because it responds to the request that
22 as been made by customers for us to mirror interstate rates.

23 The second reason is that would cover our
24 costs to provide those services.

25 The third reason is that it eliminates

1 problems in billing, and the PIU problem is a major
2 problem. And PIU, what we're talking about, if a
3 customer has got 100 minutes, and his usage is 70%
4 interstate, 70 of those minutes will be billed at the
5 interstate rate; 30% will be billed at the intrastate
6 rate. Well, that is a problem for us now by not having
7 the same structure and the same rates in place between
8 inter- and intrastate. That is a real problem for us.

9 Let me explain how that is a problem. You
10 know, we talked about PIU over the years in this state
11 and we were ordered to set up a local company group, and
12 that local company group, which is made up of all the
13 smaller LECs as well as the major LECs, we are to have
14 some plan as to customers, how we would go about
15 auditing customers. Because it was a serious problem.
16 What we're talking about is money that may be shown to
17 the intrastate that probably should be interstate or
18 maybe shown to interstate that probably should be
19 intrastate. And what we have some customers doing is playing
20 it to their benefit, and that is the problem that you have
21 when you have rates that are actually different.

22 Now, if you were to look at Features A, B, D,
23 7, 8 and 9 -- 900 services, if you were to look at those
24 services and you had a PI/PIU on these usage services,
25 usage services of 70, you would think as a result of

1 this filing, that it would hold true for the other
2 services. With local transport filing, we have asked
3 carriers to report to us the PIU for the local channel,
4 the PIU for the dedicated, the interoffice, and the
5 multiplexing that they may have. Multiplexing is
6 usually when you're breaking a service down, if I have a
7 DS3 that has 672 voice grade-type circuits and I want to
8 break that down to have DS1, then I have to break that
9 down to ensure that I can take it over that DS1 service.

10 At one of the other hearings, Mr. Joe
11 mentioned that it's like a traffic cop. In other words,
12 funneling the traffic through, and insuring that it's on
13 the right path, or the right voice rate path. So that's
14 what we're talking about here.

15 But they were to give us a PIU for each of
16 these new elements. These elements are new to switch.
17 They've always been under special. But with special, if 10%
18 of the usage is interstate, the whole circuit is interstate.
19 But with switched, you give us a usage number and we will
20 break that number down in portion of usage based on what you
21 give us in inter- and intrastate.

22 So if I have a 70% PIU on the services, you
23 would think that I would have close to a 70 here since
24 those are the same services. Well, folks, that's not
25 happening. They're playing a game. And what they're

1 doing is saying there's 70 here, but this may be a 30.
2 Why? Because the structure is not in place. And so I'm
3 going to do what is beneficial to my company to skew
4 that to ensure that I'm not actually harmed. That is
5 the problem where you have different rates and you have
6 different structures.

7 So in simple terms, just in summary, what
8 we're talking about is the local channel and we're
9 talking about the transport piece. We're not speaking
10 of the carrier common line that we talked about earlier.
11 We're not speaking of the busy hour minute charge; we're
12 not speaking of the local switching charge. We're
13 talking about the transport pieces that were carried
14 traffic from the carrier's premises to the end office.
15 So that is what is at issue, which would represent
16 somewhere in the neighborhood of 3 to 5% of the total
17 charge that's billed to the carrier on a
18 per-access-minute basis.

19 Now, granted this is just one end of access,
20 so if a carrier is using access on both ends and you add
21 the double, double this, but the growing trend is to
22 target customers with high volume usage and to use
23 dedicated here and special here. You do have some of
24 the special on both ends. But this is what we're
25 talking about. The access charges are between 3% to 5%

1 of what a carrier would pay on a per-minute-of-use
2 basis. And the rates filed by Southern Bell, all those
3 rates mirror the interstate except for the red, which is
4 priced to keep Southern Bell neutral. The second part
5 of my summary --

6 COMMISSIONER CLARK: May I interrupt you just a
7 minute. You had made a comment that local transport is
8 16% of the switched access revenues.

9 WITNESS HENDRIX: That's correct.

10 COMMISSIONER CLARK: Now, do I understand this,
11 that in the restructuring -- what is the relationship of
12 the 95% here to your 16%? Is there any relationship?

13 WITNESS HENDRIX: Okay. No. The 16% -- if I
14 looked at total switched access dollars, the transport
15 piece of total switched access dollars, which would
16 include your carrier common line, your local switching,
17 and all other elements, transport is about 16% of that
18 total dollar minimum. This is on an average
19 per-access-minute basis. These are the charges, 1, 2,
20 3 -- 1, 2 and 3 would be the charges made by all
21 customers, the tandem, DS1 and DS3 services, and the
22 difference would be in the local transport, which is this
23 piece here.

24 COMMISSIONER CLARK: Does that mean -- I guess,
25 what I understand that to mean is instead of the local

1 transport bringing in 16% of the revenues, it will only
2 bring in 5.

3 WITNESS HENDRIX: No, it will still bring in
4 16%. Perhaps a piece is a little misleading is the red
5 charge here, that's all in the transport piece. That has
6 been taken out of the number because all customers would
7 pay that on a per-access-minute basis. So that's been
8 lumped in into 1, 2 and 3.

9 COMMISSIONER CLARK: What you have noted
10 interconnection IC charge, that's the RIC?

11 WITNESS HENDRIX: That is what's on the RIC.

12 COMMISSIONER CLARK: Okay. So if I added the
13 RIC and what the new local transport cost will be, I
14 should come up to 16% of the revenues?

15 WITNESS HENDRIX: I have to do that; I can't
16 think that fast on my feet yet.

17 COMMISSIONER CLARK: Okay.

18 WITNESS HENDRIX: But it may. And I'll check
19 that out.

20 COMMISSIONER CLARK: Okay. But at any rate this
21 is a revenue neutral proposal?

22 WITNESS HENDRIX: That's correct.

23 I hope that helped in explaining what we're
24 talking about and the services that we're talking about.

25 COMMISSIONER CLARK: It helped me.

1 **WITNESS HENDRIX:** Approval of Southern Bell's
2 filing coupled with the zone pricing plan that was also
3 filed, will provide the first step in allowing Southern
4 Bell to compete with the other carriers and other
5 customers that may be able to provide access in the
6 transport marketplace.

7 The second part of my focus is on the
8 imputation of access. The marketplace is changing. We do not
9 believe that imputation is still needed. We believe that the
10 customers that are to benefit from imputation being in place
11 are not really benefiting. Changes should be made if, in
12 fact, the imputation standard is to be kept in place and
13 changes are actually needed.

14 **MS. KAUFMAN:** Excuse me, I hesitate to interrupt
15 at this point in the summary, which has been quite
16 lengthy, but I don't believe Mr. Hendrix addresses changes
17 in imputation standards in his direct testimony.

18 **MS. PEED:** On Page 24 of his direct testimony he
19 answers the issue how should the Commission's imputation
20 guidelines be modified?

21 **MS. KAUFMAN:** In a general way but not in the
22 detail he's gone into here. He doesn't give us a
23 proposal.

24 **MS. PEED:** I believe he was saying that they're
25 no longer needed. He just mentioned that they should be

1 eliminated contrary to the intent of competition. I think
2 his summary is appropriate. I'm sure he can wrap it up
3 pretty quickly.

4 CHAIRMAN DEASON: I'm going to ask you to keep
5 your -- your summary has been very helpful and we
6 appreciate that, but it is established procedure that
7 summaries are limited to the scope of what's contained in the
8 prefiled direct and I'm going to ask you to keep it to that.

9 WITNESS HENDRIX: Well, let me sum it up that
10 Southern Bell believes that the imputation requirements
11 are no longer needed with the changes that are taking
12 place in the marketplace.

13 And finally, the transport tariff filed by
14 Southern Bell should be approved for the reasons stated
15 earlier.

16 That concludes my summary.

17 MS. PEED: Thank you, Mr. Hendrix.

18 Mr. Chairman, the witness is available for cross
19 examination.

20 CHAIRMAN DEASON: Mr. Adams.

21 CROSS EXAMINATION

22 BY MR. ADAMS:

23 Q Good morning, Mr. Hendrix.

24 A Good morning.

25 Q A couple of points of clarification on the

1 summary I think before we start. You corrected Page 26
2 of your testimony, I believe, where there are five
3 states listed, it's on Lines 11 through No. 13.

4 A Yes, I did.

5 Q Am I correct, Alabama has allowed the rates to
6 take effect subject to a later hearing which has not
7 occurred?

8 A Yes, that's correct. But the rates are --

9 Q The rates are approved.

10 A Right.

11 Q But there's been no Commission --

12 A No Commission hearing or review of the rates.

13 A No, but the rates were approved.

14 Q Right. Kentucky, there was no challenge to
15 the rates in Kentucky; is that right?

16 A That's correct, on none of them, but the rates
17 are approved.

18 Q Now, North Carolina, the Commission heard
19 arguments but declined to have an evidentiary hearing;
20 is that correct? There was no testimony, no witnesses?

21 A That's not true, no. LDDS was present, I was
22 present, AT&T was present. We all spoke to the issue of
23 the tariff. They took it under advisement and issued an
24 order stating that the rates should be allowed to go in,
25 I believe on February 23rd, so they heard from all

1 parties in that docket and then finally issued an order
2 approving the tariff.

3 Q All right. They heard but they declined to
4 hold an evidentiary hearing?

5 A That's because they had the evidence. They
6 had the evidence to hear and to rule.

7 Q Now, Tennessee had a hearing before an
8 administrative law judge; is that right, or hearing
9 examiner?

10 A Yes. And an order was issued approving the
11 tariff.

12 Q By the hearing examiner?

13 A That's correct.

14 Q And the Commission is still considering it?

15 A They will, yes, but an order was issued
16 approving the tariff.

17 Q Right. Okay. And also just in terms of --
18 you mentioned there are only two opponents here among
19 the interexchange carriers. Of course, Interexchange
20 Access Coalition which I represent, has got five
21 members. I just want to point that out. Have other
22 carriers other than AT&T expressed support for the
23 BellSouth rates in Florida, other interexchange
24 carriers?

25 A Not in total. But the fact that they are not

1 here, the very opportunity to oppose the tariff -- you
2 know, as the old saying, "silence is golden."

3 Q Silent majority, is that what we're talking
4 about?

5 A Well, they're definitely silent.

6 Q Let's look at Page 11 of your testimony, you
7 talk about your five reasons for proposing the transport
8 structure that you propose.

9 A Yes.

10 Q And the first one of those is mirroring the
11 FCC's interstate structure.

12 A That's correct.

13 Q And you're aware, right, that there is no
14 challenge to the structure itself?

15 A I am aware of that, yes.

16 Q Okay. And you're also -- you also said, I
17 think, you don't want to mirror the residual
18 interconnection charge; is that right? You have a
19 different charge in Florida?

20 A That's correct.

21 Q Is the Florida charge higher or lower than the
22 federal charge?

23 A The current pending charge -- well, initially
24 when the filing was made the charge was 1.3 cents.

25 Since that time Southern Bell has reduced access by \$50

1 million. As a result of that change that reduced the
2 charge to .00518. If we were to go in and mirror the
3 new rates that went in at the federal level that would
4 increase the charge just slightly to .00533, the current
5 interstate charge is .00525.

6 Q So Florida is slightly lower at this point --

7 A No --

8 Q -- your proposed --

9 A -- slightly higher. Slightly higher because
10 of the 7.1 interstate filing.

11 Q Okay. On your chart there that you were
12 discussing a second ago, and it's up on the easel, you
13 have the chart at the bottom with the numbers on it,
14 just so I understand this, the structure that we're
15 talking about mirroring is Items 4, 5 and 6; is that
16 right? Local channel, access tandem and interoffice?

17 A Exactly right.

18 Q Okay. And those are the same as the federal?

19 A We would propose that they be the same as
20 federal, yes.

21 Q Right. And if I add those up correctly, and
22 add the residual interconnection charge, I get .00751.

23 A It depends on which one you add up.

24 Q Right. I added the bottom three. The three
25 you're proposing to mirror, plus the residual connection

1 charge.

2 A It depends on which one you add up. You've
3 got three different options here.

4 Q Oh, I'm sorry, I'm adding tandem switched.

5 A Okay.

6 Q So that would mean that the total, if I added
7 correctly, is .0751 for Items 3, 4, 5 and 6, for the
8 things we're talking about mirroring? Do you want to
9 check my math?

10 A Yes, I do.

11 Q Please. (Pause)

12 A And what was your number?

13 Q .00751. Did I do it right?

14 A That is correct.

15 Q Good. And of that amount .00518 is a residual
16 interconnection charge?

17 A That's correct.

18 Q So that's roughly two-thirds?

19 A Roughly.

20 Q Okay. So of the amount we're talking about
21 mirroring, two-thirds is actually not mirrored; is that
22 correct? The residual interconnection charge is the
23 piece that is not mirrored and represents two-thirds of
24 the total?

25 A Yes, it does.

1 Q Okay. Thank you.

2 And your second reason here you talk about
3 "more closer reflect the way transport is provided and
4 costs are incurred." And that's elaborated, really, at
5 the bottom of Page 12 and continued on to Page 13 of
6 your testimony.

7 Q You say, on Page 13, in last sentence, Line
8 through, "The underlying premise is that different costs
9 are associated with the switched access routing options,
10 i.e., access tandem switched, common or dedicated,
11 available to switched transport customers." What does
12 that sentence mean, "The underlying premise is that
13 different costs are costs are associated with switched
14 access routing options"?

15 A What it means is that if you choose to be
16 routed through the tandem, and you're going -- Bell will
17 incur costs based on the option that you choose. And
18 since you have tandem switching, if you choose not to be
19 routed through the tandem but you want to assume the
20 risk -- which is a major risk to purchase DS1 or DS3
21 service, remembering that DS3 service is a 672 voice
22 grade, so whether you pump a minute over that service or
23 not you will provide to Bell monthly the charge for that
24 DS3. So it simply means that the customer has the
25 option of either assuming the per-minute charge or

1 assuming the risk of a DS1 or DS3 service that he would
2 pay on a monthly flat rate basis, provided that his
3 traffic patterns are such that he could warrant it.

4 Q Does it suggest that it's preferable to have
5 prices that reflect cost?

6 A It is preferable to have prices, one, that
7 cover your cost and that reflect what is in the
8 marketplace.

9 Q Okay. Let's go to No. 3 then.

10 A Let me expound on that.

11 When you look at the prices that are being
12 charged by other customers, let's say one customer -- I
13 went in and looked at the rates in this state for a DS1
14 and DS3 services. Bell's prices, while they cover
15 Bell's cost, you know, we should be allowed to set our
16 prices to compete with what the market is dictating to
17 us that we need to do. And if you look at the prices of
18 other carriers in this state, you know, there's a big
19 gap. What you all are asking us to do, you are not
20 doing.

21 You know, when you look at the 9.6 -- the FCC
22 said we will assume your rates to be reasonable if your
23 ratio of DS1 to 3 is a 9.6 or higher. Bell is about 15.

24 But I went in and pulled a tariff of a carrier
25 opposing this tariff in this state, and I have the

1 actual tariff pages. And then when you look at their
2 rates, it's almost a 1-for-1 all the way up to a 5 -- a
3 5-to-1 or a 1-to-1. So what is actually being done or
4 what is trying to be done is to derail the LECs so that
5 they can have the market to go out and do whatever they
6 want to do or buy from other vendors.

7 Another party Opposing this tariff says, "I go
8 out and purchase DS3s from other sources, but I think
9 your DS1 should be 22-to-1." Now, that's not right. We
10 should be allowed to set our rates, as long as our rates
11 cover cost. And we cover cost. And we should not be
12 dictated to by our customers as to what our rates should
13 actually be when there are other motives on the basis of
14 that customer. We should be allowed to do that.

15 COMMISSIONER CLARK: Are you suggesting that the
16 alternative carriers, the people that will be in the
17 market to provide alternatives on the local transport
18 charge, will be pricing predatorily; they will not cover
19 their costs in order to get the customers?

20 WITNESS HENDRIX: I think they will recover
21 their costs, but the people they are buying the services
22 from, they are able to provide lower rates. In other
23 words, they do not follow the 28-to-1 or the 22-to-1 that
24 is trying to -- that some of the carriers are trying to
25 press on us or put on us. That is not the relationship

1 between our DS1 and DS3 rates.

2 COMMISSIONER CLARK: Okay.

3 Q (By Mr. Adams) Mr. Hendrix, do those same
4 people have the luxury of revenue neutrality? Do they
5 get to raise the rates for somebody else when they lower
6 the rates for someone and come out with the same amount
7 of money?

8 A I begin to wonder exactly what they do have.
9 I know I've reduced rates by \$50 million but I checked
10 one of your client's tariffs and I have yet to see that
11 flow through. So perhaps you have a better -- I mean,
12 perhaps you're better; because I reduced raise 50
13 million and perhaps you just pocket the money, so you're
14 probably better off.

15 Q You think the 50 million went all to one of my
16 clients?

17 A No.

18 Q You think maybe AT&T got a bulk of that since
19 they are the largest carrier? It was an
20 across-the-board reduction; it didn't go to an
21 individual company.

22 A I'm sure they do.

23 Q Okay.

24 A But you received the benefit of us reducing
25 access.

1 Q Well, let's get back to the subject at hand,
2 if we could.

3 Your Reason No. III here for proposing your
4 tariff is, "To promote efficient use of Southern Bell's
5 network." This is Page 13 of your testimony.

6 Now, starting on Line 21 of that page, you
7 say, "Under the proposed restructure, however, there
8 will be a greater incentive to utilize transport
9 efficiently in that customers ordering dedicated
10 transport will pay the cost of the type of transport
11 ordered."

12 Again, as with Reason No. II, doesn't that
13 suggest that prices and costs should have a
14 relationship?

15 A Not necessarily, no.

16 Q So you're going to promote efficiency by
17 covering costs but not having prices relate to those
18 costs?

19 A Well, perhaps you missed what I mentioned
20 earlier. A customer purchasing a DS1 or DS3 service
21 assumes the risk to buy that service whether he pumps a
22 minute over it or whether he pumps no minutes over it.
23 That is the risk. That is a choice. And a customer in
24 this marketplace is not going to go out and buy a DS3 if
25 it does not warrant it. And so it is promoting

1 efficient use, because that customer is going to look at
2 what he can actually use and go out and buy that
3 service.

4 The same with a customer that may want to use
5 tandem switched service. He cannot warrant a DS1 or DS3
6 service and so he will use the tandem switch.

7 Customers purchasing that service -- and I
8 think the point that is missing here is that those
9 customers assume a risk and they are going to ensure
10 that they can justify purchasing that service;
11 otherwise, it just isn't a smart business person or a
12 smart business company to go out and do that.

13 Q Well, let's talk about that for a second. Can
14 customers buy tandem switched transport and dedicated
15 transport?

16 A Oh, yes, they can.

17 Q Do some customers do that?

18 A Oh, yes. I would say, since you mentioned
19 AT&T, AT&T is by far probably our largest volume tandem
20 switch user. AT&T may have a lot of DS1s. Your
21 customers have a lot of DS-1s in this state. So you use
22 tandem, they use tandem; you use dedicated, they use
23 dedicated.

24 Q So it's possible to buy dedicated transport
25 and tandem transport. Doesn't that allow you to pack as

1 many minutes as you can into the dedicated transport and
2 then always buying a little less than you might need and
3 overflow the rest on a tandem switched transport?
4 Wouldn't that be a smart business decision for an
5 interexchange carrier to make?

6 A Yes, I have no problem with that.

7 Q So what risk is there when you can always
8 underbuy what you need on dedicated and overflow the
9 excess on the tandem switch?

10 A Well, I'm not --

11 Q What risk are we looking at here?

12 A I'm not sure that you underbuy on dedicated
13 just to have the luxury of overflow to tandem switch.
14 That's not smart. So I would think that if a customer
15 is going to buy a dedicated service that he will ensure
16 that there's adequate usage to warrant that service.

17 Q So you can, basically, just buy it for what
18 you know of, rather than underbuy --

19 A I'm sorry?

20 Q Rather than underbuy, you would just buy for
21 what you know to be your traffic volume. And then if
22 you get lucky and have more, you have an outlet; you
23 don't have to buy more than you might need?

24 A The point that you're missing, I think, is
25 exactly what is dedicated service.

1 When we tariff the dedicated service, the
2 dedicated service allows customers, whether switched or
3 special; if it's a DS3 service they can put special
4 access on it, they can put switch on it, and that is
5 making more efficient use of the services ordered by
6 that customer. That is the option. That is a risk that
7 he's going to take, assuming that he can fill that pipe.
8 But there's little risk in probably purchasing tandem
9 switching because that is on a minute-of-use basis.

10 Q Right. So whatever risk there is --

11 CHAIRMAN DEASON: Mr. Adams, let me interrupt
12 for just a second.

13 MR. ADAMS: Sure.

14 CHAIRMAN DEASON: How is it that the restructure
15 is going to result in greater efficient utilization of the
16 network?

17 WITNESS HENDRIX: What happens is -- well,
18 first, let me start: Southern Bell and BellSouth has
19 filed to waive charges, nonrecurring charges, allowing
20 customers to groom. In other words, to put as much
21 traffic as they can over given services.

22 For instance, if I go out and purchase a DS3
23 service, and I have 11 DS1s for special and probably I
24 have the need of 15 DS1s for switched, I can put those
25 over the same DS3 service option. That is allowing for

1 efficient use of the service.

2 And so this option, these price options that
3 have not been available to customers before, as far as
4 DS1 and DS3 and switched, will allow customers to more
5 readily do that now; and the fact that we're waiving the
6 charges is actually giving the impetus to move forward
7 and to make that happen.

8 CHAIRMAN DEASON: I'm not so sure I understand
9 that answer.

10 WITNESS HENDRIX: Okay.

11 CHAIRMAN DEASON: What is the difference between
12 the pricing structure now and the way you're proposing it
13 be restructured that it's going to result in customers
14 making decisions which is going to result in greater
15 efficient utilization? What signals are you proposing
16 sending to the customer so that they will make the correct
17 decisions to correctly utilize the network?

18 WITNESS HENDRIX: Okay. Today, since access
19 transport is on a per-minute-of-use basis, if I need
20 trunks or if I think I need trunks, I'm going to order
21 trunks to have spares. Well, tomorrow --

22 CHAIRMAN DEASON: Now who makes the decision --
23 if a customer orders and it's strictly their rate is on a
24 minute usage, it seems to me there's an incentive to
25 overorder.

1 **WITNESS HENDRIX:** That's correct. And that was
2 the point I was making. If it's on a minute-of-use basis,
3 then he's going to overorder trunks that are probably
4 needed just to ensure that those trunks are actually there
5 for peak periods or whatever. That's on a minute-of-use
6 basis.

7 **CHAIRMAN DEASON:** Now, you, as the provider, do
8 you review that and say, "No, you don't need this type --
9 this amount of capacity"?

10 **WITNESS HENDRIX:** We try to work with the
11 customers to ensure that it's really not a problem, and we
12 try to help them situate themselves to order actually what
13 it is needed. But there are many cases wherein customers
14 would simply order just in case there are peak periods or
15 other periods, just to have spares.

16 **CHAIRMAN DEASON:** So what you're saying is that
17 with the fixed cost of the dedicated cost of those
18 facilities, if they order them, they are going to be
19 required to pay the rate which you contend is cost-based.
20 I believe you will contend is cost-based.

21 **WITNESS HENDRIX:** Well, they will be required to
22 pay that rate if they order the dedicated service, whether
23 they have any usages or --

24 **CHAIRMAN DEASON:** That's where the risk comes in
25 that you're talking about.

1 WITNESS HENDRIX: Exactly. And as far as
2 cost-based, we cover the cost to provide that service.

3 Does that mean that the contribution on a
4 voice grade basis is the same for DS1, DS3 service? And
5 the answer is no. And what we're saying is that we
6 cover costs, but we should be allowed to price that
7 service to meet the market.

8 CHAIRMAN DEASON: And you want the flexibility
9 to price a DS1 in relation to a DS3 as the market
10 dictates.

11 WITNESS HENDRIX: That's correct.

12 CHAIRMAN DEASON: As long as you cover your
13 costs.

14 WITNESS HENDRIX: As long as I cover costs.

15 CHAIRMAN DEASON: If for some reason you try to
16 have too high of a rate, obviously, there are options
17 available?

18 WITNESS HENDRIX: Oh, yeah.

19 CHAIRMAN DEASON: So that's the nature of the
20 competition.

21 WITNESS HENDRIX: That's correct.

22 CHAIRMAN DEASON: When you refer to the market
23 conditions, especially the degree of competition, what
24 options and rates are available as an alternative?

25 WITNESS HENDRIX: That's correct.

1 Q (By Mr. Adams) Mr. Hendrix, on that note,
2 what options are there? Are there competitive tandem
3 switched -- switched interoffice transport networks in
4 Florida?

5 A Well, I think that's the purpose we're here
6 now in this docket is to talk about whether there would
7 be others or not that could provide the transport
8 services.

9 Q So if an interexchange carrier today wants to
10 buy tandem switched transport from somebody other than
11 BellSouth in BellSouth's territory, where do they go
12 today?

13 A Perhaps you can tell me. There was one
14 carrier that mentioned that they are buying DS3s from
15 some other carrier now.

16 Q No, I'm talking about tandem switched service.

17 A Tandem?

18 Q Uh-huh.

19 A Okay. Now, as far as the state of Florida,
20 you come to Bell. But -- and I'm glad you mentioned
21 that -- the FCC has issued an order that requires us to
22 hand off the signaling, wherein other vendors can
23 provide tandem switched transport.

24 Now, the key is, when you're talking about a
25 switched access service, that is a PIU service. How

1 much of that usage is going to be intrastate, how much
2 is going to be interstate, when the FCC is requiring us
3 to hand off the signaling to that AAV for them to
4 provide tandem switched transport? So the option is not
5 there now but it will be; and I think September, the
6 latter part of September is when we have to file the
7 tariff at the federal level.

8 So you will have that option at the federal
9 level and customers may very well skew it and show it
10 all interstate when it really should be perhaps 30%
11 intra and 70% inter.

12 Q Have you had inquiries from people who were
13 going to buy that service?

14 A No, but that doesn't mean that it's not going
15 to happen. We were ordered to actually do it in the
16 docket -- I believe the docket is 911441; other
17 customers petitioned to be able to provide tandem
18 switching.

19 CHAIRMAN DEASON: Let me interrupt again. What
20 is it that the FCC ordered, and how would that be
21 implemented?

22 WITNESS HENDRIX: We have to file a tariff that
23 would require BellSouth to hand the signaling off to allow
24 other entities to provide tandem switching transport.

25 CHAIRMAN DEASON: Okay. Exactly what is tandem

1 switching transport? Is that providing a switched
2 service?

3 WITNESS HENDRIX: Yes, through the access
4 tandem.

5 CHAIRMAN DEASON: Now, is that an intrastate
6 service, or is it -- it goes through the calculation of
7 the PIU?

8 WITNESS HENDRIX: The PIU.

9 CHAIRMAN DEASON: So part of that would be
10 intrastate.

11 WITNESS HENDRIX: It could be, yes.

12 CHAIRMAN DEASON: How is that allowed under
13 current Florida law?

14 WITNESS HENDRIX: Right. But I would venture to
15 say, given the PIU problems that we've got with having
16 different rates in different states, that you're going to
17 probably have some of this intrastate traffic that's going
18 to show up as interstate traffic.

19 CHAIRMAN DEASON: Well, my question is,
20 regardless if there's only one minute of intrastate, how
21 is that allowed by Florida law?

22 WITNESS HENDRIX: It's not allowed unless you
23 approve it.

24 CHAIRMAN DEASON: Well, we can approve it; but
25 if it's contrary to Florida law, we can't approve

1 something that's contrary to the law.

2 WITNESS HENDRIX: That's true, but the point I'm
3 making is the FCC has ordered us to make that filing.
4 That filing will allow for tandem switched traffic to go
5 through the other carrier's tandem. And the point I'm
6 making is that some of that traffic may very well be
7 intrastate traffic; it may show up as 100% interstate.

8 Just as customers have the impetus to skew the
9 usage now, there may be a greater impetus to actually do
10 that. So while no one can offer it in the state now, it
11 could be offered soon on an interstate basis or in some
12 of the intrastate traffic we'll leave.

13 CHAIRMAN DEASON: I see what you're saying,
14 that there would be an incentive to what would in reality
15 be intrastate to be classified as interstate.

16 WITNESS HENDRIX: That's correct.

17 COMMISSIONER CLARK: I think there's more of an
18 incentive. They'll have to do it, otherwise, they'll be
19 providing what -- perhaps providing local switched
20 service, which they can't do.

21 WITNESS HENDRIX: That's correct.

22 COMMISSIONER CLARK: I would assume 100% of it
23 is going to be listed as interstate.

24 WITNESS HENDRIX: That's correct.

25 CHAIRMAN DEASON: Now is this one of the

1 categories of services to where if it is 10% or greater
2 interstate it is assumed to be 100% interstate?

3 WITNESS HENDRIX: No. This is strictly we're
4 talking switched access services. This would be strictly
5 based on the PIU that is given to us; and if it's a 70/30
6 split, 70 being interstate, normal switched services would
7 be billed as 70% at the interstate rate and 30% at the
8 intrastate rate. But since it is not allowed on an
9 intrastate basis, we'll probably be 100% interstate for
10 that switched traffic. This is not special access
11 traffic; it's switched traffic.

12 CHAIRMAN DEASON: And it's only for special
13 access that the 10% rule comes up?

14 WITNESS HENDRIX: That's correct.

15 Q (By Mr. Adams) Mr. Hendrix, on your tandem
16 switched traffic, your originating tandem switched
17 minutes, what percentage of those are measured
18 jurisdictionally?

19 A Are you asking today or consistent with the
20 order?

21 Q Today.

22 A Well, we know if it's Feature Group D we can
23 measure.

24 Q 100%?

25 A I would say yeah.

1 Q Okay. So this PIU problem we're talking about
2 doesn't apply to that?

3 A No, that's not true. You would still have the
4 problem. Let's say if I hand off Feature Group A, B, or
5 700, which is a D service; 800, which is usually a D
6 service; your 900 is D service; I think the 500 service
7 that may be tariffed shortly is a D service. So the PIU
8 problem does not go because of we're able to measure the
9 NTSD.

10 Q Let's go back to your reasons here. I like
11 your fourth reason on Page 14 of your testimony, "To
12 move toward a more competitive environment for the
13 provision of interexchange service." We have been
14 talking about that some, anyway. I like this one
15 because you use the word "costs" four times in his this
16 one paragraph.

17 The first sentence says, "The proposed
18 restructure, which reflects the way costs are incurred,
19 moves toward a more competitive environment for the
20 providers of interexchange services." We've probably
21 said this several times already, "reflects the way costs
22 are incurred"?

23 A Uh-huh.

24 Q Does that mean you cover your costs?

25 A If you're asking what that sentence means?

1 Q Right.

2 A Is that your question?

3 Q Yes.

4 A What that means simply is, as I mentioned
5 earlier, if AT&T has got traffic going through the
6 tandem, then I incur tandem switching costs. If AT&T
7 was to purchase a DS1, I will incur the DS1 dedicated
8 cost. If LDDS wants a DS3, then I will incur that
9 dedicated DS3 cost. So that's what that sentence means:
10 That if you want to be switched through the tandem, that
11 is the type of cost I will have; if you want to be
12 dedicated, DS1, 3, DS0, then those are the types of
13 costs that I'm going to have. That's what it means.

14 Q Okay. Let's go on, Line 24 says, "The
15 proposed structure moves closer to an arrangement in
16 which each IXC will bear the costs of the transport
17 service it orders, based upon routing and capacity."

18 In order for the carriers to make the right
19 decisions, I think Chairman Deason was asking this
20 earlier, don't the prices have to reflect these costs?
21 Aren't the costs only relevant to what decisions they
22 drive if the prices are reflective of those costs?

23 A I'm not really -- you know, costs, as we're
24 talking here, are two different things. There are two
25 different costs, let me say it that way. The first cost

1 is the cost that I incur in providing you the service.
2 The second cost is the cost which is a rate that I
3 charge that's your cost.

4 Q Right.

5 A So which costs are we talking about?

6 Q What I would like to do is relate the two and
7 that's what I am asking is that it seems to me you're
8 talking about your costs; but your prices to us which
9 are our costs, as you point out, don't reflect your
10 costs, so I'm confused as to how that promotes
11 efficiency. You're urging my clients to make the right
12 decision when their cost doesn't reflect your cost.

13 A Okay. First, let me say, as I mentioned
14 probably two other times, the rates proposed by Southern
15 Bell cover Southern Bell's costs. Let me say that. Let
16 me also -- I don't think I mentioned this earlier -- the
17 rates that are filed in this tariff were rates that the
18 FCC required us to use, which are the 9-1-92 special
19 access rate on the interstate level with some
20 adjustments that were required in the rate as a result
21 of other orders. So those are the rates.

22 When I say, one, we cover costs, and then we
23 price the service in accordance to what the market
24 allows us to price the service at, okay? So I'm a
25 little confused as to where my costs, as long as I cover

1 costs in my rate, should impact you. And the only way
2 that it can is if you were wanting to dictate to me as
3 to what my rates should actually be.

4 Q Well, I thought you said that we were
5 encouraging efficient use of your network --

6 A That's correct.

7 Q -- by incentivizing interexchange carriers to
8 purchase services from you based on the cost of
9 providing those services, so that they wouldn't order
10 too much or too little?

11 A I think you added some words because that's
12 not what this says.

13 Q Well, I'm just trying to understand.

14 A Well, let me tell you what this says.

15 Q Okay.

16 A Okay. What this says is that if I incur costs
17 for tandem switching service, then the rates that I have
18 for that tandem switching service will cover those
19 costs.

20 If a carrier has a DS1 service, first, my
21 rates are going to cover those costs. If it's a DS3
22 service, first, my rates will cover those costs.

23 Now, if a carrier chooses to purchase a DS1 or
24 DS3 service, then he's going to ensure that he has
25 adequate traffic to warrant that service. That is what

1 this is saying. He purchased the service, that's the
2 way I incur costs. If he switched through to tandem, a
3 dedicated customer does not incur a tandem switching
4 charge, so he's not going to pay it.

5 Q Okay. So I guess to sum it up, then, would
6 you agree that your prices cover your incremental costs
7 but they don't necessarily vary in relation to the
8 variance in your incremental costs?

9 A Exactly right.

10 Q Okay. On Page 16 of your testimony, just a
11 little clarification point here, on Lines 7 through 9,
12 you say, "Under the switched transport restructure,
13 rates will be more closely aligned with the way
14 transport is provided and costs are incurred." "More
15 closely aligned," does that mean more closely than today
16 under the current rules?

17 A Under the current per-minute-of-use charge?

18 Q Right. Is that what the reference is to?

19 A Exactly.

20 Q On Page 21 of your testimony, I guess this,
21 the top, Line 1, sums up your view that market pricing
22 is appropriate and not cost-based pricing as long as
23 incremental costs are covered?

24 A What you stated sums up my view well, yes.

25 Q Thank you. We talked about this a little bit.

1 In the transport arena you see competition developing
2 for DS3 service, DS1 service and tandem switched
3 transport service, all three of those?

4 A Yes, I do.

5 Q You think in the near term?

6 A Yes, I do. I think it's here.

7 Q Tandem switched transport?

8 A Is here. The fact that the FCC has required
9 us to file tariffs and you have an order, and for the
10 reason I mentioned earlier about the impetus to probably
11 misreport the PIU on that traffic. As far as your DS1
12 and DS3 services, if you were to look at your own
13 client's tariff, you know, it will show, for instance,
14 while we're competing in this market, it will show that
15 the ratio of DS1 to DS3 service for your own client is
16 nowhere near what you're asking us to actually do. And
17 it just so happens that -- well, I'd better not say who
18 those services are given to or who those services are
19 sold to.

20 But, for instance, on a route between -- a DS1
21 route between Miami and Tampa you charge \$5,760. Well,
22 let me do it this way. Let me go to one that's close.
23 Gainesville to Tallahassee is 129 miles; your DS1 rate
24 was \$7,900. If I look at Tallahassee to Jacksonville,
25 your DS3 rate, which is 153 miles, so those are close --

1 Q What are you reading from there?

2 A Your tariff.

3 Q My tariff?

4 A LDDS or ATC's tariff. Your DS3 for that same
5 route was \$9,000 -- let me finish.

6 Q I'm sorry. I'm just trying to figure out what
7 question I asked that caused us to be reading the
8 tariff.

9 A Competition. Competition. And I'm just
10 looking at your rates that you charge for your DS1 and
11 DS3 services, okay, and the ratio.

12 Q Are these interoffice transport services that
13 LDS is selling?

14 A Well, I would think that two cities 120 miles
15 apart would be interoffice.

16 Q You think they would be between two telephone
17 company offices?

18 A I'm just reading from your tariff.

19 Q You don't think those are special access type
20 services?

21 A Well, special access is a DS1-type service,
22 isn't it, in a DS3?

23 Q Is that really relevant to what we're talking
24 about here?

25 A Oh, yes. Competition is what we're talking

1 about.

2 Q Competition, but not competition in general.
3 We're not talking about --

4 A Well, I think that was your question you asked
5 me.

6 Q I asked you about -- I asked you about
7 competition in tandem switched transport and you said,
8 "It's here."

9 A No.

10 Q And I don't understand where that --

11 A I gave you the answer there. Now, I am about
12 to give you the answer to the DS1 and 3, and what we're
13 actually facing now.

14 CHAIRMAN DEASON: This discussion is lively and
15 interesting. I'm just going to ask you not to talk at the
16 same time, okay? The court reporter can't record it when
17 you talk at the same time.

18 A You asked me the competition in the
19 marketplace, the tandem switch, DS1 and DS3 services
20 I finished the tandem switch, now I'm going to the DS1
21 and 3.

22 CHAIRMAN DEASON: Please proceed.

23 WITNESS HENDRIX: Thank you.

24 In the route that I gave was Gainesville to
25 Tallahassee, which was 129 airline miles, your rate is

1 \$7,850. Tallahassee to Jacksonville, for your DS3 you
2 have a rate -- which is 153 airline miles -- you have a
3 rate of \$9,700. If you were to look at the ratio there,
4 that is a 1.2-to-1. Now, what you're asking is
5 somewhere for Bell to set its rate at about a 22-to-1 or
6 higher.

7 Now, to me that's not fair. Is competition
8 here? Are we facing it? The answer is yes. This is
9 evidence of it here.

10 CHAIRMAN DEASON: I hate to interrupt. You're
11 comparing a DS1 with a DS3?

12 WITNESS HENDRIX: Yes, I am.

13 CHAIRMAN DEASON: The differential was a 1.2?

14 WITNESS HENDRIX: Yes -- no, that is the ratio.
15 In other words, when we filed our tariff, the FCC said if
16 you look at your DS1 and your DS3 rates, and the ratio was
17 a 9.6-to-1 or greater, that means 9.6 DS-1s to a DS3, then
18 those rates are reasonable. Okay. The rates that Bell
19 filed here are 15-to-1. Sprint has asked for a 22-to-1,
20 and IAC has asked for something probably a little bit
21 greater.

22 But I'm saying when you look at what the
23 marketplace is doing in this state and what's being
24 given to customers, the ratio in that one instance I
25 gave was a 1.2 DS1 -- I mean, DS1s to a DS3. And what

1 they are really wanting us to do is to have a ratio that
2 is larger so that they could undercut our prices and we
3 stand no chance of being able to compete in this market.

4 CHAIRMAN DEASON: When you use the term "they,"
5 who are "they"?

6 WITNESS HENDRIX: Anyone that is providing a
7 dedicated transport; and in this one case I mention here,
8 this is from the ATC tariff.

9 CHAIRMAN DEASON: So as a competitor to you
10 providing that service?

11 WITNESS HENDRIX: That's correct.

12 CHAIRMAN DEASON: Now, what about the people
13 that want to utilize that service?

14 WITNESS HENDRIX: Want to utilize this service?

15 CHAIRMAN DEASON: In some instances wouldn't
16 clients of Mr. Adams want to, instead of constructing
17 those facilities themselves, utilize your service?
18 Wouldn't that be more efficient for them to do?

19 WITNESS HENDRIX: It may be. But many of the --
20 they may choose to do that, if it's to their benefit; or
21 they may come and use us, if it's to their benefit to come
22 to Bell. And a lot of that will depend on the area; it
23 will depend on the customer and whether this customer is
24 even -- or whether this carrier customer can even operate
25 in this area or whether there is services provided to

1 customers in this area. So there are various factors.

2 But the point that I was making is that the
3 market, and based on what we're facing now, where we're
4 being asked to set our rates is not consistent with
5 where the market, the other players, are setting their
6 rates.

7 CHAIRMAN DEASON: Well, I guess my concern is
8 that when you use the term "they," I think you're using it
9 more in terms of your competitors.

10 WITNESS HENDRIX: That's correct.

11 CHAIRMAN DEASON: But "they" also can be your
12 customers.

13 WITNESS HENDRIX: Oh, yeah. They are. And we
14 want very much for them to be our customers and we would
15 like very much for them to stay with us. But we should be
16 allowed also to set our rates in such a way that we can
17 maintain them as customers.

18 CHAIRMAN DEASON: Is the bottom line of your
19 concern that if you're forced into a certain structure
20 that you cannot respond to competition, that they will
21 become your competitors and not your customers?

22 WITNESS HENDRIX: Not the structure but the
23 rates. If I'm forced to a certain rate level and if I'm
24 forced to set my rates based on certain formulas other
25 than just covering costs, then I will not be able to

1 compete with other transport providers in the marketplace
2 because of my rate levels.

3 Q (By Mr. Adams) Mr. Hendrix, speaking of
4 customers, who is your biggest customer for access
5 transport service in Florida?

6 A Well, it shouldn't come as any surprise, I
7 would assume AT&T is.

8 Q Without revealing any proprietary information,
9 would you say they buy more than half of all of the
10 access transport service you sell?

11 WITNESS HENDRIX: Mr. Tye, how do you want me to
12 answer that? (Laughter)

13 MR. TYE: I don't know yet.

14 WITNESS HENDRIX: I know the answer but --

15 MR. ADAMS: I'm not asking for a specific
16 number, I just want to know whether AT&T buys more than
17 half.

18 MR. TYE: I think access percentage are
19 proprietary confidential business information,
20 Mr. Chairman, and I know that Southern Bell has gone to
21 great lengths to maintain the confidential nature of that
22 information. I don't think that anybody in the IAC would
23 like to have their percentage revealed on the public
24 record, and so I would object to Mr. Hendrix answering
25 that question.

1 MR. ADAMS: I'm not asking for a specific
2 percentage, just a ballpark figure of --

3 CHAIRMAN DEASON: Just ask him if it is
4 significant. I mean, you could say greater than 50. And
5 then once he answers to that, then you can say, "Well, is
6 it between 50 and 75?" I mean, that's ballpark.

7 You can get too specific, and I'm reluctant to
8 have the witness specify a number either greater or less
9 than a specific number.

10 MR. ADAMS: Okay.

11 Q (By Mr. Adams) Mr. Hendrix, would you say
12 that AT&T buys more than all the other interexchange
13 carriers combined?

14 MR. TYE: I object. Mr. Hendrix has already
15 answered that AT&T is the largest in the state. That
16 seems to be the point that counsel is trying to make here
17 and perhaps that's as far as we ought to go on the public
18 record, Mr. Chairman.

19 MR. ADAMS: Okay. I withdraw the question.

20 Q (By Mr. Adams) I have a letter here that
21 is -- I'd like to get an exhibit number for a letter.

22 CHAIRMAN DEASON: It will be identified as
23 Exhibit No. 27.

24 (Exhibit No. 27 marked for identification.)

25 MR. ADAMS: This letter is not subject to a

1 request for confidentiality, but some accompanying
2 documents which are now being distributed are, so I'm
3 going to be careful about asking questions on this,
4 Mr. Hendrix.

5 Q (By Mr. Adams) Mr. Hendrix, to your knowledge,
6 did BellSouth meet with AT&T in the process of
7 developing the rates that are -- Mr. Hendrix, do you
8 want a minute to look at that?

9 A Yes, thank you.

10 MS. PEED: Mr. Chairman, do you mind if I move
11 closer to my witness as far as these documents are
12 concerned?

13 CHAIRMAN DEASON: I have no objection. The only
14 available seat is right beside him, if that's where you
15 want to sit.

16 MR. ADAMS: Do we have an exhibit number?

17 CHAIRMAN DEASON: Yes, it was identified as
18 Exhibit 27.

19 WITNESS HENDRIX: I'm ready.

20 Q (By Mr. Adams) To your knowledge, did
21 BellSouth meet with AT&T in the process of developing
22 the rates that you're proposing today?

23 A I met with AT&T, MCI, Sprint and called Brian
24 Simonnetti (phonetic) to let him know who I was going to
25 be calling, also. It is a common thing to meet with

1 customers to let them know -- as Chairman Deason
2 mentioned, these are our customers, I want to keep them.
3 So, you know, you try to be up-front with the customers,
4 so the answer is I met with a whole bunch of carriers.

5 Q Including AT&T.

6 A Including AT&T.

7 Q Okay. And you've meet personally with them,
8 then, obviously, from your answer.

9 A Yes. But, you know, when you look at the
10 rates that were filed, I mean, what were the choices?
11 You either file the interstate rates or you file the
12 rates in the initial filing, which I think was a -- we
13 looked at the special access rates on an intrastate
14 basis. And then after reviewing the problems that we
15 saw in filing those rates, thought it was more
16 appropriate to file the interstate rates.

17 And the meeting was pretty much, as the AT&T
18 witness mentioned, it pretty much wanting to know what
19 our plans were. Because you're a customer to us, we
20 want to keep you and keep the other customers also.

21 Q Do you know who Quinton Sanders is?

22 A Yes, I do.

23 Q Can you tell me who he is?

24 A Well, I think it's at the top of the
25 letterhead.

1 Q Right. The letterhead says he's the director
2 of AT&T Regional Account Team for BellSouth; is that
3 correct?

4 A That's him.

5 Q Okay. And do you know who Bill West is?

6 A He's with -- yes he is access vice president.

7 Q For AT&T, correct?

8 A For AT&T, that's correct.

9 Q Okay. So this letter was written from Quinton
10 Sanders to Bill West February 7th, 1994, that's the date
11 that's on the letter?

12 A Correct.

13 Q And it addresses meetings with AT&T concerning
14 development of the rates we're talking about today?

15 A No, it does not.

16 Q All right. What does it address?

17 A Well, let's think back first. I filed the
18 tariff September 22nd, 1993.

19 Q In Florida?

20 A I modified the tariff in January, I think, the
21 first time. So both of those dates are prior to the
22 February 7th date. The only things that I've done to
23 the tariff since is to go in and make changes to keep
24 parity with the interstate rates.

25 Q In the first paragraph in the letter there,

1 there's a black and indented statement with a little
2 heading that says, "End In Mind."

3 A Yes.

4 Q You understand the introduction of that, the
5 first paragraph, says, "You've asked that we develop an
6 outline addressing the issues associated with potential
7 price reductions for switched access services. Further,
8 you asked we develop an 'End-in-Mind Statement' to focus
9 discussions between AT&T and BellSouth. Following is
10 that information."

11 So do you understand, then, there are four
12 bullet points here under "End In Mind."

13 A Are you asking me if I understand them, or do
14 I --

15 Q Yes, do you understand what those are?

16 A I acknowledge that they are there.

17 Q Well, first of all, I assume you acknowledge
18 that they are there.

19 A Yes.

20 Q Do you understand what they are referring to?

21 For example, let me ask you this. "To move
22 toward switched access price levels consistent with
23 AT&T's expectations," do you know what Mr. Sanders meant
24 by that?

25 A Obviously, that would mean to reduce access.

1 But, you know, when you reduce access, you don't just
2 reduce it for AT&T. You get the benefit, that \$50
3 million, where you're not reducing your toll rates, you
4 have got benefit of that \$50 million.

5 As I mentioned, we have hundreds of access
6 customers, so when I go in to change a tariff, whether
7 it is for carrier common line, local switching,
8 transport or whatever, it's not strictly for AT&T. You
9 get the benefit. So perhaps AT&T is doing a lot of your
10 leg work for you.

11 Q I wish that were the case. In April of this
12 year did you file a new federal tariff or revise your
13 federal tariff?

14 A That's our annual filing, yes.

15 Q Right. And you changed the rates for these
16 services at the federal level; is that correct?

17 A I changed rates for certain switched access
18 services, yes.

19 Q Did you change the DS3 rates?

20 A Yes, I did. I changed it to mirror the
21 special access like a DS3 rate.

22 Q Was that a 20% reduction?

23 A I believe that's close.

24 Q Approximately? You don't have to be exact.
25 Did you reduce the DS1 and tandem switched

1 rates accordingly?

2 A Let me tell you exactly what I did.

3 Q Okay.

4 A I reduced the voice grade local channel rate
5 from \$27.14 to \$25. I increased the voice grade fixed
6 rate from 18.09 to 23.30. I reduced the voice grade
7 transport interoffice rate from 2.26 to 1.90. I reduced
8 the dedicated -- and that was the dedicated, too, and I
9 reduced the dedicated DS3 interoffice, not the fixed,
10 just the interoffice piece from 253 to 200. I also
11 reduced the DA RIC rate from 00317 to 00269. There were
12 also other changes in the local switching rate and the
13 carrier common line rate.

14 Q Maybe I can simplify the question a little
15 bit. I believe you told me in other states that you
16 agreed with me that that filing reduced DS3 rates by
17 20%.

18 A I agree with you here, too.

19 Q Okay. And left DS1 and tandem switched rates
20 essentially unchanged.

21 A That's correct. And I just stated that.

22 Q Thank you.

23 A And that was -- and the reason I reduced the
24 DS3 rates was to gain parity with the special access DS3
25 LightGate rate for interoffice.

1 Q To your knowledge, that wasn't related to an
2 effort to move towards switched access price levels
3 consistent with AT&T's expectations?

4 A No. As a matter of fact, until you showed me
5 this letter here, I had not seen this letter, and I was
6 the one that made the pricing decisions as to what
7 should happen on the federal level.

8 Q Okay. The BellSouth interoffice network
9 operates at a DS3 level; is that correct?

10 A The interoffice I believe is about 92% fiber.

11 Q And so that would mean that it operates at a
12 DS3 level?

13 A Mainly.

14 Q Okay. So help me understand, a typical call
15 would originate at someone's residence, just a
16 hypothetical call. We're at someone's residence, we
17 pick up the phone, the call goes first to the closest
18 end office, correct, or the end office the residence is
19 connected to; is that right?

20 A That is correct.

21 Q Okay. At that end office, then, is that where
22 it enters the interoffice network?

23 A That's correct.

24 Q And is that the point at which it becomes
25 multiplexed up to a DS3?

1 A That's correct.

2 Q Okay. And then it travels through that
3 interoffice network to the interexchange carrier point
4 of presence?

5 A That's correct.

6 Q And then you hand it off to the interexchange
7 carrier?

8 A That's right.

9 Q Okay. And that happens -- is that rate
10 regardless of what the interexchange carrier is using
11 DS3, DS1 or tandem switched transport?

12 A If it's over my interoffice, it's regardless.

13 Q Okay. If a carrier is buying DS1 or tandem
14 switched transport, when it receives it at its point of
15 presence, then you have to multiplex it down from DS3
16 down to DS1 or whatever you hand off?

17 A That's correct.

18 Q So that multiplexer on the receiving end, just
19 before it goes to the point of presence, that's the
20 difference between the DS3 and DS1 service?

21 A Not necessarily, no.

22 Q In terms of cost, is that not true?

23 A No, not necessarily. There are other factors.

24 The multiplexer would be one of the factors,
25 which is really an error in the numbers that were a part

1 of your witness' testimony. Because he assumes -- I'm
2 assuming he assumes one, and that's what is stated in
3 the verbiage, but the fact is -- well, let me put it
4 this way: If I were a teacher and he gave me that, I
5 would have to fail him because he did not do a thorough
6 job, because he did not look at all of the costs, the
7 number of multiplexers needed, nor did he look at the
8 cost for the state, nor did he look at the field
9 factors. And so it is terribly flawed.

10 Q First, I should give you some personal advice,
11 don't teach in a public school.

12 A I do not. I work for BellSouth.

13 Q You get in trouble with those belts in public
14 schools.

15 We propounded some interrogatories to Southern
16 Bell dated February 23rd, 1994, out of the responses
17 here. Do you have those available.

18 A No, but I know which one you are speaking of.

19 Q Okay. No. 11.

20 A It talks about the main difference between --

21 Q It doesn't say the main difference. The
22 question is, "For the typical interoffice fiber link,
23 identify every difference in equipment and facilities
24 used by Southern Bell to provide a DS1 and DS3."

25 And if you'd like, I can read you the entire

1 response, but the last sentence of it is, "Therefore,
2 the difference between the provisionings of a DS3 and a
3 DS1 is a 3-to-1 multiplexer required for DS1 service."

4 A Okay. And as I said --

5 Q Are you telling me that's incorrect?

6 A What I'm telling you is that if you were
7 assuming that it only took one, then that is the case.
8 But what I'm saying is that there are more than one --
9 there's more than one multiplexer usually on average
10 that is used. And on top of that, which I think the
11 Sprint witness got to, you have the field factors. He
12 used a 79.

13 So if you are looking at a single DS3 type
14 service and you want to know what is the main
15 difference, the main difference would be the multiplexer
16 that you have to put on. But it takes more than one,
17 and then you would have to consider the field factors.

18 Furthermore, your question was very limited in
19 what it asked for. It asked for the equipment and
20 facilities; it did not ask as to what other factors.
21 You had limited your question to equipment and
22 facilities that are used.

23 CHAIRMAN DEASON: Mr. Adams, how much more do
24 you have for this witness? Substantial or more than 50%.

25 (Laughter)

1 **MR. ADAMS:** More than all other questioners
2 combined. No, I'd say significant. Not substantial but
3 significant.

4 **CHAIRMAN DEASON:** Very well. That helps a lot.
5 That's not confidential.

6 We'll take a ten-minute recess at this time.
7 (Brief recess taken.)

8 - - - - -
9 **CHAIRMAN DEASON:** Call the hearing back to
10 order.

11 **MS. WILSON:** My witness arrived last night.
12 He's going to be here only -- it's my understanding his
13 flight leaves at 4:30, and I request that he be placed on
14 the stand right after lunch. I understand there's just
15 limited cross examination for him, so it shouldn't be a
16 problem to take him out of order right after lunch.

17 **CHAIRMAN DEASON:** Any objection? Okay. We'll
18 make that accommodation.

19 **MS. WILSON:** Thank you.

20 **MR. ADAMS:** In that regard I have good news. I
21 managed to eliminate a lot of the questions I had still on
22 my list here during the break. I think we covered a lot
23 of the information already.

24 I'd like to ask for an identification number
25 for IXC's First Set of Interrogatories, Item No. 11. I

1 think it has been distributed.

2 CHAIRMAN DEASON: Yes, that will be identified
3 as Exhibit No. 28.

4 (Exhibit No. 28 marked for identification.)

5 Q (By Mr. Adams) Mr. Hendrix, just a couple of
6 questions on that. Give me, where appropriate, a yes or
7 no answer and then your explanation.

8 Just one sort of final question on this
9 multiplexer issue. It's my understanding that only one
10 multiplexer is needed to reduce a DS3 down to a DS1 at
11 the point of interface with the carrier network; would
12 you agree with that?

13 A Usually. But then if it's going over the DS3
14 interoffice, you have DS1s that may become an office
15 service, or at the other end you have a multiplexer
16 there also.

17 Q But at the point of interconnection there is
18 just one, right?

19 A At that single point, yes, but there are other
20 points along the interoffice.

21 Q So my understanding is that you're essentially
22 standing by the answer, interrogatory answer, Item No. 11?

23 A I'm standing by -- I'm sorry?

24 Q I was just going to restate it. You look like
25 you needed my clarification.

1 A No, I'll let you restate it.

2 Q Okay. You're taking a position that this
3 answer is correct as written.

4 A Considering the narrow focus of how the
5 question was asked, yes.

6 Q Okay.

7 With regard to tandem switching costs, subject
8 to check and without revealing the actual proprietary
9 figures, would you agree that the economic cost of the
10 tandem switching element is less than 40% of the
11 proposed price?

12 A Subject to check, I would think.

13 Q Okay. And that price is the price, the 20% of
14 the interstate revenue requirement for tandem switching;
15 is that right?

16 A With the other 80 input in the interconnection
17 charge, the 20 being in the tandem switch.

18 Q Right. But the less than 40% is less than 40%
19 of the 20%, correct?

20 A Let me ensure that I understand.

21 First, I agreed subject to check --

22 Q Right. Understood.

23 A -- that the costs was 40% of the rate.

24 Q Less than.

25 A Less than 40% of the rate.

1 Q Right.

2 A Subject to check, I agreed, to that.

3 Q Okay. And the second question --

4 A Okay. Go ahead.

5 Q The second question was the rate that we just
6 discussed is set at 20% of the interstate revenue
7 requirement, correct?

8 A That's correct. We mirrored the interstate
9 rates.

10 Q Right. So the less-than-40% number is applied
11 to the 20% number, that is what I'm trying to --

12 A Is applied to the rate.

13 Q Okay. Do all the rates you propose -- the DS3
14 rates, the DS1 rates and the tandem switching rate --
15 have contribution included above your incremental cost?

16 A I'm sure it does, yes.

17 Q Is the contribution the same in each case?

18 A No, and that's the very point I made earlier.
19 As long as we cover costs, Southern Bell would need the
20 freedom to set the rates based on what the market
21 pressures are. So the contribution percentage that you
22 have in a DS1 versus a DS3, versus tandem switching, it
23 is not the same, but the same thing would hold true in
24 the marketplace. Your DS1 and your DS3 costs are not
25 the same and it's obvious by the numbers I gave you

1 earlier.

2 On top of that, if you look at the basis, the
3 genesis, of where those rates came from, they were the
4 1992 special access rate. Those rates were not the
5 same. The contribution on those levels were not the
6 same. And that's been a common practice throughout;
7 when the customers take the risk to purchase a DS3
8 services, or a DS1 service, knowing that they would have
9 to be able to justify that, we price that service based
10 on market. The contribution is not the same.

11 In a competitive marketplace you can't have
12 that, or you shouldn't have that. You should be able to
13 price according to what the market would actually bear
14 or what it will dictate to you as to what your rate
15 levels would actually need to be for the services that
16 you offer.

17 Q In a competitive marketplace you wouldn't have
18 revenue neutrality? So you're telling me that tandem
19 transport --

20 A Not necessarily.

21 Q Let me ask you this. Tandem switched
22 transport --

23 CHAIRMAN DEASON: I'm going to have to ask both
24 the witness and the attorney once again not to speak at
25 the same time.

1 MR. ADAMS: Okay.

2 CHAIRMAN DEASON: The court reporter is having
3 an extremely hard time. I'm having a hard time just
4 listening.

5 MR. ADAMS: Sorry.

6 Q (By Mr. Adams) Well, let me just ask a simple
7 question, then.

8 A I hadn't finished answering the question.

9 CHAIRMAN DEASON: The witness may answer the
10 previous question and then we will continue.

11 A The contribution -- well, to be revenue
12 neutral, as Bell is, in a competitive marketplace you
13 could be revenue neutral and still be competitive.
14 There's no problem in actually doing that. You may go
15 in and increase rates on certain services and certain
16 mileage bands, and reducing others, and that's to meet
17 the market need. You may increase rates during your off
18 periods, off peak times, and reduce the peak rates.
19 That's revenue neutral. There's nothing wrong with
20 that.

21 So I do not agree with what you are saying.

22 Q Would you agree with me that tandem switched
23 prices have more contribution than the DS3 prices?

24 A I don't know.

25 Q You don't know what the amounts of

1 contribution are in each of your prices?

2 A I would say in looking at the cost studies,
3 and I don't have them here, but in looking at them,
4 that's probably true. I just don't have the numbers to
5 verify that. That may be true.

6 Q You don't know what the levels of contribution
7 are in your proposed prices?

8 A I know what the rate levels are. I know that
9 I cover costs -- hold on a minute. On a percentage
10 basis it probably is higher.

11 Q I'm sorry?

12 A On a percentage basis it's probably higher.

13 Q Okay.

14 A But that's fine, because you're pricing your
15 service to meet the market. There's no guidelines in a
16 competitive marketplace that says as long as I cover
17 costs that the contribution levels must be equal. That
18 that is not the way you do it, nor is it the way the
19 other vendors or carriers do it.

20 I'm finished. Thank you.

21 Q Okay. Do you believe that the Florida EAEA
22 rate structure promotes economic efficiency?

23 A Do I believe the Florida EAEA rate structure
24 promotes economic efficiency? (Pause) I don't
25 understand your question.

1 Q The average rate -- using the average rate per
2 minute as the basis for the pricing?

3 A What is your question? Are you asking me
4 equal rate per unit of traffic?

5 Q No. The current EAEA average rate per minute
6 structure, does that promote economic efficiency?

7 A I want to answer the question, but I want to
8 ensure I understand the question.

9 Q You're proposing a departure from that, I
10 believe.

11 A Okay. If you're asking me if the rate that I
12 currently have promotes efficiency? The one rate?

13 Q The intrastate rate in Florida.

14 A No, I do not believe that.

15 CHAIRMAN DEASON: Mr. Hendrix, what rate were
16 you referring to when you were referring to an EAEA rate?

17 WITNESS HENDRIX: I am referring to the
18 transport rate that I currently charge, which is -- was
19 just reduced from 0154 to 00706. That is the rate, which
20 is the one rate -- there is no distant-sensitive rates for
21 transport in this state. You have just the one rate that
22 is assessed on a per-minute basis, so that's the rate that
23 I'm thinking that was being asked.

24 And the fact that it is on a minute-of-use
25 basis, and there is no impetus in carriers being

1 efficient in the services that they order, so I do not
2 belief that it would promote efficiency in the use of
3 the services or in the services that are ordered.

4 CHAIRMAN DEASON: Now, what's the significance
5 to the deaveraging aspect of the proposed rate?

6 WITNESS HENDRIX: When you speak of deaveraging
7 --

8 CHAIRMAN DEASON: I thought that was the
9 question. Maybe I'm mistaken.

10 WITNESS HENDRIX: I'm not sure I understood that
11 to be the question.

12 MR. ADAMS: No. The question was just whether
13 he believes that the postalized, nondistant-sensitive
14 pricing structure per minute of use promotes economic
15 efficiency.

16 CHAIRMAN DEASON: I apologize. I thought I
17 heard something in that question concerning some type of
18 deaveraging of some sort.

19 MR. ADAMS: No.

20 COMMISSIONER CLARK: In fact it is averaging. I
21 assume by postal rates you mean everybody pays --

22 MR. ADAMS: Exactly.

23 COMMISSIONER CLARK: The same no matter how far
24 it goes.

25 MR. ADAMS: Exactly. Distance insensitive.

1 Q I'd like to ask the witness to look at a
2 document here.

3 MS. PEED: Do you have a copy for me?

4 MS. KAUFMAN: I apologize, I do not, but you're
5 certainly welcome to look over the shoulder with us.

6 (Pause)

7 Q (By Mr. Adams) Mr. Hendrix, can you identify
8 the document?

9 A I'm sorry?

10 Q Can you tell me what the document is?

11 A The brief of Southern Bell in Docket 880812.

12 Q Can you flip to the page with the little
13 yellow tab on it and read the underlined sentence for
14 me?

15 A Okay. "It is equally clear that the creation
16 of the EAEAs and the use of average transport rates have
17 fostered economic efficiency within the state."

18 Q Do you disagree with that statement?

19 A Well, this was filed back in 1990. I mean
20 we're in -- what is today? My 19th wedding anniversary,
21 August 23rd, 1994. We're talking over four years.

22 Q Right. So the economic theories have changed
23 in that time?

24 A Well, the marketplace has changed. I mean, a
25 whole lot of things have changed since that time. If

1 you look at the report that was put out by Mr. Roy
2 Jeeter (phonetic) that talks about the things that have
3 changed in the marketplace -- have you seen this? The
4 marketplace has changed.

5 We're talking a different era. We're talking
6 access providers coming in. We're talking people being
7 able to provide special access and private line-type
8 services. We're talking a totally different market
9 here.

10 We're talking things happening at the federal
11 level that would allow you to come and locate in my
12 offices on a virtual basis. We're talking signaling,
13 handing off the signaling so that you can provide tandem
14 switch.

15 The marketplace has changed.

16 Q So you agreed with it then but not now?

17 A I didn't write it.

18 Q I understand that.

19 A But I would agree, given that point in time
20 back in January 1990, that it was probably appropriate
21 then. But now the marketplace has changed.

22 MR. ADAMS: I have no further questions.

23 CHAIRMAN DEASON: Mr. Hoffman.

24 MR. HOFFMAN: Thank you, Mr. Chairman.

25

CROSS EXAMINATION

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BY MR. HOFFMAN:

Q Mr. Hendrix, my name is Ken Hoffman. I'm representing Teleport Communications Group. I just have a few questions for you.

I think in one of your discussions with Chairman Deason you mentioned a nonrecurring -- a waiver of a nonrecurring charge. Can you tell me a little bit more about that?

A Yes, which one do you want to know because there's a whole bunch. The first one -- is there one that you want to know about? Because I could just run down the list.

Q The one that you mentioned in your discussion with the Commissioner.

A Okay. Well, I mentioned that in general, so I might as well cover the whole gamut.

The first one was as a result of the order that was issued for local transport that would allow carriers to move their traffic from a dedicated to a tandem switched basis or from a tandem switched to a dedicated basis, and we will waive charges to allow that to happen.

The other charge waiver that was filed later will allow carriers to groom. In other words, by grooming, I mean if you have special and switched

1 services and you want to put those on a single pipe,
2 then we will waive charges to actually allow you to do
3 that. And still the waiver of dedicated to common or
4 common to dedicated was in place.

5 The other waiver that was filed in July would
6 allow carriers, if they have certain high cap type
7 services that was purchased out of the special access
8 tariff, to place switched services on those high cap
9 services. And the whole purpose was to incent customers
10 to be efficient in the routing of the services that they
11 order from us and in the use of those services.

12 Q With respect to each of those three waivers of
13 nonrecurring charges that you just described, has
14 permission been sought by Southern Bell to implement the
15 waiver of those nonrecurring charges at the FCC?

16 A That was what I just gave you, was the --

17 Q I'm sorry, I didn't hear you.

18 A That's what I just gave you.

19 Q The FCC?

20 A Yeah. But the first waiver where a carrier is
21 able to move from dedicated to common or common to
22 dedicated with switched services, that was filed even
23 before the local transport tariff was filed here.

24 Q Have any of those requests to waive those
25 nonrecurring charges been filed in Florida with the

1 Florida Public Service Commission?

2 A That was what I just mentioned, the first one
3 was filed here and approved.

4 Q What about the other two? Have the other two?

5 A No, because we don't have the local transport
6 tariff. That would assume that the local transport
7 tariff was in.

8 Q With respect to the nonrecurring charge which
9 addresses the switch from dedicated to common and common
10 to dedicated, what costs are incurred with those charges
11 where the rate is being waived? Do you understand what
12 I'm trying to ask?

13 A Well, yes, I do.

14 If a customer is a tandem switched customer
15 and wants to be dedicated -- in other words, rather than
16 being switched through the tandem they are now wanting
17 to go from the certain wire center to the end office --
18 then you would have the charge at least on one end of
19 that service to move it to that dedicated end office.
20 And if it's dedicated wanting to become tandem route,
21 then at least on one end of that interoffice you have
22 the charge of moving that customer's traffic back to be
23 a tandem route.

24 Q So at least with respect to that situation you
25 just described, there are certain costs that Southern

1 Bell would incur when the customer goes from tandem to
2 dedicated or dedicated to tandem that are not being
3 recovered through a rate.

4 A That's correct.

5 Q Is that correct?

6 A That's correct.

7 Q Now, if you had a customer such as AT&T which
8 wished to switch its local transport from Southern Bell
9 to an AAV, would Southern Bell waive the nonrecurring
10 charge for the interconnector or AT&T?

11 A I don't believe so, no. And the reason being
12 is that the order from the FCC -- and, furthermore,
13 we're talking two different dockets. At least at the
14 federal level, you're talking docket, I believe, 91213
15 and 91141; so you're talking two different dockets that
16 were handled at two different times, okay? So the
17 waiver applied to the transport piece; the collocation
18 docket is a different docket. So the charges in that
19 case were not waived. The FCC was very clear in stating
20 as to which charges would actually be waived and those
21 charges were associated with the local transport piece,
22 not the collocation docket.

23 Q If I understood your answer, Mr. Hendrix, I
24 think what you're telling me is that if a customer
25 wished to change providers -- if the Commission

1 authorizes competition for local transport for switched
2 access services -- if a customer wishes to change
3 providers of the local transport piece from Southern
4 Bell to an AAV, either the AAV or the customer will have
5 to pay a charge that would not have to be paid if the
6 customer had stayed on Southern Bell's network; is that
7 correct?

8 A You understood me clearly. I mean, that's
9 just like -- well, you may want to do it, but I don't
10 want to tell my wife I'm going to pay you to leave me.
11 (Laughter) Okay. And so --

12 Q I understand.

13 MR. WIGGINS: That's why he's been married 19
14 years.

15 A So to me it's the same thing. Why would I
16 want to pay a carrier to leave me?

17 Q (By Mr. Hoffman) So all other things -- I'm
18 sorry.

19 A I want to incent the carriers to say with me.

20 Q Essentially, then, this serves as motivation
21 for the customer to stay on your network rather than
22 switching to an AAV?

23 A Exactly right, which not only will benefit
24 Bell, but the end users of the state benefit because
25 that switched traffic is here with me.

1 **MR. HOFFMAN:** Thank you. I have no further
2 questions.

3 **CHAIRMAN DEASON:** Ms. Caswell. Ms. Bryant.

4 **CROSS EXAMINATION**

5 **BY MS. BRYANT:**

6 **Q** Good morning, Mr. Hendrix. Chanthina Bryant
7 on behalf of Sprint.

8 You stated earlier that under the equal charge
9 structure that all carriers were treated the same; is
10 that correct?

11 **A** I don't believe so I said that. I think what
12 I said was that given the charges that we have here, 1,
13 2 and 3, all of those charges are paid by the carriers.
14 And then -- I mean, the rates are the same for all
15 carriers. Now, when you get into the DS1, the DS3 and
16 your tandem switched, it's based on the option that the
17 carriers order.

18 **Q** But under the old structure all carriers paid
19 the same based on a per-minute-of-use?

20 **A** Under the old structure, yes.

21 **Q** Is that correct?

22 **A** That's correct.

23 **Q** And under the new structure would you agree
24 with me that all carriers are no longer treated the
25 same?

1 A No.

2 Q Doesn't it depend on which service carriers
3 are able to subscribe?

4 A That was going to be my answer to your
5 question. All carriers ordering a DS1 or a DS3
6 service -- if everybody in this room wanted a DS1
7 service, you come to Bell and I'm going to treat you all
8 alike. Everybody gets the same rate. Now, if you want
9 the risk and you want the DS3 service, all DS3 customers
10 come to Bell and I will treat you all exactly alike.
11 All tandem switched customers, you come to Bell and I'll
12 charge you the same rate.

13 The services that the customers order are
14 different; so based on that service, I would treat them
15 all the same.

16 Q But didn't you state earlier in response to
17 IAC's questioning that that would be risky to do that if
18 you didn't have a sufficient amount -- a sufficient
19 volume to place on a DS3 --

20 A I stated --

21 Q -- that's going to subscribe to those
22 services?

23 A I'm sorry for cutting across you. Are you
24 finished?

25 Q Yes, I am.

1 A I'm sorry.

2 I stated that any customer that would go out
3 and purchase a DS1 or a DS3 service and did not have
4 adequate volume to justify that service, that's not a
5 good business decision that that customer is making.
6 He's going to purchase the service based on his need for
7 that service, so it is a risk that he's assuming.
8 because whether he puts a minute or no minutes over that
9 DS1 or any dedicated service, he will remit to Southern
10 Bell on a monthly basis the cost for that service --
11 the rate for that service, rather.

12 Q Well, if it's not a good business decision, is
13 it probable that carriers will do that?

14 A Do what?

15 Q To subscribe to services where they don't have
16 a sufficient amount of traffic?

17 A I don't think so.

18 Q Or inadequate?

19 A No, I do not agree. I do not think so. The
20 market is changing to the point that you're going to
21 have to look once, look twice, and look three times
22 probably to ensure that the service that you are
23 ordering is the best service that you can order to
24 service this area. And so it is not wise, nor do I see
25 carriers moving, to simply order a DS3 service for the

1 sake of having it.

2 Q Well, didn't you also state that the
3 contribution is different based on those services?

4 A Yes, I did.

5 Q So customers subscribing to the DS1 would pay
6 more -- contribute more to common costs than say a
7 customer subscribing to a DS3?

8 A Well, let me put it this way -- and the answer
9 is yes, but let me put it this way: A customer buying
10 your UltraWATS service is going to contribute more to
11 Sprint than a customer -- I mean, will contribute less
12 to Sprint than a customer buying your message toll
13 service. Your message toll rate, average rate, may be
14 20, 22 cents. Your UltraWATS, depending on whether it
15 is dedicated or totally dedicated or switched-end
16 dedicated, let's say that's around 10 cents. So the
17 contribution that you get from that service is likely to
18 be higher on your message toll service than it is on
19 your UltraWATS service.

20 So the same principle applies here, that if a
21 customer as a larger volume customer can justify a DS3
22 and in a given area on a voice grade basis, then perhaps
23 the contribution that he's going to pay is less, but
24 he's guaranteeing me more. Likewise, on a DS1, the
25 contribution may be greater, but he's not guaranteeing

1 ne as much as a DS3 customer is. That's the market.

2 Q Well, Mr. Hendrix, it sounds like you're
3 providing discounts based on volume and larger customers
4 are rewarded by paying less based on the amount of
5 volume that they are purchasing.

6 A Well, I don't agree totally with what you're
7 saying. The customer on a per-minute-of-use basis, if
8 he's got adequate traffic to justify a DS3, if you were
9 to convert that a minute-of-use basis, perhaps his
10 minute-of-use charge is smaller than the tandem switched
11 customer or the DS1 customer. But that is not given to
12 only certain size customers.

13 If I am a small carrier and I have adequate
14 traffic from one given customer that would mean that I
15 could go out and purchase a DS1 or a DS3 service, then
16 that's fine, I may put in a dedicated service. In that
17 same area, AT&T may be the largest carrier in that area
18 but they don't have that customer so they may use tandem
19 switch.

20 So it is not based on the size of the carrier.
21 It is based on the market that that customer is actually
22 servicing.

23 The second point is this: In Georgia, when we
24 went through these same hearings, we send out 495
25 letters to carriers asking them to provide us the

1 impact. Well, some of them did; some of them didn't.
2 But out of 495, we got 10 back. Half of those customers
3 saw increases, wherein half probably saw decreases. And
4 some of the ones seeing decreases were very small
5 carriers and that was because of the market that they've
6 actually targeted. It has nothing to do with the size
7 of the carrier.

8 The other thing that was mentioned, does this
9 mean that certain carrier rates will go up in rural
10 areas? The answer is no. AT&T, as I mentioned, is the
11 largest tandem switched customer probably. If anything,
12 in those rural areas -- and they've testified to this --
13 those rural customers are probably going to see benefits
14 because those carriers in those rural areas are going to
15 have to get on with more marketing to those customers in
16 that area, so the quality of service or the options for
17 those customers are not going to go down. So it is not
18 based on customer size; it is based on the market that
19 that customer is serving.

20 Q You say it's not based on customer size. AND
21 you used AT&T as an example. And you said AT&T can
22 purchase a DS3 or they can use a tandem switch, but
23 would a smaller IXC have that option? If they don't
24 have a sufficient volume of traffic, they don't have the
25 option of purchasing a DS3 or, like you said earlier, it

1 wouldn't be a good business decision to do that, would
2 it?

3 A Well, I think you may have misstated some of
4 what I said. But let me go back to what I said.

5 It is based on whether a customer can purchase
6 a dedicated service or whether he's going to use tandem
7 switched that's based on the customers and the market
8 that that customer is servicing. It is not based on
9 size. And that's it. That is the point.

10 The customer size may not have anything to do
11 with it. Just like in Georgia, you know, the one
12 customer that I have cited is, you know, a very small
13 customer. They saw a decrease. They sent me a copy of
14 their summary bill; they saw a decrease and it's because
15 of the market. They have a given customer that they are
16 servicing. It has nothing to do with of the customer's
17 size.

18 I happen to know -- I don't know if I should
19 say this -- but I happen to know that if you look at the
20 percent of the type of services that are ordered by
21 carriers, people seem to think that AT&T has got all of
22 these DS3s. Well, I can tell you that's not the case.
23 You'd be surprised who has got the DS3 services.

24 Q Thank you, Mr. Hendrix. You've stated that
25 your primary rationale for pricing your services the way

1 that you have is based on the marketplace.

2 A Based on the marketplace, and our initial step
3 is to mirror the interstate rates. And the reason we
4 mirrored it, as I mention in my summary, was because our
5 customers that had asked, you eliminate some of the
6 problems with the PIU, as we call it, percent interstate
7 usage; you eliminate some of the problems with customers
8 trying to verify their bills. And so there are some
9 benefits, but the mirroring of the interstate rates is
10 our first step in responding to what the market
11 pressures are.

12 Q And you also stated that the contribution
13 depends on the services purchased, that there's less
14 contribution in the DS3 than the other services --

15 A I said on a --

16 Q And all of that is in response to competition?

17 A I'm sorry. I missed the last part of your
18 question because I was being rude, I cut across you.

19 Q I'm sorry, that your services were priced
20 based on the marketplace.

21 A That's correct.

22 Q Let me just sum up by asking you that in the
23 instance -- well, should the PSC approve competition in
24 the switched access market; and to the extent that any
25 legislative changes are necessary, would you go back and

1 revisit your prices for DS1 services and tandem
2 switching?

3 A Oh, yeah. I'm going to tell you, I'm going to
4 do what's in the best interests of my customers and
5 what's in the best interests of Bell. And the other
6 thing that we filed, we filed a zone price plan here;
7 and let's face it, zone pricing have -- the plan that we
8 filed, which is the same plan that was filed at the
9 federal level, you have three different zones, Zones 1,
10 2 and 3, and it's based on density.

11 What does that say? That says that at some
12 point if zone pricing is approved I will go in and have
13 different rates in those zones. And those rates will be
14 based on what the pressures are and what I need to do in
15 pricing that service to meet the market. So I will make
16 changes.

17 Q Depending on the marketplace?

18 A That's correct.

19 MS. BRYANT: Thank you. I have nothing further.

20 CHAIRMAN DEASON: Mr. Tye.

21 MR. TYE: Just a few, Mr. Chairman.

22 CROSS EXAMINATION

23 BY MR. TYE:

24 Q Mr. Hendrix, looking at Exhibit 27, have you
25 still got a copy of that over there? That's the letter

1 to Bill West from BellSouth.

2 A Yes, I do.

3 Q Okay. Would you take a look first at the
4 paragraph that starts "End in Mind" and the first bullet
5 point thereunder, which is, "To move towards switched
6 access price levels consistent with AT&T's
7 expectations."

8 Is it your understanding that AT&T's
9 expectations are that switched access price levels will
10 approach incremental cost?

11 A Yes, I am aware of that.

12 Q Okay. And that's around a penny a minute in
13 Florida, is it not, intrastate?

14 A I've seen that number floating around in
15 various states. I don't think I can reveal from the
16 stand here without my Counsel telling me I can do so
17 what those costs are.

18 Q Okay. It was my understanding, I think
19 Southern Bell gave us that in the rate case and it was
20 not a proprietary number. I don't think we asked for
21 the specific number, but I believe that it was around a
22 penny a minute, but if -- do you all have an objection
23 to that, Mary Jo?

24 MS. PEED: I'm sorry, I didn't participate in
25 the rate case. I don't know if we gave that or not. If

1 we didn't try to protect it in the rate case it's not a
2 proprietary number. I have to leave that to you.

3 Q (By Mr. Tye) That's not an unrealistic
4 number, is it, in your opinion?

5 A Neither is a nickel.

6 Q The point is if in fact access levels,
7 Southern Bell's access levels, are eventually reduced to
8 that level, all the IXCs are going to share the benefits
9 of those reductions; is that correct?

10 A Yes. Let me add something to my yes answer.

11 The problem with going with rates that are
12 different -- other than the problems that were mentioned
13 earlier -- that are different from the rates that
14 Southern Bell filed, as AT&T has just asked, their goal
15 is to get down to cost.

16 Well, one other party in this docket has
17 argued that my transport rates be cost-based. And in
18 looking at those rates, the rates proposed by that
19 party, it's lower, but there's a catch to that. You
20 take the money, you put it in the RIC.

21 Well, General stated that there's no cost in
22 the RIC. I do not agree. I believe there are some
23 costs in the RIC. But with the pressure that would be
24 placed on the RIC both at the federal level and, as AT&T
25 stated here, their goal is to get it down to cost, then

1 you can't simply say, "Let's go to this structure, my
2 rates or lower and you're better off and we're going to
3 take all of that money and throw it over here in the
4 RIC." Because then we've got another battle to face,
5 another battle to fight.

6 So if you go with the other rates, you have
7 your cake and then you have your ice cream here.
8 Wherein, you get lower rates here and we're going to
9 keep pounding on you, Bell, to get your RIC down. And
10 not only that, we're going to tell you how you need to
11 set your rates and the contribution that you have in
12 each rate level cannot be but such.

13 So your goal is to get down to cost. I
14 understand that. We are a long way from cost. We still
15 have other rates that will be reduced in this state on
16 10-1-95 and 10-1-96; but it just points out the problem
17 in going with other rates other than the rates filed by
18 Bell here, because it's not as simple as putting it in
19 the RIC and you're better off.

20 And I don't think you want to come up six
21 months from now and have another docket, when you go in
22 and you talk about, "But what should we do about access
23 charges?" I'm sorry, Mr. Tye, I gave you a clock.

24 Q That's okay. Given that answer I think it's
25 safe to say that AT&T and Southern Bell didn't

1 necessarily agree on all of the points in this letter;
2 is that correct?

3 A I think that's very safe to say.

4 Q Okay. Now, Mr. Hendrix, were you here
5 yesterday when I was asking some questions of Mr. Lee,
6 GTE's witness, regarding the use of a reconfigured as
7 opposed to a historical network?

8 A Yes, I was here.

9 Q Now, it's my understanding that Southern Bell
10 has based its rates in this proceeding on a historical
11 network; is that correct?

12 A Yes, we did.

13 Q And that's consistent with the approach
14 adopted by the FCC; is that correct?

15 A That is correct.

16 Q Okay. Now, with respect to your statement
17 about access imputation requirements -- and I think that
18 began on Page 24 of your testimony. Would it be safe to
19 say that Southern Bell has never been a proponent of
20 access imputation requirements?

21 A I think that's very well put, yes, I'd agree.

22 Q Now, the access charges, the portion of access
23 charges we're dealing with here in this docket today
24 comprises about 15% of the total package; is that
25 correct?

1 A If you include the interconnection and all of
2 that, focusing strictly on transport, exactly right.

3 Q Yes. Okay. And that's the only part that
4 will change as a result of this proceeding; is that
5 correct?

6 A That's correct.

7 Q Okay. And what you're doing there is you're
8 not eliminating that portion of access charges, you're
9 just kind of stirring it around and coming up with a new
10 way to recover it; is that correct?

11 A Well, what you're saying is right; but in
12 tying that to the imputation of access, I think you have
13 to look at the broader picture. And the broader picture
14 in this docket is there are other issues that you're
15 talking about here other than transport.

16 We're talking a major step in allowing other
17 customers and other vendors to come in and to provide
18 some of the same type services. So the marketplace will
19 change; and given the change in the marketplace and the
20 nature of the marketplace, imputation is not needed.

21 Q Are you saying, Mr. Hendrix, that your
22 competitors are likely to provide -- strike that. Let's
23 look at what we are talking about here.

24 As I understand it, in expanded
25 interconnection, we're talking about perhaps your

1 competitor being able to provide the facility between
2 the end office and the IXC's POP; is that correct?

3 A That's one of them.

4 Q We're not talking about your competitor being
5 able to provide -- in this case, being able to provide
6 the local loop out to the end user's premise, are we?

7 A Okay. No, we're not talking about but you
8 left out the other part.

9 Q I understand that and we'll get to that in a
10 minute.

11 A Okay.

12 Q Now, the local loop, the local loop is
13 something that you receive compensation for on the basis
14 of a carrier common line charge; is that correct?

15 A That's correct.

16 Q And anyone that wants to use your local loop
17 is going to have to pay that carrier common line charge;
18 is that correct?

19 A That's correct.

20 Q And that's not going to be changed to go away
21 as a result of this proceeding; is that correct?

22 A That's correct.

23 Q Okay. Now, then you've got your local
24 switching charges. And we're not talking here today
25 about your competitors being able to provide that local

1 switching function either, are we?

2 A That's not what we're talking about now.

3 Q And so anybody that wants to provide
4 interexchange service to your end users out there in
5 your service territory is going to have to pay that
6 local switching charge also; is that correct?

7 A That's correct.

8 Q And we're not talking about that going away as
9 a result of this proceeding; is that correct?

10 A Not as a result of this.

11 MR. TYE: Okay, thank you, sir. I have no
12 further questions.

13 A But the second part that was missing, you said
14 you were going to get to that.

15 Q (By Mr. Tye) Okay. What did I --

16 A Would you like for me to get to it?

17 Q Well, it's inevitable. Go ahead and get to
18 it, Mr. Hendrix. (Laughter.)

19 A The second part that is missing is this part
20 here that is the interoffice piece. We talk about local
21 channel and someone situating themselves here, which
22 means that we would lose this piece. But what happens
23 if they come and sit here? You lose the interoffice
24 piece. So that was the piece that was missing. So it's
25 not that small piece, you know, local channel or

1 whatever dollars associated with that, but it's also
2 this interoffice piece.

3 Q Okay. But anyone who would want to use an
4 AAV, for instance, would have to pay the AAV for that
5 piece in addition to paying Southern Bell for the local
6 switching and the carrier common line. Wouldn't you
7 agree with that?

8 A Yeah. But Southern Bell has lost that
9 revenue, that transport interoffice piece as well the
10 local channel piece, depending on where the carrier
11 chooses to situate himself.

12 Q Yes, sir, I understand that. But an
13 interexchange carrier would still have to pay somebody
14 for that piece in addition to paying Southern Bell for
15 the local switching piece and the carrier common line;
16 isn't that correct?

17 A Yes. But if you look at the rate that I
18 quoted earlier and you look at Sprint's witness that
19 mentioned they're purchasing DS3s from an AAV, and
20 Mr. Metcalf mentioned yesterday -- let me see, I have
21 his exact words -- that an AAV will never price higher
22 than the LECs. So tariffs are not required now. And I
23 paraphrase that part.

24 So you're talking about the carriers being
25 able to go to someone else to purchase a service at a

1 rate that's lower than what Bell would be able to offer
2 that rate, and that would hold true especially if we go
3 with some other option that's being offered up in this
4 docket. But we stand to lose the interoffice as well as
5 the local channel piece.

6 Q Okay. But let's talk for a minute, we're
7 talking about access imputation at this time. Would it
8 be safe to say that all of those pieces, the rates that
9 you charge for those pieces today are in excess of their
10 incremental cost?

11 A Oh, yeah.

12 Q And, in fact, the rates that an IXC would have
13 to pay to you or to somebody else for those services
14 would be out-of-pocket costs to the IXC; would you agree
15 with that?

16 A I would agree that no one is going to go in
17 and give a carrier transport for free, so they would
18 have to incur some cost. But the point is, what is that
19 level of costs that we're talking about? And as was
20 testified to yesterday, those costs are obviously lower
21 than what the LECs' costs are. LECs' rates.

22 Q I'm sorry, I didn't mean to interrupt you,
23 Mr. Hendrix. How much is your carrier common line
24 charge in Florida today?

25 A I used to be able to commit that stuff to

1 memory. I'm getting old.

2 I'm wanting to say the terminating is .0260.

3 I've got it here if you'll bear with me. (Pause)

4 The originating I believe is .260 and
5 terminating is .02927.

6 Q Okay. The originating is 2.6 cents a minute,
7 is that the correct way to state that?

8 A That's correct.

9 Q And the terminating is how much?

10 A 2.9 cents.

11 Q All right. 2.9 cents. So then on both ends
12 of that call, we're talking about almost 6 cents a
13 carrier common line only; is that correct? 5.5 cents?

14 A If you're using two ends.

15 MR. TYE: Okay. Thank you, sir. I have no
16 further questions, Mr. Chairman.

17 CHAIRMAN DEASON: Mr. Wiggins, how extensive is
18 your questioning?

19 MR. WIGGINS: Well, I actually have just a few
20 questions which are susceptible to short answers.

21 (Laughter) Although Mr. Hendrix may feel the need to be
22 complete in his explanation. So I would think not very
23 long at all. I think it would be worth giving it a shot.

24 CHAIRMAN DEASON: Go right ahead.
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CROSS EXAMINATION

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BY MR. WIGGINS:

Q Good morning, I think. No, good afternoon.

Pat Wiggins for Intermedia.

I was actually a little confused by an answer you gave to Ms. Bryant and I wanted to clarify what it is you're doing as opposed to why.

I understood you in answer to one of Ms. Bryant's question to say that you were not going to discriminate among customers; that if someone came for a DS1, they were going to get the same price as another person coming for a DS1. It didn't matter whether it was AT&T or LDDS, it would be the same rate; similarly for DS3s.

Does that fairly characterize your testimony?

A That's correct.

Q But isn't it also true that it depends on what the market is saying? That in some circumstances if the market is saying to Southern Bell, "Oh, no, we need to cut a special deal for this DS1 for LDDS, otherwise we lose its traffic," then that person may, in fact, get a lower rate than another person subscribing to DS --

A Not offering that --

Q Sir?

A I'm not offering that. I'm a little confused as to the question.

1 Q Under your market pricing approach, isn't it
2 the intent to give some customers different prices for
3 DSIs than other customers?

4 A The switched access DSIs, I have not offered
5 the CSA authority for DSIs in this docket, so I will
6 have to tariff the rates. I would believe all customers
7 would pay the same.

8 Q Oh, excellent.

9 Let me revisit just for a moment to be clear
10 about the local transport segment.

11 If I understand your answers to Mr. Tye
12 correctly, if Intermedia is able to physically or
13 virtually collocate with one of your end offices and
14 they're able to carry the transport of the switched
15 access traffic to an IXC's point of presence, that would
16 replace the interoffice channel segment of your switched
17 access product; is that correct?

18 A As well as the local channel in that case.

19 Q Okay. The local channel?

20 A Local and interoffice.

21 Q The local and interoffice.

22 A That's correct.

23 Q Okay. Let's take a look at the local channel
24 segment for a moment. That is -- excuse me. That is
25 this right here? (Indicating)

1 A That's correct.

2 Q Okay. Do you know whether Intermedia will
3 have to pay a functionally equivalent charge to your
4 Company in its interconnection arrangement?

5 A That is the cross-connect charge is what they
6 would pay. That's been tariffed in the federal tariff
7 and the rate is not the rate of a local channel.

8 Q In terms of function, though, it's the same?

9 A The function is the same. But it's not the
10 same rate.

11 Q Now, assuming that the interoffice -- what did
12 you call that exactly?

13 A Interoffice channel.

14 Q Not the -- is that what you're calling what
15 the collocator pays --

16 A Oh, no. That's the cross-connect element that
17 the collocator would pay.

18 Q Okay. The element that the collocator pays,
19 the cross-connect element, the one that allows them to
20 make the handshake to exchange the traffic, that
21 however, is, in fact, the functional equivalent of the
22 local channel irrespective of how it's priced. Would
23 you agree with that?

24 A That is correct.

25 Q Okay. Now, it's clear, isn't it, that

1 Intermedia would like to be a competitor of Southern
2 Bell for the switched access transport. Is that your
3 understanding?

4 A Yes, it is.

5 Q In fact, they would like to eat your lunch if
6 given a chance, correct?

7 A And I'll be careful what I pack for lunch.

8 Q Good. I want to put a chart back up here.

9 If we look at your bar graph and look at the
10 interoffice channel segment, it is the yellow sliver, is
11 it not?

12 A That is correct.

13 Q So that's the revenues that Intermedia wants
14 to feed off of, correct?

15 A Not necessarily, no. You missed a point. You
16 missed the local channel. It's the yellow and the purple.

17 Q The yellow and the purple?

18 A That's correct.

19 Q This and this. (Indicating)

20 A That's correct.

21 Q But we've already established that in order to
22 feeding off of this they will be paying you something, a
23 cross-connect charge that's the functional equivalent of this
24 payment you would be receiving from the IXC, correct?

25 A Not at the same rate level. That's correct.

1 MR. WIGGINS: No further questions.

2 CHAIRMAN DEASON: I hate to break at this point
3 but we are going to break for lunch, Mr. Poucher. And I
4 just recognized, Mr. Hendrix, we're going to -- when we
5 reconvene we're going to take up, is it Mr. Smith?

6 MS. WILSON: Mr. Chairman, we'd have no problem
7 if you'd like to finish with Mr. Hendrix before you put
8 Mr. Smith on the stand. Just so long as he can make his
9 4:30 flight. My understanding is there is just a few
10 parties that have questions for him and they may be
11 limited questions.

12 CHAIRMAN DEASON: Okay. Well, given that,
13 perhaps we will reconvene with Mr. Hendrix. I think
14 Mr. Poucher has some questions, Staff will have some
15 questions, but I think we should be able to finish with
16 Mr. Hendrix shortly after we reconvene, hopefully.

17 MS. WILSON: That's great. Thank you.

18 CHAIRMAN DEASON: Okay. We will recess for
19 lunch at this time. We will reconvene at 1:30 p.m.

20 (Thereupon, lunch recess was taken at 12:15
21 p.m.)

22 (Transcript continues in sequence in Volume
23 5.)

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