

Florida Cable Telecommunications Association

Steve Wilkerson, President

September 15, 1995

VIA HAND DELIVERY

Ms. Blanca S. Bayo, Director Division of Records and Reporting 2540 Shumard Oak Boulevard Tallahassee, FL 32399

RE: Docket No. 950985-TP

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are an original and fifteen (15) copies of Florida Cable Telecommunications Association, Inc.'s ("FCTA") Direct Testimony of Jeffrey Smith, Dick Schleiden and John Kern. Copies have been served on the parties of record pursuant to the attached certificate of service.

Please acknowledge receipt and filing of the above by date stamping the duplicate copy of this letter and returning the same to me.

Thank you for your assistance in processing this filing.

Yours very truly,

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APP		L. Wilson
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310 North Monroe Street • Tallahassee, Florida 32301 • (904) 681-1990 FAX (904) 681-9676 TH :

1		DIRECT TESTIMONY
2		ON BEHALF OF
3		FLORIDA CABLE TELECOMMUNICATIONS ASSOCIATION, INC.
4		DOCKET NO. 950985-TP
5		
6	Q.	PLEASE STATE YOUR NAMES AND BUSINESS ADDRESSES.
7	A.	Jeffrey E. Smith, Comcast Corporation, 1500 Market Street, Philadelphia,
8		Pennsylvania 19102.
9		-
10		A. R. (Dick) Schleiden, Continental Fiber Technologies, Inc., d/b/a AlterNet,
11		4455 Baymeadows Road, Jacksonville, Florida 32217.
12		
13		John P. Kern, Kern & Associates, Inc., 2300 N. Barrington Road, Suite
14		400, Hoffman Estates, Illinois 60195.
15		
16	Q.	PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUNDS AND
17		WORK EXPERIENCE.
18	Α.	Mr. Smith is employed by Comcast Corporation as its General Counsel of
19		the cellular division. In this capacity, he represents the telephony divisions
20		of Comcast including Eastern Telelogic Corporation, which is Comcast's
21		alternative access affiliate, and the company's wireless affiliates such as
22		Comcast Cellular Communications. Prior to joining Comcast, he worked
23		as an attorney for Drinker, Biddle and Reath Law Firm in Philadelphia.
24		
25		

1		Mr. Schleiden is the General Manager of AlterNet, a certificated Alternative
2		Access Vendor (AAV) in Florida. He has forty-one (41) years of
3		telecommunications experience in most disciplines of the former Bell
4		system. In his last position with AT&T, he worked as the product manager
5		for Data Services. He has been the General Manager at AlterNet for the
6		past two and one-half (2-1/2) years.
7		
8		Mr. Kern is the President of Kern & Associates, Inc. He has previously
9		held positions in the telecommunications industry as Director-Regulatory
10		Affairs for Illinois Bell and Director-External Affairs for Ameritech Services.
11		He worked on the Staff of the Missouri Public Service Commission where
12		he held the positions of Advisor and Research Economist. A copy of Mr.
13		Kern's resume is attached as FCTA-1.
14		
15	Q.	HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION IN
16		ANY OTHER PROCEEDINGS?
17	Α.	Mr. Smith presented direct testimony in the Matter of Expanded
18		Interconnection Phase II and Local Transport Restructure, Docket Nos.
19		921074-TP, 930955-TP, 940014-TP, 940020-TP, 931196-TP and 940190-
20		TP.
21		
22	Q.	WHAT IS THE PURPOSE OF YOUR JOINT TESTIMONY?
23	Α.	The purpose of our testimony is to make recommendations to the Florida

issues raised in the September 1, 1995 Petition and Prefiled Direct

Testimony of Paul Kouroupas. At this time, the issues to be addressed in this docket have not been formally established. Therefore, we may need to amend or revise our testimony in response to new issues raised.

- Q. IN FILING THIS TESTIMONY, ARE YOU REQUESTING THAT THE COMMISSION RESOLVE INTERCONNECTION DISPUTES WITH ANY PARTIES OTHER THAN THE PETITIONER AND BELLSOUTH?
- A. No; however, we are aware of the precedential nature of the Commission's decision in this proceeding, the requirement that rates be non-discriminatory, and the likelihood that the Commission's approach in this docket may signal a similar approach if asked to resolve other interconnection disputes.

Α.

Q. WHAT IS THE NATURE OF THE MARKET THAT TCG ATTEMPTS TO ENTER IN SEEKING LOCAL INTERCONNECTION WITH BELLSOUTH?

It is a market characterized by the overwhelming dominance of one playerthe incumbent LEC. The incumbent owns and controls the local telephone
network - particularly subscriber loops and switches - which are essential
to originate or terminate telecommunications traffic. It will be some time
before telecommunications services that are <u>not</u> dependent upon the LECs'
local telephone exchange network are widely available. The incumbent
LEC enjoys a ubiquitous network. It begins the process of transitioning to
competition with about 98% market share and customer recognition which
comes from decades of being the only provider.

The incumbent LEC may elect price regulation on January 1, 1996 even though it may actually face no competition in many areas. However, the alternative local exchange telecommunications company (ALEC) will always face at least one competitor - the entrenched incumbent. The incumbent LEC is the only competitor known and recognized as a provider of local service and the only competitor controlling the essential network that rivals must access in order to provide service throughout an entire exchange area. Incumbent LECs have an enormous competitive advantage simply due to customer inertia, much less their ability to exercise market power.

ALECs, on the other hand, face many obstacles in order to compete. They must first make large investments in their own networks. They must then connect those networks to the ubiquitous LECs' networks and attempt to overcome customer inertia and the incumbent's brand loyalty by providing superior service at the same or lower prices than the incumbent LEC. Because the incumbent LECs stand to lose market share (although not necessarily revenues) by such interconnection, they have little incentive to enter into interconnection arrangements that are economically viable or technically efficient for the new entrant. Yet, if ALEC services are perceived as inferior to the LECs' services, the effect on competition could be fatal. As it is, the ALEC currently enters the market with a serious risk of being placed at an immediate competitive disadvantage because of the effects of technical issues, such as a technologically inferior interim number portability mechanism, that are under the complete control of the incumbent

1		LEC.
2		
3	Q.	GIVEN THIS CONTEXT, WHAT FACTORS SHOULD THE COMMISSION
4		CONSIDER IN SETTING BELLSOUTH'S LOCAL INTERCONNECTION
5		RATE IN THIS PROCEEDING?
6	A.	First, the Commission should recognize that the intent of the new law is to
7		promote competition and consumer choice among a wide array of services.
8		As the Chairman of the Florida House Committee on Telecommunications
9		recently stated in a letter to Chairman Clark, the Commission should view
10		its new role as that of the "catalyst of competition." See Exhibit No. FCTA-
11		2. In other words, the Commission should be "promoting" competition
12		rather than simply "permitting" it.
13		
14		As a result, the Commission should consider the impact of various rate
15		structures and levels on the development of competition and residential
16		consumer choice. We agree with Representative Clemons' statement that
17		ultimately, the best way to protect consumers is by providing them with
18		superior, innovative choices. Interconnection arrangements must permit
19		ALECs to economically deliver competitive local telecommunications
20		services.
21		
22		Second, the Commission should consider that interconnection is ar
23		essential monopoly service. Only the LECs today enjoy a ubiquitous
24		network, which is of great value to them. To spite the LECs' argument tha

having to serve everyone everywhere is a burden, this ubiquity confers

immense positive effects from a marketing perspective. Because of LEC ubiquity, new entrants must interconnect with the incumbent LEC as a condition of doing business. Moreover, BellSouth is investing in cable operations nationwide. The current wisdom is that telecommunications companies, regardless of their origination, will ultimately offer consumers a full package of services: video, local, toll, long-distance, data. The investments of both LECs and ALECs will be amortized across that package, making the "burden of maintaining a ubiquitous network" more profitable as margins improve. It also provides the monopolist absolute market power and a marketing advantage the likes of which have not been seen in modern industry.

Third, interconnection structure and rates should promote technological innovation and innovative pricing strategies. This, too, is one of the basic premises of the legislation. Not only are consumers to have choices of new providers, but of new services. Further, as discussed in Paul Kouroupas' direct testimony, the price structure for interconnection should permit carriers to pursue their own independent retail marketing strategy. Price structures for local interconnection should not be tied to existing LEC price structures so as to force new market entrants to mimic those pricing structures. ALECs must be permitted to exercise the greatest possible latitude in developing their retail marketing strategies for local services.

Fourth, interconnection rates should not include a contribution to universal service. We understand that as the Florida Legislature considered

amendments to Chapter 364, it explicitly "de-linked" interconnection rates from universal service considerations. We agree that these are two entirely different concepts, and should not be treated together.

Fifth, the interconnect rate should take into account any technical considerations placing new entrants at a competitive disadvantage. For example, Remote Call Forwarding, is the only currently available option for number portability. It is an inferior technology. The known disadvantages of Remote Call Forwarding include impairment of the availability of CLASS features, degradation of service quality and, potentially, customer dissatisfaction for the ALECs. Nevertheless, number portability is an essential element of providing competitive local service from both a price and quality perspective. The Commission must, therefore, account for this shortcoming in setting local interconnection rates and terms.

Finally, interconnection rates and rate structures should <u>create incentives</u> for competitive infrastructure development. The only way for sustainable competition to develop is if competitors do not have to rely exclusively on the LEC for the provision of service. Interconnection rates and structures should encourage companies to invest in plant. We recommend that the Commission look down the road to consider how the structure for local interconnection fits into the ultimate goal of achieving full and widespread competition so that as many consumers as possible benefit from the widest possible range of choice as quickly as possible. The Commission should view the competitive local market as evolving and thus should adopt

policies today which promote the changes and advances that competition promises.

Q. BASED UPON THESE CRITERIA, WHAT IS THE MOST APPROPRIATE LOCAL INTERCONNECTION ARRANGEMENT?

A. The most appropriate arrangement is a bill and keep arrangement.

Q. WHAT IS A BILL AND KEEP?

A. We understand that bill and keep is the method most often used as a local interconnection arrangement between LECs interconnecting with each other today in Florida. With bill and keep the two networks connect at some agreed-upon point, and each company bears the cost of its network, keeping the revenues it generates, and not charging the other company to use its network.

A.

Q. WHY DO YOU RECOMMEND A BILL AND KEEP ARRANGEMENT?

There are a number of reasons why we recommend a bill and keep arrangement. First, a bill and keep arrangement is reciprocal, thus acknowledging that all participants in the local exchange market are co-carriers. Competing local exchange carriers should be treated as co-carriers, meaning as carriers having equal status with the incumbent LEC, in light of the fact that the public necessity for interconnection is mutual once an entrant signs up its first customer. Once an entrant gains that first customer, both the LEC and the ALEC have a mutual and equal need for services and compatible systems to enable their customers to reach all

1		other telephone subscribers in the local calling area.
2		
3		Second, because bill and keep is the least cost method of compensation,
4		it is the approach that is most likely to encourage lower local exchange
5		rates for consumers.
6		
7		Third, bill and keep presents the least possibility of creating barriers to
8		entry. With bill and keep, it is unlikely that the compensation mechanism
9		will place unnecessary and unfair burdens upon the ALECs, as they enter
10		the market with precious few resources which are better spent reinvesting
11		in the company.
12		
13		Fourth, bill and keep provides economic incentives for ALECs to invest in
14	·	and strengthen the State's local telecommunications infrastructure. It will
15		encourage network expansion and multiple points of interconnection
16		increasing reliability. It is also neutral in terms of both the technology and
17		architecture that ALECs might choose to adopt. Compensation
18		arrangements for terminating traffic must not inhibit the ALECs' choice of
19		technology or architecture. This is a crucial goal if the regulatory
20		environment is to allow for flexibility in the future.
21		
22	Q.	HOW DOES BILL AND KEEP MINIMIZE COSTS THAT COULD
23		OTHERWISE ACT AS A BARRIER TO ENTRY?
24	A.	Once the conditions for effective competition have been met, it is certain
25		that the amount of compensation owed to one network would be offset by

the amount owed to the other. Unless there are significant distortions between networks, the traffic between networks tends to be in approximate balance over time. This means that it is inefficient for companies to develop measurement and billing arrangements that can significantly increase the cost of doing business when the amounts to be paid are going to cancel out over relatively short periods of time. The cost of such equipment which measures traffic in today's climate is immense, but it is at the core of BellSouth's proposal. Moreover, new and imminent technologies, such as PCS, might or might not be compatible with such equipment, which could mean investment dollars earmarked for infrastructure development could well be wasted on equipment which serves only to front load costs onto competitors.

Α.

Q. HAVE ANY OTHER STATES ADOPTED BILL AND KEEP?

Yes. The Commissions in Connecticut and California have done so. In addition to the simplicity of bill and keep, these Commissions believe it is too difficult to predict the outcome of any compensation schemes or their impact on competition. As such, they did not want to enact any plan which would clearly place one company at an advantage over another, as an immediate compensation plan based on minutes of use would. Requiring new entrants to immediately give money to the incumbents would divert precious investment dollars. Bill and keep, with a provision for traffic that is substantially out of balance, allows new entrants to reinvest in facilities and network expansion under the same level of risk to the public good that an exchange of funds would entail.

1	Q.	SHOULD BELLSOUTH'S INTERCONNECTION RATES BE TARIFFED?
2	A.	Yes, it is appropriate for the incumbent LEC's local interconnection rates
3		to be tariffed.
4		
5	Q.	DOES THAT CONCLUDE YOUR TESTIMONY?
6	A.	Yes, it does.
7		

JOHN P. KERN

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Suite 400
Hoffman Estates, 1L 60195
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Fax 706 884-6370

PROFESSIONAL EXPERIENCE:

Kern & Assoc. Inc., President

Develop regulatory and legislative strategies for telecommunications and cable clients.

Represent and advise clients during negotiations with incumbent local exchange carriers.

Represent and manage clients' participation before regulatory agencies, with concentration in state matters. Advise clients regarding business development plans including local exchange competition, interconnection, and unbundling. Clients include LECs, IXCs, CAPs, cable companies, and electric companies.

Illinols Bell, Director - Regulatory Affairs

Managed the Rates and Tariffs organization responsible for filing tariffs and competitive contracts before the Illinois Commerce Commission (ICC). Successfully presented and defended filings before the ICC staff and intervenor groups. During 1993, 100% of all tariff filings were approved without suspension and hearing. Successful filings assured profitability and competitiveness while complying with ICC policies. Filed the Ameritach Customers First Plan that proposed unbundling of the local exchange network in 1994.

Co-managed internal regulatory policy and strategy development to be presented before the ICC. Analyzed potential ICC and competitors' responses to Ameritach's actions, identified roadblocks and proposed appropriate solutions. Represented Ameritach in negotiations with the ICC and competitors. Key issues included imputation, local transport restructure, interconnection and usage subscription. Effective regulatory planning promoted informed ICC decisions that were favorable to the company and consistent with strategic initiatives.

*Ameriteon Services, Director • External Affairs

Successfully directed Ameritech's participation before the state regulatory organizations in Illinois, Indiana, Michigan, Ohio, and Wisconsin on regional and federal telecommunications issues. Analyzed potential responses by the five state commissions to Ameritech's actions, identified readblocks and proposed appropriate solutions. Activities resulted in defusing opposition or gaining public support from state agencies before the FCC, Congress and the Courts for Ameritech positions. Key issues included PCS, interconnection, transport restructure, Modified Final Judgment (MFJ), table cross ownership (i.e. Video Dial Tone), and numbering issues

Successfully directed Ameritech's participation before the NARUC and the Open Network Architecture (ONA) 410(b) Joint Conference. Activities resulted in defusing opposition or gaining public support from state agencies for Ameritech's position on ONA and other federal issues. Advised state regulatory agencies regarding regional and state implications

from various regulatory and public policy issues associated with federal issues, NARUC positions, and 410(b) positions.

Member of the Illinois Blue Ribbon Telecommunications Task Force, an advisory board initiated by the ICC to conduct an independent analysis of the state of telecommunications in Illinois, and recommend changes to the state telecommunications laws that were set to sunset in 1993.

Ameritech Services, Manager - Federal Regulatory

Developed and advocated Ameritech positions before the FCC, state commissions, FederalState Joint Board, and NARUC in areas related to ONA, Joint Board issues and price caps.
Represented Ameritech and the United States Telephone Association (USTA) before the
FCC, Joint Board, ONA 410(b) Joint Conference and NARUC. Developed and negotiated
Ameritech positions on federal issues before the USTA.

Missouri Public Service Commission, Advisor (8/86-9/87), Research Economist (10/88-8/86)

Advised the Commission on long term strategic policy and planning for telecommunications. Directed and developed strategies and Commission positions on issues pending before the FCC, Congress and the Courts. Advised the Commission during negotiations with industry and government officials involving revising the state telecommunications laws that were adopted by the Missouri legislature. Assisted in technical issues pending before the Commission.

Performed economic analysis on federal and state telecommunications issues on behalf of the staff. Developed and defended Commission policies before the FCC involving separations issues, Part 64 issues, access charges, and federal pre-emption issues. Prepared Commission testimony before the Missouri legislature and the US. Congress and prepared an oral argument before the US. District Court regarding the MFJ. Filed testimony and was cross-examined on telecommunications issues.

Member, Federal-State Joint Board Staff -- represented state public service commissions during negotiations with the FCC regarding Joint Board issues. Presented Joint Board staff recommendations to the Joint Board.

EDUCATION:

MA., Economics, University of Missouri-Columbia, May 1989

BS., Economics, University of Wyoming, May 1961

ORGANIZATIONS:

Member, Illinois Blue Ribbon Telecommunications Task Force, 1990

Member, Federal-State Joint Board Staff, 1985-1987

Member, National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee Cost Allocations, 1964-1987



Florida House of Representatives

PLIER RUDY WALTACE, SPEAKER OF THE FROMSE

COMMITTLE ON UTILITIES & TELECOMMUNICATIONS

SCOTT W. CLEMONS CHAIR

17

August 17, 1995

SHARON I. MERCHANI VICE CHAIR

Susan Clark, Chairman
Public Service Commission
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Chairman Clark:

I am pleased to learn of the plans the Public Service Commission has made to implement Chapter 95-403, the telecommunications act. For Florida to realize competition as quickly as the Legislature intended, a rather ambitious schedule was included in the act's framework. And, the PSC was tasked with a variety of responsibilities to make the January 1, 1996, starting date for competition a realistic one. It appears that your agency is striving to meet that schedule.

Having worked closely with the Legislature during the development of the telecommunications legislation, you are aware of the law's two important goals, protecting consumers and encouraging competition. And, you know that the Legislature believes that in the final analysis competition will prove to be the ultimate consumer protection.

The Legislature has passed the law, thus clearly stating our intent that in the near future Floridians should have a choice in local telephone service. It now falls to the PSC to determine if our hopes for a quick emergence of competition will become a reality. In short, we will be observing the PSC's efforts to change its mission from the previous one-being the surrogate for competition-to its new role as the catalyst of competition.

For example, the Legislature's concern for both consumer protection and the development of competition was evidenced in the act's provisions for universal service. In this issue the consumer benefits are self-evident, however, the Legislature also evidenced a concern about its impact on competition. The act refers specifically to the PSC's determining a mechanism to provide for universal service. Legislators knew that after considering various mechanisms, the PSC might eventually decide that a fund is necessary. However, they were concerned that a fund could prove to be anti-competitive and so desired the consideration of a variety of options

Page 2 Chairman Susan Clark August 17, 1995

Based on a review of the actual list of staff-identified issues provided at a July meeting, the commission appears not to be limiting itself to a fund; however, the title of the proceeding is "Determination of *l'unding* for Universal Service and Carrier of Last Resort Responsibilities," and the use of the word "funding" may signal a conflict with the notion of considering other options as well.

Another issue before you that could have an impact on the rapid development of competition is a requirement that ALEC's file tariffs for all services. Legislative intent provides that the Commission is to encourage competition through "flexible regulation" and "by allowing a transitional period in which new entrants are subject to a lesser level of regulatory oversight." I know the tariff issue will be a difficult one to resolve, and I do not presume to recommend to you which way you should decide. I write only to emphasize that the impact of your decision on the pace of the growth of competition must be weighed heavily.

Other issues I understand the PSC will face are the charges assessed payphone operators by incumbent LEC's and the timing of establishing payphone operators' eligibility to subscribe to flat-rate, single-line business local exchange services, as called for in the law. As before, I do not presume to tell you what to decide in these cases. However, I do request that you consider how your decision will aid in fostering competition.

A final example provided to illustrate my interest in stimulating competition and in recognition of the complex nature of the issues you will face regards access to poles, conduits, rights-of-way and other facilities--access which is required pursuant to the law. Section 14 of ch. 95-403, Laws of Florida, does not explicitly provide for the parties to address the PSC should they fail to mutually agree on rates and conditions of access. However, in other similar circumstances, pursuant to the law parties may petition the PSC to bring about a legislatively-mandated agreement. The absence of a means of bringing the PSC into the process may have an impact on a party's ability to compete in a timely fashion. This should be considered when deciding the issue of access to poles, conduits, rights-of-ways, and other facilities.

I am confident that under your leadership the PSC can meet the challenge of transforming itself from the substitute for to the catalyst of competition. I am comfortable relying upon your and your colleagues' judgement and expertise. I write and offer these examples to assure you that I am cognizant of the complexity of your challenges and to emphasize the legislature's keen desire that competition—the biggest consumer protection encompassed in the new law—be encouraged with all deliberate speed.

Sincerely,

Scott W. Clemons

Chairman, Committee on Utilities &

Telecommunications

CERTIFICATE OF SERVICE DOCKET NO 950985-TP

I HEREBY CERTIFY that a true and correct copy of the foregoing been furnished by Hand

Delivery(*) and/or Overnight Mail on this 15th day of September, 1995 to the following parties of record:

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