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REPLY TO:
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November 13, 1995

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

via Hand Delivery

Re: Resolution of Petition(s) to establish 1995 rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes; Docket No. 950985A-TP

Dear Ms. Bayo:

Enclosed for filing please find an original and fifteen copies of the Direct Testimony of Joan McGrath on behalf of Time Warner AxS of Florida, L.P. and Digital Media Partners for the above-referenced docket.

You will also find a copy of this letter and a diskette in Word Perfect 5.1 containing the same information enclosed. Please date-stamp the copy of the letter to indicate that the original was filed and return to me.

If you have any questions regarding this matter, please feel free to contact me. Thank you for your assistance in processing this filing.

Respectfully,

PENNINGTON & HABEN, P.A.

Peter M. Dunbar

Peter M. Dunbar

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cc: All Parties of Record (w/ enclosure)

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CERTIFICATE OF SERVICE
DOCKET NO. 950985A-TP

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Joan McGrath on behalf of Time Warner AxS of Florida, L.P. and Digital Media Partners has been served by Hand Delivery and Federal Express(*) on this 13th day of November, 1995, to the following parties of record:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950985A-TP

DIRECT TESTIMONY OF

JOAN McGRATH

ON BEHALF OF TIME WARNER AxS OF FLORIDA, L.P.

AND DIGITAL MEDIA PARTNERS

Q: **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A: My name is Joan McGrath, and my business address is 160 Inverness Drive West, Englewood, Colorado, 80112.

Q: **PLEASE STATE YOUR CURRENT TITLE.**

A: I am the Manager for Interconnect Management at Time Warner Communications.

Q: **PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

A: My current responsibilities include interconnection negotiations with Regional Bell Operating Companies (RBOCs) and independent local exchange companies (ILECs) nationwide.

Q: **PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

A: I received a Bachelor of Science degree in Business Administration with emphasis in Marketing from the

University of Denver, Denver, Colorado. Additionally, I have taken technical training courses through AT&T on Electronic Switching System Architecture and ISDN Overview. When my work schedule permits, I also attend Master level telecommunications classes at the University of Denver.

My telecommunications experience includes employment at U S West, an RBOC, Telecommunications, Inc. (TCI), a major cable company, and Teleport Communications Group (TCG), an alternative access vendor (AAV).

At U S West, my responsibilities included performing statistical and results analyses for the small business and home personal service. At TCI, my responsibilities included managing market research projects for new AAV markets. At TCG my responsibilities included managing the interexchange company (IXC) interconnection negotiations and the RBOC collocations. My resume is attached as Exhibit JM-1.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I have been asked to present testimony on behalf of Time Warner AxS of Florida, L.P. and Digital Media Partners (collectively "TWC") to recommend the approach the Florida Public Service Commission (Commission) should take in addressing the interconnection issues raised by Continental Cablevision, Inc. (Continental) in its October 6, 1995 Petition and Direct Testimony filed by A.R. (Dick) Schleiden. However, at this time the issues to be addressed in this docket have not been identified formally. It may be necessary to amend or revise my testimony in response to new issues raised.

Q: IN FILING THIS TESTIMONY, ARE YOU REQUESTING THAT THE COMMISSION RESOLVE TWC'S INTERCONNECTION DISPUTES WITH BELLSOUTH OR ANY OTHER LOCAL EXCHANGE COMPANY (LEC)?

A: No. However, I am aware that the decisions the Commission makes in this case may indicate the Commission's expected approach if it is asked to resolve similar issues for new entrants.

Q: WHAT IS THE CONTEXT IN WHICH CONTINENTAL'S DISPUTE WITH BELLSOUTH ARISES? WHAT KIND OF ENVIRONMENT ARE ALTERNATIVE LOCAL EXCHANGE COMPANIES (ALECS) FACING AS THEY ENTER THE LOCAL EXCHANGE TELECOMMUNICATIONS MARKET?

A: Alternative local exchange companies (ALECs) are entering an environment characterized by the overwhelming dominance of one monopoly LEC, the incumbent. In each local exchange one company has nearly 100% of the market, a ubiquitous network, brand identity and loyalty, and control over essential facilities that ALECs need in order to begin competing. To begin to provide service, ALECs must make large investments in their own networks, and must also connect those networks with that of the ubiquitous incumbent LEC, which stands to lose market share (although not necessarily revenues) by such interconnection. Thus, the incumbent LECs will have little incentive to enter into interconnection arrangements that are economically viable or technically efficient for the new entrant. As untested newcomers, ALECs must overcome brand loyalty by providing better service at lower prices in order to gain market share. If consumers perceive the service ALECs provide to be in any way inferior to that of the incumbent LEC, the effect on new entry could be deadly. Because of the effects of technical issues such as a technologically inferior number portability mechanism, the ALEC faces the very real risk of being placed at a significant competitive disadvantage from the very start.

Q: IN DECIDING INTERCONNECTION ISSUES, SPECIFICALLY THE RATES, WHAT FACTORS SHOULD THE COMMISSION TAKE INTO ACCOUNT TO RENDER A POLICY DECISION THAT PROMOTES COMPETITION FOR CONSUMERS?

A: There are several factors:

- First, the Commission should consider that interconnection is a monopoly service. Only the LECs today have a ubiquitous network, which is of great value to them. Although the LECs argue that having to serve everyone everywhere is a burden, the ability to do so is certainly one which confers positive effects from a marketing perspective. AT&T exploited a similar circumstance in its advertising during the early years of toll competition. Because of LEC ubiquity, every entrant that wants to do business must interconnect with the LEC.

- Second, the Commission should consider the impact of various rate structures and levels on the development of competition and promotion of customer choice and innovative technology. Without competition, the LECs are provided an enormous windfall. It is my understanding that the Commission is to encourage competition to ensure the availability of the widest range of consumer choice in the provision of all telecommunications services. Consistent with this mandate, as the Commission works its way through the transition to a competitive market, it must keep in mind that the absolute best way to provide consumers with superior, innovative local exchange service is to provide consumers with choices.
- Third, the interconnection arrangements should create incentives 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 arrangements should encourage companies to invest in plant.

- Fourth, interconnection arrangements should promote technological innovation. The Commission has been directed to exercise its jurisdiction to encourage not only consumer choice of new providers, but also to encourage the introduction of new services. Thus, as discussed by Dick Schleiden in his direct testimony on behalf of Continental, the price structure for interconnection should not be tied to existing price structures which force new market entrants to replicate existing LEC pricing structures, or to require ALECs to duplicate the pricing structures that the LECs want them to have.
- Fifth, interconnection rates should not include a contribution to universal service. These concepts are very different, and should not be treated together.
- In addition, remote call forwarding, the only currently available option for temporary number portability, is an inferior technology. As a result of some of the shortcomings of remote call forwarding, ALECs experience longer call set-up times, loss of the availability of some custom calling features, and lost terminating access charge revenue to ported numbers due to the loss

of identity of those calls when they arrive at the ALEC switch. This is a significant barrier to entry in terms of availability of service offerings and service quality for the ALECs. Having true number portability is essential to ALECs being able to do business. The Commission should consider the limitations of remote call forwarding when it establishes interconnection rates and rate structures.

Q: WHAT IS THE MOST APPROPRIATE ARRANGEMENT FOR AN INTERCONNECTION RATE AND RATE STRUCTURE BETWEEN A LEC AND AN ALEC?

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

Q: WHAT IS BILL AND KEEP?

A: I understand that bill and keep is the method most often used as a local interconnecting arrangement by LECs 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.

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

A: There are a number of reasons why I recommend a bill and keep arrangement.

- First, a bill and keep arrangement is reciprocal, thus acknowledging that all participants are co-carriers. Competing local exchange carriers should be treated as co-carriers in light of the fact that the 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 need for services from the other if each is to offer its customers the ability to reach all other telephone subscribers in the local exchange.
- Second, bill and keep is certainly the least cost method of compensation for terminating traffic, and thus, is the approach most likely to help drive local exchange rates as low as possible for customers.
- Third, bill and keep offers the least possibility that the incumbent LECs can use the compensation mechanism to try to impose unnecessary and anti-competitive costs upon the ALECs. Thus, it is the method least

likely to result in new, unnecessary barriers to entry.

- Fourth, bill and keep is neutral in terms of both the technology and architecture that ALECs might choose to adopt. One of the major benefits from opening the local exchange to entry and the development of effective local exchange competition, is that the residents of Florida can benefit from competition between different technologies and involving different architectures of service. If the compensation arrangements for terminating traffic skew the technology or architecture choices of the entrant, then this benefit of entry will be reduced or eliminated. This would not be in the public interest.

Q: **HOW DOES BILL AND KEEP ELIMINATE COSTS THAT ACT AS A BARRIER TO ENTRY?**

A: Once the conditions for effective competition have been met, it is certain 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 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.

Developing and implementing such a measurement and billing system could greatly increase the incremental cost of the switching function for terminating traffic. This is a significant and unnecessary burden to add to local exchange service, when it can only be justified at best for a brief period of time.

It also imposes other costs on local exchange service, costs that fall more heavily on entrants than on the incumbent LECs. There are at least two additional sets of costs that would be imposed if compensation for terminating local traffic were charged for on a per minute or per message basis. The first is the cost of measuring equipment and the establishment of a billing system for use by the entrants. The second is the cost to audit and verify bills.

Q: **WHY DID YOU REFER TO THE DEVELOPMENT OF MEASUREMENT AND BILLING SYSTEMS FOR THE INCUMBENT LECS? INCUMBENT LECS NOW MEASURE AND BILL FOR LOCAL CALLS. WHY WOULD THEY HAVE TO DEVELOP ANY NEW MEASUREMENT AND BILLING SYSTEMS?**

A: While it is true the incumbent LECs can and do measure and bill for at least some of their local exchange traffic, the measurement systems they use for that purpose cannot be used to measure terminating local exchange traffic. The current measurement systems cannot distinguish today between local and toll calls.

Q: **HAVE ANY OTHER STATES ADOPTED BILL AND KEEP?**

A: Yes, bill and keep is gaining approval in key states concerning this issue. The California PUC recently adopted interim local competition rules that included bill and keep. *See, Initial Rules for Local Exchange Service Competition in California,* California Public Utilities Commission, Docket No. R 95-04-043/I 95-04-044, Section 7: Interconnection of LEC and CLEC Networks for Termination of Local Traffic, page 10 (July 24, 1995). A Michigan Public Service Commission decision also adopts bill and keep if the traffic is in balance within five percent. *See, Opinion and Order, In the matter of the application of City Signal, Inc.*, Case No. U-10647, pages 19-30 (February 27, 1995). Recently, the Connecticut Commission also adopted bill and keep. *See, DPUC Investigation into the Unbundling of the Southern New England Telephone Company's Local Telecommunications Network, State of Connecticut Department of Public Utility Control*, Docket No. 94-10-02, pages 63, 70, 71 (September 22, 1995). Also, the Washington Utilities and Transportation Commission recently issued an order linking charging for interconnection to the development of a true number portability solution. *See, Fourth Supplemental Order Rejecting Tariff Filings and Ordering Refiling; Granting Complaints, in Part, Washington Utilities and Transportation Commission*; Docket Nos. UT-941464, UT-941465, UT-950146, UT-950265, pages 29-33 (October 31, 1995). Also, the *Texas Public Utility Regulatory Act of 1995, Title III, Subtitle J, Section 3.458* requires that in the absence of a mutually agreed compensation rate, bill and keep shall apply. Finally, although it is not a final action, the Tennessee PUC staff has recently proposed rules requiring bill and keep.

Q: WHAT METHOD OF INTERCONNECTION HAVE MOST LECS OFFERED THUS FAR?

A: Most LECs have offered a per minute of use, access charge-based scenario. Further, they have differentiated the price of interconnection depending on where the ALEC interconnects. If the ALEC interconnects at the tandem, the price is higher than if the LEC interconnects at the end office.

Q: WHAT IS WRONG WITH THIS APPROACH?

A: There are several problems with it:

- First, switched access charge levels in Florida today are loaded with contribution. This is inconsistent with local interconnection rates being separated from universal service.
- Second, a usage sensitive interconnection rate measurement is administratively burdensome and expensive, and makes no sense in light of information from other states that the traffic flow back and forth between LEC and ALEC networks tends to even out over a relatively short time. Based on EAS traffic studies, the same tends to be true in LEC local interconnection arrangements today.

- Third, tying ALECs to the LECs' offered pricing scenario may limit innovative product offerings by the ALECs.

Q: SHOULD INTERCONNECTION RATES BE TARIFFED?

A: Yes, tariffing implies a generally available offering which can be purchased by like customers under the same circumstances. Tariffs are appropriate for monopoly services such as interconnection.

Q: PLEASE SUMMARIZE YOUR TESTIMONY.

A: I have recommended factors that the Commission should consider in establishing interconnection arrangements. Consistent with these factors, I have recommended that the Commission adopt a bill and keep approach for local interconnection. Bill and keep is the most appropriate compensation method to promote the development of competition, consumer choice, and technological innovation. Bill and keep has begun to be adopted by key states, and eliminates unnecessary measuring costs which can only be justified for a brief period, at best.

Q: **DOES THIS COMPLETE YOUR TESTIMONY?**
A: Yes, it does.