

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**ORIGINAL
FILE COPY**

**In re: Resolution of petition(s) to establish)
nondiscriminatory rates, terms, and conditions) Docket No. 950984A-TP
for resale involving local exchange companies and)
alternative local exchange companies pursuant to)
Section 364.161, Florida Statutes) Filed: December 11, 1995**

REBUTTAL TESTIMONY OF TIMOTHY T. DEVINE

ON BEHALF OF

METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC.

Docket No. 950984A-TP

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**REBUTTAL TESTIMONY OF TIMOTHY T. DEVINE
ON BEHALF OF
METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC.
Docket No. 950984A-TP**

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

2 **A. My name is Timothy T. Devine. My business address is MFS**
3 **Communications Company, Inc., Six Concourse Parkway, Ste. 2100,**
4 **Atlanta, Georgia 30328.**

5 **Q. ARE YOU THE SAME TIMOTHY DEVINE WHO PREVIOUSLY**
6 **FILED TESTIMONY IN THIS PROCEEDING?**

7 **A. Yes.**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
9 **PROCEEDING?**

10 **A. To respond on behalf of Metropolitan Fiber Systems of Florida, Inc.**
11 **(“MFS-FL”) to the direct testimony in this proceeding, and particularly the**
12 **testimony of Mr. Robert C. Scheye and Dr. Aniruddha (Andy) Banerjee**
13 **filed on behalf of BellSouth Telecommunications, Inc.**

14 **Q. WHY IS THE UNBUNDLING OF THE LOCAL LOOP CRITICAL TO**
15 **THE DEVELOPMENT OF LOCAL COMPETITION IN FLORIDA?**

16 **A. The unbundling of the local loop has been endorsed by commissions in New**
17 **York, Illinois, Michigan, Iowa, and most recently Washington State (“the**
18 **Commission is satisfied with a first level of unbundling that includes an**
19 **unbundled loop and an efficient line-side interconnection.”) because it is**

1 critical to the development of local exchange competition in these states.
2 *Washington Utilities and Transportation Commission v. U S West*
3 *Communications, Inc.*, Docket Nos. UT-941464 et al., Fourth Supplemental
4 Order Rejecting Tariff Filings and Ordering Refiling; Granting Complaints
5 in Part, at 52 (October 31, 1995). To the extent that BellSouth continues to
6 control significant monopoly elements, unbundled links will provide access to
7 an essential bottleneck facility controlled by BellSouth. Even once other co-
8 carrier arrangements are established by the Commission, BellSouth will
9 continue its monopoly control over the local loop, the "last mile" of the
10 telecommunications network. Presently, it is economically more efficient for
11 competitors to purchase access to the BellSouth loops, just as long distance
12 carriers presently purchase access to the BellSouth distribution networks,
13 rather than to construct ubiquitous competing transmission and switching
14 facilities. The "last mile" loop network, therefore, is an essential bottleneck
15 facility for any potential provider of competitive local exchange service. To
16 the extent that the virtually ubiquitous loop networks were constructed with
17 the benefit of favorable governmental franchises and related privileges, and
18 replication of the existing LEC loop network would be cost-prohibitive
19 (particularly without the rights-of-way, franchises, or building access
20 privileges of BellSouth), BellSouth should unbundle and separately price and

1 offer the loop and port elements I described in my Direct Testimony such that
2 MFS-FL will be able to lease and interconnect to whichever of these
3 unbundled elements MFS-FL requires and to combine the BellSouth-provided
4 elements with facilities and services that MFS-FL may provide itself.

5 **Q. WHAT ELEMENTS SHOULD BELL SOUTH MAKE AVAILABLE?**

6 As I explained in my Direct Testimony (Devine Direct at 12-13),
7 specifically, BellSouth should immediately unbundle all of its
8 Exchange services into two separate packages: the link element plus
9 cross-connect element and the port element plus cross-connect
10 element. MFS-FL seeks unbundled access and interconnection to the
11 following forms of unbundled links: (1) 2-wire analog voice grade,
12 also known as a "simple" link, which is simply a path for voice-grade
13 service from an end user's premises to the central office; (2) 2-wire
14 ISDN digital grade; and (3) 4-wire DS-1 digital grade. MFS-FL also
15 requests that the following forms of unbundled ports be made
16 available: (1) 2-wire analog line; (2) 2-wire ISDN digital line; (3) 2-
17 wire analog DID trunk; (4) 4-wire DS-1 digital DID trunk; and (5) 4-
18 wire ISDN DS-1 digital trunk. BellSouth should also make loop
19 concentration available through Digital Loop Carrier Systems, which I
20 will address later in my testimony.

1 **Q. WHAT UNBUNDLED LOOPS AND PORTS HAS BELLSOUTH**
2 **AGREED TO OFFER?**

3 **A. Leaving aside the issue of pricing for the time being, BellSouth has only**
4 **agreed to provide voice grade unbundled loops and ports, and refuses to**
5 **provide 2-wire ISDN digital grade loops; 4-wire DS-1 digital grade loops; 2-**
6 **wire ISDN digital line ports; 2-wire analog DID trunk ports; 4-wire DS-1**
7 **digital DID trunk ports; and 4-wire ISDN DS-1 digital trunk ports. BellSouth**
8 **will not provide these loops and ports because they are “not part of basic local**
9 **exchange service.” Scheye Direct at 12. BellSouth apparently has arbitrarily**
10 **decided that local exchange competition and unbundling should be limited to**
11 **basic local exchange service. Mr. Scheye, however, cites no regulatory or**
12 **statutory basis for raising this possibly insurmountable long term barrier to**
13 **the development of viable local exchange competition. No such limitation is**
14 **imposed by statute: “Upon request, each local exchange company shall**
15 **unbundle all of its network features, functions, and capabilities, including**
16 **access to signaling databases, systems and routing processes, and offer them**
17 **to any other telecommunications provider requesting such features, functions**
18 **or capabilities for resale to the extent technically and economically**
19 **feasible.” Fla. Stat. 364.161.**

20 **By defining the loop and port to be unbundled as “two-wire analog”**

1 connection service offerings, BellSouth would dramatically limit the ability
2 of ALECs' to offer competitively a full range of business and data services.
3 This would be completely inconsistent with the Legislature's mandate to
4 promote local exchange competition in Florida.

5 **Q. HOW WILL LIMITING THE AVAILABILITY OF THESE TYPES OF**
6 **LOOPS AND PORTS LIMIT COMPETITION IN FLORIDA LOCAL**
7 **EXCHANGE MARKETS?**

8 **A.** In order for ALECs to offer advanced network services such as ISDN to
9 customers who are not yet located along an ALEC's network, ALECs must
10 be able to utilize both two- and four-wire connections in analog or digital
11 format. ISDN, for example, cannot be offered using two-wire analog loop
12 connections. For a large percentage of the business market, key systems
13 and private branch exchanges ("PBXs") are commonplace. *This customer*
14 *equipment almost always requires a four-wire connection.* Accordingly,
15 MFS-FL strongly urges the Commission to require BellSouth to offer both
16 two- and four-wire, as well as analog and digital loops and ports. By not
17 defining the unbundled loops and ports necessary for the complete line of
18 analog and digital connection service offerings, the Commission will
19 undermine the Legislature's unbundling policies and limit the development
20 of competition in Florida.

1 If the appropriate range of unbundled loops are not offered, ALECs
2 effectively will be precluded from offering sophisticated telecommunications
3 services, such as ISDN. BellSouth will be able to continue to offer such
4 sophisticated services without competition. As a result, the public switched
5 network will not be used efficiently and BellSouth's monopoly --
6 particularly with respect to business users -- will be preserved, while
7 incumbent LECs retain virtual bottleneck control over the local loop.

8 Other states that have unbundled the local loop have appropriately
9 extended unbundling beyond two-wire analog loops and ports. For
10 example, in Michigan, Ameritech offers five types of analog loops,
11 including four-wire loops, and one digital loop. *See In the Matter on the*
12 *Commission's Own Motion, to Establish Permanent Interconnection*
13 *Arrangements Between Basic Local Exchange Service Providers*, Direct
14 Testimony of William DeFrance (Ameritech Michigan), Case No. U-10860,
15 Tr. at 325 (filed July 24, 1995). In Illinois, similarly, Ameritech offers
16 several four-wire analog loops as well as digital loops. *See Ameritech*
17 *Illinois Commerce Commission Tariff No. 5, Part 2, Section 26*. Mandating
18 only two-wire analog loop connections will unnecessarily impair the
19 Commission's stated intent of encouraging competition for the benefit of
20 Florida consumers. Moreover, the services that will be impacted are the

1 very services most likely to be sought by consumers for purposes of
2 utilizing telecommunications for its most sophisticated uses.

3 **Q. IS THE MFS-FL UNBUNDLING PROPOSAL CONSISTENT WITH**
4 **THE INTENT OF THE LEGISLATURE?**

5 **A. Yes. In order for MFS-FL to efficiently offer telephone services to end users,**
6 **BellSouth should unbundle and separately price and offer loop and port**
7 **elements such that MFS-FL will be able to lease and interconnect to**
8 **whichever of these unbundled elements MFS-FL requires and to combine the**
9 **BellSouth-provided elements with facilities and services that MFS-FL may**
10 **provide itself. This is what the Legislature intended when it required**
11 **unbundling "to the extent technically and economically feasible." Section**
12 **364.161, Fla. Stat. Mr. Scheye even admits that "it may be technically**
13 **possible to offer the remaining ISDN and DS-1 loops and interfaces," but**
14 **states that BellSouth has arbitrarily limited its focus to "basic elements first."**
15 **Scheye Direct at 13.**

16 **Q. WHY IS LOOP CONCENTRATION SQUARELY WITHIN THE**
17 **DEFINITION OF UNBUNDLING MANDATED BY THE**
18 **LEGISLATURE?**

19 **A. MFS-FL seeks unbundled access and interconnection to the link subelements**
20 **that are resident in the modern digital loop carrier ("DLC") systems (which**

1 provide concentration) that LECs have begun to deploy in lieu of copper pair
2 links. These DLC systems typically involve three main sub-elements: (1) a
3 digital transport distribution facility operating at 1.544 Mbps ("DS1"), or
4 multiples thereof, extending from the LEC end office wire center to a point
5 somewhere in the LEC network (this point could be a manhole, pedestal, or
6 even a telephone closet in a large building); (2) digital loop carrier terminal
7 equipment housed in the manhole, pedestal, telephone closet, etc., at which
8 the DS1 terminates and which derives from the DS1 facility 24 or more voice
9 grade telephonic channels; and (3) copper pair feeder/drop facilities (lines)
10 extending from the DLC terminal to a demarcation/connector block at various
11 customers' premises.

12 Mr. Scheye claims that loop concentration is "a new network
13 capability," "not a capability that can be disaggregated from another
14 functionality within the network." Scheye Direct at 15. This is simply not
15 correct. As I have described above, digital loop carrier systems fall squarely
16 within the definition of the network elements that must be unbundled: the
17 Legislature has required that BellSouth shall unbundle "all of its network
18 features, functions, and capabilities, including access to signaling databases,
19 systems and routing processes" Section 364.161, Fla. Stat. This broad
20 definition certainly includes the "feature, function, or capability" of

1 concentrating local loops (Mr. Scheye has himself described it as a “network
2 capability”) through technology that is currently in place in the BellSouth
3 network. Mr. Scheye has attempted to carve out an exception that does not
4 exist in the statute for a “new” network capability; the “newness” of a
5 capability is not a factor under the statute that the Commission is expected to
6 examine in requiring loop unbundling.

7 **Q. WHY IS IT INACCURATE FOR MR. SCHEYE TO STATE THAT**
8 **LOOP CONCENTRATION CANNOT BE DISAGGREGATED FROM**
9 **ANOTHER FUNCTIONALITY WITHIN THE NETWORK?**

10 **A.** Mr. Scheye states that loop concentration “requires the creation of a new
11 capability,” (Scheye Direct at 15), implying that digital loop carrier systems
12 are not currently in use by BellSouth on a widespread basis. BellSouth could
13 not make such a statement on the record, and Mr. Scheye, in fact, does not
14 deny that digital loop carrier systems are currently in use by BellSouth. The
15 fact of the matter is that digital loop carrier systems *are* in use by BellSouth
16 and can easily be “disaggregated” or unbundled. Digital loop carrier systems
17 could be shared between BellSouth and ALECs, so “new hardware” would not
18 necessarily be required. MFS-FL has specifically requested access “where
19 technically feasible and where capacity allows.” Devine Direct at 15. MFS-
20 FL would lease these facilities at reasonable cost-based rates, so Mr. Scheye’s

1 implication that it will have to pay the cost of ALEC services is entirely
2 unjustified. Moreover, if new purchases of digital loop carrier systems are
3 required to meet increasing demand, this is a beneficial result of implementing
4 competition that will benefit all end users. The use of loop concentration by
5 ALECs benefits both BellSouth and end users alike, by permitting the most
6 efficient provisioning of the local exchange network.

7 **Q. WHY ARE MR. SCHEYE'S OTHER CONCERNS WITH LOOP**
8 **CONCENTRATION UNBUNDLING UNJUSTIFIED?**

9 **A.** BellSouth provides no support for its statement that "the operations and
10 support systems required to order and administer" unbundling of this
11 capability would be "extremely difficult to develop and maintain." Scheye
12 Direct at 16. There is no question that BellSouth will have to provide services
13 in a different manner in order for competition to develop, nor is there any
14 evidence in this record that provisioning this service would not be "technically
15 and economically feasible." To the extent that there are additional costs to
16 providing unbundled service, these costs should be borne equally across the
17 entire subscriber base that will reap the benefits of competition. As to the
18 allegation of potential quality problems, there is no reason to believe that the
19 quality of any services will be affected; this technology is utilized routinely in
20 other jurisdictions by LECs for their own services and those of competitors

1 without problems or disruption. Mr. Scheye's hyperbolic statement that
2 "accountability and control of the network would be completely lost at that
3 point" is reminiscent of the "Chicken Little—the sky is falling approach" that
4 has been used by telephone company monopolists since the initial efforts to
5 introduce competition in telecommunications.¹ By taking such positions,
6 BellSouth only reveals its true intent, delaying the introduction of local
7 competition. Despite the fact that the empirical evidence proves that this
8 argument is baseless, it is continually reiterated by the Bells.

9 **Q. DOES MFS-FL REQUIRE COLLOCATED DIGITAL LOOP**
10 **CARRIER SYSTEMS?**

¹ AT&T and the Bell companies have repeatedly taken the position that the introduction of competition will have a devastating effect on their network. *Litton Systems, Inc. v. AT&T Co.*, 700 F.2d 785, 795 (2nd Cir. 1983) ("AT&T continued to maintain that unlimited interconnection could harm the network."); *Essential Communications v. AT&T*, 610 F.2d 1114, 1116 (3rd Cir. 1979) ("[f]or the protection of the network," New Jersey Bell filed tariff with FCC to require customers to lease a PCA device from Bell before they are allowed to connect competitors equipment to the system); *Carter v. AT&T Co.*, 250 F.Supp. 188, 190 (N.D.Tex. 1966) (AT&T and Bell companies argue that they have the right to prevent equipment connections to the network because it might "impair the operation of the telephone system or otherwise injure the public in the use of the Telephone Company's services."); *Hush-A-Phone Corp. v. United States*, 238 F.2d 266, 268 (D.C. Cir. 1956) (AT&T and Bell companies argue that a telephone muting device offered by a competing company is likely to be "deleterious to the telephone system and injures the services rendered by it."); *Use of the Carterphone in Message Toll Telephone Service*, 13 F.C.C.2d 430, 439 (1967) (AT&T and the Bell companies contended that interconnection "would hamper innovation and increase the cost to the public of basic telephone service.").

1 A. Yes. In addition to the elements that need to be unbundled, MFS-FL also
2 must be able to install DLCs at BellSouth virtual collocation sites. DLCs are
3 multiplexing-type equipment which are commonly used by LECs to connect
4 to outside plant subscriber loops. Collocation will permit ALECs to have
5 similar loop concentration capabilities as their LEC competitors.

6 Q. **WHY SHOULD OPERATIONAL ISSUES BE ADDRESSED IN THIS**
7 **PROCEEDING?**

8 A. MFS-FL believes that the prompt resolution of these issues will be essential
9 to establishing co-carrier status. I have described these issues, including
10 requirements to ensure the quality of unbundled loops and conversion
11 charges, in detail in my Direct Testimony. Devine Direct at 19-20. If these
12 issues remain unresolved, ALECs will not have access to unbundled loops
13 on nondiscriminatory terms and conditions. BellSouth would prefer to leave
14 these issues to the negotiation process. Scheye Direct at 9. As I discussed
15 in my Direct Testimony, to date, MFS-FL has found BellSouth to be
16 intransigent in negotiations on co-carrier issues. Devine Direct at 9-10.
17 Moreover, there is no incentive for BellSouth to negotiate an expeditious
18 resolution of these issues. The experience of MFS-FL affiliates in other
19 states suggests that these issues will *not* be easily resolved through
20 negotiations, nor does MFS-FL believe, as Mr. Scheye advocates (Scheye

1 Direct at 9), that the complaint procedures should be relied upon to resolve
2 issues that the parties have already identified as contentious issues. MFS-
3 FL therefore recommends that these issues be addressed by the Commission
4 in the manner described in my Direct Testimony.

5 **Q. WHY IS IT CRITICAL THAT UNBUNDLED LOOPS BE PRICED AT**
6 **A REASONABLE LEVEL IN ORDER FOR ALECS TO COMPETE?**

7 **A.** Physical unbundling of the local loop without ensuring that they are available
8 at nondiscriminatory prices will not facilitate local competition: loops and
9 ports must be priced in a manner that allows carriers to offer end users a
10 competitively priced service. In order to discourage BellSouth from
11 implementing anticompetitive pricing policies, the Commission should adopt
12 pricing guidelines for unbundled loops that are premised on BellSouth's' cost
13 in providing the service and that reflect this functional equivalency.

14 **Q. WHAT PRICING GUIDELINES SHOULD APPLY?**

15 **A.** Absent mitigating circumstances, BellSouth's Long Run Incremental Costs
16 ("LRIC") should serve as the target price and cap for unbundled loops where
17 such loops must be employed by ALECs to compete with BellSouth, with all
18 of the advantages of its historical monopoly franchise. LRIC is the direct
19 economic cost of a given facility, including cost of capital, and represents the
20 cost that the LEC would otherwise have avoided if it had not installed the

1 relevant increment of plant -- *i.e.*, local loops in a given region. Thus, by
2 leasing a loop to a competitor, an incumbent LEC would be allowed to
3 recover no less than the full cost it would otherwise have avoided had it not
4 built the increment of plant that it has made available, through loop
5 unbundling, for use by a competitor in serving the customer to whose
6 premises the loop extends. MFS-FL would also apply two additional pricing
7 guidelines to prevent discrimination: 1) the sum of the prices of the
8 unbundled rate elements (link, port, and cross-connect) must be no greater
9 than the price of the bundled dial tone line; and 2) the ratio of price to LRIC
10 for each element and for the bundled dial tone line must be the same. These
11 two guidelines would require that the prices for the unbundled dial tone line
12 components be derived from the existing access line rates established in
13 BellSouth's effective tariffs. As long as those rates cover LRIC, the
14 unbundled component prices determined by these guidelines would also cover
15 LRIC. The pricing guidelines recommended by MFS-FL are fully outlined in
16 my Direct Testimony. Devine Direct at 22-25.

17 **Q. DOES PRICING UNBUNDLED LOCAL LOOPS AT LRIC VIOLATE**
18 **THE STATUTE AS CLAIMED BY MR. SCHEYE?**

19 **A.** Section 364.161(1) states that LECs shall not be required to offer unbundled
20 local loops at prices that are below cost. Mr. Scheye misstates MFS-FL's

1 position by implying that MFS-FL would require the pricing of unbundled
2 loops below cost. Scheye Direct at 19. MFS-FL advocates the pricing of
3 unbundled loops at the "target price" of LRIC (Devine Direct at 23), and
4 therefore supports pricing unbundled *at* cost, not below cost. Moreover, upon
5 a showing that residential local exchange service is priced below LRIC
6 (Scheye Direct at 19) -- a showing which is not supported by any evidence of
7 which MFS-FL is aware -- MFS-FL would not advocate pricing unbundled
8 *residential* loops at LRIC. Of course, this rule has no bearing on business
9 services, and BellSouth has not presented evidence in this proceeding that
10 residential services are priced below LRIC. Mr. Scheye's analysis is based
11 upon a misreading of MFS-FL's testimony which states that as "long as those
12 [dial tone] rates cover LRIC, the unbundled component prices determined by
13 these guidelines would also cover cost." Devine Direct at 25. (MFS-FL also
14 states that its guidelines apply "absent any mitigating circumstances that
15 might justify lower rates." Devine Direct at 23.)

16 **Q. WHAT DO YOU THINK ABOUT BELLSOUTH'S SUGGESTION**
17 **THAT A NEW ENTRANT SIMPLY PURCHASE A PRIVATE LINE**
18 **OR SPECIAL ACCESS CHANNEL FROM BELLSOUTH'S EXISTING**
19 **TARIFF?**

20 **A.** Mr. Scheye claims that unbundled loops are currently available through

1 BellSouth's Access Services Special Access tariff. Scheye Direct at 4. As I
2 explained in my Direct Testimony (Devine Direct at 25-27), this would not be
3 economical, nor practical from a time of installation perspective. While there
4 is not much physical difference between an unbundled link and a private line
5 or special access channel, there are differences in technical standards as well
6 as engineering and operational practices that render current tariffed services a
7 completely unsatisfactory substitute for unbundled links. The major
8 differences between these existing services and unbundled simple links are the
9 additional performance parameters required for private line and special access
10 services, beyond what is necessary to provide plain old telephone service
11 ("POTS"); and the methods used by LECs to install and provision the
12 services. Currently, installation of a private line or special access channel
13 typically requires special engineering by the LEC and therefore takes longer
14 and costs more than installation of a POTS line. This special engineering
15 begins with a line that would be suitable for POTS, but then adapts it to
16 conform to specialized performance parameters. Therefore, no single private
17 line service offering provided by BellSouth will satisfy MFS-FL unbundled
18 loop requirements. Private line and special access services also include
19 additional performance standards that are not necessary for the delivery of
20 POTS service.

1 **Q. DOES MR. SCHEYE RECOGNIZE THESE KEY DIFFERENCES**
2 **BETWEEN PRIVATE LINES AND UNBUNDLED LOOPS?**

3 **A.** No. Mr. Scheye's statement that unbundled facilities "are provisioned and
4 maintained in a manner that is more analogous to a Special Access dedicated
5 line than to a regular switched exchange line" is completely inaccurate.
6 Scheye Direct at 7. Mr. Scheye has completely overlooked the significant
7 differences described above, which are reflected in the price of private lines,
8 in order to support his system of premium pricing.

9 **Q. WHAT DOES MFS-FL REQUIRE FOR UNBUNDLED LOOPS?**

10 **A.** When a customer decides to replace its existing BellSouth dial tone service
11 with MFS-FL dial tone service, MFS-FL should be able to have the customer's
12 existing link facility rolled over from the BellSouth switch to an MFS-FL
13 expanded interconnection node in the same central office, without having the
14 entire link re-provisioned or engineered over different facilities. This roll-
15 over, including the seamless roll-over to MFS-FL when the customer is taking
16 advantage of number retention, should occur within the same ordering
17 provision interval as BellSouth provides for bundled local exchange service to
18 end users and with minimal service interruption to those customers.

19 **Q. WOULD THE TARIFFED RATES FOR PRIVATE LINE SERVICES**
20 **PERMIT ECONOMICALLY VIABLE COMPETITION?**

1 A.. No. Not surprisingly, the tariffed rate of a private line service exceeds the
2 tariffed rate of a bundled dial tone business or residence line. In fact, private
3 lines or special access channels are typically priced at substantial premiums
4 today because these services require additional performance parameters
5 beyond what is necessary to provide POTS.

6 **Q. IF BELLSOUTH CHARGES TARIFFED PRIVATE LINE RATES,**
7 **WILL IT BE SUBJECT TO A PRICE SQUEEZE?**

8 A. Yes. MFS-FL would be paying more for the unbundled loops than it would
9 be allowed to recover through end user retail rates, resulting in a price
10 squeeze. The Commission should ensure that BellSouth does not maintain its
11 premium pricing and instead charges the appropriate LRIC price for
12 unbundled loops.

13 **Q. WHY SHOULD BELLSOUTH NOT BE PERMITTED TO ADD**
14 **CONTRIBUTION TO LRIC IN SETTING PRICES FOR UNBUNDLED**
15 **LOOPS?**

16 A. Dr. Banerjee believes that contribution should be included in rates for
17 unbundled loops "to recover its substantial shared and common costs."
18 (Banerjee Direct at 8.) "Contribution" is often defined in the industry as the
19 difference between the incremental cost of a service and the price charged
20 for that service. Such charges force ALECs to recover from their customers

1 not only the ALEC's own overhead costs, but also a portion of BellSouth's
2 overhead costs. This effectively insulates BellSouth from the forces of
3 competition. One of the most significant benefits of competition is that it
4 forces all market participants, including BellSouth, to operate efficiently,
5 resulting in lower rates for end users. If BellSouth receives contribution --
6 in effect, is subsidized by its new entrant competitors -- BellSouth's
7 overhead costs will not be subjected to the full benefits of competition that
8 result from market pressures. Instead, current inefficiencies in BellSouth's
9 network will become incorporated into BellSouth's price floor, locking in
10 current inefficiencies in BellSouth's operations, despite the introduction of
11 competition. The Commission should therefore not require ALECs to
12 provide contribution in unbundled loop rates because it would foreclose
13 many of the potential benefits of competition.

14 **Q. WHY IS BELLSOUTH'S PROPOSAL TO IMPUTE CONTRIBUTION**
15 **INTO END USER PRICES PART OF THE PROBLEM AND NOT**
16 **THE SOLUTION?**

17 **A.** Dr. Banerjee would guard against a price squeeze by requiring BellSouth to
18 impute contribution from unbundled elements into end user prices. Banerjee
19 Direct at 9-10. This is precisely the problem with requiring ALECs to pay
20 contribution: existing BellSouth efficiencies would be guaranteed to be

1 passed on to end users *ad infinitum*. The Commission should therefore reject
2 the BellSouth recommendation regarding contribution, and the supposed
3 “safeguard” of imputation as anticompetitive and anticonsumer. The MFS-
4 FL LRIC-based approach, with the appropriate pricing guidelines, is the best
5 means available to ensure that ALECs are not caught in a price squeeze, and
6 can provide competitive local exchange service on an economically viable
7 basis.

8 **Q. WHAT PROCESS DOES MFS-FL ADVOCATE FOR FUTURE**
9 **UNBUNDLING OF BELLSOUTH’S NETWORK?**

10 A. MFS-FL does not advocate the Open Network Architecture (“ONA”) Model
11 adopted by the FCC and supported by BellSouth. Scheye Direct at 10.
12 MFS-FL supports the ONA model adopted by both New York and
13 Maryland. *See Investigation by the Commission on its Own Motion Into*
14 *Legal and Policy Matters Relevant to the Regulation of Firms, Including*
15 *Current Telecommunications Providers and Cable Television Firms, Which*
16 *May Provide Local Exchange and Exchange Access Services in Maryland in*
17 *the Future*, Case No. 8587, Order No. 71485 at 67 (October 5, 1995). The
18 process established in Maryland and New York would permit a carrier to
19 write a letter to the Commission’s Executive Secretary requesting that a
20 specific BellSouth element be unbundled. Initially, the matter is referred to

1 Staff which will convene a collaborative ONA process to work out promptly
2 the details associated with interconnection and pricing of the unbundled
3 functionalities, with regular updates to the Commission. If the matter is not
4 resolved satisfactorily, the Commission shall take up the matter on an
5 expedited basis. MFS-FL supports this process which permits unbundling
6 requests to be addressed expeditiously, on a case-by-case basis, at the
7 request of a carrier.

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A. Yes.**

CERTIFICATE OF SERVICE

I hereby certify that on the 8th day of December, 1995, a copy of the foregoing document was served, via federal express, upon the following parties:

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