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December 12, 1995

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Re: Docket No. 950984-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Metro Access Transmission Services, Inc. (MCImetro) in the above referenced docket are the original and 15 copies of the rebuttal testimony of Dr. Nina Cornell.

By copy of this letter this document has been provided to the parties on the attached service list.

Very truly yours,

Richard D. Melson

- ACK ✓
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

DR. NINA W. CORNELL

ON BEHALF OF

MCI METRO ACCESS TRANSMISSION SERVICES, INC.

DOCKET NO. 950984-TP

(MCIMETRO SUBDOCKET)

DECEMBER 12, 1995

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

1 Q. WHAT IS YOUR NAME AND ADDRESS?

2

3 A. My name is Nina W. Cornell. My address is 1290 Wood River Road, Meeteetse,
4 Wyoming, 82433.

5

6 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

7

8 A. My rebuttal testimony responds to the testimonies of Dr. Banerjee and Mr. Scheye
9 filed on behalf of BellSouth.

10

11 Q. DR. BANERJEE CLAIMS THAT YOUR RECOMMENDATION THAT
12 UNBUNDLED LOOPS, LOOP CONCENTRATION, AND LOOP TRANSPORT
13 BE PRICED AT TOTAL SERVICE LONG RUN INCREMENTAL COSTS
14 (TSLRIC) VIOLATES THE "ECONOMICALLY PROPER" USE OF TSLRIC.
15 (BANERJEE TESTIMONY, PAGE 8, LINES 7-8) DO YOU AGREE?

16

17 A. No. Dr. Banerjee appears to believe that the only "economically proper" use of
18 TSLRIC is for testing for cross subsidies. I disagree. TSLRIC is also appropriate
19 for setting price floors in a number of circumstances, precisely because it is
20 inefficient for a service to be cross subsidized. Thus, TSLRIC should be the price
21 floor whenever there is only a single price for a service. It also should be the price
22 floor whenever there are a number of different prices for a service, but the
23 differences arise only because the service price varies to reflect cost differences, such
24 as having deaveraged loop prices that reflect that costs for loops vary by density and
25 distance.

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Q. DR. BANERJEE CLAIMS THAT BELLSOUTH SHOULD BE ALLOWED TO COLLECT "CONTRIBUTION" IN THE RATES FOR UNBUNDLED LOOPS, ARGUING THAT BELLSOUTH NEEDS TO USE "SECOND-BEST" PRICING PRACTICES, PARTICULARLY THE PRACTICE OF MARKING UP PRICES ABOVE COST IN INVERSE RELATION TO THE ELASTICITY OF DEMAND. (BANERJEE TESTIMONY, PAGE 9-10) DO YOU AGREE?

A. No. Dr. Banerjee has misstated the efficiency that would come with the use of the inverse elasticity rule for setting the prices for unbundled loops, loop concentration, and loop transport.

First of all, use of the inverse elasticity rule can only promote static economic efficiency, but not dynamic economic efficiency. If there is any sector of the economy that is dynamic, it is telecommunications. Thus, pricing rules adopted for telecommunications should work to promote dynamic, not static efficiency.

Second, the rule only has static efficiency effects when the elasticities used are market elasticities, not firm elasticities. The elasticities that would be available to BellSouth to follow this rule are firm elasticities, not market elasticities.

Third, Dr. Banerjee is wrong when he says that even static efficiency is enhanced using the inverse elasticity rule on prices for intermediate goods and services. *Intermediate goods and services are goods and services that themselves are inputs into other goods and services.* The static efficiency that can be gained from the use of the inverse elasticity rule only occurs when the services to which this rule applies are *final services.* *Unbundled loops, loop concentration, and loop transport are intermediate services, and so should not be subject to the inverse elasticity rule.*

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Q. DR. BANERJEE ALSO SAYS THAT YOUR CONCERN THAT ANY PRICE ABOVE TSLRIC WOULD RESULT IN A PRICE SQUEEZE IS WRONG BECAUSE THIS PROBLEM CAN BE SOLVED BY USE OF HIS IMPUTATION RULE. (BANERJEE TESTIMONY, PAGES 9-10) DO YOU AGREE?

A. No. First of all, Dr. Banerjee proposes the wrong imputation rule. Second, nowhere does Dr. Banerjee produce any evidence at all that BellSouth would pass an imputation test -- his or any other version -- at a price higher than TSLRIC.

Q. WHAT IS DR. BANERJEE'S VERSION OF IMPUTATION?

A. Dr. Banerjee claims that the proper version of imputation is to require the retail service of the incumbent to recover its costs plus the same contribution that is included in the price of essential inputs used by entrants. (Banerjee Testimony, page 9, line 23 to page 10, line 1)

Q. WHY IS THIS NOT THE CORRECT IMPUTATION STANDARD?

A. Dr. Banerjee's approach to imputation would allow the incumbent to raise the costs imposed on entrants in order to engage in anticompetitive behavior. The proper imputation standard is to require the incumbent local exchange carrier to recover from its retail service the price it charges for bottleneck monopoly inputs plus all of the remaining costs of providing the retail service. In this way, if the incumbent

1 local exchange carrier provides bottleneck monopoly inputs in less than the most
2 efficient manner, the entrants are not put under a price squeeze caused by the forced
3 inefficiency.

4 Dr. Banerjee's approach, which would look only at the "contribution"
5 contained in the rate for the bottleneck monopoly inputs, would allow the incumbent
6 to provide the bottleneck monopoly input inefficiently to the entrant, calculate the
7 "contribution," and then provide the bottleneck monopoly inputs to itself in a more
8 efficient manner. The result would be that the incumbent could charge a lower price
9 than the entrant not due to greater efficiency in the provision of the retail service, but
10 due to the ability of the incumbent to force inefficiency on the entrant. This would
11 force equally efficient firms from the market caused by the inefficient provision of
12 the bottleneck monopoly inputs by the incumbent, not the inefficiencies of the entrant.

13

14 Q. MR. SCHEYE STATES THAT BELLSOUTH DOES NOT PLAN TO OFFER
15 LOOP CONCENTRATION BECAUSE HE CLAIMS IT IS NOT TRUE
16 UNBUNDLING BUT RATHER A NEW NETWORK CAPABILITY. (SCHEYE
17 TESTIMONY, PAGE 15, LINES 3-6) DO YOU AGREE?

18

19 A. No. Mr. Scheye makes clear in his discussion that BellSouth now uses loop
20 concentration as part of providing loops in some circumstances. Thus, it is not a new
21 network capability. Instead, it is part of providing loops, and can be provided on an
22 unbundled basis.

23

24 Q. MR. SCHEYE ALSO SAYS THAT PLACING CONCENTRATION EQUIPMENT
25 IN BELLSOUTH'S CENTRAL OFFICES COULD LEAVE BELLSOUTH WITH

1 UNUSABLE EQUIPMENT IF MFS OR MCIMETRO CEASED USING IT.
2 (SCHEYE TESTIMONY, PAGE 15, LINES 10-15) DO YOU AGREE?

3

4 A. No. There are several ways to handle the payment for the loop concentration
5 equipment, including requiring the entrants to pay the full cost of the equipment,
6 albeit spread over the life of the equipment. This is not a valid reason to refuse to
7 provide the unbundled function of loop concentration.

8

9 Q. MR. SCHEYE CLAIMS THAT ALL BELL SOUTH WILL PROVIDE IS
10 MULTIPLEXING AND TRANSPORT OR VIRTUAL COLOCATION TO
11 TRANSPORT UNBUNDLED LOOPS TO THE ENTRANTS. IS THIS
12 APPROPRIATE?

13

14 A. No. The functions that Mr. Scheye proposes to provide are appropriate for
15 interoffice transport, not loop transport. If this is all BellSouth will provide, the
16 unbundled loops are unlikely to be very useful, as the costs would be too high.
17 Moreover, Mr. Scheye's proposals would prevent entrants from using the most
18 advanced technology. Modern loops over a given length are provisioned using loop
19 concentration, not multiplexing. The need to get unbundled loops from the central
20 office of BellSouth to the network of the entrant effectively requires these loops to
21 become longer than they were when used in the BellSouth network. BellSouth's
22 refusal to provide loop concentration is simply an attempt to prevent the entrants
23 from engineering the longer loops in the most efficient manner possible.

24

25 Q. MR. SCHEYE ALSO WANTS TO CHARGE SPECIAL ACCESS RATES FOR

1 THE UNBUNDLED LOOPS, MULTIPLEXING, AND LOOP TRANSPORT. DO
2 YOU AGREE?

3

4 A. No. As I discussed in my direct testimony, any charge above TSLRIC would impose
5 a price squeeze and prevent the offer of unbundled loops from being usable in most
6 cases.

7

8 Q. WHAT IS BELLSOUTH'S PROPOSAL FOR ADDITIONAL UNBUNDLING?

9

10 A. Mr. Scheye proposes that the Commission subject any further requests for unbundling
11 to the Open Network Architecture (ONA) framework. That framework requires that
12 the party requesting unbundled services must show the utility, technical feasibility,
13 cost feasibility, and market demand for the service.

14

15 Q. DO YOU AGREE WITH MR. SCHEYE'S PROPOSAL TO USE THE ONA
16 FRAMEWORK FOR FURTHER UNBUNDLING REQUESTS?

17

18 A. No. The ONA framework requires the requesting party to share too much of its
19 marketing, construction, and business plans with BellSouth as part of an attempt to
20 gain unbundled elements. This creates enormous barriers to use of any request
21 process, as it would allow BellSouth to learn in advance about almost every aspect
22 of the requesting party's business and respond in the market likely before it even
23 decides whether or not to unbundle. The Commission should not follow the ONA
24 process when determining whether to order further unbundling by BellSouth.

25

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2

3 A. Yes.

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