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BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY OF ALPHONSO J. VARNER  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. [REDACTED]-TP

AUGUST 12, 1996

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH  
BELLSOUTH TELECOMMUNICATIONS, INC.

A. My name is Alphonso J. Varner and I am employed by BellSouth  
Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the  
Company") as a Senior Director in Regulatory Policy and Planning. My  
business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND  
EXPERIENCE.

A. I graduated from Florida State University in 1972 with a Bachelor of  
Engineering Science degree in systems design engineering. I immediately  
joined Southern Bell in the division of revenues organization with the  
responsibility for preparation of all Florida investment separations studies for  
division of revenues and for reviewing intrastate settlements.

Subsequently, I accepted an assignment in the Rates and Tariffs organization at  
Company Headquarters with responsibility for administering selected rates and

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1 tariffs, including preparation of tariff filings. In January 1994, I was appointed  
2 Senior Director of Pricing for the nine-state region. I assumed my current  
3 responsibilities in August 1994.

4  
5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

6  
7 A. The purpose of my testimony is: 1) to present a brief overview of the  
8 requirements of the Telecommunications Act of 1996 (hereinafter referred to as  
9 "the Act"); 2) to briefly discuss some of AT&T's negotiating positions and the  
10 purposes behind those positions; 3) to review the history of AT&T's support  
11 for competition; and 4) to explain the role of the Company's witnesses who  
12 will respond to specific issues in detail.

13  
14 Q. DOES BELLSOUTH SUPPORT COMPETITION IN THE LOCAL  
15 TELECOMMUNICATIONS MARKET?

16  
17 A. Yes. BellSouth believes that competition for local exchange services can be in  
18 the public interest when implemented in a competitively neutral manner,  
19 devoid of artificial incentives and/or regulatory rules that advantage or  
20 disadvantage a provider or a group of providers. Competition, properly  
21 implemented, can provide business and residence customers with real choices  
22 from numerous telecommunications providers. Properly implemented,  
23 competition will allow efficient competitors to attract customers and be  
24 successful in a competitive marketplace where regulatory oversight is  
25 minimized. We believe that this is the environment that the Act intended to

1 create. It is this view of competition that BellSouth has taken as it negotiates  
2 with prospective providers of local exchange service, and it is this view that  
3 BellSouth believes Congress embraced with its emphasis on negotiated  
4 agreements.

5  
6 The Company has strong financial incentives to comply with all provisions of  
7 the Act. Congress has mandated that local exchange companies must open  
8 their markets to competition, unless specifically exempted. BellSouth has  
9 already and is continuing to comply with the directives of the Act by entering  
10 into numerous interconnection agreements with other providers. Significantly,  
11 Congress tied the ability of BellSouth and the other Regional Bell Operating  
12 Companies ("RBOCs") to enter the interLATA services market to its  
13 compliance with the "competitive checklist" contained in the Act. BellSouth  
14 has every intention of meeting the checklist as quickly as possible in order to  
15 provide the full array of telecommunications services to its customers.

16  
17 In its Petition, however, AT&T attempts to portray BellSouth as the bad guy in  
18 this process, stating that BellSouth is unwilling to give up its monopoly over  
19 the local telecommunications market. This is not only untrue, it is simply an  
20 attempt by AT&T to camouflage its true intent. AT&T already knows the  
21 terms and conditions that BellSouth is willing to offer to its competitors.  
22 There are numerous signed agreements from which AT&T can determine  
23 BellSouth's baseline negotiating positions. Put very simply, AT&T has  
24 nothing to lose by requesting arbitration. Its hope is to convince the Florida  
25 Public Service Commission, or some other state commission, of the

1 correctness of its positions and secure a better agreement than other  
2 competitors. And, as is readily apparent from the many public statements  
3 made by AT&T, they intend to keep BellSouth out of the interLATA long  
4 distance business as long as possible. Arbitration is one way for AT&T to  
5 achieve its business objectives.

6

7 **REQUIREMENTS OF THE TELECOMMUNICATIONS ACT OF 1996**

8 Q. WHAT ARE THE KEY COMPONENTS OF THE ACT?

9

10 A. First, by passing the Act, Congress sought to promote the development of  
11 competition in all the various segments of the telecommunications industry.  
12 Second, Sections 251 and 252 of the Act encourage negotiations between  
13 parties to reach voluntary local interconnection agreements. Section 251(c)(1)  
14 requires incumbent local exchange companies, like BellSouth, to negotiate the  
15 particular terms and conditions of agreements to fulfill the duties described in  
16 Sections 251(b) and (c)(2-6).

17

18 Through the Act, Congress opened all markets to any provider who wishes to  
19 offer telecommunications services. AT&T, MCI, Sprint, cable television  
20 companies and any other entity were given the freedom to enter the local  
21 telecommunications business. BellSouth and the other RBOCs were given the  
22 freedom to enter the interLATA long distance business after they comply with  
23 the "competitive checklist" contained in the Act and are permitted to do so by  
24 the Federal Communications Commission (hereinafter referred to as "the  
25 FCC"). All existing and potential providers have the necessary incentives to

1 provide consumers the full range of telecommunications services.

2

3 Q. IF PARTIES ARE UNABLE TO REACH AGREEMENT THROUGH  
4 NEGOTIATION, WHAT OPTIONS ARE AVAILABLE TO THE PARTIES?

5

6 A. The Act allows a party to petition a state commission for mediation at any time  
7 during the negotiations and/or to petition for arbitration of unresolved issues  
8 between the 135th and 160th day from the date a request for negotiations was  
9 received. Importantly, the issues subject to arbitration are limited to those  
10 activities necessary to fulfill the duties in Section 251. The arbitration petition  
11 must identify the issues resulting from the negotiations which are unresolved,  
12 as well as those which are resolved. The petitioning party must submit along  
13 with its petition "...all relevant documentation concerning: (1) the unresolved  
14 issues; (2) the position of each of the parties with respect to those issues; and  
15 (3) any other issues discussed and resolved by the parties." A non-petitioning  
16 party to the negotiations may respond to the other party's petition and provide  
17 such additional information as it wishes within twenty-five days after the state  
18 commission receives the petition. The Act expressly limits the state  
19 commission's consideration to the unresolved issues set forth in the petition  
20 and in the response.

21

22 Q. WHAT ARE THE OBLIGATIONS OF THE STATE COMMISSIONS?

23

24 A. In resolving the open issues in the arbitration process, a state commission  
25 must: (1) ensure that such resolution and conditions meet the requirements of

1 Section 251 of the Act, including the regulations prescribed by the FCC  
2 pursuant to Section 251; (2) establish any rates for interconnection, services,  
3 or network elements according to Section 252(d); and (3) provide a schedule  
4 for implementation of the terms and conditions by the parties to the agreement.

5  
6 In accomplishing this, the state commission must ensure that the parties have  
7 met their obligation to negotiate in good faith the terms and conditions of  
8 agreements. In addition, the state commission must ensure that the incumbent  
9 local exchange company has met its obligations relating to: (1)  
10 interconnection; (2) unbundled access to network elements; (3) resale; (4)  
11 notice of changes; (5) collocation; (6) number portability; (7) dialing parity;  
12 (8) access to rights-of-way; and, (9) reciprocal compensation. These are the  
13 obligations that are to be the basis of the negotiations and, if negotiations are  
14 unsuccessful, then form the basis for arbitration. Issues or topics not  
15 specifically related to these areas are outside the scope of an arbitration  
16 proceeding.

17

18 Q. DOES THE ACT PROVIDE ANY GUIDANCE TO THE STATE  
19 COMMISSIONS FOR PRICING ISSUES THAT ARE PART OF AN  
20 ARBITRATION REQUEST?

21

22 A. Yes. The Act provides clear directions to state commissions on pricing issues.  
23 Section 252(d) establishes the pricing standards related to interconnection,  
24 unbundled network elements, reciprocal compensation, and resale.

25

1 Section 252(d)(1) of the Act states that the rates for interconnection and  
2 unbundled network element charges:

3

4 “(A) shall be --

5 (i) based on the cost (determined without reference to a rate-of-  
6 return or other rate-based proceeding) of providing the interconnection  
7 or network element (whichever is applicable), and

8 (ii) nondiscriminatory, and

9 (B) may include a reasonable profit.”

10

11 Section 252(d)(2)(A) provides the general rule with regard to the pricing of  
12 reciprocal compensation arrangements, stating that “a State commission shall  
13 not consider the terms and conditions for reciprocal compensation to be just  
14 and reasonable unless- (1) such terms and conditions provide for the mutual  
15 and reciprocal recovery by each carrier of costs associated with the transport  
16 and termination on each carrier’s network facilities of calls that originate on  
17 the network facilities of the other company; and (2) such terms and conditions  
18 determine such costs on the basis of a reasonable approximation of the  
19 additional costs of terminating such calls.”

20

21 Section 252(d)(3) states that rates for resale shall be calculated on the basis of  
22 “retail rates charged to consumers for the telecommunications service  
23 requested, excluding the portion thereof attributable to any marketing, billing,  
24 collection and other costs that will be avoided by the local exchange  
25 company.”

1

2 Q. IN BELLSOUTH'S OPINION, DOES THE ACT PROVIDE A FAIR AND  
3 BALANCED APPROACH FOR EXPANDING COMPETITION IN ALL  
4 TELECOMMUNICATIONS MARKETS?

5

6 A. Yes. The Act is a balanced approach and, if implemented properly, can create  
7 an environment in which efficient competition will occur in all markets and  
8 provide the maximum benefits to consumers. There are no provisions of the  
9 Act that, on their face, are intended to disadvantage any provider or group of  
10 providers. In fact, the Act is intended to promote competition, not competitors.  
11 The Act offers the full range of opportunities for entry into  
12 telecommunications markets through: 1) resale for those providers lacking  
13 sufficient capital to construct networks; 2) unbundled network elements for  
14 those facilities-based providers wishing to combine existing capabilities of the  
15 incumbent's network with those of their own facilities: or, 3) a combination of  
16 resale and purchase of unbundled elements.

17

18 Q. HAS BELLSOUTH COMPLIED WITH THE REQUIREMENTS OF THE  
19 ACT FOR NEGOTIATION OF LOCAL INTERCONNECTION  
20 AGREEMENTS?

21

22 A. Yes. The Company has negotiated in good faith with every party requesting  
23 negotiations. As Mr. Scheye's testimony will show, BellSouth has a track  
24 record in negotiations with other companies that demonstrates its commitment  
25 to opening up the local telecommunications market to competition, its



1 commitment to comply with the provisions and obligations of the Act, its  
2 commitment to negotiations, and its willingness to compromise. The  
3 agreements executed to date cover the full range of requirements and  
4 obligations contained in the Act. Some of these agreements have already been  
5 approved by state commissions, including the Florida Commission.

6

7 Q. YOU MENTIONED MEDIATION. WHAT ARE THE BENEFITS OF  
8 MEDIATION?

9

10 A. Mediation is an option for one or both parties to the negotiations when  
11 progress in reaching an agreement is stalled, but where progress is still  
12 possible. Mediation allows a neutral third party to participate in the  
13 negotiations and possibly move the parties from total disagreement on details  
14 to agreement on issues at a higher level. Mediation can also provide a litmus  
15 test as to the reasonableness of the parties' positions.

16

17 Earlier this year, BellSouth requested mediation with AT&T. AT&T,  
18 however, torpedoed the mediation proceedings through its uncompromising  
19 position on such things as confidentiality - a cornerstone of any mediation  
20 process. The mediation was requested in Alabama, and Administrative Law  
21 Judge John A. Garner, in his July 12, 1996 letter to BellSouth and AT&T,  
22 stated the following:

23

24 "Given the Commission's position with respect to the confidentiality of  
25 mediation proceedings, BellSouth's proposal to exclude from the

1                    confidentiality requirements all matters except actual offers of  
2                    settlement and my recommendations and positions as mediator was a  
3                    reasonable effort to compromise. It is unfortunate that BellSouth's  
4                    proposal was not acceptable with AT&T."

5

6                    It is unfortunate, because we will never know what progress could have been  
7                    made through mediations had AT&T agreed to this threshold issue that is  
8                    fundamental to the rules of any mediation proceeding.

9

10 Q.            DOESN'T THE ACT PROVIDE INCENTIVES TO AT&T TO REACH A  
11                    NEGOTIATED AGREEMENT WITH BELLSOUTH AND PROVIDE A  
12                    FULL ARRAY OF SERVICES TO ITS CUSTOMERS?

13

14 A.            One would think so. AT&T's objectives, however, appear to be: 1) to find a  
15                    way to circumvent the payment of access charges; 2) to enter local markets  
16                    either through resale or use of unbundled network elements at rates that are not  
17                    compensatory to BellSouth; and 3) to deter BellSouth's entry into the  
18                    interLATA long distance market. In an article published in the Wall Street  
19                    Journal on June 12, 1996, the Chairman of AT&T, Robert E. Allen, touched on  
20                    each of these apparent objectives.

21

22                    In reference to access charges, Mr. Allen stated:

23

24                    "There's a lot more potential savings on that one..."

25

1 In reference to entering local markets, Mr. Allen declared:

2

3 "AT&T is going after the local service with everything we've got..."

4

5 In reference to the entry of the RBOCs into the interLATA long distance  
6 business, Mr. Allen predicted:

7

8 "...it could be well into the next century before any them serve their  
9 first long distance customer in their own territory...We didn't send our  
10 lawyers on vacation...We are already bird-dogging the FCC and state  
11 regulatory commissions."

12

13 Q. AT&T SUGGESTS THAT BELL SOUTH HAS EVERY INCENTIVE TO  
14 BLOCK COMPETITION. IS THIS AN ACCURATE PORTRAYAL?

15

16 A. Absolutely not. It is important to note that AT&T was neither driven to  
17 arbitration by BellSouth, as will become clear from the testimony of other  
18 BellSouth witnesses, nor has AT&T come to arbitration frustrated by  
19 BellSouth's defenses and certainly not out of an altruistic concern for  
20 consumers. The tone of AT&T's petition indicates that it believes BellSouth  
21 must make all of the concessions; and to negotiate in good faith, BellSouth  
22 must accept AT&T's view of the minimum requirements for effective  
23 competition in the local exchange market. While defending its inability to  
24 reach an agreement with BellSouth, AT&T criticizes the content and  
25 minimizes the value of interconnection agreements BellSouth has reached with

1 other alternative local exchange companies ("ALECs"). Apparently, AT&T  
2 believes that its yet-to-be-executed agreement (with anybody) will be superior  
3 to already negotiated agreements and further expects that those companies  
4 already signing agreements with BellSouth will wish to take advantage of  
5 those "more favorable terms" negotiated by AT&T. These ALECs, however,  
6 may find that terms and conditions AT&T is willing to agree to could be well  
7 beyond what they would agree to on a reciprocal basis. Presumably, based on  
8 their agreements, these companies are installing trunks, switches and facilities,  
9 in preparation for facilities-based competition. Companies are reselling  
10 BellSouth's services at reasonable resale rates and under conditions  
11 contemplated by the Act. Apparently these companies are not content to hold  
12 out for AT&T to negotiate the "right" agreement.

13  
14 It is clear that AT&T has tremendous incentive to take whatever measures it  
15 deems necessary to prevent BellSouth, indeed any RBOC, from meeting the  
16 requirements of Section 271 of the Act and thereby obtain authority to enter  
17 the interLATA services market. It appears that keeping BellSouth out of the  
18 interLATA services market is at least as important to AT&T as negotiating  
19 reasonable rates, terms and conditions for AT&T's entrance into the local  
20 telecommunications market. It is not BellSouth that is trying to block  
21 competition.

22

23 **AT&T NEGOTIATING POSITIONS**

24 Q. IN ITS PETITION, AT&T IS HIGHLY CRITICAL OF BELLSOUTH AND  
25 STATES THAT BELLSOUTH, THROUGH THE POSITIONS THAT IT

1 HAS TAKEN IN THE NEGOTIATIONS, IS UNWILLING TO GIVE UP ITS  
2 MONOPOLY CONTROL OVER LOCAL TELECOMMUNICATIONS  
3 MARKETS. HOW DO YOU RESPOND?  
4

5 A. BellSouth has attempted to negotiate a reasonable, mutually beneficial  
6 agreement with AT&T, just as it has successfully negotiated with a number of  
7 ALECs. AT&T, on the other hand, has entered the negotiations, and continues  
8 through this arbitration, with extreme positions on issues that are either not  
9 contemplated by the Act, that are in direct conflict with the plain wording of  
10 the Act, that are based on misinterpretations of the Act, or that are beyond the  
11 scope of the requirements and obligations of the Act.

12  
13 Q. PLEASE PROVIDE AN EXAMPLE OF AN ISSUE AND AT&T'S  
14 POSITION THAT IS NOT CONTEMPLATED BY THE ACT.

15  
16 A. AT&T asserts that the Act requires "service parity" - "...a duty upon BellSouth  
17 to provide AT&T with the capability to achieve parity of offerings when  
18 competing against BellSouth -- the ability of AT&T to give its customers at  
19 least the same experience that BellSouth gives its customers." AT&T uses this  
20 term when discussing a number of issues, such as resale, operational interfaces  
21 and branding.

22  
23 As the Company stated in its response to AT&T's Petition, while BellSouth  
24 agrees conceptually that such parity, although not a requirement under the Act,  
25 is a goal worth pursuing, the Company has a different and more reasonable

1 understanding of what parity means. Parity does not mean that AT&T, or any  
2 other ALEC's access to BellSouth's network or its facilities or its systems or  
3 any piece of its business, must be identical to BellSouth's in all respects.

4

5 Q. PLEASE GIVE AN EXAMPLE OF AN ISSUE AND AT&T'S POSITION  
6 THAT IS IN DIRECT CONFLICT WITH THE ACT.

7

8 A. AT&T proposes the implementation of "bill-and-keep" as the form of  
9 intercompany compensation for the termination of local traffic, at least on an  
10 interim basis. Mandatory bill-and-keep is in direct conflict with the wording of  
11 the Act and raises significant legal issues.

12

13 Section 251(b)(5) of the Act obligates all local exchange companies to  
14 establish reciprocal compensation arrangements for the transport and  
15 termination of telecommunications traffic. Section 251(c)(1) requires  
16 incumbent local exchange companies to negotiate in good faith in accordance  
17 with Section 252 the particular terms and conditions of agreements to fulfill the  
18 duties described in Section 251(b)(1-5) and Section 251(c). If a voluntary  
19 agreement is reached with regard to reciprocal compensation, a state  
20 commission must approve the agreement, unless it determines that the  
21 agreement discriminates against a telecommunications company not a party to  
22 the agreement, or the implementation of the agreement is not consistent with  
23 the public interest. If an agreement cannot be voluntarily reached on the terms  
24 of reciprocal compensation, then the Act contemplates that a state commission  
25 will resolve the issue through arbitration. Commission resolution of the issue

1 must be based on the pricing standard contained in Section 252(d)(2)(A)  
2 referenced earlier in my testimony.

3  
4 This subsection of the Act also includes an additional provision titled “Rules of  
5 Construction.” While I am not an attorney and am not stating a legal opinion,  
6 the specific language in this subsection is very important. It states, in relevant  
7 part, that “[t]his paragraph shall not be construed ... to preclude arrangements  
8 that afford the mutual recovery of costs through the offsetting of reciprocal  
9 obligations, including arrangements that waive mutual recovery (such as bill-  
10 and-keep arrangements) ...”. (emphasis added) The concept of “waiving” ones’  
11 right to mutual recovery would appear to me to contemplate the conscious and  
12 intentional voluntary relinquishment of a known right. By using the term  
13 “waive,” the Act clearly allows the negotiating parties to voluntarily relinquish  
14 the mutual recovery of costs should they so desire. It does not authorize a state  
15 commission to mandate that any party accept bill-and-keep as the only  
16 available method of cost recovery, as this would clearly run afoul of the pricing  
17 standard included in Section 252(d)(2)(A), which requires that each company  
18 be allowed to recover its costs associated with the transport and termination of  
19 calls. AT&T’s proposal is in direct conflict with the wording of the Act.

20  
21 Further, AT&T’s proposal, if accepted by the Commission, on an interim or  
22 other basis would amount to taking our property without paying for it. Under  
23 bill-and-keep, BellSouth would be obligated to utilize its facilities to provide  
24 transport and termination of calls without receiving any compensation for  
25 allowing these calls to transit its network.

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Q. PLEASE PROVIDE AN EXAMPLE OF AN ISSUE AND AT&T'S POSITION THAT IS BASED ON A MISINTERPRETATION OF THE ACT.

A. Two examples are appropriate. First, AT&T is proposing totally unreasonable discount levels, artificially inflated further by additional discounts for lack of operational parity and a purported competitive stimulus, for determining the wholesale rates for BellSouth's retail services available for resale, based on "avoidable" costs as opposed to "avoided" costs.

BellSouth has developed an avoided cost study which fully complies with the standard in the Act. In fact, the Georgia Public Service Commission endorsed BellSouth's methodology as the correct mathematical approach. AT&T's proposal is fundamentally flawed in a number of respects and does not comply with the standard set forth in the Act.

Second, AT&T argues that the Act requires that local interconnection be priced at cost (defined as TSLRIC by AT&T, which, per AT&T, already includes a reasonable profit). That argument is absolutely incorrect.

Apparently, AT&T equates the term "based on cost" with the term "at cost", an equation that is totally unsound. Webster's New Collegiate Dictionary defines "base" as "the bottom of something considered as its support - foundation", and "on" as "a function word to indicate a position over and in contact with." "At" is defined as "a function word to indicate presence or occurrence in, on



1 or near.” (emphasis added)

2

3 If all services provided by BellSouth were priced at TSLRIC, BellSouth would  
4 not recover all of its costs much less make a profit. If AT&T’s  
5 misinterpretation of the Act were accepted, BellSouth would not be permitted  
6 to recover any joint and common costs in its prices for interconnection  
7 services, and AT&T would receive the benefits of BellSouth’s economies of  
8 scope without paying for them. In addition, mandating such pricing would  
9 virtually ensure that no other facilities-based providers would enter the market.

10

11 Q. PLEASE PROVIDE AN EXAMPLE OF AN ISSUE THAT IS OUTSIDE  
12 THE SCOPE OF THE REQUIREMENTS OF THE ACT AND THIS  
13 ARBITRATION PROCEEDING.

14

15 A. AT&T has included a request that the Commission adopt an alternative dispute  
16 resolution procedure as a part of its arbitration request. Dispute resolution  
17 procedures are clearly not subject to arbitration under the Act. Issues regarding  
18 the process, terms and conditions, confidentiality, or any other arbitration  
19 procedure should be resolved in a separate proceeding, preferably prior to the  
20 initiation of an arbitration request. This issue should be dismissed from these  
21 proceedings. In fact, the Commission is addressing this issue as a separate  
22 undertaking.

23

24 Q. WITH THE FILING OF AT&T’S PETITION, DOES BELLSOUTH HAVE A  
25 CLEAR UNDERSTANDING OF ALL OF THE ISSUES THAT HAVE

1 BEEN PRESENTED TO THIS COMMISSION FOR ARBITRATION?

2

3 A. No, or at least, we cannot be certain. BellSouth has reviewed AT&T's Petition  
4 and is now reviewing AT&T's direct testimony. Perhaps we will identify all  
5 the unresolved issues. BellSouth is concerned, however, that at the conclusion  
6 of this process, some issues will still be unresolved. If that happens, BellSouth  
7 and AT&T may still be unable to finalize an agreement. That result is not in  
8 anyone's interests and should be avoided. To avoid this result, BellSouth has  
9 asked the Commission to require AT&T to provide a comprehensive list of all  
10 unresolved and resolved issues.

11

12 Q. IN YOUR OPINION, BASED ON THE ISSUES PRESENTED BY AT&T  
13 AND THEIR POSITIONS ON THOSE ISSUES, WHAT IS AT&T  
14 ATTEMPTING TO ACCOMPLISH?

15

16 A. AT&T is attempting to 1) confuse an already complicated process, and 2)  
17 guarantee itself a better cost structure than some of its potential rivals in the  
18 local telecommunications markets. AT&T already knows the results of the  
19 completed agreements with other ALECs. AT&T also knows that these  
20 agreements establish a baseline level for local interconnection with BellSouth  
21 because the terms in those agreements are available to AT&T. Thus, AT&T  
22 has nothing to lose by going to arbitration. It can only attempt to improve on  
23 what is contained in the completed agreements.

24

25 Q. PLEASE EXPLAIN FURTHER.

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A. AT&T is creating confusion by first, not clearly identifying all of the unresolved issues for which it is requesting Commission arbitration and second, by identifying issues for arbitration that are outside the scope of the responsibilities and obligations contained in the Act.

Most importantly, AT&T is attempting to guarantee itself a better cost structure than its rivals through its extreme positions on resale discounts and on the pricing of unbundled network elements at cost. As stated earlier, the Act presents a balanced approach to opening local telecommunications markets to competition. Congress did not intend to favor one type of competitor over another, nor did it intend to favor one type of competition over another.

If AT&T's position on resale of a 70% discount were implemented, facilities-based local competition would rarely, if ever, occur. It would make no economic sense to build facilities, except in those instances where there existed extremely high concentrations of high-volume customers. If AT&T's position on the pricing of unbundled network elements were implemented, entry by new competitors who intend to initially resell BellSouth's retail services until a sufficient customer base is established that would support the capital necessary to build a network, would be significantly curtailed. In neither case would BellSouth receive just compensation for its services, nor would alternative suppliers enter the market.

A more reasoned interpretation of the Act, both in the area of resale and in the

1 area of pricing of unbundled network elements, is that the implementation of  
2 both were to be based on sound economic principles. In other words, if the  
3 resale discount and the pricing of unbundled network elements is done  
4 correctly, there would be no negative financial impact to BellSouth.  
5 Specifically, if the resale discount is set correctly, the dollars given up by  
6 BellSouth in a resale transaction would match the costs that it actually avoided  
7 by not selling directly to the end user customer. Thus, if the avoided costs are  
8 calculated correctly, BellSouth, as well as any other local exchange company,  
9 would be financially indifferent as to whether it sold its services on a retail  
10 basis or on a wholesale basis. Similarly, if the prices for unbundled network  
11 elements are set correctly, BellSouth would be just as profitable selling  
12 unbundled elements as it would be selling bundled services. AT&T's  
13 proposals would not produce either result, and would in fact severely and  
14 negatively impact BellSouth, not on the basis of true economic competition,  
15 but on the basis of heavy-handed regulations.

16  
17 Q. AT&T HAS REPRESENTED THAT IT IS IN THE BEST POSITION TO  
18 BRING THE BENEFITS OF LOCAL TELECOMMUNICATIONS  
19 COMPETITION TO CONSUMERS IN FLORIDA. DO YOU AGREE?

20  
21 A. No. If, however, AT&T is successful in having its positions in this proceeding  
22 accepted and guaranteeing itself a superior cost structure, AT&T may be the  
23 only firm left. When you combine such attractive pricing options with  
24 AT&T's dominant position in the long distance business, its wireless presence,  
25 its cable television presence, its international presence, its brand name

1 identification and its size, no other firm will be able to compete on an equal  
2 basis with AT&T.

3

4 **AT&T'S SUPPORT FOR COMPETITION**

5 Q. AT&T CONTINUALLY EXTOLS THE BENEFITS OF LONG DISTANCE  
6 COMPETITION AND TRUMPETS THAT SUCH COMPETITION HAS  
7 CAUSED LONG DISTANCE PRICES TO DECLINE. PLEASE  
8 COMMENT.

9

10 A. A recent analysis shows this assertion by AT&T is incorrect. If competition  
11 has caused long distance prices to decline, prices would have declined by at  
12 least the sum of access charge reductions plus a substantial portion of non-  
13 access cost reductions realized the by long distance providers. Since  
14 divestiture, however, long distance prices have not even decreased by the  
15 amount of the access charge reductions.

16

17 Based on the analysis, AT&T's annual access costs have been reduced by  
18 \$10.3B from the time of divestiture to April 1995. During the same period,  
19 AT&T has reduced its prices by only \$8.5B. It is completely illogical that a  
20 competitive marketplace would have allowed AT&T to "pocket" all of its non-  
21 access savings plus \$1.8B in access cost savings. These results show that  
22 competition has not produced any long distance price reductions. On the  
23 contrary, all long distance price reductions during that period were produced  
24 by decreases in access charges.

25

1 The beneficiaries of this so-called competition have been AT&T's  
2 stockholders, not the consumers of AT&T's services. During this period,  
3 AT&T's margins have increased. In addition, long distance volumes have  
4 increased due to stimulation by the portion of access charge reductions that  
5 have been reflected, grudgingly in many cases, in prices. According to the  
6 1994 AT&T Annual Report:

7  
8 "Total cost of telecommunications services declined both years despite  
9 higher volumes, in part because of reduced prices for connecting  
10 customers through local networks. In addition, we improved our  
11 efficiency in network operations, engineering and operator services.  
12 With lower costs and higher revenues, the gross margin percentage rose  
13 to 41.8% in 1994 from 39.0% in 1993 and 37.2% in 1992." (page 24)

14  
15 These are not the type of results that a competitive market would produce.

16  
17 Another analysis of prices during a more recent period further debunks  
18 AT&T's assertion. During the period 1989 to 1996, access prices have  
19 declined. During that same period, however, basic long distance prices of the  
20 three largest long distance companies have actually increased. There is also  
21 anecdotal evidence of this pattern in actions taken by AT&T in North Carolina  
22 and South Carolina.

23  
24 Given these results in the long distance market, it should not be overlooked  
25 that the Act was not limited to bringing the benefits of competition to local

1 telecommunications markets. Notwithstanding the claims of AT&T, long  
2 distance customers apparently have not realized the benefits of competition as  
3 yet.

4  
5 Q. YOU MENTIONED THAT AT&T WOULD NOT OFFER ACCESS TO ITS  
6 COMPETITORS ON AN "ECONOMIC COST" BASIS. CAN YOU  
7 PROVIDE AN EXAMPLE TO SUPPORT THIS VIEW?

8  
9 A. Yes. AT&T's first access offering in the late 1970s created charges for MCI  
10 and others to pay for use of the local exchange portion of the AT&T network.  
11 The ingredients, the local switch, transport and the loop, were comparable to  
12 the current access arrangements. AT&T demanded that the rates for these  
13 services to be offered to MCI be based upon "separated" or fully distributed  
14 costs, even though the form of the access was inferior to what AT&T provided  
15 to itself. After a long debate, AT&T was forced to discount the portion of the  
16 rate associated with the loop (in today's access environment, it is the carrier  
17 common line element). Yet, even with this discount, the rate was well beyond  
18 what AT&T would calculate using its economic cost standard. It is ironic that  
19 AT&T once espoused a parity theory based on fully distributed costs, while  
20 now claiming that only "economic costs" are appropriate.

21  
22 Q. HAVE AT&T'S ACTIONS TOWARD RESALE OF ITS OWN SERVICES  
23 BEEN CONSISTENT WITH THEIR POSITION THAT UNFETTERED  
24 RESALE IS AN ABSOLUTE NECESSITY FOR LOCAL COMPETITION?

25

1 A. No. The history of AT&T's position on resale of its services has been one of  
2 doing everything possible to restrict, retard or otherwise limit resale of its  
3 services. These practices began in the mid-1970s and continue even today.  
4 Initially, AT&T's position was clear - resale was simply prohibited. Beginning  
5 in 1976 and continuing today, AT&T has established a history of trying to  
6 impede and hinder resale to the extent possible.

7  
8 Q. ARE BELLSOUTH'S POSITIONS WITH RESPECT TO RESALE FAR  
9 DIFFERENT FROM THOSE OF AT&T WITH RESPECT TO RESALE?

10  
11 A. Yes. As stated earlier, the Company has strong financial incentives to comply  
12 with all provisions of the Act. BellSouth's efforts to limit the wholesale  
13 discount to a level consistent with the intent of the Act and to limit the resale  
14 of a few services is simply not comparable to AT&T's track record.

15  
16 Q. AT&T HAS EXPRESSED A VIEW CONCERNING THE BENEFITS OF  
17 POLICYMAKING ON COMPETITION INCLUDING THE  
18 IMPLEMENTATION OF EQUAL ACCESS. DO YOU AGREE WITH  
19 THAT VIEW?

20  
21 A. No. Clearly, policymakers have a critical role to perform within the mandates  
22 of the Act as evidenced by the strong role reserved for state commissions by  
23 the Act. But, as the real history of equal access suggests, adequate  
24 development time is the key factor in properly implementing new, complex  
25 systems.



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In its petition, at pages 25-26, AT&T suggests that in 1982, equal access was not available and that because of the mandates of policymakers, it became available in 1984. AT&T's implication is that mandates by policymakers can resolve controversial issues. While it is clear why AT&T would benefit from this version of "history", events did not occur as AT&T implies. In the late 1970s, a line side (dial tone on the switch) access service, designated ENFIA, was provided to MCI and others by AT&T. It was essentially a business exchange line at a higher price. The interexchange companies demanded a trunk side arrangement, and by 1979, AT&T had developed ENFIA B and ENFIA C which included a 950-10XX dialing arrangement. The use of the 10XX pattern was premised upon the understanding that an "equal access" plan would use company codes, e.g., 10XX dialing.

In 1980, in filings with the FCC (Bell System Filing in FCC Docket No. 78-72, March 3, 1980), AT&T described an equal access plan that was based on each company having its own company code. At the time, AT&T envisioned that there would be less than ten interexchange companies, thus requiring only 10XX. With all this development already underway by Bell Laboratories and Western Electric, as well as specifications that could be made available to other switch manufacturers, it was relatively simple for AT&T in 1982 to meet the policymakers' mandate that equal access be made available by September, 1984 as required by the Modification of Final Judgment.

**BELLSOUTH'S WITNESSES**

1 Q. PLEASE DESCRIBE HOW BELLSOUTH INTENDS TO ADDRESS THE  
2 ISSUES IN THIS PROCEEDING.

3

4 A. BellSouth intends to address all issues in this proceeding using the Florida  
5 Public Service Commission's tentative list of issues as developed by the FPSC  
6 Staff in the workshop held on July 31, 1996. Specifically, testimony will be  
7 provided by BellSouth witnesses on the following issues:

8

9	WITNESS	ISSUES ADDRESSED
10	Mr. Robert C. Scheye	Interconnection, Unbundling &
11		Resale
12	Mr. Keith Milner	Network Issues/Technical Feasibility
13	Mr. Vic Atherton	Network Issues/Technical Feasibility
14	Ms. Gloria Calhoun	Operational Issues
15	Dr. Richard Emmerson	Economic Principles for Costing and
16		Pricing
17	Ms. D. Daonne Caldwell	Incremental Cost Methodology
18	Mr. Walter Reid	Avoided Cost Methodology

19

20 Mr. Scheye will provide a general overview of negotiations involving  
21 BellSouth and numerous ALECs, the Company's overall response to AT&T's  
22 Petition for Arbitration, and a discussion of the various issues in this  
23 proceeding.

24

25 Mr. Milner will discuss the technical feasibility of unbundling the eight (8)

1 network elements for which agreement has not been reached between the  
2 parties, as well as AT&T's request for access to Advanced Intelligent Network  
3 ("AIN") capabilities.

4  
5 Mr. Atherton will describe the interim service provider number portability  
6 solutions that BellSouth will make available to ALECs and will respond to  
7 AT&T's request for alternative solutions. In addition, Mr. Atherton will  
8 describe the appropriate trunking arrangements for interconnection between  
9 BellSouth's network and the networks of ALECs.

10  
11 Ms. Calhoun will show that BellSouth has expended considerable resources to  
12 develop the interfaces to allow ALECs, whether facilities-based providers or  
13 resellers, to provide local telecommunications services to Florida consumers.  
14 Further, Ms. Calhoun will explain how BellSouth's substantial implementation  
15 efforts to develop the current interfaces and to continue development of more  
16 advanced interfaces represent a balanced, reasonable and prudent approach to  
17 meeting the operational needs of ALECs.

18  
19 Dr. Emmerson will discuss the basic economic principles that should underlie  
20 the Commission's consideration of costs and prices for the unbundled network  
21 elements provided by BellSouth to ALECs, as well as the appropriate  
22 wholesale/retail relationship for BellSouth's retail services that will be made  
23 available for resale.

24  
25 Ms. Caldwell will describe the cost methodology used by BellSouth to develop

1 the costs on which the Company's prices for unbundled network elements are  
2 based and will present the Company's cost studies for those unbundled  
3 elements.

4  
5 Mr. Reid will address the appropriate methodology for use in determining the  
6 Company's retail costs which will be avoided when services are provided to  
7 resellers rather than end user customers and will present the Company's study  
8 that calculates the appropriate whole discounts based on those avoided costs.

9  
10 Q. DOES ANY OF BELLSOUTH'S TESTIMONY ADDRESS THE RULES  
11 ISSUED BY THE FCC ON AUGUST 8, 1996, OR RESPOND TO AT&T'S  
12 DIRECT TESTIMONY?

13  
14 A. No. BellSouth is in the process of reviewing the FCC's Order and will file  
15 supplemental testimony on August 16, 1996. Based on preliminary  
16 information, it is clear that the FCC has misinterpreted various provisions of  
17 the Act in the formulation of its rules. No doubt these rules will be challenged,  
18 probably by state regulatory bodies whose authority appears to be gutted by  
19 these rules, as well as by a number of existing local providers. Because of the  
20 required testimony filing schedule in this proceeding, the testimony filed today  
21 has been prepared without reference to the FCC's new rules.

22  
23 With regard to AT&T's direct testimony, the Company will respond in rebuttal  
24 testimony to be filed on August 23, 1996.

25

1 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

2

3 A. BellSouth is committed to opening the local exchange telecommunications  
4 market to competition. The Company is complying with all the requirements  
5 and obligations of the Act in furtherance of this commitment. Its track record  
6 in achieving mutually satisfactory, negotiated local interconnection agreements  
7 is proof of its commitment. In assessing AT&T's positions in this proceeding,  
8 the Commission should weigh AT&T's current market incentives and  
9 objectives and its historic actions in supporting competition against the intent  
10 of Congress as expressed in the Act and what is in the best interests of Florida  
11 consumers. Finally, the Commission must ensure that all relevant issues are  
12 included in this proceeding so that the end result will be an agreement between  
13 BellSouth and AT&T that is in compliance with all of the requirements and  
14 obligations contained in the Act.

15

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17

18 A. At this time, yes.

19

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