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BELLSOUTH TELECOMMUNICATIONS, INC.
REBUTTAL TESTIMONY OF ROBERT C. SCHEYE
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 960833-TP
AUGUST 30, 1996

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. (HEREINAFTER REFERRED TO AS "BELLSOUTH" OR "THE COMPANY").

A. My name is Robert C. Scheye and I am employed by BellSouth as a Senior Director in Strategic Management. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes. I filed direct testimony on behalf of BellSouth on August 12, 1996.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to address the positions taken by various AT&T witnesses in their direct testimony on the issues in this arbitration proceeding. In addition, I will respond to some issues raised in the supplemental testimony filed by AT&T on August 23, 1996 concerning AT&T's interpretation of the Federal Communication Commission's ("FCC")

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1 First Report and Order in CC Docket 96-98 (hereinafter referred to as "the
2 Order").

3

4 Q. DOES THE FCC'S ORDER AFFECT THE ISSUES IN THIS
5 PROCEEDING?

6

7 A. Yes. If the FCC's Order remains in effect as issued and is not subsequently
8 modified, it will have a dramatic effect on the Florida Public Service
9 Commission's (hereinafter referred to as "the Commission") discretion and
10 flexibility in addressing the issues in this proceeding, as well as on issues in
11 other proceedings. It appears that the only thing left to the sole discretion of
12 state commissions is the ability to administer rates that are charged for basic
13 local exchange service.

14

15 Q. PLEASE EXPLAIN.

16

17 A. BellSouth has always believed the states would play a critical role in
18 implementing the Telecommunications Act of 1996 (hereinafter referred to as
19 "the Act"), and is concerned that this critical role, a role certainly envisioned
20 by Congress, has been substantially undermined by many of the provisions of
21 the FCC's Order. The FCC's confusing dictates in such fundamental areas as
22 resale discounts, particularly in a manner that is inconsistent on its face with
23 the plain and unambiguous language of the Act, severely curtail the discretion
24 and authority of the state commissions. While recent statements made by the
25 FCC in defense of its Order refer to "close association with and reliance on the

1 states ...,” the Rules in this Order appear to significantly restrict state
2 commission participation and latitude. Numerous industry participants,
3 including the National Association of Regulatory and Utility Commissioners
4 (“NARUC”), have expressed concerns with the FCC’s Order and have
5 indicated their intention to appeal the Order.

6

7 Q. DOES BELLSOUTH PLAN TO APPEAL THE ORDER?

8

9 A. Yes. The Company is particularly concerned that the FCC Order usurps the
10 intent of Congress,takes away the power of the states to establish prices, and
11 that the Order establishes prices for the use of BellSouth’s network which will
12 discourage facilities-based competition and possibly result in a taking of
13 BellSouth’s property. BellSouth recommends that, until all challenges to the
14 FCC’s Order have been exhausted, the Commission carefully evaluate whether
15 provisions of the FCC’s Order are consistent with Act, and whether the Order
16 requires immediate adoption and implementation by state commissions.

17

18 Q. DO YOU HAVE ANY GENERAL COMMENTS TO MAKE CONCERNING
19 AT&T’S TESTIMONY?

20

21 A. Yes. Dr. Kaserman stated the following on page 6 of his direct testimony”

22

23 “...Monopoly power such as that held by BellSouth is a valuable asset
24 that is not likely to be surrendered voluntarily. As a result, voluntary
25 bilateral negotiations with a monopolist are unlikely to bear

1 competitive fruit. Thus, despite the Act's requirement in Section
2 251(c)(1) that the ILECs negotiate in good faith, it is not likely that
3 such negotiations will yield the complete pricing and provisioning
4 agreements necessary for successful entry.”

5

6 Dr. Kaserman implies that this arbitration proceeding is the result of BellSouth
7 failing to negotiate in good faith because, as Dr. Kaserman asserts, BellSouth
8 is a monopoly. Mr. Carroll, on pages 8 and 9 of his testimony, attempts to
9 portray the negotiations with BellSouth as being unproductive because of
10 BellSouth's intransigence. Nothing could be further from the truth.

11

12 As I stated in my direct testimony, from the beginning, BellSouth has
13 attempted to negotiate a reasonable and mutually beneficial agreement with
14 AT&T, just as BellSouth has done with nineteen (19) other companies. The
15 Company has compromised on many issues that AT&T insisted were
16 necessary for them to compete effectively. BellSouth has not, nor does it
17 intend to, agree to unreasonable terms and conditions or unreasonable
18 compensation levels for use of its facilities and services. The question for this
19 Commission to ask is “Who, based on the track record of successful
20 negotiations, is attempting to exclude competition from its markets - BellSouth
21 or AT&T?”

22

23 Q. ARE THERE ANY ISSUES WHICH THE PARTIES AGREE ARE NO
24 LONGER APPROPRIATE FOR THIS ARBITRATION PROCEEDING?

25

1 A. It is my understanding that AT&T and BellSouth Advertising & Publishing
2 Corporation ("BAPCO") have reached agreement concerning all of the
3 directory issues raised in AT&T's Petition other than AT&T's request to place
4 its name and logo on the cover of directories published by BAPCO. AT&T
5 will, if it has not already done so, file a letter notifying the Florida Public
6 Service Commission of this development and request withdrawal of all other
7 directory issues from consideration. As I stated in my direct testimony,
8 however, the name and logo issue should be dismissed from this proceeding.
9 Where directory publishing is concerned, AT&T should continue to negotiate
10 with BAPCO. Further, this issue is not subject to arbitration under Section 251
11 of the Act. The Act requires only that BellSouth include basic listings for
12 other provider's subscribers in BellSouth's White Pages.

13

14 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

15

16 A. My testimony is divided into sections on Resale, Unbundled Network
17 Elements, Interconnection and Parity. Within each section, I will provide the
18 Company's response to the positions taken by AT&T's witnesses.

19

20 **RESALE**

21 Q. DOES THE ACT SPECIFY A BASIS FOR ESTABLISHING WHOLESALE
22 RATES FOR RESOLD SERVICES?

23

24 A. Yes. Section 252(d)(3) prescribes the following:

25

1 “...a State commission shall determine wholesale rates on the basis of
2 retail rates charged to subscribers for the telecommunications service
3 requested, excluding the portion thereof attributable to any marketing,
4 billing, collection, and other costs that will be avoided by the local
5 exchange carrier.” (emphasis added)

6
7 The language is very clear. It limits the adjustment to retail rates to only those
8 costs that will in fact be avoided. The adjustment does not include costs that
9 may be avoidable or costs that a competitor wishes were avoidable or
10 adjustments for any reason other than actually avoided costs.

11
12 Q. ON PAGE 4 OF MR. CARROLL’S TESTIMONY, HE PROPOSES A
13 DISCOUNT RANGE OF 66.7% TO 71.7% FOR USE IN ESTABLISHING
14 WHOLESALE RATES FOR RESALE OF BELL SOUTH’S RETAIL
15 SERVICES (41.7% ATTRIBUTABLE TO MR. LERMA’S AVOIDED
16 RETAIL COST MODEL). IS THIS PROPOSAL REASONABLE AND
17 CONSISTENT WITH THE ACT?

18
19 A. Absolutely not. Mr. Carroll is proposing the following “methodology:”

20

21	BellSouth’s		Lack of		Competitive		Wholesale
22	Avoided Costs	+	Operational Parity	+	Stimulus	=	Discount
23	41.7%		15%		10%-15%		66.7%-71.7%

24
25 Only one element of Mr. Carroll’s methodology, avoided costs, is addressed

1 by, and is consistent with, the Act. And, as will be shown in Mr. Reid's
2 rebuttal testimony, that one element is significantly overstated by AT&T. The
3 remaining two elements are totally arbitrary, without justification, and
4 unrelated to the pricing principles in the Act.

5
6 Nowhere in the Act can one find the terms "lack of operational parity" or
7 "competitive stimulus." AT&T's strategy is simple - propose the highest
8 number possible and hope that the Commission will split the difference
9 between BellSouth's proposed discount and AT&T's proposal.

10
11 Q. DR. KASERMAN PROPOSES A DIFFERENT METHODOLOGY ON
12 PAGE 26 OF HIS TESTIMONY. IS IT CONSISTENT WITH THE ACT?

13
14 A. No. Dr. Kaserman's methodology for his "avoided cost pricing rule" is as
15 follows:

16
17 Excess Organizational TSLRIC of
18 Profit + "Fat" + Retail Functions = Discount
19 X% Y% Z% XYZ%

20
21 Although Dr. Kaserman does not arrive at a recommended percentage
22 discount, he does state, that if done properly, the resulting wholesale rate will
23 equal the Total Service Long Run Incremental Cost ("TSLRIC") of the
24 wholesale functions, unless the existing retail rate is below the TSLRIC of the
25 service. Even in that instance, however, Dr. Kaserman contends that the below

1 cost rates send the appropriate economic signals to potential market entrants.
2 Later in his testimony, Dr. Kaserman adds another possible element to his
3 methodology for calculating the discount, i.e., an adjustment for unequal
4 interconnection and provisioning arrangements. If I understand what Dr.
5 Kaserman is proposing, this adjustment would force the resulting wholesale
6 rate below the TSLRIC of the service.

7
8 Dr. Emmerson will address Dr. Kaserman's economic efficiency arguments in
9 his rebuttal. My comments regarding Dr. Kaserman's methodology mirror my
10 earlier comments concerning Mr. Carroll's methodology with one exception -
11 none of the elements of Dr. Kaserman's proposed methodology are consistent
12 with the plain wording of the Act. Nowhere in the Act can one find the terms
13 "organizational fat," "excess profit," "TSLRIC of retail functions" or "unequal
14 interconnection and provisioning arrangements."

15
16 Q. ON PAGES 28-30 OF MR. GILLAN'S TESTIMONY, HE ATTEMPTS TO
17 PROVIDE A BASIS FOR THIS COMMISSION TO EITHER ACCEPT
18 AT&T'S UNREASONABLE DISCOUNT OR EVEN INCREASE IT. HIS
19 RATIONALE RESTS ON BELL SOUTH'S RETENTION OF ACCESS
20 CHARGES IN A RESALE SITUATION. HOW DO YOU RESPOND?

21
22 A. Mr. Gillan's discussion is irrelevant to the establishment of a wholesale
23 discount. Access is a wholesale service that is not subject to a resale discount.
24 Further, Mr. Gillan evidently interprets the resale provisions of the Act and the
25 purpose of the discount to be to reduce BellSouth's profitability. This is

1 absolutely not the case, as was explained by Mr. Varner on pages 19-20 of his
2 direct testimony when discussing the establishment of the discount based on
3 sound economic principles. Further, as I stated earlier, the discount is to be
4 based on avoided costs - nothing more and nothing less. Finally, Mr. Gillan
5 implies that an unequal cost recovery situation is created if BellSouth is
6 permitted to retain its access charge revenues. This is somewhat puzzling
7 because BellSouth would only receive access charges if the reseller's customer
8 made interLATA long distance calls which, I assume, the reseller would
9 recover through its long distance rates.

10

11 Q. DOES THE ACT SPECIFY WHICH OF BELLSOUTH'S RETAIL
12 SERVICES ARE TO BE MADE AVAILABLE FOR RESALE?

13

14 A. Yes. Section 251(c)(4) prescribes the following:

15

16 "(4) RESALE.--The duty--

17 (A) to offer for resale at wholesale rates any telecommunications
18 service that the carrier provides at retail to subscribers who are not
19 telecommunications carriers; and

20 (B) not to prohibit, and not to impose unreasonable or
21 discriminatory conditions or limitations on, the resale of such
22 telecommunications service, except that a State commission may, under
23 this section, prohibit a reseller that obtains at wholesale rates a
24 telecommunications service that is available at retail only to a category
25 of subscribers from offering such service to a different category of

1 subscribers.” (emphasis added)

2

3 Once again, the plain wording of the Act is clear. BellSouth is to make
4 available its retail services for resale. BellSouth is permitted, however, to
5 impose reasonable and nondiscriminatory conditions and limitations on the
6 resale of its services, in addition to the explicit use and user restriction and the
7 joint marketing restriction specified in the Act.

8

9 Q. ON PAGE 2 OF HIS TESTIMONY, MR. SATHER, ONE OF AT&T'S
10 RESALE WITNESSES, REQUESTS THAT THE COMMISSION
11 ELIMINATE ALL OF BELLSOUTH'S RESALE RESTRICTIONS.
12 OTHERWISE, ACCORDING TO MR. SATHER, BELLSOUTH WILL BE
13 AFFORDED A COMPETITIVE ADVANTAGE. HOW DO YOU
14 RESPOND?

15

16 A. Mr. Sather's request has three elements. First, he requests that the
17 Commission prohibit BellSouth from excluding any services from resale.
18 Second, he requests that the Commission not permit BellSouth to impose use
19 and user restrictions. And third, he requests that the Commission not allow
20 BellSouth to require resellers to adhere to the terms and conditions specified in
21 BellSouth's tariffs. Mr. Sather asserts, with little justification, that each of
22 these "restrictions" are unreasonable and discriminatory. Contrary to Mr.
23 Sather's assertions, each of BellSouth's restrictions is fully consistent with the
24 plain wording of the Act, and the Commission should approve them as
25 reasonable and non-discriminatory.

1

2 Q. PLEASE IDENTIFY THE SERVICES THAT BELL SOUTH PROPOSES TO
3 EXCLUDE FROM RESALE AND PROVIDE JUSTIFICATION FOR SUCH
4 EXCLUSIONS.

5

6 A. As I stated in my direct testimony, BellSouth is proposing to exclude
7 obsoleted/grandfathered services, contract service arrangements, promotions,
8 LinkUp and Lifeline services, and N11 services (including 911 and E911).
9 The justification for each service is as follows:

10

11 **Obsoleted/Grandfathered Services** are no longer available for sale to,
12 or transfer between, end users, nor should they be transferrable between
13 providers. The Company has made available new services to replace
14 the existing services. To the extent that AT&T or any other competitor
15 wishes to entice the customer of a grandfathered service to change
16 providers, it may do so by either reselling the replacement service at a
17 discount or by providing its own new service to the customer through
18 the purchase of unbundled network elements combined with its own
19 facilities.

20

21 **Contract Service Arrangements ("CSAs")** are utilized to respond to
22 specific competitive threats on a customer-by-customer basis and
23 contain rates established specifically for each competitive situation. It
24 is completely illogical for BellSouth to develop a customer-specific
25 proposal containing non-tariffed rates, only to have AT&T walk-in,

1 purchase the proposal from BellSouth at a discount and offer the same
2 proposal to the customer at a slightly lower price than BellSouth had
3 developed. Elimination of this restriction as proposed by Mr. Sather
4 effectively takes BellSouth out of the game and ensures that AT&T can
5 win every customer-specific competitive encounter with BellSouth. As
6 with obsoleted/grandfathered services, if AT&T wishes to entice the
7 customer to select AT&T in lieu of BellSouth, AT&T can purchase the
8 necessary service(s) to meet the customer's needs from BellSouth at the
9 wholesale rate and resell the service(s) alone or add additional value by
10 including other options or offerings.

11
12 **Promotions** are not retail services. In most instances, they are simply
13 limited time waivers of nonrecurring charges. It would be completely
14 illogical for BellSouth to run promotions to attract customers, only to
15 be required to give AT&T the same limited time waiver for
16 nonrecurring charges, in addition to the already discounted wholesale
17 monthly recurring rate, so that AT&T can attract customers. In effect,
18 BellSouth would be subsidizing AT&T's marketing program. If AT&T
19 wishes to conduct promotions, its stockholders should have to bear the
20 consequences just as BellSouth's will. Competitive advantage should
21 be earned in the marketplace, not given through an inappropriate resale
22 requirement or discount.

23
24 **LinkUp and Lifeline** are subsidy programs designed to assist low
25 income residential customers by providing a monthly credit on

1 recurring charges and a discount on nonrecurring charges for basic
2 telephone service. If AT&T or any other competitor wishes to provide
3 similar programs through resale, they should be required to purchase
4 BellSouth's standard basic residence service, resell it at an appropriate
5 rate, and apply for and receive certification from the appropriate agency
6 to receive whatever funds may be available to assist in funding its
7 subsidy program.

8
9 N11 services, including 911 and E911, are not retail services provided
10 to end users. BellSouth provides N11 services to other companies or
11 government entities who in turn provide the actual service to end user
12 customers. Thus, BellSouth should not be required to offer these
13 services for resale.

14
15 Q. MR. SATHER WAS PARTICULARLY CRITICAL OF WHAT HE
16 TERMED BELLSOUTH'S ABUSE OF THE GRANDFATHERING
17 PROCESS TO MANIPULATE THE MARKETPLACE. HE CITED AN
18 EXAMPLE INVOLVING ESSX AND MULTISERV. IS HIS PORTRAYAL
19 OF BELLSOUTH'S ACTIONS ACCURATE?

20
21 A. Absolutely not. BellSouth is not abusing the grandfathering process. Rather,
22 the Company is using this established process to honor subscriber contracts
23 and to provide reasonable options to its existing customers. The internal
24 decision to obsolete ESSX® service and Digital ESSX® service was made
25 almost three years before the first tariff filing to accomplish this was made.

1 Obsoleting ESSX services and replacing them with MultiServ was intended to
2 restructure the service to make it easier for customers to understand, and to
3 simplify sales, administration, and billing, and to provide a more feature-rich
4 service. To assert that BellSouth is using the grandfathering process to gain a
5 competitive advantage is ludicrous.

6

7 Q. PLEASE DESCRIBE THE TARIFF FILING TO GRANDFATHER ESSX
8 AND DIGITAL ESSX.

9

10 A. With the grandfathering of ESSX service and Digital ESSX service, the sale of
11 new systems ceased. Existing customers who were under a Term Payment
12 Plan contract were allowed to retain their existing systems. The Company
13 committed to honor those contracts and allow the retention of the
14 grandfathered service until the contracts expired. These subscribers were also
15 allowed to add and delete features, lines, etc., on their systems until their
16 contract expired. Customers who were not under a current contract were
17 allowed to keep their ESSX service until a specific date.

18

19 When the tariff was initially introduced, there was no provision for customers
20 to retain their existing service. After concerns were expressed that customers
21 needed time to evaluate the new MultiServ offerings as well as other
22 telecommunications options available in the marketplace, the Company made
23 available a recast offer. This option allowed customers to recast their service
24 by entering into a written agreement no later than a date certain and retain their
25 current service for a period of time selected by the customer, up to three years

1 from the tariff effective date. Customers who were not under a contract of
2 greater than thirty-six (36) months in duration were given the option to extend
3 their ESSX service period to a maximum of 36 months. This recast option was
4 made available in all states. The customers who chose not to recast their
5 existing service and was no longer under contract was given a minimum of ten
6 months to make a decision regarding their telecommunications service.
7

8 Q. WAS THE GRANDFATHERING OF ESSX AND DIGITAL ESSX
9 SERVICE HANDLED ANY DIFFERENTLY THAN PAST INSTANCES OF
10 GRANDFATHERING SERVICES?
11

12 A. No. Whenever BellSouth has grandfathered a service, the Company has
13 attempted to address the needs of its customers.
14

15 Q. MR. SATHER STATED THAT THE COMPANY HAS FILED TARIFFS
16 THAT ALLOW MONTH-TO-MONTH ESSX CUSTOMERS TO ORDER
17 ADDITIONAL LINES EVEN THOUGH THE SERVICE IS
18 GRANDFATHERED. IS THIS A COMMON PRACTICE?
19

20 A. Normally, no. But, as I indicated above, ESSX customers under contract were
21 provided the option to order additional lines and/or features for the duration of
22 their contract. The Company filed the tariffs to extend these options to month-
23 to-month customers for the limited time they are allowed to retain ESSX
24 service.
25

1 Q. WILL AT&T BE COMPETITIVELY DISADVANTAGED IF
2 GRANDFATHERED ESSX SERVICE IS NOT AVAILABLE FOR
3 RESALE?
4

5 A. Absolutely not. AT&T will have the same opportunity to move ESSX
6 customers to MultiServ offerings as BellSouth. The current tariff for
7 MultiServ permits ESSX customers to change to MultiServ without incurring
8 nonrecurring charges or a termination liability. AT&T will be able to utilize
9 the same terms and conditions when offering MultiServ via resale to existing
10 ESSX customers. Additionally, AT&T can purchase MultiServ with the
11 wholesale discount applicable to resold services which gives AT&T a pricing
12 advantage. And as always, AT&T has the opportunity to convince ESSX
13 customers to purchase other competitive offerings from AT&T, such as PBX
14 and key systems. Similarly, AT&T can use their own facilities in combination
15 with unbundled network elements to offer unique services.
16

17 Q. ON PAGE 15 OF HIS TESTIMONY, MR. CARROLL STATES THAT
18 BELL SOUTH HAS, THROUGH ITS MONOPOLY POSITION AND
19 UNILATERAL ABILITY TO GRANDFATHER SERVICES, TOTAL
20 CONTROL OVER WHAT SERVICES AT&T WILL BE ABLE TO OFFER
21 AS A COMPETITOR. IS HE CORRECT?
22

23 A. This is clearly not the case. First, there are only a very limited number of
24 grandfathered services today. Second, if Mr. Carroll is suggesting that
25 BellSouth will somehow manipulate the grandfathering provisions to limit

1 competition, the basis for any such belief is totally ill-founded. Third, Mr.
2 Carroll appears to ignore the role the Commission has in accepting tariff
3 changes. One would expect that the Commission might become concerned if
4 the number of grandfathered services grew very rapidly.

5
6 Another factor ignored by Mr. Carroll is that services such as ESSX, which
7 have been grandfathered, have been facing very strong competition for years
8 from PBX providers.

9
10 Q. PLEASE ADDRESS THE SECOND ELEMENT OF MR. SATHER'S
11 REQUEST - THE ELIMINATION OF USE AND USER RESTRICTIONS.

12
13 A. The Act specifically permits BellSouth to apply use and user restrictions if
14 approved by the Commission. If accepted, Mr. Sather's recommendation to
15 eliminate such restrictions would allow AT&T to undermine the rate structure
16 and rate levels for business services by purchasing basic residence service and
17 reselling it as basic business service. A significant level of support for
18 universal service is provided by business services. Most, if not all, of that
19 support would flow to AT&T's stockholders under AT&T's proposal.

20
21 Q. WHAT IS BELLSOUTH'S RESPONSE TO MR. SATHER'S REQUEST
22 THAT BELLSOUTH BE PROHIBITED FROM ENFORCING THE TERMS
23 AND CONDITIONS IN ITS TARIFFS?

24
25 A. As I stated in my direct testimony, the terms and conditions contained in

1 BellSouth's tariffs, along with the tariffed rates, are an integral part of the
2 tariffed services. If the terms and conditions for a particular service were non-
3 existent or different, BellSouth might choose not to offer the service or the
4 price would likely be different. Further, Mr. Sather's request is totally at odds
5 with the Act. The Act requires that BellSouth make available for resale its
6 retail telecommunications services. The Act does not require that BellSouth
7 offer its retail services "minus their associated terms and conditions" or that
8 BellSouth create new retail services. This is effectively what Mr. Sather is
9 requesting.

10
11 Q. HAVE YOU PREPARED AN ANALYSIS THAT SHOWS THE EFFECT OF
12 MR. SATHER'S RECOMMENDATIONS?

13
14 A. Yes. Attached to my testimony is Exhibit No. RCS-3, which is a sample
15 comparison of BellSouth's proposed resale discount to AT&T's proposal for
16 local exchange rates. First, I show the impact of the proposed discount of
17 12.2% and 19% to business and residential rates. This discount is based on the
18 calculated avoided costs supported in Mr. Reid's testimony.

19
20 Second, I show AT&T's proposed gradations of discounts to reflect their three
21 proposed components -- avoided costs, operational interface penalties, and the
22 "jump start" incentive. The last row of the graph shows the impact of Mr.
23 Sather's proposed elimination of use or class of service restrictions.
24 Essentially, the cumulative effect of AT&T's proposal is to resell a 72%
25 discounted residential rate to compete with BellSouth's business retail rate. To

1 put their proposal into perspective, AT&T proposes to purchase residential
2 local service for Rate Group 12 at \$2.98 per month (72% discount = .28 x
3 \$10.65) and compete against BellSouth's business retail rate of \$29.10 for Rate
4 Group 12!

5
6 Importantly, this result does not even include the impact of AT&T's last
7 proposal that would negate terms and conditions for services which could be
8 interpreted to mean the elimination of rate groups. This example shows how
9 preposterous AT&T's proposal is and graphically illustrates its interpretation
10 of "competitive parity." The Commission should reject all of AT&T's
11 proposals regarding resale.

12
13 Q. MR. SATHER ASSERTS ON PAGE 12 OF HIS TESTIMONY THAT
14 BELLSOUTH, THROUGH ITS VARIOUS RESTRICTIONS ON RESALE,
15 IS PROHIBITING AT&T FROM MAKING "CREATIVE OFFERINGS" TO
16 CUSTOMERS. IS HE CORRECT?

17
18 A. No. Creativity should depend on whether AT&T can add a new capability or
19 some additional value to a retail service purchased from BellSouth. Its market
20 success should hinge on convincing the customer that the additional capability
21 or added value warrants the customer switching suppliers. After reviewing
22 AT&T's testimony, it appears that AT&T's creativity is limited to creating and
23 exploiting arbitrage opportunities that benefits its stockholders.

24
25 **UNBUNDLED NETWORK ELEMENTS**

1 Q. AT&T WITNESS TAMPLIN STATES ON PAGE 17 OF HIS TESTIMONY
2 THAT BELLSOUTH SHOULD NOT BE PERMITTED TO PLACE ANY
3 RESTRICTIONS ON AT&T'S OR ANY OTHER CARRIER'S USE OF
4 UNBUNDLED NETWORK ELEMENTS LEASED FROM BELLSOUTH.
5 ARE ANY RESTRICTIONS APPROPRIATE?

6
7 A. Yes. While AT&T and other new entrants should be able to combine
8 unbundled network elements purchased from BellSouth with their own
9 capabilities to create unique services, they should not be permitted to purchase
10 only BellSouth's unbundled elements and recombine those elements to create
11 the same functionality and/or service as BellSouth's existing retail service.

12
13 Q. PLEASE EXPLAIN WHY THIS RESTRICTION IS NECESSARY.

14
15 A. If AT&T is permitted to simply order unbundled elements of a BellSouth
16 service (which in reality would not be unbundled) and recreate that service
17 with those elements, and if AT&T prevails in convincing this Commission that
18 such unbundled elements should be priced at cost (an issue discussed in more
19 detail later), AT&T will be in a no-lose situation. Such a policy would provide
20 AT&T with the following:

21
22 1. The ability to resell BellSouth's retail services, but avoid the
23 Act's pricing standard for resale (assuming the wholesale discount for
24 resale is not established high enough for AT&T's liking);

25

1 2. The ability for AT&T (and MCI and Sprint) to avoid the joint
2 marketing restriction specified in the Act, as well as any use and user
3 restrictions contained in BellSouth's tariffs;

4
5 3. The ability to argue for the retention of access charges by
6 AT&T even though the actual service arrangement is "disguised
7 resale";

8
9 4. Assuming a wholesale discount acceptable to AT&T, the ability
10 to maximize its market position by targeting the most profitable form of
11 resale to particular customers; and,

12
13 5. The ability to foreclose, to a large extent, facilities-based
14 competition and competitors.

15
16 AT&T could achieve all of this without investing the first dollar in new
17 facilities or new capabilities.

18
19 Q. IS BELLSOUTH'S POSITION CONSISTENT WITH THE ACT?

20
21 A. Yes. Clearly, as I indicated in my direct testimony, the intent of the Act is to
22 promote both facilities-based and resale competition. Two pricing standards
23 were established by the Act: one for resale and one for unbundled network
24 elements. Allowing the same service to be purchased through unbundled
25 elements at one price (equal to cost per AT&T), and allowing the same service

1 to be resold at a different and presumably higher price, effectively eliminates
2 resale as a viable form of competition. Had this been Congress' intent, there
3 would have been no reason to establish two pricing standards and no reason to
4 establish the joint marketing restriction. Facilities-based competition, as
5 envisioned by Congress, involves the purchase of unbundled network elements
6 from BellSouth by AT&T, and the combination of those elements with
7 AT&T's own network and capabilities to offer services to customers. Any
8 other interpretation of Congress' intent would mean that Congress wanted to
9 create an arbitrage situation - a totally illogical and nonsensical interpretation.

10

11 To illustrate this point simply, consider the joint marketing restriction. Would
12 Congress, having labored over the enactment of telecommunications
13 legislation for several years, included a joint marketing restriction associated
14 with resale only to include an unbundling "loophole" around this restriction
15 that is large enough to drive a truck through?

16

17 Q. PLEASE PROVIDE AN EXAMPLE OF AT&T'S PLAN TO CIRCUMVENT
18 THE INTENT OF CONGRESS.

19

20 A. Mr. Tamplin provides the best example in his testimony on page 19 where he
21 states:

22

23 "For existing BellSouth customers who simply want AT&T as their
24 local service provider, the Loop/Switching combination will allow the
25 change without requiring any physical change in the existing BellSouth

1 network infrastructure. In addition, use of the Loop/Switching
2 combination will not require AT&T to collocate any equipment in
3 BellSouth's central office.”
4

5 Mr. Gillan attempts to support AT&T's position through his discussion of the
6 “platform” approach (i.e., the purchase of the loop, switching capabilities and
7 transport as an unbundled element) discussed on pages 40-43 of his testimony.
8 It is important to note that AT&T's example does not indicate that AT&T
9 plans to add one scintilla of added value to the customer through additional
10 capabilities or services. They simply insert themselves between BellSouth and
11 the end user customer and collect the revenues.
12

13 Q. AT&T WITNESSES KASERMAN, GILLAN AND ELLISON CONTEND
14 THAT THE ACT REQUIRES, OR THAT IT IS ECONOMICALLY
15 CORRECT TO REQUIRE, BELLSOUTH TO SET PRICES FOR
16 UNBUNDLED NETWORK ELEMENTS (AS WELL AS FOR
17 INTERCONNECTION AND TERMINATION AND TRANSPORT OF
18 TRAFFIC) EQUAL TO TSLRIC. DO YOU AGREE?
19

20 A. Absolutely not. Dr. Emmerson will address the economic arguments and will
21 provide the basic economic principles which should guide the Commission's
22 consideration of the pricing issues in this proceeding. His testimony will point
23 out the fallacies of the positions of AT&T's witnesses from an economic
24 standpoint.
25

1 Regarding the contention that the Act requires prices equal to TSLRIC, these
2 witnesses are simply wrong. The plain wording of the Act in Section 252(d)(1)
3 is as follows:

4
5 “(d) PRICING STANDARDS.--

6 (1) INTERCONNECTION AND NETWORK ELEMENT
7 CHARGES.--

8 Determinations by a State commission of the just and reasonable rate
9 for the interconnection of facilities and equipment for purposes of
10 subsection (c)(2) of section 251, and the just and reasonable rate for
11 network elements for purposes of subsection (c)(3) of such section--

12 (A) shall be--

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

17 (ii) nondiscriminatory, and

18 (B) may include a reasonable profit.”

19
20 Nowhere in the Act can one find the term “TSLRIC” or phrases such as “set
21 equal to direct economic cost”.

22
23 Q. MR. ELLISON CONTENDS ON PAGE 3 OF HIS TESTIMONY THAT
24 “BELLSOUTH HAS NOT AGREED TO MEET THE ACT’S PRICING
25 REQUIREMENTS.” HOW DO YOU RESPOND?

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A. A more accurate statement on Mr. Ellison's part would have been that BellSouth has not agreed to accept AT&T's interpretation of the Act's pricing requirements. BellSouth has proposed prices based on BellSouth's long run incremental cost of providing the element or service, including recognition of its joint and common costs.

BellSouth is proposing the attached price list (Exhibit No. RCS-4) as the prices for unbundled network elements and network services. The Company is proposing the Commission-approved rate of \$17.00 for the unbundled two-wire loop, and prices for other types of loops which reflect the cost of the loops plus a contribution to joint and common costs.

BellSouth has proposed in its price list various rates for local switching which is comprised of the port plus a usage charge. The Commission approved a rate of \$2.00 for the two wire port in Docket No. 950984-TP and that rate is being proposed in this proceeding for this element. The Commission did not approve a usage rate in the MFS docket. BellSouth asked for reconsideration of this issue stating that a usage rate was needed to reflect the usage sensitive costs of the port. In its Order No. PSC-96-1024-FOF-TP, the Commission stated that the party (MFS) had requested the unbundled port, but not local switching and therefore, no usage rate was necessary at this time. BellSouth proposes that local switching includes the port as well as usage and is proposing various flat rates on a monthly basis for the various ports and a per minute of use rate for usage to reflect local switching. The usage rate is based

1 on the approved tariff rate for the Shared Tenant Service which the
2 Commission has already approved as an appropriate rate for interconnection.

3
4 Unbundled switching has been considered a highly competitive service and is
5 currently readily available from alternate suppliers, i.e., MFS and other
6 alternate access vendors. Because of this availability, the Commission in
7 Docket No. 950984-TP ruled that prices for ports provided by GTE and
8 United/Centel should be set at market prices (Order No. PSC-96-0811-FOF-
9 TP, pages 25 & 31). BellSouth provided costs of the various ports on May 28,
10 1996 and August 12, 1996. The proposed rates for ports and usage cover cost,
11 provide contribution, and are reasonable and nondiscriminatory.

12
13 Further confirmation of the competitive nature of unbundled switching can be
14 found in this same docket involving BellSouth. In response to a question
15 concerning the pricing of unbundled elements asked by Chairman Clark,
16 MCI's witness Ms. Cornell stated the following:

17
18 "I believe that when it is an essential facility and available only from
19 the incumbent or available only from the firm whom you are asking it,
20 it should be at total service long run incremental cost. When there is
21 genuinely a competitive alternative or the fairly clear ability for there to
22 be a competitive alternative, it does not need to be." (emphasis added)

23
24 "I believe that originating local switching, which is what I assume you
25 get when you buy a port, essentially, if you were to subscribe to an

1 unbundled port, is competitively available. (emphasis added) MCI
2 Metro is going to put in a switch, MFS is going to put in a switch.”

3
4 Regarding loop transport, the Commission in Docket No. 950984-TP found it
5 unnecessary for BellSouth to create a new pricing element for loop transport
6 because these facilities are currently available in the tariff. Additionally, the
7 Commission noted that Alternative Local Exchange Companies (“ALECs”)
8 currently have the option to lease the facilities from BellSouth or to provide
9 facilities themselves (Order No. PSC-96-0444-FOF-TP). Consistent with that
10 ruling, BellSouth proposes existing tariffed rates for loop transport facilities in
11 this proceeding.

12
13 In Docket No. 950985-TP, the Commission found that tariffed rates for
14 operator-handled traffic (Busy Line Verification and Busy Line Verification
15 and Interrupt) between BellSouth and interexchange carriers appeared to be
16 reasonable for use between BellSouth and other ALECs. The Company has
17 proposed these tariff rates in its price proposal for these existing services and
18 has proposed additional rates for new unbundled operator functions.

19
20 The proposed prices represent rates that have either been approved by the
21 Commission in previous Orders or tariffs, or are new rates which are similar to
22 rates that have been negotiated and agreed to by other carriers. BellSouth has
23 filed cost studies for these proposed unbundled elements or services.

24
25

1 Additionally, BellSouth proposes the attached BellSouth Telecommunications
2 Negotiations Handbook for Collocation (Exhibit No. RCS-5) which describes
3 the terms, condition and rates for physical collocation. Similar rates, terms and
4 conditions have been negotiated with Teleport and ICI for physical collocation.
5 The rates, terms and conditions for BellSouth's Virtual Expanded
6 Interconnection Service are contained in Section 20 of BellSouth's Access
7 Tariff.

8

9 Q. MR. ELLISON ON PAGES 5-9 OF HIS SUPPLEMENTAL TESTIMONY
10 STATES THAT THE COMMISSION SHOULD USE AT&T'S PRICE
11 PROPOSAL FOR UNBUNDLED ELEMENTS AND THAT ITS PRICE
12 PROPOSAL COMPLIES WITH FCC RULES, WITH ONE EXCEPTION;
13 SUCH PRICES MAY NOT PROVIDE FOR RECOVERY OF AN
14 APPROPRIATE ALLOCATION OF JOINT AND COMMON COSTS.
15 WHAT IS YOUR OPINION?

16

17 A. First, BellSouth disagrees with Mr. Ellison's arbitrary adjustments to
18 BellSouth's cost studies as set forth in his direct testimony. Ms. Caldwell has
19 addressed his assumptions and adjustments.

20

21 Second, BellSouth disagrees with the FCC's proposed pricing requirement that
22 unbundled elements be priced equal to TELRIC plus forward looking common
23 costs. Rather, prices should reflect costs, contribution to joint and common
24 costs, plus a reasonable profit. Assuming that the FCC's decision is upheld
25 and implemented, however, their methodology allows for the recovery of

1 common costs plus other changes in methodology which would increase, not
2 decrease, the level of cost as compared to a LRIC or TSLRIC study.

3 BellSouth has not conducted a TELRIC study for unbundled elements. The
4 Company has conducted and filed with this Commission multiple LRIC studies
5 for unbundled elements requested by local providers.

6

7 For illustrative purposes only, BellSouth prepared, on a proprietary basis, a
8 comparison of its LRIC cost with hypothetical TELRIC costs plus forward
9 looking common costs. BellSouth's prices from its proposed price list and
10 AT&T's proposed prices for selected unbundled elements are also shown.

11 This comparison is attached as Exhibit No. RCS-6. The point of this
12 comparison is to simply illustrate that a TELRIC study would be higher than a
13 LRIC study and that BellSouth's proposed prices are reasonable or may not be
14 high enough based on this comparison. In contrast, AT&T's proposed prices
15 do not even cover LRIC costs, much less the increased level of a TELRIC cost
16 study.

17

18 Q. HOW DO BELLSOUTH'S PROPOSED PRICES COMPARE TO THE
19 FCC'S PROXY LEVEL PRICES?

20

21 A. As an example, the FCC has proposed as a proxy level an aggregate rate of
22 \$13.68 for an unbundled loop in Florida. This proxy rate is lower than the
23 LRIC costs that the Commission used to base its \$17.00 price for the two-wire
24 local loop. Again, assuming logically that the addition of joint and common
25 costs recommended by the FCC for a TELRIC study would increase rather

1 than decrease the level of costs, BellSouth's proposed rates and LRIC studies
2 provide a much more reasonable approximation of costs than do the FCC's
3 proposed proxy rates or AT&T's proposed rates. Therefore, BellSouth
4 recommends that the Commission adopt its proposed prices.

5

6 Q. ON PAGE 7 OF HIS TESTIMONY, MR. ELLISON CONTENDS THAT
7 THE RATES PROPOSED BY THE COMPANY WERE NOT BASED ON
8 COSTS OF ANY SORT. IS HE CORRECT?

9

10 A. No. He bases his contention on the fact that some of the Company's proposed
11 rates are currently tariffed rates for either the same or similar services. As this
12 Commission well knows, currently tariffed rates have been supported with cost
13 studies that have been reviewed by the Commission and its Staff prior to their
14 approval. Simply because these rates contain contribution to joint and
15 common costs incurred by BellSouth that Mr. Ellison and AT&T do not like,
16 does not mean that the rates are not based on cost. Obviously, what Mr.
17 Ellison is recommending is that this Commission intentionally create the
18 ability for AT&T to engage in arbitrage and totally undermine the price levels
19 and structures that exist in Florida today.

20

21 Additionally, Mr. Ellison has taken exception to the cost of capital used in
22 BellSouth's studies. While I am not an expert on the subject, it is indisputable
23 that BellSouth's business is becoming increasingly more risky with the entry of
24 AT&T and others into the local telecommunications business, certainly riskier
25 than when the return Mr. Ellison suggests was established. Further, to the

1 extent that cost of capital is an issue, which it should not be, an arbitration
2 proceeding may not be the best forum for addressing such an issue.

3

4 Q. DR. KASERMAN CITED NUMEROUS BENEFITS TO THE
5 COMPETITIVE PROCESS BY REQUIRING BELL SOUTH TO SET
6 PRICES EQUAL TO TSLRIC. IRRESPECTIVE OF ECONOMIC
7 CONSIDERATIONS, IS HIS RECOMMENDATION SOUND
8 REGULATORY POLICY?

9

10 A. No. In support of his recommendation, Dr. Kaserman ignores or attempts to
11 minimize the issue of recovery of joint and common costs. To cover all bases
12 and close his discussion of TSLRIC and cost recovery, however, he states that
13 if the Commission finds that BellSouth experiences a revenue shortfall as a
14 result of setting prices equal to TSLRIC, the Commission should allow
15 BellSouth to recover the shortfall by increasing its retail prices. His
16 prescription is downright laughable. Stripping away the rhetoric, Dr.
17 Kaserman is recommending that this Commission give AT&T the best possible
18 deal on "wholesale" prices, and if by chance BellSouth is financially harmed,
19 permit BellSouth to raise its "retail" prices. Common sense leads to the
20 conclusion, I think, that Dr. Kaserman's prescription makes AT&T's retail
21 services more attractive and BellSouth's more unattractive. Stated differently,
22 Dr. Kaserman is suggesting that the only remedy to a bad decision is to raise
23 retail prices. The alternative, of course, is to make good decisions initially,
24 mitigating the need for this type of dilemma.

25

1 Dr. Kaserman builds all of his pricing guidelines from the overall principle
2 stated on page 11 of his testimony:

3
4 “Therefore, as local exchange markets evolve from monopoly to
5 competition, it is absolutely essential that regulators abandon existing
6 policies of cross-subsidization and inefficient pricing and substitute
7 efficient pricing structures.”

8
9 It is interesting to note that Dr. Kaserman’s principle is forward-looking only.
10 He did not recommend that regulators correct existing cross-subsidization and
11 inefficient pricing before moving to a competitive environment. He did not
12 recommend the development of an alternative universal service support
13 mechanism to assist in the correction of past inefficient pricing policies. He
14 did not recommend that BellSouth be permitted to rebalance its rates to more
15 economically efficient levels in order to send the correct signals to potential
16 market entrants. Instead, Dr. Kaserman’s solution is to ignore the past
17 practices of this Commission and the industry of ensuring universal service, to
18 ignore the joint and common costs incurred by BellSouth or portray them as
19 only attributable to retail functions, to demand that services that AT&T
20 purchases be priced equal to cost, to downplay any potential negative impacts
21 from competition designed on AT&T’s terms, and to recommend unworkable
22 solutions should any negative impacts surface. Fortunately for Florida
23 consumers, Dr. Kaserman does not establish regulatory policy.

24
25 Q. ON PAGE 25 OF HIS TESTIMONY, MR. ELLISON REQUESTS THE

1 COMMISSION TO DIRECT BELLSOUTH TO CONDUCT
2 DISAGGREGATED LOOP STUDIES AND TO PRICE "WHOLESALE"
3 LOOPS ON A DEAVERAGED BASIS. SHOULD THE COMMISSION
4 ADOPT HIS RECOMMENDATION?

5
6 A. Absolutely not. The Commission should not require wholesale pricing on this
7 basis until such time as the Commission permits the pricing of retail services in
8 the same manner. Mr. Ellison's recommendation is simply another attempt by
9 AT&T to gain a competitive advantage and undermine current rate structures
10 and rate levels developed to support historic Commission policy. Like Dr.
11 Kaserman, Mr. Ellison would have this Commission look only to the future
12 without any consideration of its past practices or policies. It should also be
13 noted that, even though the FCC's Order requires disaggregated loop prices,
14 the Order did not specify a deadline by which such prices must be in effect.
15 Therefore, until BellSouth can complete the necessary studies to support
16 disaggregated prices, the Commission should adopt BellSouth's proposed loop
17 rates.

18
19 **INTERCONNECTION (TRANSPORT & TERMINATION OF TRAFFIC)**

20 Q. MR. ELLISON PROPOSES THE INTERIM USE OF BILL-AND-KEEP FOR
21 THE TRANSPORT AND TERMINATION OF TRAFFIC ON PAGE 26 OF
22 HIS TESTIMONY. HIS RECOMMENDATION IS SUPPORTED BY MR.
23 GILLAN (PAGE 37). IS BILL-AND-KEEP AN APPROPRIATE
24 COMPENSATION MECHANISM?

25

1 A. No. I addressed this issue in detail on pages 45-47 of my direct testimony as
2 did Mr. Varner on pages 14-15 of his direct testimony. Those arguments will
3 not be repeated here other than to re-emphasize that bill-and-keep can not be
4 mandated by a state commission.

5
6 Mr. Ellison's primary criticism of BellSouth's proposed rates is that the rates
7 are based on some of the switched access rates which, according to Mr.
8 Ellison, are not based on economic costs as required by the Act, or in other
9 words, rates that have not been set equal to TSLRIC. As I stated earlier in the
10 discussion on pricing of unbundled network elements, nowhere in the Act can
11 one find the term "economic costs." AT&T is once again attempting to
12 interpret the Act in order to avoid the payment of compensatory rates for
13 services rendered.

14
15 Q. MR. GILLAN ASSERTS THAT IT IS IMPORTANT THAT RATES FOR
16 TRAFFIC TERMINATION BE IDENTICAL FOR LOCAL TRAFFIC AND
17 LONG DISTANCE TRAFFIC. IDENTICAL RATES ARE REQUIRED, PER
18 MR. GILLAN, SO THAT COMPETITORS CAN ESTABLISH DIFFERENT
19 LOCAL CALLING AREAS AND ELIMINATE THE NEED FOR
20 BELL SOUTH TO IMPLEMENT AUDITING SYSTEMS. IS HE
21 CORRECT?

22
23 A. There is agreement that the facilities used for local interconnection can be
24 functionally identical to those used to provide access. Past regulatory
25 practices, however, have required that access rates recover a disproportionate

1 share of costs. While auditing may be an area that might be eliminated in the
2 future once a common interconnection rate structure is implemented, the
3 auditing concern can not drive fundamental public policy concerns.

4
5 Further, Mr. Gillan's concerns about auditing systems and procedures are
6 unfounded. There has been an established system of traffic auditing in place
7 for years for access. As Mr. Gillan is well aware, the Percent Interstate Usage
8 ("PIU") factor and the periodic audits of its use are well established in the
9 industry. Adaptation of this basic methodology for use as a Percent Local
10 Usage ("PLU") factor to distinguish local traffic terminating minutes from
11 other traffic types will be a simple and straightforward process. Mr. Gillan is
12 simply attempting to find another reason to convince the Commission to lower
13 access charges to cost.

14

15 **PARITY**

16 Q. AT&T WITNESS SHURTER FOCUSES ON THE ISSUE OF SERVICE
17 PARITY WHICH HE DEFINES AS "A NEW ENTRANT'S CAPABILITY
18 TO PROVIDE ITS CUSTOMERS THE SAME EXPERIENCE AS
19 BELLSOUTH PROVIDES ITS OWN CUSTOMERS." HE ASSERTS THAT
20 SUCH PARITY IN CONNECTION WITH THE RESALE OF
21 BELLSOUTH'S RETAIL SERVICES IS A REQUIREMENT OF THE ACT.
22 IS HE CORRECT?

23

24 A. No. Parity is not a new issue in the telecommunications arena. It should not,
25 however, be used in an exaggerated manner to gain unwarranted discounts, or

1 to gain some new capabilities without incurring the costs.

2

3 Q. PLEASE EXPLAIN.

4

5 A. In developing its standard of service parity, AT&T relies on the language of
6 Section 251(c)(2)(C) which imposes the following obligation on BellSouth in
7 the context of interconnection (e.g., transmission and routing):

8

9 “...that is at least equal in quality to that provided by the local exchange
10 carrier to itself or to any subsidiary, affiliate, or any other party to
11 which the carrier provides interconnection; and...” (emphasis added)

12

13 Even though this section of the Act has nothing to do with resale, AT&T
14 somehow equates it with resale, defines it as service parity and begins the
15 process of including numerous requests, most of which are not related to resale
16 and not subject to arbitration, under the guise of a requirement for parity.

17

18 Q. ACCORDING TO MR. SHURTER, WHAT ARE THE UNRESOLVED
19 ISSUES RELATED TO SERVICE PARITY?

20

21 A. Mr. Shurter lists the following issues as unresolved:

22

23 1. Provisioning by BellSouth to AT&T of real-time interactive
24 access via electronic interfaces to BellSouth’s computerized operations
25 support systems (i.e., pre-ordering systems, ordering and provisioning

1 systems, maintenance and repair systems, customer usage data transfer
2 system, and local account maintenance system);

3

4 2. Provisioning by BellSouth to AT&T of direct routing from
5 AT&T's customers to AT&T's Operator Services and Directory
6 Assistance Services platforms;

7

8 3. Presentation of AT&T's brand in a fashion acceptable to AT&T
9 (i.e., advising customers, furnishing customer information materials,
10 AT&T logo on directories);

11

12 4. Contractual commitments on BellSouth's part to AT&T's list of
13 Direct Measures of Quality; and,

14

15 5. Reasonable access to information (i.e., copies of interconnection
16 agreements, advance notice of changes in service offerings).

17

18 Q. WHICH OF THE ABOVE ARE SUBJECT TO ARBITRATION?

19

20 A. In my opinion, only advance notice of changes in service offerings is arguably
21 subject to arbitration under the Act.

22

23 Q. HAS BELL SOUTH REFUSED TO PROVIDE ANY OF THE
24 CAPABILITIES REQUESTED BY AT&T RELATED TO SERVICE
25 PARITY?

1

2 A. No. BellSouth has only indicated that it is not technically feasible to provide
3 direct routing to AT&T's Operator Services and Directory Assistance Services
4 platforms. Additionally, contractual commitments on service quality should
5 only be developed once more experience is gained. On the issue of the AT&T
6 logo on BellSouth's directories, the Company has continuously advised AT&T
7 to discuss the issue with BAPCO (see earlier discussion). On the issue of
8 copies of interconnection agreements, AT&T should have copies of each
9 interconnection agreement executed for the purpose of local competition to
10 which BellSouth is party. The Company's position regarding its agreements
11 entered into with independent telephone companies prior to enactment of the
12 Act remains the same - the Act does not require that copies of these agreements
13 be made available to competitors.

14

15 As shown in Ms. Calhoun's testimony, on all other requests made by AT&T
16 related to "service parity," BellSouth has offered what it believes are
17 reasonable solutions to AT&T's requests. For example, the Company is
18 working diligently with AT&T on the issue of real-time interactive electronic
19 access to operations support systems. In fact, BellSouth has just recently filed
20 a status report on this issue with the Georgia Public Service Commission
21 regarding the progress made to date, including the fact that some of AT&T's
22 requests seem to be moving targets.

23

24 Q. YOU INDICATED THAT BELLSOUTH IS NOT ABLE TO PROVIDE
25 DIRECT ROUTING TO CERTAIN AT&T PLATFORMS. WHY NOT?

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A. Very simply, such routing is not required by the Act, and it is not technically feasible as explained by Mr. Milner in his direct testimony and by Mr. Pecararo in his rebuttal testimony. It is not surprising to me that AT&T has attempted to blur and confuse this issue by relating it to "service parity." It is absolute obfuscation on AT&T's part, however, to attempt to relate routing to dialing parity (Shurter, page 13).

What AT&T is requesting is that BellSouth create and offer a new basic local exchange retail service and make it available for resale - one that does not include access to BellSouth's Operator Services or its Directory Assistance Services. As I indicated earlier in my discussion concerning the enforcement of existing terms and conditions in BellSouth's tariffs, the Act requires that BellSouth make its retail services available for resale. The Act does not require BellSouth to offer its retail services for resale "without capabilities dictated by the purchaser" or that BellSouth create new retail services. Further, the Act does not permit AT&T to apply the concept and requirement of unbundling to a resold BellSouth retail service. Resale and unbundling are not the same regardless of AT&T's desires. If AT&T wishes to offer a unique basic local exchange service that includes direct access to its platforms, AT&T can purchase unbundled network elements from BellSouth and combine them with its own platforms.

With respect to the issue of dialing parity, AT&T is attempting to turn the Act on its head. Dialing parity has a very specific meaning in terms of local

1 competition - a customer of AT&T or any other competitor shall not have to
2 dial any extra digits when placing a local call than the customer had to dial
3 when placing a local call as a customer of BellSouth. Dialing parity does not
4 mean that an AT&T customer shall be able to dial the same telephone numbers
5 to reach AT&T's Operator Services and Directory Services platforms as the
6 customer dials to reach BellSouth's platforms. It is AT&T's responsibility to
7 set up its own telephone numbers to support its offering of these services, as
8 well as unique telephone numbers for other customer support operations such
9 as repair bureaus. Their contention that having to establish such numbers will
10 lead to customer confusion belies AT&T's previous successes in educating
11 their customers concerning new dialing habits, such as 1-800-CALL-ATT.

12

13 Q. IN THEIR DISCUSSIONS OF SERVICE PARITY, DID AT&T'S
14 WITNESSES FAIL TO MENTION ANY SIGNIFICANT ISSUES THIS
15 COMMISSION SHOULD CONSIDER?

16

17 A. Yes. In their discussions of real-time, interactive electronic interfaces to
18 BellSouth's operations support systems. AT&T ignored the issue of the FCC's
19 treatment of electronic interfaces as unbundled elements and the costs
20 associated with the development of such interfaces. As indicated in Ms.
21 Calhoun's testimony, BellSouth is incurring significant costs to meet AT&T's
22 requests. Once the costs are finalized, the Company will propose a cost
23 recovery mechanism designed to recover all costs related to the provisioning of
24 electronic interfaces to ALECs.

25

1 Q. WITH THE FILING OF AT&T'S SUPPLEMENTAL TESTIMONY ON
2 AUGUST 23, 1996, WERE NEW PARITY ISSUES IDENTIFIED?

3

4 A. Yes. In assessing the impact of the FCC's Order on the issues in this
5 proceeding, AT&T found that the FCC did not address the issue of how
6 BellSouth should treat a PIC change request received from an IXC other than
7 AT&T or the issue of Process and Data Quality Certification. Without the
8 ability to rely on the FCC's Order to provide a linkage to the Act, AT&T now
9 rationalizes their requests in these areas as required by the FCC's concept of
10 parity. (Carroll Supplemental Testimony, Exhibit JCS-1) This is an example
11 of "decision shopping" by AT&T. If you cannot get the decision you want in
12 one forum, try another forum.

13

14 Nowhere in the FCC's discussion of parity does it suggest that PIC changes
15 should be treated differently or that quality certification is needed. The term
16 "parity" cannot be used as a default mechanism for everything that is not
17 covered in the FCC's Order.

18

19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20

21 A. Yes.

22

23

24

25