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1                                   **BELLSOUTH TELECOMMUNICATIONS, INC.**  
2                                   **REBUTTAL TESTIMONY OF ALPHONSO J. VARNER**  
3                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
4                                   **DOCKET NO. 960833-TP**  
5                                   **AUGUST 30, 1996**

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

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

15   Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

17   A.    Yes. I filed direct testimony on August 12, 1996 regarding AT&T's Petition, and  
18            supplemental direct testimony on August 23, 1996 regarding the Federal  
19            Communications Commission's (the FCC) August 8, 1996 Order.

21   **PART I: DIRECT REBUTTAL**

22   Q.    WHAT IS THE PURPOSE OF PART I OF YOUR TESTIMONY?

24   A.    The purpose of Part I of my testimony is to respond to the positions taken by  
25            various AT&T witnesses in their direct testimony.

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Q. IN ANALYZING AT&T'S TESTIMONY, HAVE YOU IDENTIFIED ANY THEMES OR STRATEGIES OF AT&T?

A. Yes. It appears that AT&T intends to enter local exchange markets either on the terms and conditions specified by AT&T, or not at all. Mr. Carroll stated the following on page 2 of his direct testimony:

“...and that if AT&T is granted the relief found in AT&T's proposed interconnection agreement attached as Exhibit JC2 to my testimony (the “Interconnection Agreement”), then AT&T will commit to provide Florida consumers with high quality services and technological innovations at competitive prices in competition with BellSouth's monopoly.” (emphasis added)

It is not clear whether AT&T meant this as a scare tactic, or whether AT&T was just forthrightly stating its conditions for entering the local exchange market in Florida. Regardless, this statement reinforces BellSouth's opinion that AT&T's position throughout the negotiations has been that BellSouth must compromise, that BellSouth (and now this Commission) must accept AT&T's “minimum requirements” (see Mr. Carroll's testimony, page 10, lines 6-7), and that BellSouth (and now this Commission) must accept AT&T's position on each and every issue.

Q. ARE THERE OTHER THEMES THAT PERMEATE AT&T'S TESTIMONY?

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A. Yes. For example, throughout the testimony of AT&T's witnesses, AT&T is attempting to convince the Florida Public Service Commission (hereinafter referred to as "the Commission" or "the FPSC") that the Commission has a duty and an obligation to "promote" competition. In plain English, AT&T is saying adopt each and every AT&T position or competition will never materialize. Mr. Cresse adds another dimension to this theme when, on page 3 of his testimony, he requests micromanagement of BellSouth in particular and the competitive process generally through the imposition of more stringent regulatory requirements on BellSouth. Obviously, the Commission should, after implementing the necessary mechanisms to allow local competition in Florida, monitor the competitive process. The Commission should not, however, tilt the rules of the game in AT&T's favor as AT&T desires under the guise of promoting competition.

Q. YOU DISCUSSED THE TONE OF AT&T'S PETITION ON PAGE 11 OF YOUR DIRECT TESTIMONY. DOES AT&T'S DIRECT TESTIMONY SUPPORT YOUR EARLIER CONCLUSION?

A. Yes. A clear example of the AT&T mindset is found on page 12 of Mr. Carroll's testimony. In describing AT&T's review of BellSouth's completed interconnection agreements, Mr. Carroll acknowledges that all AT&T is looking for from BellSouth is "detailed concessions." It is apparent after reviewing all of the AT&T testimony that AT&T's position is that only it has the right to pursue valid business interests, and that any position taken by BellSouth is nothing more than its "entrenched monopoly position."

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Q. YOU ATTRIBUTED THREE APPARENT OBJECTIVES TO AT&T IN YOUR DIRECT TESTIMONY. AFTER REVIEWING AT&T'S TESTIMONY, HAS YOUR ASSESSMENT CHANGED?

A. No, for the following reasons. First, regarding AT&T's apparent objective to circumvent the payment of access charges, Mr. Carroll on page 6 of his testimony states the following:

"If AT&T is to compete with BellSouth on relatively equal terms in the local market, I believe the interexchange access charges must be reduced to reflect BellSouth's actual economic costs of providing those services."

Translated, this means that BellSouth should be required to price intrastate interLATA access at TSLRIC, as TSLRIC is defined by AT&T. In financial terms, this would require BellSouth to reduce its revenues significantly. Obviously, this is not required by the Act; it ignores the fact that access charges are being reduced per the Commission's Order in Docket No. 920260-TL; but it does reflect AT&T's long-standing position that it should not have to provide support for universal service.

Second, regarding AT&T's apparent objective to enter local markets either through resale or use of unbundled network elements at rates that are not compensatory to BellSouth, Mr. Carroll's and Mr. Lerma's resale proposals and Mr. Ellison's pricing recommendations for unbundled elements provide ample

1 evidence of AT&T's objective. The goal is to secure the highest possible resale  
2 discount and the lowest possible price for unbundled elements, both of which,  
3 according to Dr. Kaserman and Mr. Gillan, are absolutely imperative if  
4 "overmatched" AT&T is to stand a chance against BellSouth and provide all the  
5 benefits of competition to Florida consumers.

6  
7 Third, regarding AT&T's intention to keep BellSouth out of the interLATA long  
8 distance market, Dr. Kaserman and Mr. Gillan plant the seeds for what AT&T  
9 apparently hopes will be the justification for this Commission to delay  
10 recommending that BellSouth be permitted to enter the interLATA market. On  
11 page 6 of Dr. Kaserman's testimony, he plants the message that "widespread  
12 facilities-based competition" is required to eliminate monopoly power and that  
13 "...[t]ransformation of local exchange markets from monopoly to competition is  
14 likely to be a prolonged, contentious, and complex process...". Translated, Dr.  
15 Kaserman believes that BellSouth must lose significant market share to facilities-  
16 based competition, that this will take some time to occur, and the Commission  
17 should be in no hurry to support, and AT&T will strongly contest, BellSouth's  
18 entry into the interLATA market. Mr. Gillan sends the same message with his  
19 statement on pages 4-5 that "... allowing BellSouth to provide long distance  
20 services in its territory -- while useful to understand the full impact of the Act -- is  
21 a question that is relevant only *after* local markets become competitive." He  
22 continues his message through a statement on page 13, conditioning BellSouth's  
23 entry to "...once effective competition is firmly established...".

24  
25 Q. MR. CRESSE OPINES THAT INCUMBENT LOCAL EXCHANGE

1 COMPANIES WILL DO EVERYTHING POSSIBLE TO HINDER  
2 COMPETITION IN LOCAL MARKETS AND CITES EXAMPLES OF PAST  
3 ACTIONS TO SUPPORT HIS POSITION. IS HIS PORTRAYAL OF  
4 HISTORY ACCURATE?

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6 A. Absolutely not. First, Mr. Cresse attributes his examples to conduct by local  
7 exchange carriers when in fact the firm he should be referring to is AT&T. Mr.  
8 Cresse, in testimony on behalf of AT&T, ignores the fact that today's situation is  
9 totally different from the past. When competition was initially introduced in this  
10 industry, AT&T was in a "no win" situation. There was no incentive for AT&T  
11 to support competition because the only possible result was that AT&T was going  
12 to lose revenues and market share. No new opportunities were being created for  
13 AT&T with the introduction of competition. Today, the situation is different.  
14 Incumbent local exchange companies like BellSouth have the incentive to support  
15 competition because their ability to offer the full range of telecommunications  
16 services to consumers is predicated on their willingness to open the local markets  
17 to competition and their compliance with the provisions of the  
18 Telecommunications Act of 1996 (hereinafter referred to as "the Act").

19  
20 Q. ON PAGE 4 OF HIS TESTIMONY, MR. CRESSE CITES SIX EXPECTED  
21 TACTICS BY BELL SOUTH TO LIMIT COMPETITION. ARE HIS  
22 EXAMPLES ACCURATE?

23  
24 A. No. Generally, Mr. Cresse deems any action by BST to level its ability to  
25 compete with AT&T as a tactic to limit competition. Apparently he does not view

1           BST's participation as a competitor as increasing competition. He seems to have  
2           a view that competition should not include the incumbent LEC.

3  
4           The following restates each of Mr. Cresse's examples and provides a response:

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6           "1.     I would expect incumbent LEC's to attempt to minimize the discounts on  
7           resale to the maximum extent possible."

8  
9           Response:     BellSouth has proposed discounts that are in compliance with the  
10           pricing provisions of the Act. To the extent that AT&T or any other party  
11           proposes discounts that are not in compliance with the provisions of the Act or  
12           that are designed to specifically advantage the proposing party, BellSouth will  
13           oppose them.

14  
15           "2.     I would expect incumbent LEC's to minimize the network functions or  
16           elements they believe should be unbundled."

17  
18           Response:     BellSouth has proposed to offer numerous unbundled network  
19           elements to its competitors, some of which are not required by the plain wording  
20           of the Act. Further, BellSouth is committed to offering additional unbundled  
21           elements when requested by competitors if such unbundling is technically  
22           feasible.

23  
24           "3.     I would expect incumbent LEC's to attempt to enter into long term  
25           contracts with existing customers under their Contract Service Arrangements

1 (“CSA’s”) authority prior to any actual competition.”

2  
3 Response: This allegation is ridiculous on its face. CSAs are an appropriate  
4 tool and are only permitted for responding to an existing competitive situation.  
5 They do not permit BST to extend contracts prior to competition.

6  
7 “4. I would expect incumbent LEC’s to offer differential pricing in those areas  
8 where they have or soon expect competition, such as zone density-based access  
9 charges.”

10  
11 Response: BST has been seeking differential pricing for years before this  
12 docket was established. We expect to continue to do so to enhance our ability to  
13 compete. This is not a tactic to limit competition, but a means to provide  
14 customers with choices. Moreover, if geographic deaveraging is appropriate for  
15 ALECs, it would also be appropriate for BST.

16  
17 “5. I would expect incumbent LEC’s to attempt to maximize their revenues  
18 from interconnection and other services provided to new entrants.”

19  
20 Response: If BellSouth were attempting to maximize its revenues as  
21 suggested by Mr. Cresse, the Company would not be willing to negotiate and  
22 compromise on as many of the rates as it has.

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24 “6. I would expect incumbent LEC’s to use universal service as a means to  
25 extract the highest contributions possible from their competitors.”



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**Response:** Universal service is an issue that the Commission must keep in mind when reaching its decisions in this proceeding. BellSouth's position is that any decisions made in this proceeding should not create the potential for the undermining of current sources of support for universal service. Once the Commission decides on the methods and amounts for funding universal service in the future, BellSouth is committed to making the appropriate adjustments to existing sources of support.

**Q. MR. CRESSE, ON BEHALF OF AT&T, IMPLIES THAT BELLSOUTH IS REQUESTING PROTECTION FROM COMPETITION THROUGH ITS POSITIONS ON THE VARIOUS ISSUES. HE GOES ON TO STATE THAT, ALTHOUGH SUCH PROTECTION MIGHT HAVE BEEN APPROPRIATE UNDER RATE BASE REGULATION, THIS IS NO LONGER APPROPRIATE UNDER PRICE REGULATION. HOW DO YOU RESPOND?**

**A. Mr. Cresse is somehow equating the Commission's long-standing commitment to universally available and affordable basic local telephone service for Florida consumers to a protection from competition for Florida's local exchange telephone companies.**

Regarding Mr. Cresse's reference to price regulation, he is correct that it represents a change from rate base regulation - a change which BellSouth supports. Based on both existing competition and the expectations for future competition, the Company realized that it would be better served to accept the risk

1 of success or failure in the marketplace than to attempt to rely on rate base - rate  
2 of return regulation. Accepting the risks of competition, however, is not the same  
3 as what AT&T and Mr. Cresse are proposing, which is an acceptance of  
4 guaranteed market losses, resulting not from efficient competition, but from rules  
5 and requirements designed to advantage AT&T.

6  
7 Q. ON PAGES 4-5 OF HIS TESTIMONY, MR. SATHER GIVES HIS HISTORY  
8 LESSON ON RATE-OF-RETURN REGULATION AND THE PRICING  
9 PURSUANT TO SUCH REGULATION. HE THEN OPINES THAT WITH  
10 PRICE REGULATION AND THE PASSAGE OF TIME, SUBSIDIZED  
11 PRICES HAVE PRACTICALLY VANISHED. IS HE CORRECT?

12  
13 A. Hardly. A change in the regulatory framework can not achieve Mr. Sather's result  
14 without rebalancing and restructuring the entire existing system of social pricing.  
15 Mr. Sather is asking this Commission to make a remarkable leap of faith without  
16 one piece of valid evidence to support his contention.

17  
18 Q. DR. KASERMAN WARNS THE COMMISSION THAT BELLSOUTH HAS A  
19 STRONG INCENTIVE TO EXCLUDE COMPETITORS. IN ADDITION, HE  
20 LISTS VARIOUS TACTICS THAT BELLSOUTH MAY USE TO  
21 ACCOMPLISH SUCH EXCLUSIONS. PLEASE COMMENT.

22  
23 A. Dr. Kaserman has a long history of testifying on behalf of AT&T and providing  
24 his opinions on the incentives that local exchange companies face and the anti-  
25 competitive actions they may theoretically take because of those incentives.

1 Never, in my recollection, has he testified about an actual occurrence of anti-  
2 competitive behavior by BellSouth or any other local exchange company.  
3 Further, assessing his theoretical anti-competitive actions in this proceeding  
4 against the realities of what BellSouth has accomplished through negotiations  
5 with providers other than AT&T reveals the frailty of his opinions.  
6

7 **PART II: SUPPLEMENTAL REBUTTAL**  
8

9 Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR TESTIMONY?  
10

11 A. This portion of my testimony addresses AT&T's testimony filed on August 23,  
12 1996, with regard to their interpretation of the impact of the FCC's First Report  
13 and Order in Docket No. 96-98 (hereinafter referred to as the "Order") on the  
14 issues in this arbitration proceeding.  
15

16 Q. HOW IS THIS PORTION OF YOUR TESTIMONY ORGANIZED?  
17

18 A. In general, I have taken the matrix included in Mr. Carroll's testimony and  
19 address the issues and comments as he has presented them. I also address any  
20 specific testimony of the other AT&T witnesses on each issue, where necessary.  
21

22 Q. IN GENERAL, DOES BST AGREE WITH THE ANALYSIS PUT FORTH IN  
23 MR. CARROLL'S MATRIX AND IN THE TESTIMONY OF THE OTHER  
24 AT&T WITNESSES?  
25

1 A. No. Mr. Carroll and AT&T's other witnesses appear, in many instances, to have  
2 selectively extracted words from the FCC Order or Final Rules (hereinafter  
3 referred to as the "Rules") that will resolve the issues in a manner favorable to  
4 AT&T. Although BST is not saying that the words AT&T has put forward are  
5 not in the Order, what AT&T has failed to include, in many cases, are the  
6 "exceptions" to the Rules that permit the positions put forth by BST to be  
7 approved.

8  
9 **ISSUE 1: What services provided by BellSouth, if any, should be excluded from**  
10 **resale?**

11 **ISSUE 2: What terms and conditions, including use and user restrictions, if any**  
12 **should be applied to resale of BellSouth services?**

13  
14 Q. MR. SATHER STATES THAT THE FCC ORDER ALLOWS NO  
15 EXCEPTIONS TO THE REQUIREMENT THAT BST MUST OFFER FOR  
16 RESALE AT WHOLESALE RATES ANY TELECOMMUNICATIONS  
17 SERVICE OFFERED AT RETAIL TO NON-TELECOMMUNICATIONS  
18 CARRIERS. DO YOU AGREE WITH HIS CONCLUSIONS ON ISSUES 1  
19 AND 2?

20  
21 A. No. As I pointed out in my supplemental direct testimony, and what Mr. Sather  
22 fails to address, is that Paragraph 51.613(b) of the FCC's Rules states, "[w]ith  
23 respect to any restrictions on resale not permitted under paragraph (a), an  
24 incumbent LEC may impose a restriction only if it proves to the state commission  
25 that the restriction is reasonable and nondiscriminatory." Certainly, this

1 paragraph addresses not only appropriate use and user restrictions, but also  
2 exceptions to the actual services that an incumbent LEC must offer for resale.

3  
4 Although BST agrees that the Order concludes that many restrictions are not  
5 appropriate, in my supplemental direct testimony and in the testimony of Mr.  
6 Scheye, also filed in this proceeding, BST has proposed a list of service  
7 restrictions that fall well within the FCC's requirement of being narrowly tailored,  
8 reasonable and nondiscriminatory and, therefore, should be approved by this  
9 Commission.

10  
11 Q. MR. SATHER ALSO DISCUSSES THE PRESUMPTIVE  
12 UNREASONABLENESS OF USE AND USER RESTRICTIONS WHEN  
13 APPLIED TO RESALE. IS HIS ANALYSIS CONSISTENT WITH THE  
14 ORDER?

15  
16 A. No. Although BST acknowledges the "presumptively unreasonable" terminology  
17 and discussion included in Paragraph 939 of the Order, we do not agree with Mr.  
18 Sather's conclusion that the only restrictions that may be permissible apply to  
19 promotions and cross class selling. As in the above discussion on services, BST  
20 may impose any limitations that this Commission allows as reasonable and  
21 nondiscriminatory, including restrictions on the resale of withdrawn  
22 (grandfathered or obsoleted) services. Again, as I have stated previously, the  
23 terms and conditions and use and user restrictions addressed by Mr. Scheye meet  
24 these requirements and are, therefore permitted by the Rules and should be  
25 approved by this Commission.

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**ISSUE 3a: When AT&T resells BellSouth's services, is it technically feasible or otherwise appropriate for BellSouth to brand operator services and directory services calls that are initiated from those resold services?**

**ISSUE 4: When AT&T resells BellSouth's local exchange service, is it technically feasible or otherwise appropriate to route 0+ and 0- calls to an operator other than BellSouth's, to route 411 and 555-1212 directory assistance calls to an operator other than BellSouth's, or to route 611 repair calls to a repair center other than BellSouth's?**

Q. WHAT IS BST'S RESPONSE TO AT&T'S POSITION TAKEN IN MR. SHURTER'S TESTIMONY ON ISSUES 3a AND 4?

A. BST generally agrees with what Mr. Shurter states is included in the Order. The Rules say that branding for operator services and directory assistance service is required unless an incumbent LEC can prove to the state commission that it lacks the capability to comply with the request. With regard to the unbundling of local switching, the Order requires selective call routing where technically feasible.

The actual question in both Issues 3a and 4 appears to be, whether or not it is technically feasible for BST to offer selective call routing of calls that are made by customers of AT&T when using BST's local switching. Mr. Shurter draws the inappropriate conclusion that it is technically feasible for BST to selectively route calls and therefore comply with AT&T's branding request.

1 As discussed in my previous testimony and in the testimony of Mr. Milner, even  
2 if the request were otherwise appropriate, BST lacks the capability to comply with  
3 these requests. Mr. Milner and Mr. Scheye also address why this request is not  
4 appropriate in a resale environment and what alternatives AT&T can use to  
5 achieve its desired outcome. The positions put forth by BST are consistent with  
6 the FCC's Order and should, therefore, be adopted by this Commission.

7  
8 **ISSUE 3b: When BellSouth's employees or agents interact with AT&T's customers**  
9 **with respect to a service provided by BellSouth on behalf of AT&T, what type of**  
10 **branding requirements are technically feasible or otherwise appropriate?**

11  
12 Q. AT&T STATES THAT THE FCC PRINCIPLES RELATING TO BRANDING  
13 AND PARITY REQUIRE BRANDING OF SERVICES AND MATERIALS?  
14 DO YOU AGREE?

15  
16 A. No. BST agrees with Mr. Shurter that the Rules do not address the issue  
17 discussed here as branding. The Rules do not require BST to brand or unbrand  
18 services other than operator services, call completion, or directory assistance  
19 services. BST, in the testimony of Mr. Scheye, has made a proposal that meets  
20 AT&T's request in a reasonable and nondiscriminatory manner, meeting the  
21 parity requirement for all competitors. The FPSC should accept BST's position  
22 on this issue

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24 **ISSUE 5: Should BellSouth be required to provide notice to its wholesale customers**  
25 **of changes to BellSouth's services? If so, in what manner and in what time frame?**

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Q. ALTHOUGH MR. SHURTER RECOGNIZES THAT THE ORDER DOES NOT ADDRESS THIS SPECIFIC ISSUE, HE CONCLUDES THAT THE CONCEPT OF PARITY REQUIRES NOTICE. DO YOU AGREE?

A. No. On this issue, as well as many other issues, AT&T's request goes well beyond any requirements of the Act or of the FCC's Order. Again under the parity umbrella, AT&T asks that it be notified well in advance of the retail market of any changes to be made to BST's services.

The Order discusses parity in the resale environment as making service available at least equal in quality to that provided by the incumbent LEC to itself. Additionally, incumbent LEC services are to be provisioned for resale with the same timeliness as they are provisioned to any other parties to whom the carrier provides the service, such as subsidiaries, end users, etc. Nothing in the Order requires BST to give AT&T preferential advance notice of changes. In fact, as I stated in my supplemental testimony, the Rules in Paragraph 51.603(b) actually appear to confirm BST's position; provisioning should be subject to the same conditions, and provided within the same provisioning time intervals that are provided to others.

**ISSUE 6: How should BellSouth treat a PIC change request received from an IXC other than AT&T for an AT&T local customer?**

Q. AGAIN, AT&T USES THE CONCEPT OF PARITY AND CONCLUDES THAT



1 BST MUST MEET AT&T'S REQUEST ON THIS ISSUE? PLEASE  
2 COMMENT.

3  
4 A. The Order, as Mr. Shurter agrees, does not specifically address this issue. AT&T  
5 goes on to say, however, that the concept of parity requires that BST require the  
6 IXC to contact AT&T, as the local exchange carrier, to effectuate the PIC change  
7 request. BST believes that this is not only inconsistent with the concept of parity,  
8 but would actually be discriminatory, and could, in fact, give AT&T an unfair  
9 market advantage. For these reasons, BST does not agree with the position taken  
10 by AT&T and urges the FPSC to adopt BST's position which, consistent with the  
11 Order, is reasonable and nondiscriminatory.

12  
13 **ISSUE 7: What are the appropriate wholesale rates for BellSouth to charge when**  
14 **AT&T purchases BellSouth's retail services for resale?**

15  
16 Q. MR. LERMA'S TESTIMONY CONCLUDES THAT THE APPROPRIATE  
17 WHOLESALER RATES EQUAL RETAIL RATES LESS REASONABLY  
18 AVOIDABLE RETAIL COSTS. IS THIS CONSISTENT WITH THE ORDER?

19  
20 A. Yes. The Order discusses costs to be avoided and reasonably avoidable costs. As  
21 has been presented in the testimony of several BST witnesses, BST does not  
22 believe the FCC's Order is in compliance with the Act on this issue. Mr. Reid  
23 discusses in detail the study presented in Mr. Lerma's supplemental testimony.

24  
25 **ISSUE 8: What are the appropriate trunking arrangements between AT&T and**

1 **BellSouth for local interconnection?**

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3 Q. MR. TAMPLIN'S TESTIMONY CONCLUDES THAT WHEN TRAFFIC  
4 VOLUMES DO NOT JUSTIFY ONE-WAY TRUNKS, BELLSOUTH MUST  
5 PROVIDE TWO-WAY TRUNKS WHERE TECHNICALLY FEASIBLE. DO  
6 YOU AGREE?

7  
8 A. Yes, BST agrees that the Rules, in Paragraph 51.305, says if technically feasible,  
9 BST must provide two-way trunking upon request. This does not, however,  
10 require a company to relinquish control over its own network and network  
11 planning.

12  
13 **ISSUE 9: What should be the compensation mechanism to the exchange of local**  
14 **traffic between AT&T and BellSouth?**

15 **ISSUE 10(b): What should be the price of each of the items considered to be**  
16 **network elements, capabilities, or functions?**

17  
18 Q. AT&T STATES THAT THE FPSC HAS THREE OPTIONS UNDER THE  
19 ORDER FOR DETERMINING A COMPENSATION MECHANISM: (1)  
20 SYMMETRICAL RATES BASED ON FORWARD LOOKING, LONG RUN  
21 ECONOMIC COST; (2) FCC PROXY PRICES; OR (3) BILL AND KEEP. ARE  
22 THESE IN ACCORDANCE WITH THE ORDER?

23  
24 A. Yes, these words are in accordance with the Order. BST does not necessarily  
25 agree, however, with AT&T's interpretation of the options.

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Q. MESSRS. ELLISON, GILLAN. AND KASSERMAN ALSO ADDRESS THE ISSUE OF PRICING OF NETWORK ELEMENTS, CAPABILITIES OR FUNCTIONS. DO YOU AGREE WITH THEIR CONCLUSIONS WITH REGARD TO THE ORDER?

A. No. The following includes a discussion of BST's position on both compensation mechanism and pricing of network elements.

First, with respect to forward-looking economic cost, the Order does not support AT&T's position of pricing at TSLRIC or TELRIC. The Order requires pricing at forward-looking economic cost, which includes both TELRIC and a reasonable allocation of forward-looking common costs. Both Messrs. Kaserman and Ellison appear to have problem with the concept of "reasonable allocation" of forward-looking common costs. Mr. Kaserman asserts that allocation of costs is not really an appropriate economic principle. Although I am not an economist and cannot concur with or dispute Mr. Kaserman's assertion, allocation has been and continues to be an appropriate regulatory principle and must certainly be used in determining the costs under consideration here. Mr. Ellison puts forth an arbitrary 1% or 2% mark-up which is unsupported and should be ignored.

BST also does not agree with Mr. Ellison's discussion of default proxies. While the Order does allow the state commission to establish interim rates based on the default proxies provided in Paragraphs 51.513 and 51.707 of the Rules, before using these, or any proxies, this Commission should determine whether or not

1 they are consistent with the Act. Under no circumstances should this Commission  
2 adopt the unsupported default proxies suggested by AT&T.

3  
4 Finally, with regard to the Commission's option of ordering a bill and keep  
5 arrangement for the transport and termination of local exchange traffic, BST  
6 agrees that the Order provides this option. We do not agree, however as we have  
7 said repeatedly, that mandating bill and keep is authorized by the Act. Therefore,  
8 it is not appropriate for the FCC's Order to allow states to mandate such  
9 arrangements.

10  
11 Q. MR. ELLISON'S TESTIMONY SUGGESTS THE USE OF THE HATFIELD  
12 MODEL TO DISAGGREGATE LOOP RATES. IS THIS AN APPROPRIATE  
13 METHOD?

14  
15 A. The Hatfield Model has previously been discredited. The fundamental flaws  
16 inherent in the Hatfield Model make it an inappropriate tool to estimate costs of  
17 any BST network element.

18  
19 The basic areas of the model to which BST objects are:

20 \*The Hatfield Model has evolved over time, there being several "versions,  
21 the results of which have varied greatly;

22 \*The Hatfield Model uses data, in part derived from another model, the  
23 Benchmark Cost Model, which itself is flawed;

24 \*The Hatfield Model uses unusually low estimates of joint and common  
25 costs;

- 1           \*The Hatfield Model uses unrealistic cost of money;  
2           \*The Hatfield Model uses overly high plant utilization factors; and  
3           \*The Hatfield Model underestimates the economic cost of service,  
4           especially in urban areas.

5  
6   **ISSUE 10a: Are the following items considered to be network elements, capabilities,**  
7   **or functions? If so, is it technically feasible for BellSouth to provide AT&T with**  
8   **these elements? Network Interface Device, Loop Distribution, Loop**  
9   **concentrator/Multiplexer, Loop Feeder, Local Switching, Operator Systems,**  
10   **Dedicated Transport, Common transport, Tandem Switching, Signaling Link**  
11   **Transport, Signal Transfer Points, Service Control Points/Databases**

12  
13   Q.   MR. CARROLL'S MATRIX STATES THAT BELLSOUTH MUST PROVIDE  
14       ACCESS TO SEVEN OF THE ABOVE ELEMENTS. HE GOES ON TO SAY  
15       THAT THE STATE COMMISSION MUST (EMPHASIS ADDED) REQUIRE  
16       FURTHER UNBUNDLING UNLESS BELLSOUTH PROVES THAT THE  
17       UNBUNDLING IS NOT TECHNICALLY FEASIBLE. IS THIS CONSISTENT  
18       WITH THE ORDER AND RULES?

19  
20   A.   The Rules specify that 1)the local loop, 2)network interface device, 3)switching  
21       capability, 4)interoffice transmission facilities, 5)signaling networks and call-  
22       related databases, 6)operation support systems functions, 7)and operator services  
23       and directory assistance must be offered on an unbundled basis, if technically  
24       feasible. These capabilities must be offered at just, reasonable and  
25       nondiscriminatory terms. On these issues, BST's initial assessment of the Order

1 agrees with Mr. Tamplin's testimony.

2  
3 With regard to what additional unbundling the state commissions must require,  
4 BST can find no reference in the Order and Rules to this. The Rules in Paragraph  
5 51.317 do establish standards for the states to follow to identify what additional  
6 elements should be made available. These standards do include technical  
7 feasibility but go on to say that the state commission may decline to require  
8 unbundling of the network element for certain reasons, even if the unbundling is  
9 considered technically feasible. In addition, as stated in my supplemental direct  
10 testimony, based on the initial analysis of the Rules and the direct testimony filed  
11 by other BST witnesses, it does not appear that the unbundled elements requested  
12 by AT&T in addition to those specifically identified by the Order, meet the  
13 criteria specified in Paragraph 51.317 and their unbundling should not be required  
14 by this Commission.

15  
16 **ISSUE 11: Do the provisions of Sections 251 and 252 apply to access to unused**  
17 **transmission media (e.g., dark fiber)? If so, what are the appropriate rates, terms,**  
18 **and conditions?**

19  
20 Q. DOES BST AGREE WITH AT&T THAT THIS ISSUE IS NOT ADDRESSED  
21 IN THE ORDER?

22  
23 A. Yes. Dry fiber is neither an unbundled network element nor a resold service,  
24 therefore, there is no standard under the Act for its provision. In addition, and as  
25 stated in my previous testimony, the Rules do not address dry fiber. BST's

1 position as previously filed should, therefore, be accepted by this Commission.

2  
3 **ISSUE 12: Should AT&T be allowed to combine BellSouth's unbundled network**  
4 **elements in any manner it chooses, including recreating BellSouth services?**

5  
6 Q. DOES BST AGREE WITH AT&T'S INTERPRETATION OF THE ORDER ON  
7 THIS ISSUE?

8  
9 A. BST agrees that the Order and Rules say that, unless BST can prove to the state  
10 commission that the requested combination is not technically feasible or that the  
11 requested combination would impair the ability of other carriers to obtain access  
12 to unbundled network elements or to interconnect with BST's network, that it  
13 must allow AT&T to combine elements.

14  
15 Again, BST would point out that the adoption of this Rule would have a dramatic  
16 impact on, not only resale for BST, but the development of facilities based  
17 competition. Rebundling of unbundled elements becomes just another form of  
18 resale, although, in many instances cheaper. It also does not encourage the build-  
19 out of facilities, thereby does not encourage entry by facilities based competitors.

20  
21 **ISSUE 13: Is it appropriate for BellSouth to provide copies of engineering records**  
22 **that include customer specific information with regard to BellSouth's poles, ducts,**  
23 **and conduits? How much capacity, if any, is appropriate for BellSouth to reserve**  
24 **with regard to its poles, ducts, and conduits?**

1 Q. MR. TAMPLIN, ON PAGE OF HIS SUPPLEMENTAL TESTIMONY STATES  
2 THAT THE ORDER REQUIRES BST TO PROVIDE ENGINEERING  
3 RECORDS. DO YOU AGREE?  
4

5 A. As stated in my previous testimony, it does not appear that the Order addresses  
6 the specific request that AT&T has made with respect to engineering records.  
7 With regard to capacity, BST continues to analyze its position.  
8

9 **ISSUE 14: What are the appropriate standards, if any, for performance metrics,  
10 service restoration, and quality assurance related to services provided by BellSouth  
11 for resale and for network elements provided to AT&T by BellSouth?**  
12

13 Q. DOES THE ORDER REQUIRE DIRECT MEASURES OF QUALITY (DMOQ)  
14 TO ENSURE THAT BST SATISFIES ITS STATUTORY OBLIGATIONS?  
15

16 A. No. While BST acknowledges, recognizes and agrees with AT&T that it has  
17 statutory obligations with regard to quality, the Company believes that, until  
18 adequate experience is available, it is premature to specify DMOQs. This position  
19 is consistent with the FCC's determination that the record is insufficient at this  
20 time to adopt such requirements. At such time that adequate experience is  
21 available, it is appropriate to jointly development quality measurements. At no  
22 time is it appropriate for AT&T to unilaterally decide what should be measured.  
23

24 **ISSUE 15: Do the provisions of Section 251 and 252 apply to the price of exchange  
25 access? If so, what is the appropriate price for exchange access?**



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Q. ISSUE 15 APPEARS TO BE ADDRESSED ONLY IN THE MATRIX INCLUDED IN MR. CARROLL'S TESTIMONY. DO YOU AGREE WITH HIS INTERPRETATION OF THE FCC RULES?

A. No. In general, the Rules change nothing with regard to assessing of access charges.

Q. MR. GILLAN DISCUSSES WHAT HE REFERS TO AS THE "FCC'S INTERIM SURCHARGE" ON LOCAL SWITCHING AS BEING INAPPROPRIATE. WHAT IS BST'S POSITION ON THIS "SURCHARGE"?

A. What Mr. Gillan incorrectly characterizes as an interim surcharge is merely a continuation of the carrier common line charge (CCLC) and 75% of the interconnection charge (RIC) currently applied on access. These charges are only applicable on those services where it already applies, i.e., interstate traffic and intrastate toll traffic, not on local minutes of use. What Mr. Gillan represents as an increased cost is, in reality, a reduction in access charges equal to 25% of the RIC. Mr. Gillan's implication that this is some additional charge is simply wrong.

The FCC recognized that opening the local exchange market to competition will reduce revenues available for the support of universal service. By allowing the incumbent LEC to continue to assess the carrier common line charge and a charge equal to 75% of the residual interconnection charge on the interstate minutes of use traversing the unbundled local switching elements, the Commission also

1 recognized the need for an incumbent LEC to continue receiving some support for  
2 universal service until such time that it is determined how much support is  
3 actually needed and from what sources that support should be received, i.e., either  
4 at the conclusion of the Federal Universal Support proceeding or the Interstate  
5 Access Reform proceeding. The Rules, in Paragraph 51.515 state that the  
6 assessment may continue "until the earliest of the following, and not thereafter:  
7 (1) June 30, 1997; (2) the later of the effective date of a final Commission  
8 decision in CC Docket No. 96-45, Federal-State joint Board on Universal  
9 Service, or the effective date of a final Commission decision in a proceeding to  
10 consider reform of the interstate access charges described in part 69; or (3) with  
11 respect to a Bell operating company only, the date on which that company is  
12 authorized to offer in-region interLATA service in a state pursuant to section 271  
13 of the Act."

14  
15 The FCC's Rules also allow BST to assess this interim surcharge on intrastate toll  
16 minutes of use for the same time period as the interstate assessment unless the  
17 state commission makes a decision that the incumbent cannot assess such charges.  
18 The FPSC also acknowledged a need for state support for universal service in its  
19 Order in Docket No. 950696 TP and said that for the interim this support should  
20 continue coming from existing revenues rather than establishing an interim  
21 universal service support mechanism. This commission must allow BST to assess  
22 this surcharge until such time as it determines the final support procedures for  
23 universal service or June 30, 1997 as stated in the Rules. It should also be noted  
24 that this date, although allowing the FCC to issue an Order on universal service,  
25 allows no time for the state to deal with the actual issue at hand.

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**ISSUE 16: Should BellSouth be required to provide real-time and interactive access via electronic interfaces, as requested, to perform the following: Pre-Service Ordering; Service Trouble Reporting; Service Order Processing and Provisioning; Customer Usage Data Transfer; Local Account Maintenance? If this process requires the development of additional capabilities, in what timeframe should they be deployed? What are the costs involved and how should these costs be recovered?**

Q. MR. SHURTER DISCUSSES ACCESS TO OPERATIONAL SUPPORT SYSTEMS. DO YOU AGREE WITH HIS ANALYSIS?

A. In general, BST agrees that the operations support systems identified in the FCC Order are the same systems that have been requested by AT&T and are the same systems that BST is either providing or has agreed to provide on an accelerated time schedule, as discussed in the testimony of Ms. Gloria Calhoun. The Rules state that access to the unbundled network element (i.e., operational support systems) must be of the same quality as that provided to the incumbent LEC itself or that upon request, if technically feasible, the quality be superior to that provided to itself. Upon request, access can also be of lesser quality.

BST also agrees that the Order requires the provision of these systems no later than January 1, 1997. As stated in my supplemental testimony BST, however, believes that because of the work effort involved, that the date put forth by the FCC is unrealistic.

1 **ISSUE 18: Should BellSouth be required to provide copies of all interconnection**  
2 **agreements entered into between BellSouth and other carriers, including other**  
3 **LECs and including those agreements entered into before the Act was enacted?**

4  
5 Q. ON PAGE 11 OF MR. SHURTER'S TESTIMONY, AT&T SAYS THAT THE  
6 ORDER REQUIRES BST TO MAKE ANY OF ITS OTHER  
7 INTERCONNECTION AGREEMENTS AVAILABLE TO AT&T. DO YOU  
8 AGREE.

9  
10 A. Although BST does not believe that the FCC Order and Rules are in compliance  
11 with the Act on this issue, the Company does agree with AT&T that the Order  
12 requires it to file all negotiated interconnection agreements with the state  
13 commission. This does not mean, however, that BST must automatically make  
14 any of those agreements available to AT&T. The Rules go on to say that BST  
15 must file these other interconnection agreements with the state commissions by no  
16 later than June 30, 1997 or earlier if the state commission requires it. The state  
17 commission must then review and approve or reject such agreements. If the FCC  
18 Order stands as issued, it will not be until an agreement is submitted and approved  
19 that the terms and conditions of such agreement are available to AT&T.

20  
21 **ISSUE 19: What billing system and what format should be used to render bills to**  
22 **AT&T for services and elements purchased from BellSouth?**

23  
24 Q. DOES THE FCC ORDER ADDRESS THIS ISSUE?

1 A. No. BST agrees with AT&T that this issue is not specifically addressed by the  
2 Order, and that the Rules require BST to provide services and elements under  
3 terms and conditions that are just, reasonable and non-discriminatory. The Rules  
4 also require BST to provide services for resale that are equal in quality, subject to  
5 the same conditions, and provided within the same provisioning time intervals  
6 that BST provides the services to others, including end-users. BST's position on  
7 billing is therefore consistent with the Rules, in that BST provides billing to its  
8 end users through CRIS. The FPSC should approve the Company's proposal on  
9 this issue.

10  
11 **ISSUE 21: Should BellSouth be required to provide interim number portability**  
12 **solutions in addition to remote call forwarding? If yes, what are the costs involved**  
13 **and how should they be recovered?**

14  
15 Q. DOES MR. TAMPLIN AGREE WITH BST'S POSITION WITH REGARD TO  
16 THE IMPACT OF THIS ORDER ON NUMBER PORTABILITY?

17  
18 A. Yes. Mr. Tamplin refers to the requirements of a previous FCC order that  
19 addressed number portability. This Order has no affect on BST's position on the  
20 interim number portability solutions originally put forth in Mr. Atherton's  
21 testimony.

22  
23 **ISSUE 23: Should BellSouth be required to allow AT&T to appear on the white**  
24 **and yellow page directories (e.g., logo or name)?**

1 Q. MR. SHURTER AGREES THAT THE FCC'S ORDER DID NOT  
2 SPECIFICALLY THIS ISSUE. HE GOES ON, HOWEVER, TO SAY THAT  
3 TO ACHIEVE PARITY AT&T'S LOGO MUST BE INCLUDED ON THE  
4 COVER OF THE WHITE AND YELLOW PAGE DIRECTORIES. DO YOU  
5 AGREE WITH HIS CONCLUSION?

6  
7 A. BellSouth agrees that the Order does not address this issue. We do not, however,  
8 agree that this is a parity issue. This is an issue for AT&T to negotiate with  
9 BellSouth Advertising and Publishing Company (BAPCO) who has the  
10 responsibility for publishing the directories to which AT&T is referring.

11  
12 Q. ARE THERE ANY ISSUES THAT YOU HAVE NOT ADDRESSED? IF SO,  
13 WHY NOT?

14  
15 A. I have not addressed issues 17, 20, and 22. These issues are not addressed in the  
16 FCC's Order and on Issue 17 I did not find it addressed in AT&T's testimony.  
17 Although AT&T agrees that Issues 20 and 22 are not addressed specifically by the  
18 FCC's Order, Mr. Shurter's testimony concludes that they should be covered by  
19 the concepts of parity or terms and conditions that are just, reasonable and  
20 nondiscriminatory. As stated in my supplemental testimony on Issue 20, BST has  
21 agreed that it will provide the same quality for services provided to its competitors  
22 that it provides to its end users. Issue 22 is not only not included in the FCC's  
23 Order but is not an issue for an arbitration proceeding. As I have stated in both of  
24 my previous testimonies in this proceeding, the Commission is addressing this  
25 issue as a separate undertaking.

1

2 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

3

4 A. My testimony addresses a variety of areas. Based on this testimony and the  
5 testimony presented by the other BST witnesses in this proceeding, BST continues  
6 to urge this Commission to accept the Company's position on the issues that  
7 appear to be consistent with the FCC's Order, as well as the Company's positions  
8 on the issues that do not appear to be addressed in the Order. In light of the  
9 impending legal actions with regard to this Order, I would again emphasize the  
10 importance of this Commission continuing to exercise its authority and judgment  
11 in carrying out its responsibilities in implementing the Act.

12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14

15 A. Yes.

16