960916-TP

DIRECT TESTIMONY

OF

RICHARD ROBERTSON

ON BEHALF OF

AMERICAN COMMUNICATIONS SERVICES, INC.

Reformatted September 6, 1996

I. BACKGROUND AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Richard Robertson. I am the Executive Vice President/General Manager -Switched Services of American Communications Services, Inc. ("ACSI"). My business address is 131 National Business Parkway, Suite 100, Annapolis Junction, Maryland 20701.

Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND BACKGROUND.

A. I joined ACSI in April 1996 and serve as Executive Vice President/General Manager - Switched Services. Prior to joining ACSI, I worked for BellSouth for 16 years and, since from 1991 to 1996, I directed marketing activities for its $4.0 billion network interconnection business. In that role, my responsibilities included negotiating interconnection agreements with competitive local exchange carriers ("CLECs"). I was responsible for development and implementation of BellSouth's advanced intelligent network (AIN) services for the interconnection market and also formulated the company's plan for and

entry into the customer premise equipment (CPE) market in the mid-1980s, leading that unit to achieve over $100 million in sales in its first year of operation. In other assignments during these 28 years, my experience included outside plant, manufacturing, finance, purchasing, strategy development and R&D positions with Western Electric, Bellcore, and the U.S. Army. I have a bachelor's degree in electrical engineering from Virginia Tech and an MBA from the University of Virginia.

Q. PLEASE BRIEFLY DESCRIBE THE OPERATIONS OF ACSI AND ITS OPERATING SUBSIDIARIES.

A. ACSI is a competitive local exchange carrier focusing primarily on markets in the South and Southwest. ACSI is a publicly-traded Delaware corporation, traded on the NASDAQ Market under the symbol "ACNS". ACSI, through its operating subsidiaries, has already constructed and is successfully operating digital fiber optic networks and offering dedicated services in several states. ACSI has eighteen

operational networks[1] and an additional six networks under construction.[2] ACSI affiliates are currently certificated to provide local exchange telecommunications services in Alabama, Georgia, Maryland, Nevada, Tennessee and Texas, and dedicated telecommunications services in Alabama, Arkansas, Georgia, Kentucky, Maryland, Nevada, New Mexico, South Carolina, Tennessee and Texas. ACSI subsidiaries have also applied for authority to provide switched and/or dedicated local exchange telecommunications services[3] in Arizona, Arkansas, Colorado, Florida, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, South Carolina, and Virginia.

Q. WILL ACSI INVEST SIGNIFICANTLY IN THIS STATE?

Yes.

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[1] ACSI's operational networks are located in the following cities: Columbus, Georgia; Louisville and Lexington, Kentucky; Jackson, Mississippi; Little Rock, Arkansas; Fort Worth, Irving and El Paso, Texas; Tucson, Arizona; Greenville, Columbia, Spartanburg and Charleston, South Carolina; Albuquerque, New Mexico; Birmingham, Mobile and Montgomery, Alabama; and Las Vegas, Nevada.

[2] In addition, ACSI expects the following networks to be operational by October 1996: Baton Rouge, Louisiana; Amarillo and Corpus Christi, Texas; Chattanooga, Tennessee; Colorado Springs, Colorado; and Central Maryland (Washington-Baltimore Corridor).

[3] In those states in which ACSI affiliates have not yet sought dedicated private line services, those services have additionally been requested.

Q. CAN YOU PROVIDE AN ESTIMATE OF ACSI'S PROPOSED INVESTMENT IN THIS STATE?

As a facilities-based carrier, ACSI will spend tens of millions of dollars in implementing our business plan in-state. In addition, we will be adding a significant number of employees in this state in order to begin offering switched services.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY STATE PUBLIC UTILITY COMMISSION?

A. Yes. I testified before the Alabama PSC on April 10, 1996 in connection with ACSI's application for switched services authority there.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain:

1) why unbundled loops are critical to the development of local competition;

2) why this Commission must price local loops based on Total Element Long Run Incremental Cost ("TELRIC"), not only to comply with applicable

federal law, but also in order to maximize economic efficiency and promote local competition; and

3) how proposed pricing for BellSouth's simple unbundled loops is: a) anticompetitive, in that it will artificially drive up CLEC costs and could eliminate the development of facilities-based competition; and c) represents pricing for a *service*, as opposed to an *unbundled element*, and one which provides significantly more capability than ACSI needs in a simple unbundled loop.

Q. AS A THRESHOLD MATTER, WHAT INCREMENTAL COST STANDARD MUST THE COMMISSION APPLY?

A. As Dr. Kahn will discuss at greater length in his testimony, Total Element Long Run Incremental Cost ("TELRIC") is the standard adopted by the FCC in implementing the Telecommunications Act of 1996 ("1996 Act"). As noted in the FCC's August 1, 1996, news release, TELRIC costs are the same as Total Service Long Run Incremental Costs ("TSLRIC").

III. BRIEF HISTORY OF NEGOTIATIONS WITH BELLSOUTH

Q. PLEASE BRIEFLY DESCRIBE YOUR NEGOTIATIONS WITH BELLSOUTH.

A. ACSI's initial request for interconnection negotiations was received by BellSouth on March 7, 1996. On July 25, 1996, ACSI signed an interconnection agreement with BellSouth covering almost all of the key interconnection issues.

Q. WHAT ISSUES BETWEEN ACSI AND BELLSOUTH HAVE BEEN LEFT UNRESOLVED?

A. The critical issue of the pricing of unbundled loops. ACSI requested incremental cost-based pricing of unbundled loops, relying upon publicly available information gleaned from the Hatfield Study discussed in Dr. Kahn's testimony. While the parties agreed that unbundled loops should be made available, and on the general terms and conditions which should apply to them, BellSouth would not agree to TELRIC-based pricing.

Q. PLEASE DESCRIBE THE UNBUNDLED LOOPS YOU REQUIRE AT THIS TIME.

A. The access line portion of local exchange service is comprised of two key components: the ***loop***, providing transmission between the customer and the LEC central office, and to the ***port***, the interface to the switch which provides the capability to originate and terminate calls. ACSI is requesting only the loop element at this time. Unbundled loops are critical to ensuring that ACSI and other CLECs can serve a geographically dispersed customer base. ***Physically*** unbundled loops are worthless to ACSI and other CLECs if the ***pricing*** is not also unbundled, and prices are set on an economically viable basis based on the direct forward-looking costs of providing the loop.

Specifically, ACSI requests in this arbitration that the Commission require BellSouth to make available at TELRIC-based pricing (further discussed below and in Dr. Marvin Kahn's testimony) 2-wire analog voice grade loops ("simple loops"), as well as the additional classes of loops discussed below. These and other requested loops are defined in further detail in ACSI's interconnection agreement with BellSouth.[4] ACSI specifically requested that unbundled loops be made available at prices, including both recurring and nonrecurring charges, based on TSLRIC cost. BellSouth responded by offering pricing at levels set for special access which, as discussed below, ACSI considers

[4] *Interconnection Agreement Between ACSI and BellSouth*, Attachment C-2.

to be categorically unacceptable. Certainly, as the FCC's recent decision on interconnection makes plain, such pricing is inconsistent with the 1996 Act. Although ACSI was able to come to terms with BellSouth, through good faith negotiations, on most interconnection issues, it became clear that BellSouth's insistence on inflated special access pricing for the loop element would require arbitration by the Commission.

IV. TELRIC-BASED UNBUNDLED LOOPS ARE CRITICAL TO THE DEVELOPMENT OF LOCAL COMPETITION

Q. WHY ARE UNBUNDLED LOOPS PRICED AT TELRIC-BASED RATES CRITICAL TO THE DEVELOPMENT OF LOCAL COMPETITION?

A. The ubiquitous local network in place today is a national asset developed over the course of a century by incumbent LECs ("ILECs") with ratepayer dollars. This national asset was developed by ILECs with the myriad benefits of their government-sanctioned monopoly franchises, including access to rights-of-way, building access, a guaranteed revenue stream, and, most fundamentally, protection from all competition. This monopoly franchise system made sense at a time when technology limited the number of participants in the local exchange marketplace.

With the development of advanced switching technology, however, we can now introduce competition -- the preferred American market structure paradigm -- into the local exchange market. While CLECs are rapidly building networks in dense, urban areas where it currently makes economic sense to do so (just as the current incumbents initiated their networks in urban areas, and eventually forfeited the less profitable outlying areas to the independents), it may never make economic sense to overbuild the entire ubiquitous ILEC network. Moreover, the availability of unbundled loops where CLECs may eventually build is critical to ensuring the CLECs' ability to compete immediately while their networks are only partially completed.

Accordingly, the U.S. Congress and the FCC, in order to ensure that the benefits of competition spread beyond large customers and business centers, have mandated the unbundling of the "local loop," often referred to as the "last mile" from the LEC central office to the customer premises. Even in urban areas, CLEC networks do not pass by every building, and unbundled loops are therefore required to expand CLECs' urban customer base, as well.

Q. DOES BELLSOUTH CURRENTLY HAVE A MONOPOLY OVER THIS "LAST MILE" OF THE LOCAL NETWORK?

A. Yes. As further discussed in Dr. Kahn's testimony, the reason the U.S. Congress and the FCC have required incremental cost-based pricing is because the "local loop" is a monopoly bottleneck element. BellSouth continues to have monopoly control over the "last mile" of the telecommunications network. Facilities-based local connections between most end-users and the BellSouth central offices will for some time to come remain the exclusive province of BellSouth. This monopoly results from the fact that this loop network consists mostly of transmission facilities carrying small volumes of traffic, spread over wide geographic areas. The "last mile" loop network, therefore, is an essential bottleneck facility for any potential provider of competitive local exchange service.

Q. WHY WILL IT BE IMPOSSIBLE FOR ANY COMPANY TO REPLICATE THE LOCAL LOOP IN THE NEAR TERM?

A. As a threshold matter, the reason Congress and the FCC have mandated TELRIC-based unbundled loops is because there is no alternative to the ILEC local loop available *today*. Because Congress has determined that local competition should be implemented now, the question of whether the local loop can be duplicated five, ten, or twenty-five years from now is not relevant. Nonetheless, the reason it is unlikely that the local loop

will be replicated even in the foreseeable future is that CLECs do not share the incumbents' advantages. Not only is it currently infeasible, but it is economically inefficient for CLECs to duplicate the ubiquitous network built over the course of the entire century by incumbents. New entrants would find it prohibitively expensive to recreate the ubiquitous local loop. This is true whether new entrants use current technology or alternative -- and as yet not widely deployed -- telephone technology such as wireless loops or cable television plant. This is in part because new entrants have difficulty obtaining public and private rights-of-way, franchises, and building access on the same terms as incumbent LECs enjoy. Accordingly, if the local loop is not unbundled at TELRIC-based rates, customers will be denied the benefits of local competition.

Q. HOW WILL UNBUNDLED LOOPS PRICED AT TELRIC-BASED RATES OPEN UP THIS FINAL BOTTLENECK?

A. Unbundled loops, if appropriately priced based on TELRIC in accordance with federal statutory and regulatory guidelines, will provide access to an essential bottleneck facility controlled by BellSouth. TELRIC-based rates are not only federally mandated, but are the only rates that will permit economically viable competition to spread to ***all***

customers, regardless of whether they live in the city, the suburbs, or the country.

Q. WHY IS IT IMPORTANT THAT NEW ENTRANTS BE PERMITTED TO COMPETE BEYOND THE RANGE OF THEIR CURRENT NETWORKS?

A. There are a number of reasons why competition should not remain limited. First, the benefits of competition should be permitted to spread to all customers throughout BellSouth operating territory. Second, ACSI and other new entrants are facing a daunting competitor in BellSouth, which already has dramatic competitive advantages: a nearly 100% market share in switched services, a customer relationship with every customer in their market, extensive marketing data on those customers, a ubiquitous network, the benefits of its historical monopoly franchise, and widespread name recognition.

The Commission is charged under the 1996 Act with ensuring that BellSouth cannot perpetuate its overwhelming competitive advantage by drastically limiting the potential serving area of CLECs to a discrete geographic area. Part of ACSI's interest in unbundled loops stems from the fact that many customers have multiple locations. In order for CLECs to compete for these dispersed customers, unbundled loops will

be required to complement CLEC facilities. (Ironically, CLECs will be forced to become "cream-skimmers" of more lucrative, lower service cost areas and customers, a pejorative label often pinned on CLECs by LECs, if unbundled loops are not available at economically viable prices.) In short, if ACSI and other CLECs are not permitted to compete *everywhere* through TELRIC-based loops, they may not, as a practical matter, be able to compete *anywhere*.

V. UNBUNDLED LOOPS MUST BE PRICED AT TELRIC-BASED RATES UNDER THE TELECOMMUNICATIONS ACT OF 1996

Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE UNBUNDLED ELEMENT PRICING REQUIREMENTS OF THE TELECOMMUNICATIONS ACT OF 1996.

A. The Telecommunications Act of 1996 and the rules issued in Docket 96-98 at the FCC greatly simplify this Commission's task in the arbitration of pricing unbundled loops. Although I am not a lawyer, the plain meaning of Section 252(d)(1) of the Telecommunications Act of 1996 requires that pricing for unbundled elements should be based on the cost, without reference to rate-of-return regulation, of the unbundled network element, must be nondiscriminatory, and *may* include a reasonable profit. At its recent meeting on August 1, 1996, the FCC correctly

interpreted this language to require that unbundled element rates must not only be nondiscriminatory, but must also be based on Total Element Long Run Incremental Cost ("TELRIC"). Dr. Kahn's testimony will go into greater detail as to the appropriate economic analysis to arrive at the appropriate rates for unbundled elements. Dr. Kahn will also explain why the FCC's pricing standard is not only the law of the land, but the only economically efficient means to determine the costs of unbundled elements.

Q. AS A BUSINESSMAN, WHY DO YOU BELIEVE IT IS NECESSARY FOR THE COMMISSION TO ENSURE THAT UNBUNDLED ELEMENT PRICES ARE NOT EXCESSIVE?

A. In the simplest terms, if the Commission were to allow BellSouth to charge non-TELRIC based rates for unbundled loops, new entrants such as ACSI would not be able to compete. Local competition promises to bring -- and in many ways already has succeeded in bringing -- lower prices, higher quality service, and increased innovation statewide. If the Commission overestimates the appropriate price of unbundled loops, new facilities-based entrants will not succeed in entering the market, the BellSouth monopoly will remain intact, and the benefits of competition will not be realized.

VI. BELLSOUTH HAS INAPPROPRIATELY PRICED UNBUNDLED LOOPS AS SPECIAL ACCESS SERVICES

Q. HOW HAS BELLSOUTH ESTABLISHED ITS PROPOSED UNBUNDLED LOOP RATES?

A. Since a full explanation was never given by BellSouth, I cannot be certain. However, it appears that BellSouth treated the unbundled loop ***facility*** much the same as it would a special access ***service***, and then incorrectly priced them in a similar fashion.

Q. WHY DOES THE SPECIAL ACCESS PRICING OFFERED BY BELLSOUTH SUGGEST A FUNDAMENTAL MISUNDERSTANDING BY BELLSOUTH OF THE ENTIRE CONCEPT OF UNBUNDLING?

A. Special access-like pricing is wrongheaded in several respects. Simple unbundled loops are technically very different from the more sophisticated special access service. Because of these technical differences, ACSI has asked to buy, in effect, the chassis for a Chevy Cavalier and BellSouth offered us a fully assembled Cadillac, at Cadillac prices. In other words, ACSI asked for an ***element*** of a relatively simple service. While BellSouth will provide this simple service element, it

quoted a price for a complete *service*, and a relatively sophisticated service at that.

Q. HOW IS SPECIAL ACCESS SERVICE DIFFERENT THAN A SIMPLE UNBUNDLED LOOP?

A. For the time being, I would like to focus on the difference between special access *service* and a simple unbundled loop *element*. Special access entails a number of sophisticated specifications that a simple unbundled loop does not meet, and that ACSI does not require. Special access is a digital service; the requested simple loops are analog. Moreover, when ACSI requests simple unbundled copper loops, it does not need several elements included in the digital special access service. Instead, ACSI needs only the copper loop element, not the entire service.

Q. WHAT DO YOU MEAN WHEN YOU SAY THAT BELLSOUTH MISUNDERSTANDS THE ENTIRE CONCEPT OF UNBUNDLING?

A. ACSI, as a facilities-based provider of switched services, can provide many basic network elements without BellSouth. Accordingly, when it orders an "*unbundled*" element of the kind that BellSouth must provide under the Telecommunications Act of 1996, it is ordering an *element* of

BellSouth's network—the simple unbundled loop—and not a BellSouth ***service***, such as the special access service offered by BellSouth. Exhibit A to my testimony is a chart demonstrating several BellSouth bundled network ***services*** with their associated basic network ***elements***. This chart demonstrates the distinction between a ***service*** and an ***unbundled element*** and makes it clear that what BellSouth is offering, both physically and from a pricing perspective, is a service and not an unbundled element. The chart at Exhibit A lists on the left-hand side BellSouth's services and under "Unbundled Basic Network Elements," the elements that constitute each service. BellSouth proposes to provide ACSI with the Digital Private Line (56 Ub/s) bundled network service. ACSI, however, only required the cooper loop element for most of its applications, with few exceptions. BellSouth is attempting to add in loop conditioning, A/D conversion and multiplexing elements that ACSI does not need.

Q. CAN YOU PROVIDE FURTHER DETAIL AS TO HOW THE SERVICE OFFERED BY BELLSOUTH DIFFERS FROM THE UNBUNDLED ELEMENT REQUESTED BY ACSI?

A. Yes. BellSouth proposes to provide 56 kb/s digital special access as its "unbundled loop." This is certainly not what BellSouth uses to reach its

typical business customers. This service is different from simple unbundled loops in terms of capability, in terms of the provisioning required, and, not surprisingly, in terms of price. BellSouth's pricing suggests that it is offering to provision a whole new end-to-end special access line; all that ACSI requests is, in its simplest terms, moving BellSouth's existing copper loop facility from its current connection to BellSouth's switch to its new connection to ACSI's node. Because this is a key distinction, ACSI also offers the testimony of Mr. William Stipe to expand on this distinction and to provide further background on key technical points.

VII. UNBUNDLED LOOPS PRICED AT BELLSOUTH'S PROPOSED SPECIAL ACCESS RATES, OR ANY OTHER RATE NOT BASED ON TELRIC, WOULD MAKE IT IMPOSSIBLE FOR ACSI TO COMPETE

Q. AS A BUSINESSMAN WITH ALMOST THIRTY YEARS EXPERIENCE IN THE INDUSTRY, IS IT CLEAR TO YOU THAT BELLSOUTH'S SPECIAL ACCESS PRICING IS GROSSLY INFLATED?

A. Yes. Although ACSI witness Dr. Kahn discusses the appropriate basis for setting unbundled element rates, the excessiveness of BellSouth's proposed rates can be quickly surmised from a comparison with existing

BellSouth and other rates, including existing BellSouth tariffed rates for comparable services or facilities, and unbundled loop rates from other states. This is true of both the nonrecurring and recurring charges for BellSouth special access rates.

Q. ARE OTHER PROXIES AVAILABLE TO SUGGEST THAT BELLSOUTH'S RECURRING UNBUNDLED LOOP RATES ARE ALSO OUT-OF-LINE?

A. Yes. In fact, unbundled loop rates are already in place in several states which demonstrate that BellSouth's special access recurring charges are substantially out-of-line with TELRIC-based rates. In Michigan, for example, the Commission set an interim rate for a simple business loop of $8.00 based on an incremental cost study in that range.[5] In Connecticut, Southern New England Telephone was ordered to provide a range of business unbundled loop rates beginning at $10.18 for "metro" business loops. (These and other rates are grouped in four geographic zones, as they should be, as I will discuss at greater length below.)[6] In

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[5] *In re Application of City Signal*, Case No. U-10647, Opinion and Order at 35, 103 (Feb. 23, 1995).

[6] *Application of the Southern New England Telephone Company for Approval to Offer Unbundled Loops, Ports and Associated Interconnection Arrangements*, Docket No. 95-06-17, Decision at 84 (Dec. 20, 1995).

Illinois, Ameritech agreed with MFS to the following schedule of unbundle l loop rates:[7]

Monthly Rates			
Loop Type		Access Areas[8]	
	A	B	C
Analog 2W	$6.95	$11.10	$13.60
Analog 4W	$13.90	$22.20	$27.20
ADSL 2W/HDSL 2W	$6.95	$11.10	$13.60
ADSL 4W/HDSL 4W	$13.90	$22.20	$27.20
BRI ISDN	$6.95	$11 10	$13.60
PBX Ground Start Coin	$6.95	$11.60	$14.10
Coin	$6.95	$11.60	$14.10
Electronic Key Line	$6.95	$11.60	$14.10

In California, Pacific Bell agreed to a basic business loop (including the EUCL) of $12.50 for Zone 1 of three rate zones.[9] These rates from

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[7] *Interconnection Agreement Under Sections 251 and 252 of the Telecommunications Act of 1996 by and between Ameritech Information Industry Services and MFS Intelnet of Illinois* (May 17, 1996).

[8] "Access Area" is as defined in Ameritech's applicable tariffs for business and residential Exchange Line Services.

[9] *Co-Carrier Interconnection Agreement between Pacific Bell and MFS*, filed by Advice Letter No. 17879, at 42 (Nov. 20, 1995).

other states provide a series of proxies for recurring unbundled loop charges that the Commission might consider while state-specific TELRIC-based prices are being developed.

Q. IS IT POSSIBLE THAT THE TELRIC OF UNBUNDLED LOOPS WILL PROVE TO BE LOWER THAN THE RATES ESTABLISHED IN THESE OTHER STATES?

A. Yes. Under the Telecommunications Act of 1996 and the FCC's rules, the Commission must adopt TELRIC-based rates. Once these rates are adopted, they should be available to ACSI. These should be completed swiftly because otherwise the market signals will continue to be distorted and competition could be harmed.

Q. IS IT POSSIBLE THAT BELLSOUTH'S SPECIAL ACCESS PRICING COULD LEAD TO A COST-PRICE SQUEEZE?

A. Yes. Although Dr. Kahn will be more prepared to describe this in economic terms, what this means to me as a businessman is that I have to buy a number of bottleneck services from BellSouth at the wholesale level, such as number portability, intermediate transit, directory services, unbundled loops, cross-connects, and in the future, other unbundled elements. I then must turn around and compete with

BellSouth at the retail level. By pricing its wholesale services, and particularly unbundled loops, at an exorbitant rate -- and one which greatly exceeds the cost-based rate which BellSouth effectively charges itself -- and then lowering its retail rates, BellSouth could easily "squeeze" any profit margin that ACSI might have hoped to obtain. To the same end, BellSouth has begun to request additional pricing flexibility and off-tariff contracting authority for switched services in certain states to permit it to lower its rates to end users, perhaps to fully effect this squeeze.

While a price squeeze might involve a number of bottleneck elements that CLECs must purchase from BellSouth, the unbundled loop is a critical element in this potential price squeeze. To protect against such a price squeeze, the Commission should adhere to the TELRIC-based rates required by Congress and the FCC, and supported in this proceeding by the testimony of Dr. Kahn.

Q. ARE THERE OTHER PROBLEMS WITH THE UNBUNDLED LOOP PRICING PROPOSED BY BELLSOUTH?

A. Yes. BellSouth offered ACSI a single geographically-averaged rate for all unbundled loops, whereas the cost of such facilities can vary greatly depending upon population density and other factors. Generally

speaking, loop costs go down as the population density of a service area increases. ACSI should only be charged the TELRIC cost to BellSouth of providing loops in discrete service areas. This is the only way ACSI can hope to have a reasonably level playing field with BellSouth in competing for customers in the particular market areas in which we will compete with each other.

Moreover, this is the only way the Commission can comply with the FCC's requirement of TELRIC-based rates. Accordingly, the Commission should order BellSouth to conduct TELRIC cost studies that take into account density and distance. (As noted below, different categories of loops will likewise reflect unique cost characteristics. BellSouth TELRIC cost studies, in addition to including density and distance sensitive rate categories, should provide separate rates for different categories of loops.)

Q. IS THERE ANY PRECEDENT FOR THIS TYPE OF PRICING STRUCTURE?

A. Yes. In fact, many of the rates I quoted above, including those of Ameritech, SNET, and Pacific Bell, are broken out in three or four density and/or distance-based categories. The FCC has also recognized this phenomenon when it permitted ILECs to adopt zone density pricing

for special access services.[10] The FCC has required TELRIC-based pricing for unbundled elements. If the Commission fails to break unbundled loop rates into density-based categories, rates will be significantly below cost for loops in certain areas (most likely the sparsely populated areas where BellSouth does not face competition), and well above cost in other areas (namely, the urban centers where competition will develop first).

VIII. BELLSOUTH'S PROPOSED NONRECURRING CHARGES FOR AN UNBUNDLED LOOP PRESENT AN INSURMOUNTABLE BARRIER TO ENTRY.

Q. DOES ACSI ALSO OBJECT TO BELLSOUTH'S PROPOSED NONRECURRING CHARGES FOR UNBUNDLED LOOPS?

A. Absolutely. BellSouth has proposed a nonrecurring charge for simple unbundled loops of approximately $140, which again is similar to the charge imposed for special access services. This rate is excessive in light of the technical differences between provisioning special access loops and unbundled loops as described by ACSI witness Mr. William Stipe. But it is also excessive when compared, for example, to the

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[10] *Expanded Interconnection with Local Telephone Company Facilities*, Report and Order and Notice of Proposed Rulemaking, 7 FCC Rcd 7369, 7454 (1992).

nonrecurring charge for services, such as Centrex-type services or basic business lines, currently tariffed by BellSouth. The basic business line offered by BellSouth, for example, is by definition a combination of unbundled loops and other unbundled elements, yet basic business line nonrecurring charges are drastically lower (less than one third of the BellSouth recommended charge in most states) than the nonrecurring unbundled loop rates proposed by BellSouth. This makes BellSouth's nonrecurring charge pricing proposal blatantly discriminatory.

Q. WOULD SUCH INFLATED NONRECURRING CHARGES FOR INSTALLATION OF UNBUNDLED LOOPS IMPAIR ACSI'S ABILITY TO COMPETE?

A. ACSI would have to pass such costs along to its customers. If installation charges are unreasonably high -- as proposed by BellSouth -- then end users will not be inclined to switch from their existing BellSouth service to ACSI's local services. Thus, such unreasonably high up-front charges are inherently anti-competitive. It was for just this reason that regulators set PIC change charges in the long distance business in the low $5 range years ago. The same considerations apply here.

Q. HOW THEN SHOULD NONRECURRING CHARGES BE ESTABLISHED?

A. The Commission should, at a minimum, set a ceiling on unbundled loop nonrecurring charges at the current tariffed rate applicable to basic business lines. This is not to say that the TELRIC-based price might not turn out to be still lower, as discussed in Dr. Kahn's testimony. BellSouth's inflated pricing proposal for nonrecurring costs is nothing more than a transparent attempt to increase costs for its CLEC competitors in order to thwart the development of completion.

IX. ACSI REQUESTS INCREMENTAL COST-BASED UNBUNDLED 2- AND 4- WIRE ANALOG AND DIGITAL LOOPS

Q. PLEASE DESCRIBE THE ADDITIONAL LOOPS ACSI REQUESTS, IN ADDITION TO SIMPLE UNBUNDLED LOOPS.

A. While much of my testimony has focused on 2-wire analog loops, the simple loops required for competition for less sophisticated end users, ACSI also is requesting additional loop types be priced based on the same TELRIC standard required by the FCC. These additional loop types are as follows: (1) 4-wire analog voice grade loops; (2) 2-wire ISDN digital grade links; (3) 2-wire ADSL-compatible loop; (4) 2-wire

HDSL-compatible loop; and (5) 4-wire HDSL-compatible loop. These loops will enable ACSI to meet the needs of more sophisticated end users that require advanced digital technology.

Q. WHY ARE THESE ADDITIONAL LOOPS CRITICAL TO ACSI AND TO THE DEVELOPMENT OF COMPETITION?

A. If ACSI is limited to simple loops, its ability to serve sophisticated end users will be limited. For example, sophisticated business customers increasingly demand services such as ISDN. In order to provide ISDN to customers located off of ACSI's network, ACSI must have access to ISDN digital loops. ISDN simply cannot be offered using two-wire analog loops. Moreover, PBX and key systems require 4-wire loops. ACSI must not be precluded from offering service to customers demanding these types of services. Accordingly, the Commission should require BellSouth to provide these as separate unbundled loops at TELRIC pricing in order to permit ACSI to compete and to encourage the development of local competition.

Q. DO THE SAME PRICING REQUIREMENTS APPLY FOR THESE LOOPS?

A. Yes. While the TELRIC of providing these loops may be incrementally higher than that of the simple 2-wire analog loop, the same arguments apply with respect to how these types of loops should be priced as I have discussed with respect to the simple unbundled loops: the 1996 Act and the FCC have required pricing based on TELRIC; ACSI will be caught in a price squeeze without TELRIC-based pricing; ACSI will not be able to compete for these customers without such pricing; and withholding such pricing will only delay the advent of widespread local competition and the attendant benefits of lower prices, increased quality services, and increased innovation.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT A

Bundled Network Services	Unbundled Basic Network Elements								
	Copper Loop	Loop Conditioning	A/D Conversion	Multiplex	Switch Port	DTMF Signaling	Call Proc. Software	Trunk Signal-MF	Trunk Signal-SS7
Centrex Line	●				●	●	●	▲	▲
Switched Access (e.g., FG D)					●		●		
Special Access	●	●	●	●					
Analog DID Trunk	●				●	●	●		
Business Line (1FB)	●				●	●			
Digital Private Line (56 kb/s)	●	●	●	●					

● Element necessary to provide the service.
▲ This element or other element necessary to provide the service.

VERIFICATION

STATE OF MARYLAND)
) ss
COUNTY OF ANNE ARUNDEL)

Richard Robertson, being first duly sworn, deposes and states that he is Executive Vice President – Switched Services for American Communications Services, Inc., the Petitioner herein, and is authorized to make this verification; that he has read the foregoing Testimony and knows the contents thereof, and that the same is true to the best of his knowledge, information and belief.

Richard Robertson

Subscribed and sworn to before me on the 8th day of August, 1996.

Notary Public

My Commission Expires:
CHARLES H.N. KALLENBACH
Notary Public, State of Maryland
Qualification Anne Arundel County
Commission Expires 5/16/00

(SEAL)