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BELLSOUTH TELECOMMUNICATIONS, INC.

REBUTTAL TESTIMONY OF ALPHONSO J. VARNER

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 960846-TP

SEPTEMBER 16, 1996

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Q. Please state your name, address and position with BellSouth
Telecommunications, Inc.

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

Q. ARE YOU THE SAME ALPHONSO J. VARNER THAT FILED DIRECT
TESTIMONY IN THIS DOCKET??

A. Yes. I filed direct testimony on September 9, 1996 in response to MCI's
Petition.

Q. WHAT IS THE PURPOSE OF THE TESTIMONY THAT YOU ARE FILING
TODAY?

1 A. My testimony responds to the direct testimony filed in this proceeding by MCI
2 witnesses Wood, Cornell, Martinez and Caplan. I will address only issues that
3 were not included in my direct testimony or a specific issue that I feel needs
4 further clarification. I address the issues only with respect to the impact of the
5 Federal Communications Commission's (hereinafter referred to as "the FCC")
6 First Report and Order in Docket No. 96-98 (hereinafter referred to as the
7 "FCC's Order"). My testimony is organized into five sections:

- 8 I. General
- 9 II. Cost
- 10 III. Interconnection and Unbundled Network Elements
- 11 IV. Switched Access
- 12 V. Summary

13
14 **I. GENERAL**

15
16 Q. MS. CORNELL'S TESTIMONY IDENTIFIES SIX PREMISES ON WHICH
17 SHE SUGGESTS THE FCC'S ORDER RESTS. PREMISE SIX "IS THAT
18 THE INCUMBENT LECs HAVE VIRTUALLY NO INCENTIVES TO
19 VOLUNTARILY PROVIDE THE VARIOUS NETWORK ELEMENTS AND
20 INTERCONNECTION NEEDED BY ENTRANTS AT PRICES OR UNDER
21 THE TERMS AND CONDITIONS THAT WOULD MAKE EFFECTIVE
22 COMPETITION A REALITY." PLEASE COMMENT.

23
24 A. It appears that through this testimony, MCI is attempting to portray BST (the
25 incumbent LEC) as the bad guy in this process. Ms. Cornell refers to several

1 references made by the FCC in its Order concerning LEC incentives to obstruct
2 competitive entry, superior bargaining power, etc. in order to illustrate the
3 premise. For BST, these references simply do not apply. As stated previously,
4 BST is committed to, and supports, competition and, therefore, supports and is
5 committed to the negotiation process. BST's negotiations have been extremely
6 successful due to the Company's recognition of the business needs of individual
7 alternative exchange carriers (hereinafter referred to as "ALECs") and the
8 willingness to make significant compromises on many important issues.

9

10 Even now BST continues to negotiate with MCI, trying to come to agreement
11 on outstanding issues, although MCI has requested arbitration.

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13 Q. THE ABOVE PREMISE DISCUSSED BY MS. CORNELL SUGGESTS
14 THAT BST HAS SIGNIFICANT INCENTIVE TO BLOCK COMPETITION.
15 IS THIS AN ACCURATE PORTRAYAL?

16

17 A. No. Again, BST is not the bad guy in this scenario. It is important to note that
18 MCI was neither driven to arbitration by BST, as should be clear from the
19 testimony that has been submitted by the Company, nor has MCI come to
20 arbitration frustrated by BST's defenses. It should be clear that BST is more
21 than willing to negotiate by the agreements that have been signed, including the
22 partial agreement with MCI. Presumably, based on these agreements and in
23 preparation for facilities-based competition, many of the companies involved
24 are installing trunks, switches and facilities. Companies are reselling BST's
25 services at reasonable rates and under conditions contemplated by the Act.

1 Apparently these companies do not hold the same concerns as MCI about
2 BST's willingness to allow competition.

3
4 In addition, BST has made it very clear that it intends to enter the interLATA
5 market as quickly as possible. This, in itself, provides much of the necessary
6 incentive to negotiate agreements that will be approved by state commissions.

7
8 Q. MR. CAPLAN MAKES SEVERAL REFERENCES IN HIS TESTIMONY TO
9 PROBLEMS THAT MCI HAS ENCOUNTERED IN NEGOTIATING
10 AROUND THE COUNTRY. WOULD YOU PLEASE COMMENT ON
11 THIS?

12
13 A. Yes. Mr. Caplan, as well as other MCI witnesses, refer to problems that MCI
14 has had in negotiating in other Regional Bell Operating Company ("RBOC")
15 regions. His testimony, however, specifies no major problems with BST on any
16 of the issues to which he refers.

17
18 Q. MR. MARTINEZ USES THE CONCEPT OF SERVICE PARITY TO
19 SUBSTANTIATE THE REQUESTS MADE BY MCI IN HIS TESTIMONY.
20 PLEASE COMMENT ON HOW THIS CONCEPT RELATES TO THE FCC
21 ORDER AND TO THE REQUESTS MADE BY MCI.

22
23 A. Mr. Martinez uses the concept of service parity, i.e., offering service at least
24 equal in quality to that provided by the incumbent LEC to itself or to any
25 subsidiary, affiliate, etc., to cover many issues in his testimony. While BST

1 agrees conceptually that service parity, although not a requirement under the
2 Act, is a goal worth pursuing, the Company has a different understanding of
3 what parity means. Parity does not mean that MCI, or any other ALEC's access
4 to BST's network, or its facilities, or its systems, or any piece of its business,
5 must be identical to BST's in all respects. The FCC Order requires equal
6 quality and that, BST has agreed to provide.

7

8 **II. COST**

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10 Q. MR. WOOD AND MS. CORNELL SUPPORT THE USE OF THE
11 HATFIELD MODEL TO DETERMINE THE RELEVANT COSTS OF
12 UNBUNDLED ELEMENTS TO BE PROVIDED BY BST PURSUANT TO
13 THE ACT, AS WELL AS TO DETERMINE THE COSTS OF
14 INTERCONNECTION AND ACCESS. DO YOU AGREE THAT THIS IS
15 AN APPROPRIATE MODEL TO USE FOR THESE PURPOSES?

16

17 A. Absolutely not. As I stated in my direct testimony, the fundamental flaws
18 inherent in the Hatfield Model make it an inappropriate tool to estimate costs of
19 any BST network element.

20

21 The basic objections BST has to the model are as follows:

22

23 *The Hatfield Model is based on a **theoretical** network that can never exist,
24 rather than the actual network used to provide service;

25

1 ***The Hatfield Model has evolved over time, there being several “versions”, the**
2 **results of which vary greatly (Mr. Wood goes into great detail about how the**
3 **“new version” of the Hatfield study works);**

4
5 ***The Hatfield Model uses data in part derived from another model, the**
6 **Benchmark Cost Model, which itself is fatally flawed;**

7
8 ***The Hatfield Model uses unusually low estimates of joint and common costs;**

9
10 ***The Hatfield Model uses an unrealistic cost of money;**

11
12 ***The Hatfield Model uses overly high plant utilization factors;**

13
14 ***The Hatfield Model uses overly long depreciation lives; and**

15
16 ***The Hatfield Model underestimates the economic cost of service, especially in**
17 **urban areas.**

18
19 **The Hatfield Model, therefore, does not produce rates that are consistent with**
20 **the actual costs incurred by BST and, therefore, should not be used by this**
21 **Commission for these purposes. Use of the Hatfield Model is discussed in**
22 **greater detail in the testimony of Mr. Rick Emmerson, filed on behalf of BST in**
23 **this proceeding. Also in support of the BST position on this issue, attached to**
24 **my testimony, as Exhibit AJV-1, are the Further Comments of BellSouth in**
25 **FCC Docket No. 96-45 Dated August 9, 1996.**

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Q. DOES THE FCC RECOGNIZE THAT THE INCUMBENT LOCAL EXCHANGE CARRIER (HEREINAFTER REFERRED TO AS "LEC") IS BETTER PREPARED TO DETERMINE ITS OWN COSTS?

A. Yes. As both Mr. Wood and Ms. Cornell recognize in their testimony, Paragraph 680 of the FCC Order states, "We note that incumbent LECs have greater access to the cost information necessary to calculate the incremental cost of the unbundled elements of the network. Given this asymmetric access to cost data, we find that incumbent LECs must prove to the state commission the nature and magnitude of any forward-looking cost that it seeks to recover in the prices of interconnection and unbundled network elements." This paragraph does not state, nor insinuate, that the incumbent LEC or the state commission, must, or should, use a model prepared by someone other than the incumbent LEC, with cost data gathered by someone other than the incumbent LEC. This paragraph appears to be quite clear; the LECs have the cost data that they must use to prove to the state commission that the costs they are seeking to recover are appropriate. Using the Hatfield Model does not appear to be consistent with this requirement.

Q. MS. CORNELL DISCUSSES THE FCC STRUCTURE FOR COMPENSATION TO BE PAID FOR THE TERMINATION AND TRANSPORT OF LOCAL TRAFFIC. DO YOU AGREE WITH THE STRUCTURE AS SHE DISCUSSES IT?

1 A. Yes. Ms. Cornell appears to represent the FCC's Order appropriately. In fact,
2 many of the conclusions drawn by MCI agree, at least in principle, with those of
3 BST, e.g., the structure of compensation should follow the switched access
4 model of separate rate elements for different functions.

5

6 Q. DOES BST AGREE WITH ALL OF THE CONCLUSIONS AND/OR
7 RECOMMENDATIONS IN MS. CORNELL'S TESTIMONY REGARDING
8 COMPENSATION FOR TRANSPORT AND TERMINATION OF LOCAL
9 TRAFFIC?

10

11 A. No. One of the major disagreements with MCI is the recommendation to use
12 the Hatfield Model to set TELRIC based rates for compensation. As stated in
13 the discussion on the pricing of unbundled elements, BST does not believe that
14 the Hatfield Model is appropriate to use in these circumstances.

15

16 Q. DOES THE FCC ORDER ADDRESS NON-RECURRING COSTS
17 ASSOCIATED WITH UNBUNDLED ELEMENTS?

18

19 A. Yes. Paragraphs 745-752 of the FCC Order and Paragraph 51.507 (e) of the
20 Rules address non-recurring costs. In its discussion, the main concerns of the
21 FCC appear to be that an incumbent not over recover these costs and that non-
22 recurring costs, in general, not be recovered through recurring charges. In either
23 instance, the FCC recognizes that non-recurring charges are recoverable. In
24 Paragraph 745 they refer to a "general rule that costs should be recovered in a
25 manner that reflects the way they are incurred..."

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Q. IN YOUR EARLIER TESTIMONY, YOU MENTIONED THE NECESSITY FOR BST TO INVEST CAPITAL TO MEET THE NEEDS OF NEW ENTRANTS. DOES MS. CORNELL ADDRESS THIS IN HER TESTIMONY?

A. Yes. Ms. Cornell addresses this in her discussion of non-recurring charges for unbundling of elements, and although she approaches it from a different perspective than my original discussion, the outcome is really the same. Ms. Cornell recognizes that some requests for unbundled network elements may be filled by the incumbent LEC upgrading a facility. She goes on to say the upgrade may be valuable to the incumbent in the future. As I stated earlier, carriers will be able to obtain an element from BST for a day, a week, a month, a year or whatever timeframe they choose. When they no longer have a use for the element, yes, it then reverts back to BST. The point Ms. Cornell fails to make, however, is that BST must invest the initial capital, install the equipment and recover the investment over long periods of time, whether or not that element ever reverts back, and whether or not it ever adds value to BST. BST has no choice. Because of this, there must be a specific method for the recovery of that cost, not just the possibility that BST will eventually receive some value for its investment.

The actual non-recurring costs of unbundling must be recovered, just as any cost of the business must. It is not appropriate to put off any of the cost

1 recovery in the hope that the investment might some day be beneficial to the
2 incumbent.

3

4 **III. INTERCONNECTION AND UNBUNDLING NETWORK ELEMENTS**

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6 Q. MR. CAPLAN DISCUSSES IN DETAIL, ON PAGES 13-15 OF HIS
7 TESTIMONY, MCI'S REQUEST FOR TWO-WAY TRUNKING. DO YOU
8 HAVE FURTHER COMMENT ON THIS SUBJECT?

9

10 A. Yes. As I stated in my direct testimony, BST believes that each interconnecting
11 party should have the right to determine the most efficient trunking
12 arrangements for its network. Parties should work together and establish two-
13 way arrangements if both parties agree; however, such arrangements should not
14 be mandated. Mr. Atherton addressed trunking arrangements in detail in his
15 direct testimony.

16

17 Paragraph 51.305 (f) of the Rules states that, if technically feasible, BST must
18 provide two-way trunking upon request. The FCC Order does not, however,
19 require a company to relinquish control over its own network and network
20 planning. In fact, Paragraph 203 of the FCC Order states, "[e]ach carrier must
21 be able to retain responsibility for the management, control, and performance of
22 its own network." This paragraph supports BST's position that parties should
23 have the right to determine the most efficient trunking arrangements for its
24 network. Not to do so would be relinquishing management, control and/or
25 performance of its network.

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Q. BOTH MR. CAPLAN AND MS. CORNELL DISCUSS MCI'S NEED FOR THE UNBUNDLED LOOP DISTRIBUTION ELEMENT. IS THIS UNBUNDLING REQUIRED BY THE FCC'S ORDER?

A. No. Section D of the Rules discusses unbundling of network elements. This Section specifies that, where technically feasible, access to unbundled network elements must be provided at just, reasonable and nondiscriminatory terms. Paragraph 51.319 provides a list of specific network elements that are to be offered on an unbundled basis. Those items are 1) local loop; 2) network interface device; 3) switching capability; 4) interoffice transmission facilities; 5) signaling networks (access to service control points through the unbundled STP) and call-related databases; 6) operation support systems functions; and 7) operator services and directory assistance. Nowhere in this list is the loop distribution element.

Paragraph 51.317 establishes the standards for the states to follow in order to identify what additional network elements must be made available. Based on the discussions put forth in the direct testimony of BST, and our analysis of the Rules, it does not appear that MCI's request for the unbundling of the loop distribution element meets the criteria specified in Paragraph 51.317 and should, therefore, not be required by this Commission. Mr. Milner addressed this specific issue in his direct testimony.

1 Q. MCI RECOMMENDS THE USE OF PERCENT LOCAL USAGE FACTOR
2 TO DETERMINE THE PORTION OF TRAFFIC FOR WHICH LOCAL
3 INTERCONNECTION COMPENSATION IS DUE. IS SUCH A FACTOR
4 ADDRESSED IN THE FCC'S RULES?

5

6 A. No. The use of a percent local usage factor is not addressed in either the FCC
7 Order and Rules or the Act and is not an appropriate issue to be included in this
8 arbitration proceeding. Issues of this type are of an operational nature and
9 should be settled between the negotiating parties, not in arbitration.

10

11 **IV. SWITCHED ACCESS**

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13 Q. MS. CORNELL ADDRESSES SWITCHED ACCESS REFORM IN HER
14 TESTIMONY. IS THIS ISSUE APPROPRIATELY INCLUDED IN AN
15 ARBITRATION PROCEEDING?

16

17 A. No. The rates for intrastate switched access is an issue that has far-reaching
18 ramifications. It is not an appropriate issue to be raised in an arbitration
19 proceeding between two competing local exchange carriers. Ms. Cornell states,
20 on page 46 of her testimony, "This arbitration proceeding provides the state
21 commission with the opportunity to price intrastate access charges at economic
22 cost." She goes on to state that the Hatfield Model provides a means to identify
23 the appropriate costs and prices. It is not clear, however, what she is actually
24 asking this Commission to do because, on page 47, she urges the "state to
25 initiate a proceeding now...". Regardless of her intent, this proceeding is not the

1 appropriate avenue for consideration of state access reform and, under no
2 circumstances is the Hatfield Model the appropriate tool to determine costs and
3 prices.

4

5 **V. SUMMARY**

6

7 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

8

9 A. The FCC has released an Order establishing rules for the implementation of
10 local competition that goes far beyond the authority given to it by Congress.
11 The Order appears to be extremely unbalanced, deciding almost every issue in
12 favor of the new entrants and the IXCs. Contrary to the intent of Congress, it is
13 not an Order that will encourage the development of facilities-based
14 competition, but one that threatens to undermine the maintenance of universal
15 service.

16

17 A lopsided result in favor of new entrants to the local telecommunications
18 services market could have devastating results as opposed to the results being
19 anticipated by Congress. If the incumbent loses substantial market share,
20 substantial revenues, and becomes, to some extent, less financially strong, the
21 incumbent will have less incentive to invest and may think more than once
22 before placing new services and technologically advanced capabilities in rural
23 areas when the company is struggling to compete head-on in all of the urban
24 areas. If the incumbent LEC is marginalized, the results can be far-reaching for

25

1 Florida in terms of the state's continuing to have universal access to modern
2 telecommunications services at reasonable rates.

3

4 MCI raises many issues that are inappropriate to be included in this arbitration
5 proceeding. The two major categories are those issues that are included in the
6 MCI/BST Partial Agreement and those issues that have ramifications for parties
7 other than those participating in this proceeding. This Commission is urged to
8 dismiss these issues from this proceeding.

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11

12 A. Yes.

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