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## WITNESSES - VOLUME 5

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NUMBER	ID.	ADMTD.
17 (AT&T) JC-1 and JC-2	697	763
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## P R O C E E D I N G S

(Hearing reconvened at 9:05 a.m.)

(Transcript follows in sequence from  
Volume 4.)

CHAIRMAN CLARK: Call the hearing back to  
order. Mr. Carroll, is that our next witness.

MR. HATCH: Yes, ma'am. AT&T would call  
Mr. Carroll to the stand.

CHAIRMAN CLARK: Has Mr. Carroll been sworn?

MR. HATCH: No, ma'am, I don't believe so.

CHAIRMAN CLARK: Are there any other  
witnesses who will be presenting testimony in this  
proceeding who are here today that have not been sworn  
in?

MS. McMILLIN: Drew Caplan from MCI.

CHAIRMAN CLARK: Is he here?

MS. McMILLIN: He's in the building.

CHAIRMAN CLARK: That's all right. We'll  
take care of him later.

1                                   **WILLIAM J. CARROLL**

2   was called as a witness on behalf of AT&T  
3   Communications of the Southern States and, having been  
4   duly sworn, testified as follows:

5                                   **DIRECT EXAMINATION**

6   **BY MR. HATCH:**

7           **Q**     Mr. Carroll, could you please state your  
8   name and address for the record, please?

9           **A**     My name is William J. Carroll. I go by  
10   "Jim." My address is 1200 Peachtree Street, Atlanta,  
11   Georgia.

12          **Q**     And by whom are you employed?

13          **A**     AT&T.

14          **Q**     Did you prepare, cause to be filed direct,  
15   supplement direct and rebuttal testimony in this  
16   proceeding?

17          **A**     Yes, I did.

18          **Q**     Do you have any changes or corrections to  
19   any of those pieces of testimony?

20          **A**     Yes, I do.

21          **Q**     Could you please give them, please?

22          **A**     Sure. First of all, on Page 4, on Line 16,  
23   where it says 41.67%, it should say 39.99%, and then  
24   there should be a period after "cost", at the end of  
25   that Line 16. Then Line 17, 18 and 19 should be



1 stricken.

2           On Page 5, on Line 20, the last four of that  
3 sentence, "and its current monopoly" should be  
4 stricken. Line 21 and 22 should be stricken, and on  
5 Line 23 "or an inducement to market entry" should be  
6 stricken.

7           **CHAIRMAN CLARK:** Excuse me, Mr. Carroll,  
8 would you repeat that, please.

9           **WITNESS CARROLL:** On Page 5, Line 20, the  
10 last four words of Line 20 where it says "and its  
11 current monopoly" should be stricken. Line 21 should  
12 be stricken. Line 22 should be stricken. Line 23  
13 where the first words that say "or an inducement to  
14 market entry" should be stricken.

15           On Page 13, Line 18, the last five words  
16 "less factors for lack of" should be stricken, and  
17 Line 19 "operational disparity and to spur competition  
18 period" should be stricken.

19           On Page 17, Line 24, where it says "of the  
20 Act" it should be instead of "Act, "of the U.S. Code,"  
21 so "Act" should come out; "US code" should be  
22 inserted.

23           On Page 26, Line 16, where it says  
24 "forty-two," "nearly forty-two", that should say  
25 "nearly 40". So 42 should come out and 40 put in. On

1 Line 18 starting with "Additionally AT&T --"

2 COMMISSIONER KIESLING: Could you go back to  
3 the one before? I never found the line.

4 WITNESS CARROLL: On Page 26.

5 COMMISSIONER KIESLING: Yes.

6 WITNESS CARROLL: Line 16. "Forty-two"  
7 should be removed and 40 should be inserted.

8 COMMISSIONER KIESLING: Okay.

9 WITNESS CARROLL: Line 18 starting with  
10 "Additionally AT&T," that should be stricken.  
11 Line 19, 21 and 22 should be stricken.

12 Those are the changes.

13 Q (By Mr. Hatch) Mr. Carroll, what is the  
14 net effect of those changes to your testimony?

15 A There's one correction where the reference  
16 was "the Act" versus "U.S. Code." The net effect to  
17 that is to remove the incentives associated with the  
18 lack of electronic interfaces and the incentive to  
19 jump-start competition.

20 Q Subject to the changes you have noted  
21 Mr. Carroll, if I asked you the same questions today  
22 would your answers be the same?

23 A Yes, they would.

24 MR. HATCH: We would request that the  
25 testimony of Mr. Carroll be inserted into the record

1 as though read.

2 CHAIRMAN CLARK: Are we going direct,  
3 supplement and rebuttal?

4 MR. HATCH: Yes, ma'am.

5 CHAIRMAN CLARK: And those were the only  
6 changes to all of the testimony?

7 MR. HATCH: Yes, ma'am.

8 CHAIRMAN CLARK: The direct, supplement  
9 direct and rebuttal of Mr. Carroll will be inserted  
10 into the record as though read.

11 Q (By Mr. Hatch) Mr. Carroll, did you  
12 prepare an exhibit attached to your direct testimony,  
13 JC-1 and JC-2?

14 A I believe that was JC-1 for the direct.

15 MR. HATCH: Just for clarification,  
16 Commissioners, JC-1 is the 17 volumes previously filed  
17 in this exhibit as an exhibit to Mr. Carroll's  
18 testimony. It's not attached, so if you are looking  
19 for it it's not there.

20 Q (By Mr. Hatch) And then JC-2 I believe is  
21 the Interconnection Agreement, Mr. Carroll?

22 A Okay. I'm sorry. Yes.

23 Q Both of those exhibits were prepared by you  
24 or under your supervision?

25 A Yes.

1           Q     Did you also prepare an exhibit attached to  
2 your supplemental direct JC-1?

3           A     Yes.

4           Q     And that was prepared by you or under your  
5 supervision?

6           A     Yes.

7           Q     And attached to your rebuttal testimony  
8 there is an exhibit JCR-1?

9           A     Yes.

10          Q     And that was prepared by you or under your  
11 supervision?

12          A     Yes.

13               MR. HATCH: Madam Chairman, could we have  
14 those exhibits marked for identification, please?

15               CHAIRMAN CLARK: JC-1 and 2, including all  
16 of the attachments to JC-2 will be marked as  
17 Exhibit 17. JCS-1 will be Exhibit 18 and JCR-1 will  
18 be Exhibit 19.

19                   (Exhibits 17, 18 and 19 marked for  
20 identification.)

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**DIRECT TESTIMONY OF**  
**WILLIAM J. CARROLL**  
**ON BEHALF OF AT&T COMMUNICATIONS**  
**OF THE SOUTHERN STATES, INC.**  
**Docket No. 960833-TP**

**Q. PLEASE IDENTIFY YOURSELF.**

A. My name is William J. (Jim) Carroll and my business address is 1200 Peachtree Street, Atlanta, Georgia, 30309.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND AND EXPERIENCE.**

A. From 1967 to 1971, I attended Georgia State University and received a CG BS degree. I also attended the Massachusetts Institute of Technology in 1985 as part of the Sloan Fellows Program.

I started my work career in June, 1962 in Macon, Georgia as a communications technician in the Long Lines Division of AT&T. Since that time I have held positions with AT&T including positions in the following functional areas: operations; engineering; human resources; labor relations; and marketing. I was present during the evolution of the long distance telecommunications market from a pure monopoly to what is today an extremely competitive and active industry. Since divestiture of the long distance business from the telephone monopolies in 1982, I have held positions as Senior Vice President - New York and Northeast where I was responsible for services and products and Vice President - Network Operations and Engineering where I held nation-wide responsibility for AT&T. From these positions I have observed and studied the behavior of customers in both a competitive and a monopoly telecommunications environment.

1 **Q. PLEASE DESCRIBE YOUR CURRENT POSITION AND**  
2 **RESPONSIBILITIES AT AT&T.**

3 A. Currently I am Vice President - Local Services for the Southern States. My  
4 responsibilities include developing and implementing local services for AT&T  
5 customers in nine southern states, including Florida. I provide the leadership for the  
6 AT&T product teams to accomplish this objective. In this regard, I initiated  
7 AT&T's request to BellSouth to negotiate an interconnection agreement under the  
8 Telecommunications Act of 1996 (the "Act"). I also provided, and continue to  
9 provide, leadership and direction to AT&T's negotiating teams.

10 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY COMMISSION OR**  
11 **OTHER REGULATORY AUTHORITY?**

12 A. No

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
14 **PROCEEDING?**

15 A. The purpose of my testimony is to describe, from a business perspective, why  
16 AT&T is before this Commission and to introduce the issues in dispute and the  
17 witnesses who will testify on AT&T's behalf as to these issues. I will explain that  
18 AT&T has sought entry into the local exchange market in Florida and other southern  
19 states even before passage of the Act, that the Act expanded AT&T's prospects for  
20 entry through negotiations with BellSouth, that those negotiations have only been  
21 partially successful, and that if AT&T is granted the relief found in AT&T's  
22 proposed interconnection agreement attached as Exhibit JC2 to my testimony (the  
23 "Interconnection Agreement"), then AT&T will commit to provide Florida  
24 consumers with high quality services and technological innovations at competitive  
25 prices in competition with BellSouth's monopoly.

1 I also will list the actions AT&T requests the Commission to take and describe why  
2 each action is necessary from a business perspective to achieve the goal of the Act  
3 which I understand to be "to promote competition and reduce regulation in order to  
4 secure lower prices and higher quality services for American telecommunications  
5 consumers and encourage the rapid deployment of new telecommunications  
6 technologies." S. Rep. No. 23, 104th Cong., 1st Sess., at 2 (1995).

7 **Q. AT&T FILED SEVERAL VOLUMES OF DOCUMENTS WITH ITS**  
8 **PETITION FOR ARBITRATION. PLEASE IDENTIFY THOSE**  
9 **DOCUMENTS.**

10 A. The Act obligates AT&T to submit with its Petition for Arbitration  
11 ("Petition") all documents relevant to the issues to be arbitrated and documents  
12 relevant to any issues the parties have resolved. Both categories of documents are  
13 contained in the seventeen binders submitted to this Commission with the Petition.  
14 These binders were filed with AT&T's Petition and collectively are incorporated  
15 into my testimony as Exhibit JC1. Each binder contains documents which are  
16 identified by a tab number and each page is Bates stamped. During my testimony, I  
17 will refer occasionally to a document by its exhibit number, Exhibit JC1, and its tab  
18 number.

19 The documents in the binders include AT&T's record of all formal negotiation  
20 sessions with BellSouth, letters and memoranda exchanged between AT&T and  
21 BellSouth regarding various negotiation issues, proposed interconnection  
22 agreements, studies and other documents.

23 **Q. GENERALLY, WHAT DOES AT&T NEED THE FLORIDA COMMISSION**  
24 **TO ORDER AND WHY?**

25 A. AT&T needs this Commission to help complete the terms of an interconnection

1 agreement between AT&T and BellSouth that will allow AT&T to enter the Florida  
 2 local exchange market as a viable competitor. The parties have made some progress  
 3 in their negotiations, but require assistance on certain fundamental issues.

4 Regarding the resale of BellSouth services to AT&T customers, AT&T is  
 5 asking the Commission to order BellSouth to:

- 6 a. make all services BellSouth provides to its customers available to  
 7 AT&T for resale;
- 8 b. provide real-time and interactive access to BellSouth's operational  
 9 support systems via electronic interfaces;
- 10 c. provide direct routing of calls for operator services and directory  
 11 assistance services to AT&T's platforms rather than to BellSouth's platforms;
- 12 d. brand all products purchased from BellSouth as AT&T products;
- 13 e. commit to quality standards for products sold to AT&T and agree to  
 14 compensate AT&T if it violates those standards;
- 15 f. sell retail services to AT&T at a wholesale rate that equals  
 16 BellSouth's retail rates, as changed from time to time, less <sup>39.99%</sup> ~~41.7%~~ for avoided costs,  
 17 ~~less 15% to compensate for any lack of real-time and interactive access to BellSouth~~  
 18 ~~operational support systems via electronic interfaces, and less 10 to 15% to stimulate~~  
 19 ~~competition.~~

20 Regarding the unbundling of network elements, AT&T is asking the  
 21 Commission to order BellSouth to:

- 22 a. unbundle its local network into twelve elements;
- 23 b. provide access to Advanced Intelligent Network ("AIN") "triggers;"
- 24 c. make other arrangements for the efficient use of unbundled network  
 25 elements; and



- 1 d. price each at total services long run incremental cost ("TSLRIC").
- 2 Regarding interconnection between BellSouth's network and AT&T's
- 3 planned local network, AT&T is asking the Commission to order BellSouth to:
- 4 a. improve the efficiency of interconnecting the AT&T and BellSouth
- 5 networks;
- 6 b. use "bill and keep" as the method of compensation for
- 7 interconnection until TSLRIC cost studies are adopted;
- 8 c. conduct TSLRIC studies for local interconnection, call transport and
- 9 call termination; and
- 10 d. produce all existing interconnection agreements between BellSouth
- 11 and new entrants and BellSouth and other incumbent local exchange carriers
- 12 ("LECs").

13 Each request relates directly to AT&T's ability to become a true competitor to

14 BellSouth in Florida and, thereby, offer Florida consumers choices in local services.

15 AT&T requires relief in the resale area to ensure that BellSouth, which currently

16 enjoys a monopoly, will not use that monopoly to limit the number of services

17 AT&T can offer, or degrade those services below what BellSouth provides, or take

18 credit for those services when they should be branded as AT&T products.

19 Additionally, if the price at which AT&T acquires services for resale from

20 BellSouth does not address BellSouth's avoided costs ~~and its current monopoly~~

21 ~~position (i.e., does not provide consideration for the absence of real-time and~~

22 ~~interactive access to BellSouth operational support systems via electronic interfaces,~~

23 ~~or an inducement to market entry),~~ there is little hope AT&T will be able to

24 compete. In the network elements area, AT&T requires an order obligating

25 BellSouth to unbundle its network into twelve discrete elements. Without this level

1 of unbundling, AT&T may be forced to purchase services it does not need or which  
2 it can acquire at less cost elsewhere, thereby artificially increasing AT&T's costs.  
3 As to interconnection of AT&T's and BellSouth's local networks, AT&T only must  
4 be required to pay BellSouth's true economic cost of interconnection. Any higher  
5 price will result in a price squeeze making it that much more difficult, if not  
6 impossible, for AT&T to compete. Finally, the current price for interexchange  
7 access paid by AT&T to BellSouth in Florida (the subsidy AT&T pays to BellSouth  
8 each time AT&T terminates a long distance call to a BellSouth customer) is much  
9 higher than BellSouth's economic cost for that interconnection. If AT&T is to  
10 compete with BellSouth on relatively equal terms in the local market, I believe the  
11 interexchange access charges must be reduced to reflect BellSouth's actual  
12 economic costs of providing those services.

13 **Q. WHEN DID AT&T FIRST CONSIDER COMPETING IN THE FLORIDA**  
14 **LOCAL EXCHANGE MARKET AND WHAT STEPS DID YOU TAKE?**

15 **A.** AT&T began assessing the possibility of local competition in Florida in 1994.  
16 Taking what we knew from our long distance experience, economic theory and past  
17 LEC marketplace behaviors, we developed a set of conditions under which we  
18 believed local competition could emerge. AT&T lobbied heavily for these  
19 conditions to be supported in the 1995 revisions to Chapter 364, Florida Statutes,  
20 opening the local franchise to competition. Despite our belief that the new state law  
21 fell far short of establishing an environment for broad, robust competition, AT&T  
22 began evaluating its options for local market entry. Without the resale of flat-rated  
23 services (to which 95% of all customers subscribe), AT&T began investigating other  
24 entry alternatives -- use of others' networks, building our own network, or a  
25 combination of the two. To that end, we built a regionally deployed organization to

1 understand the demands of the Florida services market, to develop a business plan  
2 for meeting those customer needs and to further delineate the pre-conditions to  
3 effective local services competition in an environment in which most, if not all, of  
4 the relevant facilities are owned by the provider of monopoly services.

5 AT&T continues to work to meet the needs of our customers. And we will continue  
6 to bring the benefits of competition -- competitive prices, higher quality services and  
7 technological innovations -- to Florida consumers through our provision of local  
8 services.

9 **Q. HOW DID PASSAGE OF THE ACT IMPACT AT&T'S PLANS FOR ENTRY**  
10 **INTO THE LOCAL EXCHANGE SERVICES MARKET IN FLORIDA?**

11 A. The Act encouraged AT&T because, for the first time, the law obligated BellSouth  
12 to negotiate a complete set of entry conditions for carriers who wished to compete in  
13 the local exchange market. It also mandated negotiations for the sale of services to  
14 market entrants for resale to consumers. AT&T was particularly interested in  
15 Section 251 (c)(3) of the Act that allowed AT&T to create new service offerings by  
16 combining unbundled network elements.

17 AT&T quickly organized itself into seven regions - - to coincide with the regions in  
18 which the seven Regional Bell Operating Companies ("RBOCs"), including  
19 BellSouth, operated as monopolies. The region for which I am responsible,  
20 AT&T's Southern Region, was responsible for negotiating with BellSouth.

21 In our region, AT&T established several types of negotiating teams -- we designated  
22 the primary negotiators as the "Core" Team. Supporting the Core Team were  
23 subject matter experts on technical and cost issues ("SME Teams"). The SME  
24 Teams met with BellSouth representatives to implement agreements reached by the  
25 Core Team and to negotiate specific operational and cost issues. Finally, we

1 designed an Executive Team consisting of myself and several of my senior  
2 colleagues at AT&T to meet with BellSouth representatives as needed to attempt to  
3 resolve issues that could not be settled by the Core and SME Teams.

4 Next we developed a list of technical and other requirements for entry into the local  
5 exchange market. That list is contained in Exhibit JC1, Tab 1.

6 Finally, at my direction, on March 4, 1996 AT&T requested negotiations with  
7 BellSouth in Florida under 47 U.S.C. 251 (c)(1). A copy of AT&T's request is  
8 found at Exhibit JC1, Tab 17.

9 **Q. WOULD YOU DESCRIBE THE HISTORY OF NEGOTIATIONS BETWEEN**  
10 **BELLSOUTH AND AT&T?**

11 A. AT&T and BellSouth met on numerous occasions after March 4, 1996 -- the Core  
12 Team held meetings with BellSouth on approximately twenty occasions; the SME  
13 Teams met with BellSouth on operational issues at least 85 times and on cost issues  
14 about fifteen times; and AT&T's Executive Team met face-to-face with BellSouth  
15 about eleven times, and held numerous phone calls, voice mail messages, and  
16 informal meetings. Many of the early "negotiations" consisted of AT&T explaining  
17 its requirements and BellSouth responding that it would take those under  
18 advisement. AT&T made numerous requests that BellSouth share information  
19 which AT&T believed would be helpful in reaching agreements (AT&T agreed to  
20 protect confidential information under a confidentiality agreement signed by both  
21 parties). After some time passed with little agreement or sharing of information, we  
22 decided to "jump-start" the negotiations by offering a proposal on resold services  
23 that committed AT&T to purchase a specific volume of services in return for  
24 agreement on a percentage discount off BellSouth's retail prices. That June 5, 1996  
25 proposal is found at Exhibit JC1, Tab 331. AT&T has yet to receive any counter

1 offer from BellSouth to this proposal.

2 The parties did exchange proposed interconnection agreements in June 1996.

3 BellSouth's proposed agreement of June 13, 1996 merely adopted an agreement

4 reached earlier by BellSouth with Hart Communications and bore no relationship to

5 the AT&T negotiations or AT&T's requirements. BellSouth's proposal and

6 AT&T's response are at Exhibit JC1, Tabs 208 and 252. AT&T made a price

7 proposal on unbundled network elements and interconnection on June 21, 1996.

8 That proposal is at Exhibit JC1, Tab 333. AT&T's proposed Interconnection

9 Agreement was provided to BellSouth on June 28, 1996. It contained

10 comprehensive provisions reflecting the negotiations to date and additional

11 provisions AT&T believed were consistent with the Act. AT&T's proposed

12 Interconnection Agreement is attached to my testimony as Exhibit JC2 (and also at

13 Exhibit JC1, Tab 259). Today the parties continue to negotiate, but are making little

14 progress. Issues presented in this arbitration remain unresolved.

15 **Q. YOU PREVIOUSLY REFERRED TO BELLSOUTH'S JUNE 13, 1996**  
16 **PROPOSED INTERCONNECTION AGREEMENT WITH AT&T. HOW**  
17 **WOULD YOU DESCRIBE THAT PROPOSAL?**

18 **A.** My letter to BellSouth of June 26, 1996 at Exhibit JC1, Tab 252 best describes my  
19 view of the proposal. Generally, the proposal was not responsive to AT&T's  
20 particular requirements. It appeared to be almost a word for word copy of  
21 BellSouth's agreement with Hart Communications. As such, it failed to reflect  
22 agreements which I understood AT&T and BellSouth had reached and lacked  
23 provisions necessary for AT&T to enter the local market as a viable competitor to  
24 BellSouth.

25 **Q. HOW WOULD YOU DESCRIBE AT&T'S PROPOSED**

1 **INTERCONNECTION AGREEMENT TO BELLSOUTH OF JUNE 28, 1996?**

2 A. AT&T's proposed Interconnection Agreement, Exhibit JC2, was a comprehensive  
3 and detailed set of rates, terms and conditions to govern all aspects of AT&T's  
4 business relationship with BellSouth as it enters the Florida local exchange market --  
5 the resale of local services, access to unbundled network elements, and  
6 interconnection. It represents the minimum requirements, both now and in the near  
7 term, to allow effective competition in the local exchange market. AT&T's  
8 proposed Interconnection Agreement includes items that AT&T understands were  
9 resolved or may be resolved through negotiations, as well as items representing  
10 compromises made by AT&T with the hope that the parties could move closer  
11 together on the outstanding issues.

12 **Q. DO YOU KNOW IF ANY TELECOMMUNICATIONS CARRIERS HAVE**  
13 **ENTERED INTO AGREEMENTS WITH BELLSOUTH?**

14 A. Yes. I am aware of several interconnection agreements that BellSouth has entered  
15 into with various telecommunications carriers. For instance, I am aware of the  
16 agreements BellSouth has with MCIMetro, Time Warner, Hart Communications  
17 Corporation, NEXTLink Tennessee, The Telephone Company of Central Florida,  
18 Intermedia Communications, TCG, and MediaOne. While there may be a few more,  
19 these are the ones with which I am most familiar.

20 **Q. WOULD YOU COMPARE THOSE AGREEMENTS WITH AT&T'S**  
21 **PROPOSED INTERCONNECTION AGREEMENT?**

22 A. The agreements mentioned in my previous answer fall into two general categories.  
23 For large companies (e.g., MCIMetro, Time Warner) the agreements are incomplete.  
24 For example, BellSouth's agreement with MCIMetro pertains primarily to the  
25 interconnection of two networks, and what is required to permit traffic from one

1 carrier to terminate calls to another carrier. The Time Warner agreement addresses  
2 these same subjects, but also includes resale and unbundling of network elements.  
3 However, it omits any prices for resold services or unbundled network elements - -  
4 critical ingredients for entry into the local telecommunications market.  
5 For smaller companies (e.g., Hart Communications, Intermedia Communications)  
6 the agreements are more comprehensive, but reflect those carriers' intentions to  
7 provide niche services and not broad-based competitive offerings. For that reason  
8 the companies have agreed to what BellSouth traditionally has offered in the  
9 regulatory environment, and the agreements generally do not reflect movement by  
10 BellSouth from its entrenched monopoly positions.  
11 By contrast, AT&T's Interconnection Agreement, contains details on operational  
12 and pricing aspects of interconnection, resale and unbundled network elements,  
13 unlike the agreements discussed above. AT&T fully expects that when finally  
14 executed, its interconnection agreement -- which under the Act will be available to  
15 all carriers -- will be the baseline for all agreements between BellSouth and new  
16 entrants into the local market (indeed, in their respective agreements, MCIMetro,  
17 Time Warner and Hart reserve the right to adopt any later, more favorable  
18 agreements).  
19 Additionally, I believe AT&T's plan for entry into Florida is more comprehensive  
20 than the plans of any of the companies with whom BellSouth has entered into  
21 agreements to date. AT&T intends to aggressively pursue resale, unbundled  
22 network elements and interconnection, separately and in combination, to bring  
23 services throughout Florida to the greatest number of potential customers as soon as  
24 an agreement is reached. I do not believe any other company plans such a broad  
25 entry as soon as AT&T. To accomplish its plan, AT&T requires a detailed

1 agreement now covering all issues. An agreement that leaves critical terms open to  
2 future negotiation, as do BellSouth's existing agreements, will ensure that AT&T  
3 cannot meet its plan. Florida consumers will be the losers - - they simply will have  
4 to wait that much longer for full competition to reach them.

5 **Q. HOW DID BELLSOUTH'S AGREEMENTS WITH OTHER CARRIERS**  
6 **INFLUENCE AT&T'S NEGOTIATIONS?**

7 A. Although AT&T initially hoped these agreements would contain detailed  
8 concessions by BellSouth that might benefit AT&T in addressing the local exchange  
9 market, upon review there is little of meaningful substance to AT&T because AT&T  
10 seeks broad-based, rather than niche, competition.

11 **Q. WHAT ARE THE KEY ISSUES THAT REMAIN UNRESOLVED?**

12 A. Three major categories of issues remain unresolved. These will be addressed in  
13 detail by AT&T's other witnesses in these proceedings. My purpose here is to  
14 introduce the issues to the Commission.

15 The first category of issues is whether the Act allows BellSouth to limit the services  
16 and network elements that it will make available to AT&T and to restrict how  
17 AT&T may use the purchased services and network elements. AT&T believes that  
18 the Act requires BellSouth to provide any retail services it offers to customers and to  
19 provide AT&T nondiscriminatory access to unbundled network elements at any  
20 technically feasible point. BellSouth, however, is unwilling to offer AT&T: (i) the  
21 same range of services that BellSouth offers its retail customers; (ii) certain services  
22 without restrictions on the resale of those services; (iii) access to twelve unbundled  
23 network elements; (iv) equal and nondiscriminatory access to BellSouth's rights-of-  
24 way, conduits, pole attachments, and other pathways; and (v) two-way trunking  
25 interconnection.



1           The second category of issues is whether the Act requires BellSouth to provide  
2           AT&T with the same capabilities and quality of services that BellSouth provides  
3           itself as a supplier of local exchange services to Florida consumers. AT&T has  
4           requested that BellSouth provide services and network elements so that AT&T can  
5           provide its customers with the same experience as BellSouth's customers. It is not  
6           AT&T's intention to provide services that are perceived as being inferior to services  
7           currently provided by BellSouth. AT&T's position, therefore, is that it must have  
8           electronic interfaces to obtain the same real-time and interactive access to  
9           BellSouth's operations support systems that BellSouth provides to itself when  
10          servicing its customers, direct routing of calls from AT&T customers to AT&T's  
11          service platforms, branding of purchased wholesale services with the AT&T name,  
12          service quality assurances, and access to information regarding changes in service  
13          offerings and interconnection agreements with other telecommunications carriers.  
14          The third category of issues is the appropriate rate that BellSouth should charge  
15          AT&T for wholesale services, access to unbundled network elements, and  
16          interconnection. It is AT&T's position that wholesale rates charged AT&T for  
17          resold services cannot exceed the lowest retail rates that BellSouth offers, less the  
18          costs BellSouth avoids by offering services at wholesale, ~~less factors for lack of~~  
19          ~~operational parity and to spur competition.~~ For unbundled network elements, the  
20          rates should equal TSLRIC. For interconnection, reciprocal compensation should be  
21          on a bill and keep basis until cost studies are available. At that time, rates for  
22          interconnection should be set at TSLRIC.

23       **Q.    REGARDING THE FIRST CATEGORY OF ISSUES, WHAT RETAIL**  
24       **SERVICES HAS AT&T REQUESTED FROM BELLSOUTH?**

25       A..   This subject will be discussed more fully in the testimony of AT&T Witness Sather

1 filed on behalf of AT&T in this proceeding. Generally, however, I understand that  
2 the Act requires BellSouth to offer for resale any telecommunications services that  
3 BellSouth provides at retail to subscribers who are not telecommunications carriers.  
4 Pursuant to the Act, AT&T has requested that BellSouth offer to AT&T the same  
5 services that BellSouth provides to its retail customers. AT&T wants to be able to  
6 offer all Florida consumers the same range of services that BellSouth provides today  
7 so that all consumers will have a choice of at least two providers for their local  
8 services.

9 **Q. WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

10 A. BellSouth stated that it was unwilling to offer for resale the following types of  
11 services:

12 Grandfathered and Obsolete Services -- These retail services include any services  
13 that BellSouth offers to existing retail customers, but not to new subscribers.

14 911/E911 Services -- 911/E911 are retail services that provide the facilities and  
15 equipment required to route emergency calls to the appropriate Public Safety  
16 Answering Point.

17 N11 Service -- N11 is a retail service provided to entities that provide information  
18 services to consumers via three (3) digit dialing.

19 Contract Service Arrangements and Promotions -- Contract Service Arrangements  
20 and Promotions are retail services offered at special rates or prices.

21 Link-Up and Lifeline -- Link-Up and Lifeline are retail offerings that respectively  
22 provide billing credits to help defray the cost of service installation charges and  
23 monthly recurring service charges to customers who qualify for financial assistance.

24 State Specific Discount Plans or Services -- State Specific Discount Plans or  
25 Services are retail offerings in which BellSouth provides retail services at

1 discounted prices to particular customers, such as educational institutions.

2 **Q. WHY IS IT IMPORTANT THAT BELLSOUTH OFFER AT&T ITS FULL**  
3 **RANGE OF RETAIL SERVICES?**

4 A. From a business perspective, AT&T's chances of succeeding in the Florida local  
5 exchange market hinge on whether it can offer a full range of services. Because of  
6 the tremendous capital investment and time needed to become a facilities-based  
7 competitor, AT&T must rely initially on BellSouth to provide local services which  
8 AT&T then can resell. Just one simple example demonstrates how AT&T will be  
9 disadvantaged unless it can offer at least the same services as BellSouth. Imagine  
10 an AT&T attempt to attract a current BellSouth customer to AT&T. The customer  
11 asks whether it will lose any of the services it currently is receiving from BellSouth.  
12 Because BellSouth has grandfathered a service which the customer currently enjoys,  
13 AT&T must answer that the service no longer will be provided. Under these  
14 circumstances, can AT&T really expect to convince that customer to switch?  
15 Importantly, BellSouth currently serves virtually all Florida consumers. Through its  
16 monopoly position and its ability to unilaterally grandfather services, BellSouth has  
17 total control over what services AT&T will, and will not, be able to offer as a  
18 competitor. If allowed to stand, this control presents a huge barrier to AT&T's  
19 success as a viable competitor in the Florida local exchange market.

20 **Q. HAS BELLSOUTH ATTEMPTED TO IMPOSE LIMITS ON AT&T'S**  
21 **RESALE OF SERVICES?**

22 A. BellSouth imposes on its retail customers numerous restrictions and conditions set  
23 forth in its tariffs. BellSouth wants to impose those same retail restrictions and  
24 conditions when it offers services to AT&T, although AT&T will be purchasing  
25 those services as a wholesaler for resale. It is unreasonable and discriminatory to

1 treat resellers, like AT&T, as a retail customer. All services should be sold to  
2 resellers free of restrictions. In that way, full competition can flourish --  
3 competitors of BellSouth will have the freedom to offer any services to any  
4 customers. If BellSouth then finds that its existing restrictions place it at a  
5 competitive disadvantage, it may do like all players in a competitive market -- adapt  
6 its services to what the marketplace demands.

7 **Q. WHY IS IT IMPORTANT NOT TO HAVE RESTRICTIONS ON AT&T'S**  
8 **RESALE OF LOCAL SERVICES?**

9 A. The impact of unreasonable restrictions on the resale of local services is addressed  
10 fully by AT&T Witness Sather in his testimony. Generally, consumers want  
11 innovative solutions to their telecommunications needs and AT&T intends to  
12 provide Florida consumers with those solutions. However, restrictions imposed by  
13 BellSouth on how AT&T can offer its services, will constrain that flexibility and  
14 place too much control in the hands of AT&T's competition. Further, the  
15 restrictions that currently exist apply to retail purchasers of services, not  
16 wholesalers, and were imposed by BellSouth in its role as a monopoly provider.  
17 AT&T is not a retail purchaser, and now, by law, BellSouth's monopoly must end.  
18 BellSouth's restrictions have no place in a wholesale market.

19 **Q. WHAT ARE THE NETWORK ELEMENTS TO WHICH AT&T**  
20 **REQUESTED ACCESS?**

21 A. AT&T requested access to twelve network elements: Network Interface Device,  
22 Loop Distribution, Loop Concentrator/Multiplexer, Loop Feeder, Local Switching,  
23 Operator Systems, Dedicated Transport, Common Transport, Tandem Switching,  
24 Signaling Link Transport, Signal Transfer Points, and Service Control Points. Each  
25 of these are discussed fully in the testimony of AT&T Witness Tamplin filed on

1           behalf of AT&T in this proceeding.

2       **Q.    WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

3       A.    BellSouth agreed to provide unbundled access to Tandem Switching, Signaling Link  
4            Transport, Signal Transfer Points, and Service Control Points. However, BellSouth  
5            would not agree to provide unbundled access to any of the other twelve requested  
6            elements.

7       **Q.    WHY IS IT IMPORTANT TO HAVE ACCESS TO THOSE TWELVE**  
8            **UNBUNDLED NETWORK ELEMENTS?**

9       A.    From a business perspective, AT&T seeks access to the maximum number of  
10            network elements. AT&T will use the network elements in a variety of ways to  
11            bring consumers choices in local exchange services to Florida. As explained in  
12            AT&T Witness Tamplin's testimony, AT&T needs these elements for maximum  
13            flexibility in designing competitive offers. For example, we may combine several of  
14            the elements to offer new services not currently offered by BellSouth, or we may  
15            integrate some of the BellSouth elements with elements AT&T owns or will  
16            purchase from others to offer a service at less cost than BellSouth. Section  
17            251(c)(3) of the <sup>U.S. CODE</sup> ~~Act~~ specifically allows AT&T to combine some or all of the  
18            unbundled network elements to offer a telecommunications service.

19       **Q.    WHAT DID AT&T REQUEST FROM BELLSOUTH WITH RESPECT TO**  
20            **ACCESS TO RIGHTS-OF-WAY, CONDUITS, AND POLE**  
21            **ATTACHMENTS?**

22       A.    Access to rights-of-way, conduits, and pole attachments also is addressed in the  
23            testimony of AT&T Witness Tamplin. Generally, I understand that Section  
24            224(f)(1) of the Act requires BellSouth to afford access to its poles, ducts, conduits,  
25            and rights-of-way on a nondiscriminatory basis. For this reason, AT&T requested

1           that BellSouth provide AT&T with access to rights-of-way, conduits, poles and  
2           other pathways at terms and conditions equivalent to that provided by BellSouth to  
3           itself or to any other party. AT&T also requested that BellSouth not preclude or  
4           delay allocation of these facilities to AT&T because of potential future needs. In  
5           addition, AT&T requested that BellSouth provide AT&T with copies of its current  
6           engineering records relating to rights-of-way, conduits, poles and other pathways.

7           **Q.       WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

8           A.       BellSouth's response was that it would provide AT&T with any residual capacity on  
9           its poles, ducts, conduits and rights-of-way after BellSouth reserved for itself five  
10          years worth of capacity to meet BellSouth's anticipated needs. BellSouth also  
11          refused to provide AT&T with copies of its pole and conduit engineering records.

12          **Q.       WHY IS IT IMPORTANT THAT AT&T HAVE EQUAL AND**  
13          **NONDISCRIMINATORY ACCESS TO RIGHTS-OF-WAY, CONDUITS,**  
14          **AND POLE ATTACHMENTS?**

15          A.       Rights-of-way, conduits and pole attachments constitute a substantial portion of the  
16          capital necessary to establish a local exchange network. Without equal and  
17          nondiscriminatory access to these existing facilities, a new entrant faces a daunting  
18          financial barrier to market entry. Moreover, substantial time would be necessary to  
19          replicate these facilities. For these reasons, a new entrant may simply decide to  
20          forego market entry. To achieve competition that will produce choices for  
21          consumers, AT&T believes the Commission should order equal access to these  
22          facilities.

23          **Q.       WHAT DID AT&T REQUEST FROM BELLSOUTH WITH RESPECT**  
24          **INTERCONNECTION OF LOCAL NETWORKS?**

25          A.       The subject of interconnection between BellSouth's network and AT&T's network

1 also is addressed fully in the testimony of AT&T Witness Tamplin. Generally, I  
2 understand that Section 251(c)(2) of the Act obligates BellSouth to allow its network  
3 to be connected with the facilities and equipment of AT&T on a nondiscriminatory  
4 basis. Because BellSouth interconnects with other networks using both one-way  
5 and two way trunks, AT&T requested the capability to interconnect with  
6 BellSouth's network using both one-way and two-way trunk groups. In addition,  
7 AT&T requested that these trunks ultimately carry intraLATA, interLATA and local  
8 traffic.

9 **Q. WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

10 A. BellSouth has indicated it will accept local and intraLATA calls from AT&T on one  
11 trunk group and interLATA calls from AT&T on another trunk group. BellSouth  
12 has not agreed to a plan of action by a date certain that ultimately would allow all  
13 AT&T calls to be combined on one trunk group.

14 **Q. WHY IS IT IMPORTANT THAT AT&T HAVE THE CAPABILITY TO**  
15 **INTERCONNECT VIA TWO-WAY TRUNK GROUPS AND COMBINE ALL**  
16 **TYPES OF CALLS ON THE SAME TRUNK?**

17 A. These requests improve the efficiency of interconnection by commingling traffic  
18 terminating on either BellSouth's or AT&T's network on larger, more efficient  
19 trunk groups between the two networks. It reduces the number of trunks and trunk  
20 connections needed to connect the two networks.

21 **Q. WITH RESPECT TO THE SECOND CATEGORY OF UNRESOLVED**  
22 **ISSUES, WHY IS PARITY IMPORTANT TO AT&T?**

23 A. The importance of parity to AT&T is fully addressed in the testimony of AT&T  
24 Witness Shurter filed on behalf of AT&T in this proceeding. "Parity" is a term  
25 AT&T uses to refer to the capability to provide AT&T customers with the same

1 experiences as BellSouth provides its own customers.

2 AT&T seeks parity for very straightforward business reasons -- if AT&T is to  
3 compete with BellSouth in Florida through the resale of BellSouth services or  
4 through integration of BellSouth network elements with non-BellSouth facilities,  
5 what AT&T receives from BellSouth must be at least equal in form and quality to  
6 what BellSouth provides to itself for sale to its customers. If BellSouth is allowed to  
7 provide AT&T with inferior services, compared to what BellSouth makes available  
8 to itself, real competition will be greatly delayed or never will develop.

9 **Q. WHAT HAS AT&T REQUESTED FROM BELL SOUTH TO HELP**  
10 **ACHIEVE PARITY?**

11 A. AT&T has requested the following from BellSouth in order to achieve parity: (i)  
12 real-time and interactive access to BellSouth operational support systems via  
13 electronic interfaces; (ii) direct routing of calls from AT&T customers to AT&T  
14 service platforms; (iii) branding of purchased wholesale services with the AT&T  
15 name; (iv) contractual commitments to service quality; and (v) access to  
16 interconnection agreements with other carriers and advance notification of changes  
17 in service offerings.

18 **Q. WITH RESPECT TO ELECTRONIC INTERFACES, WHAT HAS AT&T**  
19 **REQUESTED BELL SOUTH TO PROVIDE?**

20 A. The subject of electronic interfaces with BellSouth's network is discussed fully in  
21 AT&T Witness Shurter's testimony. Generally, AT&T has requested BellSouth to  
22 provide AT&T with the same capability to service its customers as BellSouth uses to  
23 service its customers. Electronic interfaces are the means by which AT&T's  
24 systems can communicate with BellSouth's systems on a real-time, interactive basis.  
25 Electronic interfaces support the following functions, each of which is important to



1 achieving customer satisfaction:

2 Pre-Ordering -- includes obtaining information regarding a prospective customer  
3 that is needed to place an order for services, assign a telephone number, and  
4 schedule installation.

5 Ordering and Provisioning -- includes placing and filling an order for services.

6 Maintenance and Repair -- includes arranging for responses to customer requests for  
7 maintenance and repair services.

8 Customer Usage Data Transfer -- includes collecting and transmitting data customer  
9 usage data for billing purposes.

10 Local Account Maintenance -- includes updating information in a customer's  
11 service record to reflect changes in features, services or other items.

12 **Q. WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

13 A. BellSouth has been unwilling to commit to implement real-time and interactive  
14 electronic interfaces to AT&T by a date certain.

15 **Q. WHAT WILL HAPPEN IF BELLSOUTH DOES NOT PROVIDE**  
16 **ELECTRONIC INTERFACES TO AT&T?**

17 A. If BellSouth is able to service its customers with real-time electronic ordering and  
18 service order processing, while AT&T must rely upon fax messaging, or something  
19 other than real-time communication (with its incumbent delays), AT&T will be at a  
20 serious competitive disadvantage. Imagine a potential new customer calling AT&T  
21 to order local exchange service. Under BellSouth's plan, AT&T must wait to give  
22 the customer its new phone number and the date of installation until BellSouth  
23 responds to a fax message from AT&T. On the other hand, BellSouth can give any  
24 new customer that information during the very first contact.

25 **Q. DO YOU KNOW WHETHER ANY STATE COMMISSION HAS ORDERED**

1           **BELLSOUTH TO PROVIDE REAL-TIME AND INTERACTIVE ACCESS**  
2           **TO BELLSOUTH OPERATIONAL SUPPORT SYSTEMS VIA**  
3           **ELECTRONIC INTERFACES?**

4    A.    Yes. On June 12, 1996, the Georgia Public Service Commission ordered BellSouth  
5           to provide AT&T with the same access to BellSouth's operational support systems  
6           as BellSouth enjoys. I understand BellSouth has appealed this order which will  
7           delay the time when AT&T can expect to have these interfaces available for  
8           AT&T's offer of local services. Again, this significantly delays our ability to  
9           compete effectively with BellSouth for Florida's consumers, and more importantly,  
10          delays the time when Florida consumers will have choices for local services.

11   **Q.    WITH RESPECT TO DIRECT ROUTING, WHAT DID AT&T REQUEST**  
12   **BELLSOUTH TO PROVIDE?**

13   A.    This subject is addressed fully in AT&T Witness Shurter's testimony. Generally,  
14          AT&T requested that BellSouth route calls from AT&T customers directly to AT&T  
15          service platforms for Operator Services and Directory Assistance Services. When a  
16          BellSouth customer dials the traditional and familiar numbers for Operator Services  
17          (0+, 0-) or Directory Assistance (411, 555-1212), their call is "routed" to  
18          BellSouth's service platforms from which BellSouth will provide the services or  
19          assistance. AT&T wants to provide its customers with the same convenience  
20          through AT&T's facilities. In other words, when an AT&T customer dials those  
21          same traditional and familiar numbers, their call should be routed to AT&T's service  
22          platforms.

23   **Q.    WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

24   A.    BellSouth would not agree to provide direct routing and has proposed that AT&T  
25          customers dial unfamiliar and perhaps significantly longer numbers to access

1 AT&T's service platforms.

2 **Q. WHY IS DIRECT ROUTING IMPORTANT?**

3 A. From a business perspective, AT&T needs the opportunity to distinguish itself from  
4 the competition and to strengthen its relationship with its customers by providing  
5 quality services. Most regular customer contacts occur when customers use a  
6 carrier's Operator Services and Directory Assistance Services. If AT&T customers  
7 attempt to contact their service provider through one of these avenues, only to find  
8 themselves routed to BellSouth, AT&T loses its opportunity to establish brand  
9 loyalty for its local market customers (and BellSouth gains an unfair opportunity to  
10 win over a new customer by establishing its reputation as a local services provider).  
11 Further, I believe direct routing will eliminate possible customer confusion over the  
12 identities of local services carriers that inevitably will result when an AT&T local  
13 services customer reaches a BellSouth operator or directory assistance provider  
14 when dialing the traditional and familiar numbers for Operator Services and  
15 Directory Assistance Services.  
16 Finally, direct routing will allow AT&T customers access to any services from  
17 AT&T's service platforms that are not available from BellSouth, e.g., receiving  
18 accurate AT&T rate quotes and calling card services.

19 Ultimately, AT&T wants to establish choices for Florida consumers. Unless AT&T  
20 can differentiate itself from BellSouth as I have outlined, real choices will not  
21 develop. If consumers are confused by the identities of the players in the market,  
22 and mechanisms remain that allow one player to appear as a customer's provider  
23 when in fact this is not the case, real competition will never develop.

24 **Q. WITH RESPECT TO BRANDING, WHAT DID AT&T REQUEST OF**  
25 **BELLSOUTH?**

1 A. This subject is fully addressed in AT&T Witness Shurter's testimony. Generally,  
2 AT&T wants products and services sold by it to bear AT&T's brand. Therefore,  
3 AT&T requested that when BellSouth communicates with AT&T's customers on  
4 behalf of AT&T, BellSouth must: (i) advise AT&T's customers it is representing  
5 AT&T; (ii) furnish any customer information materials provided by AT&T; and (iii)  
6 refrain from marketing BellSouth directly or indirectly to AT&T customers.  
7 Essentially, when AT&T is paying BellSouth to act on behalf of AT&T, AT&T  
8 expects that BellSouth will not act to undermine AT&T's relationships with its  
9 customers. AT&T also requested that BellSouth's affiliate, BellSouth Advertising  
10 & Publishing Corporation, include the AT&T logo on its telephone directories.

11 **Q. WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S REQUEST?**

12 A. BellSouth was unwilling to: (i) brand the services purchased by AT&T as AT&T  
13 services; and (ii) furnish AT&T customers with material supplied by AT&T.  
14 BellSouth asserts that the Act only requires BellSouth to offer its services "as is."  
15 BellSouth proposed to use generic materials for customers of new entrants and to  
16 write the name of the appropriate carrier in a blank space. BellSouth agreed to  
17 include AT&T's logo on the cover of its telephone directories only if AT&T agreed  
18 to significant rates and restrictive and anticompetitive terms and conditions.

19 **Q. WHY IS IT IMPORTANT TO BRAND SERVICES?**

20 A. When a customer chooses AT&T, it reasonably expects to receive a quality product.  
21 Through branding, AT&T tells its customers, "These are AT&T services, they have  
22 the level of quality necessary to carry the AT&T name, and AT&T will stand behind  
23 its services." Generic materials with the AT&T name handwritten into a blank  
24 space do not meet AT&T's standards for quality or professionalism.  
25 If AT&T customers receive services branded with BellSouth's name, customers

1 understandably may be confused. They may ask themselves, "Why am I receiving  
2 BellSouth services instead of AT&T services? Do these services have the quality  
3 that I paid for when I chose AT&T? Who do I call if I have a problem with my  
4 services?" Without branding, BellSouth undermines AT&T's relationship with its  
5 customers every time it performs BellSouth branded services on behalf of AT&T.  
6 At the same time that AT&T is paying BellSouth to act on its behalf, BellSouth is  
7 advertising its name directly with AT&T's customers.

8 **Q. IN TERMS OF CONTRACTUAL COMMITMENTS TO PROVIDE**  
9 **QUALITY SERVICE, WHAT DID AT&T REQUEST FROM BELL SOUTH?**

10 A. This subject is addressed fully in AT&T Witness Shurter's testimony. Generally,  
11 AT&T requested that BellSouth make a contractual commitment to meet specified  
12 Direct Measures of Quality ("DMOQs"). DMOQs are objective and quantifiable  
13 standards or measurements of service quality. AT&T requested that BellSouth  
14 periodically report its record of performance in meeting the DMOQs and  
15 compensate AT&T for failing to meet important quality standards.

16 **Q. WHAT WAS BELL SOUTH'S RESPONSE TO AT&T'S REQUEST?**

17 A. BellSouth has refused to agree to any DMOQs or to any contractual remedies for  
18 failure to meet quality standards.

19 **Q. WHY ARE CONTRACTUAL COMMITMENTS TO PROVIDE QUALITY**  
20 **SERVICE IMPORTANT TO AT&T?**

21 A. To provide Florida consumers with real choices, AT&T must be able to provide a  
22 quality of service that equals or exceeds that of BellSouth. If AT&T is to succeed as  
23 a viable alternative to BellSouth in the Florida local exchange market, it must be  
24 perceived as a reliable, high quality provider. Because AT&T has no choice initially  
25 but to rely on BellSouth for the services it will sell, BellSouth must provide that

1 quality. It is common in customer/supplier relationships that suppliers provide  
 2 certain assurances of performance to their customers backed by contractual  
 3 remedies. AT&T's request that BellSouth agree to quality standards consistent with  
 4 AT&T's reputation as a reliable services provider and to a provision providing  
 5 remedies if BellSouth fails to meet those standards is entirely consistent with this  
 6 practice. Without agreed upon standards and contractual incentives to meet those  
 7 standards, BellSouth, as both AT&T's supplier and competitor, may be tempted  
 8 intentionally or unintentionally to gain AT&T's customers through poor quality of  
 9 services.

10 **Q. REGARDING THE THIRD CATEGORY OF UNRESOLVED ISSUES --**  
 11 **PRICING -- WHAT WHOLESALE PRICES DID AT&T PROPOSE FOR**  
 12 **LOCAL EXCHANGE SERVICES IN FLORIDA?**

13 A. The subject of wholesale prices for services in Florida is addressed fully in the  
 14 testimony of AT&T Witness Lerma filed on behalf of AT&T in this proceeding.  
 15 Generally, AT&T estimated that, in its Florida wholesale operations, BellSouth  
 16 should avoid costs amounting to nearly <sup>46</sup>~~forty-two~~ percent of its retail prices.  
 17 Nevertheless, AT&T proposed a much reduced percentage that would apply to all  
 18 retail rates throughout the nine states in BellSouth's territory. ~~Additionally, AT&T~~  
 19 ~~proposed a further reduction of up to fifteen percent if BellSouth did not provide~~  
 20 ~~electronic interfaces within specified dates. As an incentive to BellSouth, AT&T~~  
 21 ~~also proposed to make a commitment to purchase specified volumes of lines in~~  
 22 ~~exchange for additional price reductions.~~

23 **Q. WHAT WAS BELL SOUTH'S RESPONSE TO AT&T'S PROPOSED**  
 24 **PRICES?**

25 A. BellSouth would not accept AT&T's proposed wholesale prices. BellSouth

1 proposed two different percentage reductions, one for residential and one for  
2 business customers, for each state in the nine state Southeast region. The percentage  
3 reductions would apply only to recurring retail charges rather than both recurring  
4 and non-recurring charges. For Florida, BellSouth proposed an eighteen percent  
5 reduction of recurring residential retail charges and a twelve percent reduction of  
6 recurring business retail charges.

7 **Q. WHY IS IT IMPORTANT THAT THE COMMISSION SET WHOLESALE**  
8 **PRICES THAT DO NOT EXCEED RETAIL PRICES LESS COSTS THAT**  
9 **BELLSOUTH SHOULD AVOID?**

10 A. This subject is discussed fully in the testimonies of AT&T Witnesses Gillan,  
11 Kaserman and Lerma, all filed on behalf of AT&T in this proceeding. Generally,  
12 such prices are necessary to foster healthy and robust competition.

13 **Q. WHAT DID AT&T PROPOSE FOR PRICES OF UNBUNDLED NETWORK**  
14 **ELEMENTS?**

15 A. This subject is addressed fully in the testimony of AT&T Witness Ellison filed on  
16 behalf of AT&T in this proceeding. Generally, AT&T proposed pricing BellSouth's  
17 unbundled network elements at TSLRIC.

18 **Q. WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S PROPOSAL?**

19 A. BellSouth rejected AT&T's proposal. BellSouth proposed to use its tariffed rates.

20 **Q. WHAT DID AT&T PROPOSE AS RECIPROCAL COMPENSATION FOR**  
21 **INTERCONNECTION OF LOCAL TRAFFIC?**

22 A. This subject of interconnection compensation is fully discussed in the testimonies of  
23 AT&T Witnesses Ellison, Gillan and Kaserman filed on behalf of AT&T in this  
24 proceeding, and includes a discussion of appropriate pricing as defined by the Act.  
25 AT&T proposed that prices be set at TSLRIC. Until BellSouth provides appropriate

1 TSLRIC studies, AT&T proposed a reciprocal "bill and keep" compensation  
2 arrangement for at least the first year of AT&T's Interconnection Agreement.

3 **Q. WHAT WAS BELLSOUTH'S RESPONSE TO AT&T'S PROPOSAL?**

4 A. BellSouth did not accept AT&T's proposal. Instead, BellSouth maintained that  
5 compensation should be based on the interexchange access charges that BellSouth  
6 has set in its tariffs.

7 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

8 A. AT&T was interested in the Florida local exchange services even prior to passage of  
9 the Act. From an early time we have envisioned providing Florida consumers with a  
10 choice of local service providers. While BellSouth has remained a monopoly,  
11 Florida consumers have been denied the benefits of technological innovations and  
12 competitive pressure on prices. AT&T promptly moved out following passage of the  
13 Act to engage BellSouth in negotiations. Those negotiations have achieved a  
14 number of agreements, but have failed on significant, key issues including  
15 restrictions on resale, operational parity, branding, unbundled network elements and  
16 pricing. AT&T's requests of BellSouth are intended to ensure that real, true  
17 competition arrives in Florida - - and not just the appearance of competition. For  
18 AT&T to have a real opportunity to provide Florida consumers with quality local  
19 services, it must have the ability to compete against BellSouth on equal terms and be  
20 able to offer customers at least the same quality services as BellSouth.

21 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

22 A. Yes.



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**SUPPLEMENTAL TESTIMONY OF  
WILLIAM J. CARROLL  
ON BEHALF OF AT&T COMMUNICATIONS  
OF THE SOUTHERN STATES, INC.  
BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**Docket No. 960833-TP**

**Filed: August 23, 1996**

**Q. PLEASE IDENTIFY YOURSELF.**

**A. My name is William J. (Jim) Carroll and my business address is 1200 Peachtree Street, Atlanta, Georgia, 30309.**

**Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?**

**A. Yes. I supplied direct testimony to this Commission in this docket. I also provided testimony before this Commission regarding AT&T's petition for arbitration with GTE.**

**Q. WHAT IS THE PURPOSE OF THIS TESTIMONY IN THIS PROCEEDING?**

**A. The purpose of my supplemental testimony is to summarize AT&T's initial positions regarding the effect on AT&T's requests and BellSouth's responses in negotiations of**

1 the Federal Communications Commission ("FCC") First Report and Order 96-325,  
2 filed August 8, 1996 (hereinafter in witness testimony "FCC Order"). The FCC  
3 Order will be referred to in the witness testimony by paragraph number. The FCC  
4 Order includes the regulations codifying the FCC's interpretation of the Act  
5 (hereinafter in witness testimony "FCC regulations" or "47 C.F.R. § \_\_\_\_\_").  
6 Attached to my testimony at Exhibit JCS-1 is a matrix of: the issues relevant to the  
7 arbitration petition before the Commission, the witnesses that will address the impact  
8 of the FCC Order and FCC regulations on the issues, and, based upon AT&T's initial  
9 review of the FCC Order and FCC regulations, a summary of the impact of the FCC  
10 Order and FCC regulations on the issues.

11

12 **Q. PLEASE SUMMARIZE YOUR INITIAL OPINION REGARDING THE**  
13 **EFFECT OF THE FCC'S AUGUST 8, 1996 ORDER AND REGULATIONS**  
14 **ON THE RELEVANT ISSUES.**

15

16 **A.** Based upon AT&T's initial review of the FCC Order and regulations, I believe the  
17 FCC Order and regulations expressly support many of the positions that AT&T has  
18 maintained during negotiations and states in its petition for arbitration against  
19 BellSouth. As to the remainder of the issues, I believe the FCC Order and FCC  
20 regulations implicitly, but strongly, support AT&T's position. AT&T will continue  
21 to review the FCC Order and regulations and supply the Commission with any  
22 additional information relevant to the arbitration.

23

24 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

25

1 A. Yes.



1 already have done so. Scheye Test. at 4-9. My rebuttal testimony will demonstrate  
2 that none of the agreements referred to by Mr. Scheye contain prices that will achieve  
3 effective competition. The prices in the agreements ensure that BellSouth will receive  
4 higher revenue than competitively justified.

5

6 **Q. WHAT EVIDENCE DO YOU OFFER THAT BELLSOUTH'S**  
7 **AGREEMENTS WITH OTHER COMPANIES INCLUDE NON-**  
8 **COMPETITIVE PRICES?**

9

10 A. I requested that an analysis be conducted comparing the prices in each of the  
11 BellSouth agreements with the proxy or default prices ordered by the FCC in its  
12 Report and Order of August 8, 1996. In virtually all cases, the prices in the  
13 BellSouth agreements for unbundled network elements are higher than the FCC-  
14 ordered prices -- in some cases substantially higher -- and the discounts from retail  
15 prices of resold services are substantially lower than ordered by the FCC. Likewise,  
16 the prices and discounts BellSouth offered to AT&T also vary significantly from the  
17 FCC -- in all cases favoring of BellSouth. A chart setting out the analysis is attached  
18 at Exhibit JCR-1.

19

20 **Q. DID THE PRICES OFFERED AT&T BY BELLSOUTH PREVENT AT&T**  
21 **FROM ENTERING INTO AN AGREEMENT WITH BELLSOUTH?**

22

23 A. Yes, and there were other, non-price reasons as well. AT&T always believed that the  
24 prices sought by BellSouth for unbundled network elements were too high and the  
25 discounts for resold services too low to generate true, fair local competition as

1 envisioned by the Telecommunications Act of 1996. BellSouth's demand for  
2 excessive prices and unreasonably low discounts was a major contributing factor in  
3 AT&T's decision not to enter into an agreement like the fifteen referred to in Mr.  
4 Scheye's testimony.

5

6 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

7

8 **A. Yes.**

1           MR. HATCH: Mr. Carroll, do you have a  
2 summary of your testimony?

3           A     Yes, I do.

4           Q     Could you please give that?

5           A     Yes.

6                     Commissioners and Staff, I'm responsible for  
7 bringing AT&T's local service to the consumers  
8 throughout BellSouth territory in Florida. And it is  
9 our intent to begin offering local service in Florida  
10 in 1997.

11                    Now, we need this Commission to establish  
12 the public policies necessary to create a competitive  
13 environment for the consumers throughout BellSouth  
14 territory in Florida.

15                    And for the better part of the day you have  
16 heard the AT&T witness enumerate what we think are  
17 good public policies to ensure that the benefits of  
18 competition flow to the consumers throughout the state  
19 of Florida.

20                    I'm going to use this chart to my right to  
21 summarize what we believe those requirements are for  
22 the benefit to the consumers throughout Florida.

23                    Over on the left side of this chart that I'm  
24 pointing to is where we are today. It's essentially a  
25 monopoly, which BellSouth has enjoyed for a

1 hundred-plus years, and it's my understanding has  
2 accumulated about \$10 billion of assets to serve the  
3 consumers throughout Florida as part of that monopoly.

4 Now, BellSouth is a good company with good  
5 people. However, it is a monopoly. And the Act  
6 points out the need to move in a accelerated way to  
7 establish a competitive market for the benefit of the  
8 consumers throughout the state of Florida.

9 And yesterday I believe you heard  
10 Joseph Gillan talk about the kind of requirements that  
11 the Act established to benefit these consumers.

12 In that regard, some fundamental  
13 capabilities that the Act provides is established  
14 relative to a wholesale market operation. One of  
15 those fundamental capabilities is resale. Here we're  
16 asking that all of BellSouth services sold at retail  
17 be available, and be available without restrictions,  
18 as recommended by Les Sather, and to be priced based  
19 on the wholesale rates as recommended by Art Lerma.  
20 This is one of the fundamental capabilities to create  
21 this competitive environment.

22 The second fundamental capability is the  
23 utilization of unbundled network elements to ensure  
24 that these assets that have been developed in this  
25 monopoly environment are available to create services



1 for the new entrants to serve these new consumers.

2 Here we're recommending that these be made  
3 available as the recommendations of Jim Tamplin, and  
4 priced as recommended by Wayne Ellison, Dr. Kaserman  
5 and Joseph Gillan.

6 The third fundamental building block to  
7 build this competitive market is interconnection.  
8 We're asking here that these be provided as  
9 recommended by Jim Tamplin, and priced as recommended  
10 by Dr. Kaserman, Joseph Gillan and Wayne Ellison.

11 Now, these fundamental capabilities are  
12 required to be delivered to the market in a way that  
13 is convenient for the consumers throughout Florida.  
14 We're asking that the electronic interfaces be  
15 provided to deliver these fundamental capabilities as  
16 recommended by Ron Shurter, and in a way that is  
17 convenient in terms of the transition from this  
18 monopoly to a competitive environment.

19 Additionally, we're asking that these  
20 fundamental capabilities, that the products and  
21 services provided be delivered and branded to AT&T as  
22 recommended by Ron Shurter. We believe this will  
23 eliminate any confusion in the marketplace.

24 Additionally, as recommended by Jim Tamplin,  
25 we're recommending that the rights-of-way and conduits

1 and other pathways be available in a nondiscriminatory  
2 basis. And when coupled with these fundamental  
3 capabilities or resale, unbundled network elements and  
4 interconnection provide the foundation to move into  
5 both a competitive market at the retail level and  
6 wholesale level as recommended by Dr. Kaserman.

7           The final fundamental capability is parity  
8 and I put it up here (indicating graph) as opposed to  
9 down here (indicating graph) and this is as  
10 recommended by Ron Shurter to ensure that these  
11 capabilities are provided in the same way that  
12 BellSouth provides to itself or to users in the  
13 marketplace. And we believe that when these  
14 fundamental capabilities are in place, it provides the  
15 kind of environment that will accelerate this change  
16 from a monopoly to a competitive environment.

17           Now, in the five minutes or so that I have  
18 used to summarize where we are, in the long distance  
19 market across the country on the average approximately  
20 250 consumers have chosen to switch long distance  
21 carriers conveniently and easily. Greater than  
22 30 million choose to do that in a year where maybe as  
23 many as a hundred million have the opportunity to  
24 choose that and have that happen with convenience  
25 needs, which is what we think is required here.

1           Now, relative to this capability you might  
2 ask is this good for AT&T? And the answer is  
3 absolutely. It's also good for MCI, ACSI or any other  
4 new entrant in the marketplace. And in my opinion  
5 it's also good for BellSouth.

6           And the reason I believe that is I think  
7 when a company is striving to earn the trust of a  
8 consumer, competition always causes you to improve and  
9 get better.

10           And I think, finally, the most important  
11 position here is that it's good for the consumer in  
12 terms of ensuring that quality of service take place,  
13 competition causes service to improve; innovation is  
14 present in terms of the improved feature function,  
15 lower prices over the long run, and that the market  
16 takes place in a way that is without confusion. Thank  
17 you.

18           Q     Does that conclude your summary?

19           A     Yes, it does.

20           MR. HATCH: We tender the witness for cross.

21           MR. MELSON: No questions.

22           MR. HORTON: No questions.

23           CHAIRMAN CLARK: Mr. Carver.

24           MR. CARVER: Yes, Madam Chairman, I have a  
25 few.

## CROSS EXAMINATION

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BY MR. CARVER:

Q Good morning, Mr. Carroll.

A Good morning.

Q My name is Phil Carver and I represent BellSouth. I have a few questions for you.

Let me ask you first of all, are you an officer in AT&T?

A Yes, I am.

Q Are you an officer of AT&T or AT&T of the Southern States?

A I'm an officer in AT&T, and I am an officer directing AT&T of the Southern States. AT&T of the Southern States is a legal entity owned by AT&T.

Q So AT&T is the parent company of AT&T of the Southern States?

A Yes.

Q And AT&T of the Southern States does business where?

A In Florida, in North Carolina, in South Carolina and in Georgia.

Q Okay. Let me ask you, you attached to your rebuttal testimony as, I believe it's JCR-1, a comparison of BellSouth interconnection prices that would be prices that we have in our agreements with

1 other interconnecters; is that correct?

2 A Yes.

3 Q Let me ask you generally, do you know how  
4 many interconnection agreements BellSouth has with  
5 other interconnecters in the state of Florida?

6 A Not exactly. I've heard a number somewhere  
7 between 15 to 20.

8 Q Do you know how many interconnection  
9 agreements BellSouth has with competitors throughout  
10 the region where your company does business, the  
11 nine-state region?

12 A I believe it to be somewhere in this same  
13 range.

14 Q In that nine-state region, how many  
15 interconnection agreements does AT&T have?

16 A Zero. But we have probably some 500-plus  
17 competitors in the long distance arena that either  
18 resell our service or use our facilities as part of  
19 that competitive market.

20 Q But in terms of AT&T, you don't have any  
21 interconnection agreements of the nine-state area yet?

22 A No.

23 Q Okay. Does AT&T have any interconnection  
24 agreements with anyone nationally?

25 A Not to my knowledge.

1 Q Okay. Let me ask you about some language  
2 that appears on Page 6 of your direct testimony. It's  
3 Lines 15 through 18.

4 A Yes.

5 Q Okay. Let me just read it before I ask the  
6 question. The question, first of all, going back to  
7 Line 13 "When did AT&T first consider competing in the  
8 Florida local exchange market, and what steps did you  
9 take?" And the answer is "AT&T began assessing the  
10 possibility of local competition in Florida in 1994.  
11 Taking what we knew from our long distance experience,  
12 economic theory and past LEC marketplace behaviors, we  
13 developed a set of conditions under which we believe  
14 local competition can emerge."

15 Now, when you talk about AT&T there, is that  
16 AT&T of the Southern States or is that the national  
17 AT&T?

18 A Both.

19 Q Okay. So this is something that --  
20 basically you've looked at entry into the local  
21 exchange market on a national basis and strategized it  
22 in that way?

23 A I'm not sure I understand the question.

24 Q Okay. The portion I've just read you there  
25 was about market entry in Florida, right?

1           A     Yes.

2           Q     Okay. And you said that that AT&T would be  
3 both the national AT&T and the AT&T of the Southern  
4 States?

5           A     That's right. Because as I talked about  
6 earlier, there's AT&T Corporation and AT&T of the  
7 Southern States, and so it's both as we look at  
8 Florida.

9           Q     Did AT&T nationally do a similar analysis of  
10 markets in the entire country?

11          A     I'm not sure, but based on what I generally  
12 know is that there were a number of trials, for  
13 example Rodchester was one, and so there was some  
14 learnings that came out of that.

15                     Additionally, a number of legislative arenas  
16 and state commissions in the various states took some  
17 action that enabled some learnings to take place, for  
18 example, California. And so these learnings were  
19 transported to the extent they were effective for a  
20 particular local market. So that has been going on;  
21 was part of that national learning process.

22          Q     Okay. So in general, then AT&T has planned  
23 its market entry on a national level? Would that be  
24 accurate?

25          A     No. We have planned our entry based on the

1 needs of the consumers on a local market, like in  
2 Florida, to make sure we understood the  
3 distinctiveness of those markets. But we have tried  
4 to draw on learnings out of other markets as we moved  
5 ahead, like in Rodchester and California.

6 Q Okay. This analysis that you talk about in  
7 your testimony on Page 6, did that lead in a direct  
8 sense to positions you're taking in this arbitration  
9 proceeding?

10 A Both -- yes, both directly and indirectly in  
11 that those learnings were part of that process, and  
12 then was culminated in the Federal Act that brought  
13 about some changes, so it's been a constant learning  
14 and evolving kind of process, just as we have in the  
15 various trials.

16 Q Positions that AT&T is taking in this  
17 particular arbitration, are you taking the same  
18 positions in all of the states in which you have  
19 arbitration proceedings nationally?

20 A I don't know the answer to that.

21 Q What about regionally, same positions in all  
22 of the states that you are responsible for?

23 A Generally, I think that's true.

24 Q Now, what role did you personally play in  
25 the negotiations in Florida?



1           A     I led the AT&T negotiations.

2           Q     Okay. As the leader of those negotiations,  
3 did you have the authority to deviate from the  
4 particular request that AT&T is pursuing in this  
5 arbitration?

6           A     Yes.

7           Q     Okay. So, for example, you could have  
8 struck a deal here in Florida differently than AT&T is  
9 trying to make in other states?

10          A     Yes.

11          Q     It just didn't happen to work out that way?

12          A     Yes, it did not happen to work out that way.

13          Q     Okay. When does AT&T plan to enter the  
14 Florida market for local service?

15          A     In 1997.

16          Q     Now, if AT&T does not get what it wants in  
17 this particular proceeding, is that going to affect  
18 your market entry?

19          A     We're going to enter the market -- the  
20 answer is yes. We're going to enter the market in  
21 1997.

22                     We believe that while what we're asking for  
23 is good public policy. We think it will benefit the  
24 consumers throughout the state of Florida as  
25 enumerated in my opening statement in my testimony.

1 So we think where it falls short the consumers  
2 throughout the state of Florida will not benefit, but  
3 we will enter the market in Florida in 1997.

4 Q And you're going to do that regardless of  
5 the outcome of this proceeding?

6 A We are going to enter the market in Florida  
7 in 1997.

8 Q Okay. Let me ask you for your opinion on  
9 something, if you have one. Do you believe that the  
10 existence of an interconnection agreement between  
11 BellSouth or AT&T, or for that matter the lack of an  
12 agreement, the nonexistence of an agreement, will have  
13 an impact on whether BellSouth obtains Section 271  
14 authority and is able to enter the interLATA market?

15 MR. HATCH: I'm going to object to the  
16 extent that Mr. Carver is asking for a legal analysis  
17 of Section 271.

18 MR. CARVER: I'd like to know if he has an  
19 opinion. If he can't answer, that's fine.

20 CHAIRMAN CLARK: Mr. Hatch, I'm going to  
21 allow it. I note throughout the testimony of all of  
22 these witnesses they refer to the Act and what it  
23 means.

24 MR. HATCH: Yes, ma'am, subject to the  
25 caveat that's my objection.

1           **WITNESS CARROLL:** It's my opinion that it  
2 will have an impact. And the way I think it will have  
3 an impact, it's my understanding that competition in  
4 the local market is a precept to 271. And I believe  
5 that AT&T's presence in the market in Florida will  
6 benefit the consumers and benefit this evolving  
7 evolution to a competitive market, so in that sense  
8 the answer I think is yes.

9           **Q**     Okay. I want to make sure I understand your  
10 answer.

11                    You're saying as you understand it, you're  
12 being in the local market in Florida is a precondition  
13 to BellSouth's going into the interLATA market?

14           **A**     No, that's not what I said, so let me try it  
15 again. I am sorry for the misunderstanding.

16           **Q**     Yes, please. Okay.

17           **A**     What I said, I believe, it's my  
18 understanding that effective local competition is a  
19 precept to 271. And I believe AT&T's presence in the  
20 marketplace in Florida will help that local  
21 competition take place. So in that sense the answer  
22 is yes.

23           **Q**     So there's basically, I guess, one extra  
24 step there. In other words, what you said and what I  
25 said before would differ by one step. In other words,

1 you're saying that as you understand it, local  
2 competition is a precept to our entering into the  
3 interLATA market, and an agreement between BellSouth  
4 and AT&T, in your opinion, would move along the  
5 process of developing local competition?

6 A Yes. I think AT&T's presence would help  
7 that market develop into a competitive market.

8 Q Okay.

9 A For the benefit of consumers.

10 Q I don't want to put this too simplistically  
11 but let me just ask you, if BellSouth enters into the  
12 interLATA toll market in any given state, that's not  
13 really going to be a good thing for AT&T, is it?

14 A It will be a good thing in terms of causing  
15 the market to become more competitive, and I think all  
16 companies benefit in a competitive market. So in that  
17 sense it will be a good thing.

18 Q Let me ask you a little more directly, when  
19 BellSouth enters the interLATA market, do you think  
20 that AT&T's market share is going to rise as a result  
21 of our entering your market? That's not the case, is  
22 it?

23 A I don't know whether it's going to rise or  
24 fall. If I had to speculate I think BellSouth would  
25 be a formidable competitor, and I think given the

1 competitive marketplace -- in fact in the Wall Street  
2 Journal there have been a number of reports about the  
3 contracts that are being developed for local companies  
4 to enter that talk about volume of discounts in the  
5 60, 70% range. Given the openness and competitiveness  
6 of that market I think BellSouth would be a formidable  
7 competitor and I think we would probably lose some  
8 market share as a result of that. We'd try not to but  
9 we probably would.

10 Q But the likely result is you would lose some  
11 market share?

12 A Hopefully we would have gained some market  
13 share in the local arena assuming that this market  
14 moves in the competition as outlined.

15 Q So basically it's sort of a balance. You  
16 hope you'll gain some local market share, but even as  
17 you move into this market, because of the way things  
18 are structured, you're necessarily going to have a  
19 financial -- pardon me, a negative financial impact in  
20 the interLATA arena, correct?

21 A I'm not sure I caught that. Would you try  
22 me again, please?

23 Q If I understand what you're saying it's sort  
24 of a balance. You will get into the local market and  
25 you think AT&T will be able to get some business in

1 the local market that obviously it couldn't before.  
2 But it is a balance. And even as you do that, there's  
3 a downside in the interLATA market. So you may gain  
4 something here. But as BellSouth gets into our market  
5 you're going to lose something on the other end.

6 Correct?

7       A     Yes, but I wouldn't phrase it exactly that  
8 way. I don't think it's a balance. I think we have a  
9 situation where the long distance market is  
10 competitive, and the local market is a monopoly. And  
11 BellSouth has had this local monopoly for hundred-plus  
12 years and has this protected customer base in Florida  
13 of approximately 6 million lines or so. And the Act  
14 outlines the principles to move that into a  
15 competitive market for the benefit of consumers. And  
16 if we do that well, we'll serve consumers well. And  
17 then the Act outlines some requirements once that  
18 market becomes competitive for additional entry of the  
19 incumbent local monopolist into the market place. I  
20 believe that will be good for consumers.

21       Q     Mr. Carroll, I really lost your answer to my  
22 question and all of that. So let me ask it again. If  
23 you could, please just answer my question?

24       A     I believe I did in the front end. I believe  
25 I answered yes in the front end.

1 Q Okay. I'm sorry, so you are saying yes, as  
2 AT&T gets into the local market there is also a  
3 downside in terms of what you could lose in the  
4 interLATA market?

5 A That's not exactly what I said. But I did  
6 say yes to start with and then I amplified I would be  
7 glad to do that again if I was not clear.

8 Q No, I think I understand your answer.

9 Let me ask you to look again at JCR 1, the  
10 exhibit to your rebuttal testimony. Now, if you would  
11 look at those -- have you got that?

12 A Just one second.

13 Q Okay. Just tell me when you're ready.

14 A Okay.

15 Q The companies that are listed there with the  
16 prices, are any of those interexchange carriers?

17 A I believe some of them operate as resellers,  
18 but I'm not positive of that.

19 Q Okay. As far as you know none of them are  
20 facilities-based interexchange carriers?

21 A I believe Time Warner is but, again, I'm not  
22 positive.

23 Q Other than Time Warner, let's talk about the  
24 other ones.

25 Would you agree that since they are not

1 interexchange carriers then they don't really have any  
2 incentive not to enter into an interconnection  
3 agreement with BellSouth; would you agree with that?

4       A     Would you state that again, please?

5       Q     To the extent they are not interexchange  
6 carriers, they really don't have anything to lose by  
7 entering into an interconnection agreement with  
8 BellSouth, do they?

9       A     I don't understand the connection, I'm  
10 sorry. If you'd help me with that, I'd be able to try  
11 to answer yes or no.

12       Q     Well, if they are not interexchange carriers  
13 they are not in the interLATA market, so their  
14 entering into an interconnection agreement with  
15 BellSouth isn't going to create a situation where  
16 BellSouth is going to have entry into some other  
17 market somewhere they serve. Would you agree to the  
18 extent they are not interexchange carriers that that's  
19 the case?

20       A     Again, I'm not sure I understand.

21             To the extent they enter into an  
22 interconnection agreement, then they are able to enter  
23 the local market. It would seem to me that that would  
24 help the fundamental aspect of the local market  
25 becoming competitive. They can enter the interLATA



1 market at any time, either as a resaler, or as a  
2 facilities-based if they so choose, and I think a  
3 couple do.

4 Q To the extent they are not in the  
5 interexchange market now, they're looking to enter the  
6 local market, wouldn't you agree that they have every  
7 reason to want to enter into an interconnection  
8 agreement and no real disincentive to entering into  
9 it?

10 A No.

11 Q No, you don't agree?

12 A No, I don't agree. I don't understand the  
13 connection, I'm sorry.

14 Q Okay.

15 MR. CARVER: Thank you. Those are all of  
16 the questions I have.

17 CHAIRMAN CLARK: Staff.

18 CROSS EXAMINATION

19 BY MR. PELLEGRINI:

20 Q Good morning, Mr. Carroll.

21 A Good morning.

22 Q Any name is Charlie Pellegrini representing  
23 the Staff.

24 A Good morning.

25 Q I want to ask you some questions relative to

1 Issue 22, general contractual terms and conditions?

2 A Yes.

3 Q Would you agree that BellSouth puts its  
4 position this way, that they believe the issue is not  
5 subject to arbitration, would you agree?

6 A Yes.

7 Q What does AT&T believe the appropriate  
8 general contractual terms and conditions should be?

9 A Those are the ones that are outlined in the  
10 interconnection agreement that we filed with my  
11 exhibit. And we have continued to negotiate those  
12 with BellSouth and have an update as of 9-16, I  
13 believe. So that is under continuing negotiation.

14 If I tried to recall some of the basic  
15 elements from memory, there are things like credits,  
16 there are things like subcontracting. There are  
17 things like whether or not the affiliates of BellSouth  
18 are included in this interconnection agreement. There  
19 are things like confidential information. There are  
20 things like audit and inspection procedures. Branding  
21 is one of the terms and conditions.

22 There are about nine or ten elements that  
23 are listed there that we think are appropriate.  
24 Alternative dispute resolution, for example, is one.  
25 Some of those like confidential information we've

1 reached agreement on based on where we are on 9-16. I  
2 think we're getting close on alternative dispute  
3 resolution so we're making some progress on those.

4 Q Are you able to indicate to me precisely  
5 where in the interconnection agreement those terms and  
6 conditions appear?

7 A I believe they are in the preface and I  
8 think -- I don't have the interconnection agreement in  
9 front of me, but I believe it's up in Part 1. If I  
10 could get the interconnection agreement, I think I  
11 could enumerate those for you, if that would be  
12 helpful.

13 (Hands document to witness.)

14 I have the Interconnection Agreement here.

15 Q All right.

16 A And the preface, for example, on Page 1  
17 talks about affiliates. If you go to Paragraph 1 and  
18 it's headed "General Terms and Conditions" there,  
19 about the provision of local service and unbundled  
20 network elements. It talks on through termination of  
21 the agreement, for example; good faith performance.  
22 Paragraph 5 in terms of the option to purchase and  
23 obtain local service etcetera. The responsibilities  
24 of each party's governmental compliance. And 8, the  
25 environmental contamination issue, for example, in 8,

1 regulatory matters in 9. Liability and indemnity in  
2 10. Audits and inspections, for example. In 11,  
3 remedies to meet DMOQs. In 12, customer credit  
4 history. And 13, federal state and local taxes. The  
5 alternative dispute resolution I mentioned earlier in  
6 16. Notices in 17. And branding I mentioned in 19.  
7 Directory listings requirements in 20. 21 is  
8 subscriber list information, and I think that's  
9 predominantly it.

10 Q Good. Thank you.

11 Is it AT&T's expectation that this  
12 Commission would set the language for terms and  
13 conditions exactly, that is specifically -- set the  
14 specific language for each one of these terms and  
15 conditions?

16 A I hope not. What we would hope is that the  
17 Commission would, from a public policy standpoint, say  
18 that those general terms and conditions are  
19 appropriate in a interconnection agreement. And then  
20 give BellSouth and AT&T some amount of time, say a  
21 couple of weeks, to finalize those. To the extent we  
22 couldn't, we would submit to each other specific  
23 language for the Commission to consider as part of the  
24 interconnection agreement. I'm hopeful we can make  
25 substantial progress in this area.

1 Q Does your point of view depend at all upon  
2 the outcome of the Issue 30 concerning posthearing  
3 procedures?

4 A I didn't bring that document with me. Could  
5 I see that? I apologize for that.

6 (Hands document to witness.)

7 Yes, I think so. I'm sorry. The answer is  
8 yes.

9 Q Then would you agree that Issues 22 and 30  
10 should be considered on a joint basis; that they are  
11 tied together and should be considered on a joint  
12 basis?

13 A I'd say yes.

14 Q Let me return you to my initial question,  
15 Mr. Carroll, that is concerning BellSouth's position  
16 that these terms and conditions are not subject to  
17 arbitration. You disagree. Can you explain briefly  
18 why?

19 A We believe that under the Act, the Act talks  
20 about negotiated agreements, interconnection  
21 agreements, and general terms and conditions are  
22 usually associated with interconnection agreements, so  
23 we think the intent of the Act supports that.

24 Q Let me turn your attention now to Issue 14B  
25 please. That's the issue concerning information

1 services traffic.

2 A Yes.

3 Q You are the witness supporting this issue, I  
4 believe; is that correct?

5 A Yes.

6 Q Can you tell me -- in the first place, can  
7 you tell me what it is that you mean by the term  
8 "rated format?"

9 A We're talking about the calls are rated at  
10 the appropriate charges that is in the agreements  
11 between BellSouth and the ISP providers; that the  
12 information service providers charge for that  
13 particular service. That's the rated format. It's a  
14 distinctive rate based on the kind of ISP services  
15 being provided.

16 Q Is that the extent of the information that  
17 you require of BellSouth?

18 A That's the extent of the information. We're  
19 asking, as you can see, that BellSouth bill these  
20 calls until we can be in a position to do so. We  
21 believe that's a transition issue. We have told  
22 BellSouth that we didn't feel like we could get this  
23 done by the end of the year, but we felt that we'd be  
24 able to do it by March, and we'd make our best efforts  
25 to improve that, so that's the request.

1           Q     BellSouth's position here again is that this  
2 is not an appropriate issue for arbitration, or in the  
3 alternative that the ALECs should negotiate their own  
4 contracts with information service providers; isn't  
5 that correct?

6           A     That's correct.

7           Q     I assume you disagree?

8           A     Yes.

9           Q     Can you explain why?

10          A     We believe that it's in line with the Act in  
11 terms of establishing positions that are not  
12 unreasonable and discriminatory. We believe that this  
13 would be good for the transition of the marketplace in  
14 terms of ensuring that it happens in a way that is  
15 convenient without confusion, and so that's it.

16          Q     Turning back for a moment to the term "rated  
17 format," in the rating can you identify precisely the  
18 items of information that would -- you would expect to  
19 be contained in the rating?

20          A     No, I cannot, although we could provide you  
21 that technical specification which we have to  
22 BellSouth. (Pause)

23          Q     Would you expect compensation for the  
24 services that AT&T would provide an information  
25 service provider?

1           A     Yes.  And in addition, if there's any  
2 incremental cost for BellSouth to incur in the billing  
3 process while this is underway in this transition  
4 period, we'd certainly be willing to pay that, as  
5 we've told them.

6           Q     Mr. Carroll, do you consider the information  
7 you're requesting from BellSouth to be quote, "an  
8 unbundled network element"?

9           A     The ISP?

10          Q     Yes.

11          A     No.

12          Q     "No" is your answer?

13          A     No.

14          Q     Can you describe for us the specific  
15 proposal that you have been attempting to negotiate  
16 with BellSouth regarding information service providers  
17 services?

18          A     Let me start this way, is that if you take a  
19 look at the chart we've put up here, basically there  
20 would be billing capability associated with either the  
21 use of resale or unbundled network elements.  Now, you  
22 you asked me if it was an unbundled network element, I  
23 said no.  It could be provided through that capability  
24 as we recreate services.  There would be billing  
25 associated with either of those capabilities.  If a



1 customer in either one of those situations selects  
2 AT&T and makes a call associated with this ISP  
3 service, until we're in a position to bill that, we're  
4 asking that BellSouth bill that since they have the  
5 distinctive agreement with the ISP provider. And,  
6 again, to rate that at the distinctive rate element,  
7 and we would again, to the extent there was  
8 incremental cost for that transition period, we would  
9 pay BellSouth for that until we're in a position to do  
10 it ourselves.

11 Q What does AT&T expect to be paid?

12 A The -- I'm not sure I understand that  
13 question. Try me again.

14 Q That's all right.

15 A Thank you.

16 MR. PELLEGRINI: Thank you, Mr. Carroll. No  
17 further questions.

18 WITNESS CARROLL: Thank you.

19 MR. PELLEGRINI: Oh, I'm sorry. Before I  
20 let you go, do you have at hand an exhibit identified  
21 as JC-4?

22 A Yes, I do.

23 Q Do you acknowledge that it contains AT&T's  
24 answers to BellSouth Telecommunications' first set of  
25 interrogatories?

1           **A**     Yes.

2           **Q**     Were these responses prepared by you or by  
3 those under your supervision?

4           **A**     Yes.

5           **MR. PELLEGRINI:** Madam Chairman, Staff would  
6 ask that this be marked?

7           **CHAIRMAN CLARK:** It will be marked as  
8 Exhibit 20.

9                     (Exhibit 20 marked for identification.)

10          **CHAIRMAN CLARK:** Commissioners, questions?  
11 Redirect?

12          **MR. HATCH:** Just a couple of questions.

13                     **REDIRECT EXAMINATION**

14 **BY MR. HATCH:**

15          **Q**     Mr. Carroll, do you recall your conversation  
16 where, I believe, Mr. Carver asked you when AT&T  
17 intended to enter the market?

18          **A**     Yes.

19          **Q**     And your answer was 1997, I believe?

20          **A**     That's right.

21          **Q**     To the extent AT&T's requests in this  
22 proceeding are not approved by this Commission, what  
23 affect will those decisions have on AT&T's abilities  
24 to provide service to customers in the state of  
25 Florida?

1           A     I think it will have a dramatic effect. We  
2 think this is a mosaic of capability that is for the  
3 benefit of subscribers throughout BellSouth territory.

4                     For example, operator services and DA was  
5 talked about yesterday. We have no intent to utilize  
6 BellSouth's operator services and DA in an emergency  
7 or recovery or standby fashion in any way. We intend  
8 to use AT&T's operator services and DA.

9                     The only reason we're asking for that rate  
10 element there is that in that limited number of cases  
11 where the switch is not able to handle that routing,  
12 that we would be forced to use BellSouth's operator  
13 services and DA, and we would in that particular case.

14                    We think that's a fundamental capability  
15 that deals with branding. It would eliminate  
16 confusion in the marketplace.

17                    Think back to several years ago when the  
18 consumers were buying, I believe, Oldsmobiles and  
19 Pontiacs and found out they had Chevrolet engines. It  
20 was branded an Oldsmobile or branded a Pontiac and  
21 that's what they were expecting.

22                    So we think that, for example, is a  
23 fundamental capability that would cause that service  
24 to be less effective in the marketplace.

25                    Our ability to recreate services using the

1 unbundled network elements we believe is fundamental.  
2 Not only does the Act provide for it, but we think  
3 that it is a fundamental capability that the Congress  
4 provided to evolve this to a competitive market in a  
5 more rapid sense.

6           And, for example, at -- initially if we had  
7 that capability, we would order that service and have  
8 the operators services and DA provided by the AT&T  
9 platform, for example. One of fundamental capabilities  
10 there is that the verticle features, like custom  
11 calling, et cetera, are part of the switching element.  
12 We would package and price those differently to  
13 improve the service to the consumers throughout the  
14 state of Florida. If access to the AIN figures was  
15 made available as requested, we would couple that with  
16 some database capabilities to be able to package that  
17 with the service in UNE.

18           So those are just a couple of examples. I  
19 think that these combination of elements are critical  
20 to provide this competitive market. So, yes, it would  
21 have an impact.

22           Q     Could you turn to JCR-1 please for a moment?

23           A     Yes.

24           Q     Do you recall Mr. Carver asking you a  
25 question -- and I don't want to mischaracterize this,

1 to the effect that if one of the -- if a local entrant  
2 was not also a interexchange carrier, it had nothing  
3 to lose by entering into an agreement with BellSouth.  
4 Do you recall that question?

5 A Yes.

6 Q Are you familiar with Time Warner's  
7 operations in the state of Florida?

8 A I'm familiar with the fact that they are in  
9 the market. They have a switch and they have some  
10 facilities is my understanding.

11 Q Do you know how Time Warner is fairing in  
12 this marketplace?

13 A I know there was an article yesterday in the  
14 USA Today where they were putting that on hold.  
15 That's as much as I know.

16 MR. HATCH: Thank you. No further  
17 questions.

18 CHAIRMAN CLARK: Exhibits.

19 MR. HATCH: AT&T would move 17, 18 and 19.

20 CHAIRMAN CLARK: That will be entered into  
21 the record without objection.

22 MR. PELLEGRINI: Staff would move  
23 Exhibit 20.

24 CHAIRMAN CLARK: It will be entered into the  
25 record without objection.

1 (Exhibits 17, 18, 19 and 20 received in  
2 evidence.)

3 CHAIRMAN CLARK: Thank you, Mr. Carroll.  
4 Mr. Melson you witness is next.

5 MR. MELSON: Yes. MCI calls Don Price.

6 MS. WHITE: Could we remind witness to sit  
7 in the chair nearest the court reporter and that way  
8 the people on this side of the roon can see better.

9 CHAIRMAN CLARK: Yes, that's fine.

10 MR. MELSON: I don't believe Mr. Price has  
11 been sworn.

12 - - - - -

13 DON PRICE

14 was called as a witness on behalf of MCI  
15 Telecommunications Corporation and MCI Metro and,  
16 having been duly sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. MELSON:

19 Q Mr. Price, would you please state your name  
20 and business address?

21 A Yes. My name is Don Price, and I'm going to  
22 change chairs here because I feel like I'm sitting on  
23 the floor. Thank you.

24 Q Business address?

25 A 701 Brazos, B-R-A-Z-O-S, Suite 600, Austin

1 Texas 78701.

2 Q By whom are you employed and in what  
3 capacity?

4 A I'm employed by MCI Telecommunications  
5 Corporation. My title is Senior Regional Manager  
6 Competition Policy.

7 Q Have you prefiled three sets of testimony in  
8 this docket, Direct Testimony dated August 21st and  
9 consisting of 23 pages; Additional Direct dated August  
10 22nd, consisting of 30 pages, and Rebuttal Testimony  
11 dated September 16th and consisting of 20 pages?

12 A Yes.

13 Q Do you have any changes or corrections to  
14 any of that testimony?

15 A Yes, I do.

16 In the August 21st initial direct testimony  
17 at Page 18, between Line 7 and Line 8, I would add  
18 "Account 6722 external relations." Between Lines 11  
19 and 12 I would add "Account 6727, research and  
20 development." I'd simply note for the record that  
21 those accounts were included in the calculation, in  
22 the models that MCI filed. They were simply omitted  
23 at the listing here.

24 At Page 21 of that same piece of testimony  
25 at Line 10 the amount reflected on Line 10 should be

1 25.06%.

2 Q And does that conclude your changes to all  
3 three pieces of testimony?

4 A I have one more change that is in Exhibit 2.

5 Q Let's wait until we get to the exhibits.

6 A All right.

7 MR. MELSON: Madam Chairman, I'd ask that  
8 Mr. Price's direct testimony, additional direct  
9 testimony and rebuttal testimony be inserted into the  
10 record as though read.

11 CHAIRMAN CLARK: The direct testimony,  
12 supplemental direct testimony, and rebuttal testimony  
13 of Mr. Price will be inserted into the record as  
14 though read.

15 Q (By Mr. Melson) Mr. Price, are you  
16 sponsoring four exhibits that were attached to MCI's  
17 petition for arbitration in this docket, namely the  
18 letter from MCI to BellSouth initiating negotiations  
19 under the Act, the interim agreement between MCI Metro  
20 and BellSouth, an annotated term sheet, and a document  
21 labelled "Term Sheet Items."

22 A Yes.

23 Q Do you have any changes or corrections to  
24 any of those documents?

25 A None to my knowledge.



1           **MR. MELSON:** Madam Chairman, I'd asked those  
2 be marked as composite Exhibit 21.

3           **CHAIRMAN CLARK:** Mr. Melson, is that DGP-1  
4 through something?

5           **MR. MELSON:** No, ma'am. These were exhibits  
6 to the petition. They are listed in the Prehearing  
7 Order as documents Mr. Price will sponsor. We're  
8 simply trying to ensure they are properly in the  
9 record.

10           **COMMISSIONER KIESLING:** I'm confused.

11           **CHAIRMAN CLARK:** If you look on Page 45 of  
12 the Prehearing Order --

13           **COMMISSIONER KIESLING:** Yes.

14           **CHAIRMAN CLARK:** -- there's a Petition  
15 Exhibit 1, Petition Exhibit 2, Petition Exhibit 3 and  
16 Petition Exhibit 4. I assume that is what you want  
17 marked as a composite exhibit; is that correct?

18           **MR. MELSON:** Yes, ma'am.

19           **CHAIRMAN CLARK:** Okay. we will mark that as  
20 Exhibit 21.

21           (Exhibit 21 marked for identification.)

22           **Q**        **(By Mr. Melson)** Mr. Price, did you have  
23 attached to your direct testimony three exhibits  
24 identified as DGP-1 through DGP-3?

25           **A**        Yes, I did.

1           Q     Do you have any changes or corrections to  
2 those exhibits?

3           A     Yes, I do. At DGP-2, page identified at the  
4 bottom is Page 12. I would make the same changes I  
5 made to Page 18 of the direct testimony, which is to  
6 add Account 6722, external relation, between 6721 and  
7 6723. And then following Account 6726 I would again  
8 add account 6727, research and development.

9           MR. MELSON: Commissioners, I'd like to note  
10 that when these exhibits were originally filed,  
11 Page roman numeral 3-2 of Exhibit DGP-2 was missing  
12 from several of the copies. We submitted that  
13 supplementally. If any of the Commissioners don't  
14 have copies of it I have some extra copies here.

15           CHAIRMAN CLARK: Okay.

16           Q     (By Mr. Melson) Mr. Price, were those  
17 changes -- is the information in Exhibits DGP-1  
18 through DGP-3 correct, to the best of your knowledge?

19           A     Yes.

20           MR. MELSON: I'd ask that those be marked as  
21 Composite Exhibit 22.

22           CHAIRMAN CLARK: They will be marked as  
23 Composite Exhibit 22.

24                     (Composite Exhibit 22 marked for  
25 identification.)

1           Q           (By Mr. Melson) Was there one additional  
2 exhibit attached to your additional testimony  
3 identified as DGP-4?

4           A           Yes.

5           Q           Any changes or corrections to that exhibit?

6           A           No.

7           MR. MELSON: I'd ask that Exhibit DGP-4 be  
8 marked as Exhibit 23.

9           CHAIRMAN CLARK: It will be marked as  
10 Exhibit 23.

11                       (Exhibit 23 marked for identification.)

12           Q           (By Mr. Melson) And finally, was there one  
13 exhibit attached to your rebuttal testimony identified  
14 as DGP-5?

15           A           That is correct.

16           Q           Any changes or corrections to that exhibit?

17           A           No.

18           MR. MELSON: I'd ask that that be marked as  
19 Exhibit 24.

20           CHAIRMAN CLARK: It will be marked as  
21 Exhibit 24.

22                       (Exhibit 24 marked for identification.)

23

24

25

## 1 DIRECT TESTIMONY OF DON PRICE

2 ON BEHALF OF

3 MCI TELECOMMUNICATIONS CORPORATION AND

4 MCImetro ACCESS TRANSMISSION SERVICES, INC.

5 DOCKET NO. 960846-TP

6 August 21, 1996

7

8 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9 A. My name is Don Price, and my business address is 701 Brazos, Suite  
10 600, Austin, Texas, 78701.

11

12 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

13 A. I am employed by MCI Telecommunications Corporation in the  
14 Southern Region as Senior Regional Manager -- Competition Policy.

15

16 Q. HAVE YOU PREVIOUSLY TESTIFIED?

17 A. Yes, I have testified in proceedings before regulatory commissions in a  
18 number of states. Provided as Exhibit 22 (DGP-1) to this testimony is  
19 a document listing the cases in which I have testified. Also included  
20 as part of the document is a summary of my academic and  
21 professional qualifications.

22

23 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

24 A. The purpose of this testimony is to: 1) *briefly describe the history of*  
25 *the negotiations between MCI and BellSouth; and 2) describe and*

1 make recommendations on several key wholesale service pricing and  
2 provisioning policy issues that must be resolved in the context of  
3 arbitrations under Section 252 of the Telecommunications Act of  
4 1996.

5

6

#### NEGOTIATIONS

7 Q. PLEASE SUMMARIZE THE HISTORY OF MCI'S NEGOTIATIONS WITH  
8 BELL SOUTH.

9 A. By letter dated March 26, 1996, a copy of which was attached as  
10 Exhibit 1 to MCI's Petition for Arbitration in this docket, MCI formally  
11 requested negotiations with BellSouth pursuant to Section 252 of the  
12 Act. The first negotiating meeting pursuant to Section 252 was  
13 delayed while MCI and BellSouth completed negotiations for an  
14 interim agreement on terms and conditions of interconnection. Those  
15 negotiations resulted in an Agreement effective as of May 15, 1996  
16 (the "Interim Agreement"), which addressed certain interconnection  
17 and other issues for a two-year period. The Interim Agreement was  
18 submitted to the Commission on May 16, 1996, and approved on  
19 August 12, 1996.

20 The first negotiating meeting pursuant to Section 252 of the  
21 Act was held on May 28, 1996. Prior to that meeting, MCI furnished  
22 BellSouth a copy of Version 3.2 of a document entitled "MCI  
23 Requirements for Intercarrier Agreements" which set forth in detail  
24 MCI's requirements for interconnection and access, unbundling,  
25 resale, ancillary services and associated arrangements pursuant to the

1 Act (the "Term Sheet"). The Term Sheet, as subsequently revised on  
2 June 7, 1996 (Version 4.0), served as the focal point of the  
3 negotiations.

4 MCI and BellSouth held additional meetings and conference  
5 calls in June, July and August. The parties reached an early impasse  
6 on pricing issues, but continued to discuss a number of other issues.  
7 While it appears that the parties may have reached agreement in  
8 principle on a number of the items requested in the Term Sheet, the  
9 parties have not yet agreed to specific contractual language on any  
10 issue. MCI has therefore submitted all issues for arbitration.

11

12 Q. HAS MCI PREPARED A DOCUMENT WHICH SHOWS ITS REQUESTS  
13 TO BELLSOUTH AND BELLSOUTH'S RESPONSE TO THOSE  
14 REQUESTS?

15 A. Yes. For purposes of this proceeding, MCI prepared an Annotated  
16 Term Sheet, in which MCI has indicated its understanding of  
17 BellSouth's response to each item requested in MCI's Term Sheet. I  
18 am sponsoring this document, a copy of which was attached as  
19 Exhibit 3 to MCI's arbitration petition in this docket. Some of these  
20 term sheet items are covered in my testimony, others are dealt with in  
21 the testimony of other MCI witnesses.

22

23 Q. WHAT IS YOUR UNDERSTANDING OF THE EFFECT OF THE INTERIM  
24 AGREEMENT THAT THE PARTIES REACHED IN MAY?

25 A. The Interim Agreement is a two-year agreement that provides a way

1 for MCI to enter the local exchange business in BellSouth's territory in  
2 Florida while the parties continue to negotiate and arbitrate the terms  
3 of a more permanent agreement. The Interim Agreement is limited in  
4 scope. It specifically acknowledges that the following items are  
5 outside the scope of the agreement:

6 *resale of local exchange service, provision of*  
7 *unbundled loops, provision of unbundled transport*  
8 *services, provision of unbundled switching*  
9 *services, and any other item that either party may*  
10 *consider to be required by the Act.*

11 In addition, Section II.B of the Interim Agreement allows MCI, in  
12 Florida and Tennessee, to take any position on the matters that are  
13 covered by the agreement, including the treatment of interconnection  
14 and temporary local number portability. While I am not a lawyer, it  
15 appears to me that the agreement does not limit MCI's right to  
16 arbitrate any matter on which the parties have not reached a final  
17 agreement under Section 252 of the Act.

18

19 **WHOLESALE SERVICES: PRICING AND PROVISIONING**

20 **Wholesale Services: Overview**

21 Q. HOW IS THIS PORTION OF YOUR TESTIMONY ORGANIZED?

22 A. First, I summarize the pertinent federal legislative and regulatory  
23 requirements. Second, I discuss the necessary conditions of an  
24 effective resale policy. Third, I describe the avoided cost model  
25 employed herein. Finally, I present my conclusions. Attached as

1 Exhibit \_\_\_ (DGP-2) is a White Paper I co-authored which describes  
2 MCI's position on these issues in a report format.

3

4 Q. WOULD YOU SUMMARIZE YOUR KEY CONCLUSIONS REGARDING  
5 THE PRICING AND PROVISIONING OF WHOLESALE SERVICES?

6 A. Yes. The key conclusions are:

- 7 • An effective local resale market is essential to development of  
8 full facilities based local competition.
- 9 • In addition to promoting facilities based competition, resale of  
10 local services provides independent benefits to consumers  
11 through retail competition.
- 12 • In order to capture all of these benefits, all local  
13 telecommunications services must be made available for resale  
14 at discounts that fully reflect avoidable costs.
- 15 • Wholesale services must not be provisioned in ways that  
16 discourage entry by resellers or unreasonably raise their costs.
- 17 • An avoided cost study must reflect the jurisdictional allocation  
18 of expenses.
- 19 • The appropriate resale discounts should be set on a state  
20 specific basis where the data allow, and at the Regional  
21 Company level otherwise.
- 22 • The discounts range from approximately 19 to 27 percent at  
23 the Regional Company level.

24

25 **Wholesale Services: Legislative and Regulatory Requirements**



1 Q. WHAT ARE THE LEGISLATIVE AND REGULATORY REQUIREMENTS  
2 REGARDING RESALE AND WHOLESALE PRICING BY BELLSOUTH?

3 A. The Telecommunications Act of 1996 ("1996 Act") is designed to  
4 bring competition to local telecommunications markets. The 1996  
5 Act recognizes that simply removing legal barriers to entry is  
6 insufficient to allow competition to evolve. A number of  
7 procompetitive steps are necessary and explicitly required by the  
8 1996 Act. For example, every incumbent local exchange carrier  
9 ("ILEC") is required to provide requesting telecommunications carriers:  
10 (1) interconnection to its network; (2) access to its unbundled  
11 network elements; (3) physical collocation for interconnection or  
12 access to unbundled elements, and (4) retail telecommunications  
13 services for resale at wholesale prices (rates). Economic barriers to  
14 entry into local telephone markets will be reduced substantially with  
15 an effective resale policy. In other words, resale of all retail  
16 telecommunications services at wholesale rates is necessary to the  
17 development of local competition.

18 The 1996 Act imposes a duty upon ILECs to offer certain  
19 services for resale at wholesale rates. Specifically, Section 251(c)(4)  
20 requires ILECs:

21 (A) to offer for resale at wholesale rates any  
22 telecommunications service that the carrier  
23 provides at retail to subscribers who are not  
24 telecommunications carriers; and

25 (B) not to prohibit, and not to impose unreasonable or

1 discriminatory conditions or limitations on, the  
2 resale of such telecommunications services, except  
3 that a state commission may, consistent with  
4 regulations prescribed by the Commission under  
5 this section, prohibit a reseller that obtains at  
6 wholesale rates a telecommunications service that  
7 is available at retail only to a category of  
8 subscribers from offering such service to a  
9 different category of subscribers.

10 Further, The 1996 Act also provides guidance on the determination of  
11 wholesale prices for telecommunications services. Section 252(d)(3)  
12 states that:

13 For the purposes of Section 251(c)(4), a state commission shall  
14 determine wholesale rates on the basis of retail rates charged to  
15 subscribers for the telecommunications service requested,  
16 excluding the portion thereof attributable to any marketing,  
17 billing, collection, and other costs that will be avoided by the  
18 local exchange carrier.

19  
20 These statutory requirements are clear and concise. As described  
21 below, they are not only consistent with, they are essential to, the  
22 development of local competition.

23 Q. WHAT STEPS HAS THE FCC TAKEN TO IMPLEMENT THESE  
24 STATUTORY PROVISIONS?

25 A. The Federal Communications Commission ("FCC") recently released

1 its First Report and order in CC Docket No. 96-98, In the Matter of  
2 Implementation of the Local Competition Provisions of the  
3 Telecommunications Act of 1996, issued August 8, 1996 ("251  
4 Order"). The 251 Order addresses the need for resale competition  
5 stating that:

6 Resale will be an important entry strategy for many new  
7 entrants, especially in the short term when they are  
8 building their own facilities. Further, in some areas and  
9 for some new entrants, we expect that the resale option  
10 will remain an important entry strategy over the longer  
11 term. Resale will also be an important entry strategy for  
12 small businesses that may lack capital to compete in the  
13 local exchange market by purchasing unbundled elements  
14 or by building their own networks. In light of the  
15 strategic importance of resale to the development of  
16 competition, we conclude that it is especially important  
17 to promulgate national rules for use by state commissions  
18 in setting wholesale rates. (251 Order, Para. 907).

19  
20 The Order establishes ". . . a minimum set of criteria for  
21 avoided cost studies used to determine wholesale discount rates."  
22 (para. 909) Sections 605-617 of part 51 of the FCC Rules set forth  
23 the FCC's methodology. These Rules are included as Appendix II to  
24 the attached White Paper, Exhibit 22 (DGP-2). Beyond the minimum  
25 criteria, the FCC allows states ". . . broad latitude in selecting costing

1 methodologies that comport with their own ratemaking practices for  
2 retail services.” (para. 910) States are allowed to select interim  
3 “default” rates from within a range prescribed by the FCC if an  
4 avoided cost study such as the one presented here is not available.  
5 (See FCC Rules Section 51.611.)

6 The methodology described here follows the approach  
7 suggested by the FCC. However, it is appropriate to account for the  
8 jurisdictional nature of some of the expenses that are avoided when  
9 ILECs no longer perform the retail function. The necessary  
10 adjustments are described below. These adjustments are consistent  
11 with state rate making practices and therefore comply with the  
12 express desire of the FCC to provide latitude to states.

13

14 **Wholesale Services: Necessary Conditions for Effective Resale**

15 Q. PLEASE DESCRIBE THE NECESSARY CONDITIONS FOR EFFECTIVE  
16 RESALE.

17 A. There are several conditions necessary for an effective local resale  
18 market. In general, the price of wholesale services must be  
19 reasonably related to the cost of providing the service and the  
20 wholesale services must be offered on reasonable terms and  
21 conditions. The specific conditions necessary for effective resale are:  
22 1) wholesale rates must not include incumbent LEC retailing costs; 2)  
23 all retail services must be offered at a discount; 3) service quality and  
24 adequate wholesale-reseller interfaces must be maintained; and 4)  
25 service branding must be provided for the retailers’ services.

1 Q. YOU STATED THAT WHOLESALE RATES CHARGED BY BELLSOUTH  
2 MUST NOT INCLUDE RETAILING COSTS. PLEASE EXPLAIN.

3 A. If ILECs are allowed to charge excessive wholesale service prices,  
4 competition will be thwarted. In any market, resellers or retailers  
5 require a margin between the retail price and the wholesale price  
6 sufficient to allow recovery of their expenses, including a reasonable  
7 profit. The FCC points out that:

8           There has been considerable debate on the record in this  
9 proceeding and before the state commissions on whether  
10 section 252(d)(3) embodies an "avoided" cost standard  
11 or an "avoidable" cost standard. We find that "the  
12 portion [of the retail rate] . . . attributable to costs that  
13 will be avoided" includes all of the costs that the LEC  
14 incurs in maintaining a retail, as opposed to a wholesale,  
15 business. In other words, the avoided costs are those  
16 that an incumbent LEC would no longer incur if it were to  
17 cease retail operations and instead provide all of its  
18 services through resellers. Thus, we reject the  
19 arguments of incumbent LECs and others who maintain  
20 that the LEC must actually experience a reduction in its  
21 operating expenses for a cost to be considered "avoided"  
22 for purposes of section 252(d)(3). We do not believe  
23 that Congress intended to allow incumbent LECs to  
24 sustain artificially high wholesale prices by declining to  
25 reduce their expenditures to the degree that certain costs

1 are readily avoidable. We therefore interpret the 1996  
2 Act as requiring states to make an objective assessment  
3 of what costs are reasonably avoidable when a LEC sells  
4 its services wholesale. We note that Colorado, Georgia,  
5 Illinois, New York, and Ohio commissions have all  
6 interpreted the 1996 Act in this manner. (251 Order,  
7 Para. 911).

8 If avoided costs are estimated correctly, and then subtracted  
9 from retail prices, efficient resellers should be able to succeed in the  
10 retail market.

11

12 Q. YOU ALSO STATED THAT ALL RETAIL SERVICES MUST BE  
13 OFFERED AT A DISCOUNT. PLEASE EXPLAIN.

14 A. All of the telecommunications services offered to end-users must be  
15 made available to resellers at a wholesale discount. (Retail  
16 competitors may wish to resell services such as Voice Mail and Inside  
17 Wire. These services would likely be made available at avoided cost if  
18 the wholesale market were competitive.) This includes Centrex,  
19 optional plans, grandfathered services, promotions and contract  
20 services. (All contract services must be available for resale. This  
21 includes government and state agency contracts as well as any  
22 "umbrella" contract that allows other entities to participate and obtain  
23 the benefits of a master contract.) All ILEC retail services are at least  
24 partial substitutes for one another. (The FCC Rules permit states to  
25 restrict "cross-class" selling. See Section 51.613(a)(1).) Therefore,

1 absent this requirement, ILECs will be able to discriminate against  
2 resellers by making offers to customers that their retail competitors  
3 are unable to match.

4 Ancillary services must also be made available for resale. This  
5 includes custom calling services, CLASS features, and all Centrex  
6 features. (Centrex is marketed in the BellSouth states under the name  
7 ESSX service.) While some of these features may not be regulated,  
8 depending on the state jurisdiction or the jurisdictional nature of the  
9 service, they are all telecommunications services. If some features  
10 are not discounted, the ILECs' reseller competitors effectively will be  
11 denied the opportunity to market to a significant group of customers  
12 because the lack of a discount on these features will reduce reseller  
13 margins to inadequate levels.

14 Several state Commissions have already addressed the need for  
15 identifying services available for resale and the need for unrestricted  
16 resale. Several of these decisions are described in the FCC's 251  
17 Order. (See paras. 898-906.)

18 The FCC's Rules also require promotions to be offered at a  
19 discount in certain circumstances. (See Section 51.613(a)(2).)  
20 Granting exceptions to the requirement that all services be made  
21 available at wholesale discounts may lead to abuse. States should be  
22 alert to this possibility and be prepared to take corrective action  
23 against ILECs that abuse the exceptions.

24

25 Q. SHOULD BELLSOUTH BE ALLOWED TO IMPOSE ANY RESTRICTIONS

1 ON THE RESALE OF SERVICES.

2 A. No, with extremely limited exceptions. The only exceptions that  
3 should be permitted are 1) resale of flat rate residential service could  
4 be limited to residential customers, 2) resale of grandfathered services  
5 could be limited to customers who took the grandfathered service  
6 from BellSouth, and 3) resale of Lifeline and LinkUp could be limited to  
7 qualifying low income customers. Any other use or user restrictions,  
8 or other limitations, would impede MCI's ability to compete through  
9 service resale.

10

11 Q. YOU STATED THAT THE THIRD ISSUE IS THAT SERVICE QUALITY  
12 AND ADEQUATE WHOLESale-RESELLER INTERFACES MUST BE  
13 MAINTAINED. WHAT IS THE IMPORTANCE OF THIS ISSUE?

14 A. The FCC has ruled that ILECs must provide resale services to  
15 competitors under the same terms and conditions it enjoys itself. It is  
16 crucial to a successful resale plan that interfaces between the ILEC's  
17 operations support systems and resellers' systems are adequate to  
18 allow the reseller to provide service to its customers efficiently. The  
19 Commission must also ensure that ILECs offer resellers the same  
20 quality service they provide to themselves and their own retail  
21 customers. To accomplish this, ILECs must implement systems and  
22 procedures that permit the ordering and use of wholesale services  
23 under the same timetables available to the ILEC. These systems must  
24 include:

25 • Pre-Service Ordering Capabilities. On-line access to all



1 information needed to verify availability of services and  
2 features, scheduling of service installation, and number  
3 assignment.

- 4 • On-Line, automated order processing. Capability of transmitting  
5 customer orders to the switch office and provide the reseller  
6 with notice of confirmation and completion of its order.  
7 Competitively-neutral long distance and local presubscribed  
8 carrier administration processes must be implemented.
- 9 • Exchange of billing data and exchange of customer account  
10 data on a timely basis. This must be done on a confidential  
11 basis.
- 12 • On-Line Monitoring. Monitor the network, isolate trouble spots,  
13 perform network tests, and schedule reports.
- 14 • Service quality reports. Documenting service quality ILECs  
15 provide themselves compared to the service they provide to  
16 others.

17 All of these requirements are consistent with the Commission's  
18 finding that " . . . service made available for resale be at least equal in  
19 quality to that provided by the incumbent LEC to itself or to any  
20 subsidiary, affiliate, or any other party . . . " (251 Order, Para. 970).

21

22 Q. ANOTHER IMPORTANT CONDITION OF RESALE COMPETITION THAT  
23 YOU MENTIONED WAS BRANDING. WHAT DO YOU MEAN BY  
24 BRANDING AND WHY IS IT IMPORTANT?

25 A. Resellers require carrier-specific branding for all customer contacts.

1 Customers naturally expect services to be provisioned, serviced and  
2 maintained by their carrier of choice, regardless of whether the service  
3 is actually provided by another carrier through a resale arrangement.  
4 Customer confusion will be significantly diminished if the customer  
5 does not perceive that resold services are actually provided by another  
6 carrier.

7 Customers would experience concern, confusion and  
8 dissatisfaction when placing a bill inquiry, a directory assistance call,  
9 or an operator service call to their provider of choice if they are  
10 greeted with the name of their old telephone company. Customers  
11 may even conclude that they have been "slammed." State  
12 Commissions must ensure that resale of all ILEC retail services occurs  
13 with the least amount of customer confusion possible. Branding will  
14 minimize customer confusion with respect to resold ILEC services.

15 In a resale environment, differentiation of the underlying  
16 product is virtually impossible. Competitors must rely upon other  
17 factors to win customer loyalty. Superior customer service, simplified  
18 billing, and innovative pricing will provide the only opportunities to  
19 differentiate products from the underlying network provider. Without  
20 the ability to brand all resold LEC services, reseller efforts to provide  
21 superior customer services are diluted. Brand dilution makes the  
22 investment in these new service or billing innovations more difficult to  
23 justify.

24 A uniform branding standard will also reduce customer  
25 confusion as the industry moves into an unbundled environment. For

1 example, as competitors develop their own operator services  
2 capabilities, the change in the provider of this service will be  
3 transparent to the customer.

4 In sum, when the end user selects a local reseller it is important  
5 that they can clearly identify their service provider and its brand.  
6 Without a clear brand image the customer could face uncertainty  
7 when using directory or operator services. Such clarity can only be  
8 achieved by: (1) making reasonably available to local service resellers  
9 the ability to brand their service at all points of customer-contact; and  
10 (2) barring the incumbent LEC from unreasonably interfering with such  
11 branding. As the FCC points out, "this brand identification is critical  
12 to reseller attempts to compete with incumbent LECs and will  
13 minimize customer confusion." (251 Order, Para. 971)

14

15 **Wholesale Services: Setting Wholesale Rates**

16 Q. WHAT GUIDANCE IS PROVIDED BY THE RECENTLY ADOPTED FCC  
17 RULES REGARDING THE ESTABLISHMENT OF APPROPRIATE  
18 WHOLESAL PRICES?

19 A. The FCC's Order establishes minimum criteria for the avoided cost  
20 methodology based broadly on the MCI study. Essentially, the costs  
21 in certain FCC Part 32 Uniform System of Accounts ("USOA")  
22 accounts are identified as directly avoided while costs in other  
23 accounts are treated as indirectly avoided. The avoided indirect costs  
24 are calculated by determining the ratio of directly avoided costs to  
25 total costs and then applying that proportion to the accounts

1 containing indirectly avoided costs.

2

3 Q. WHAT ARE THE "DIRECTLY AVOIDED COSTS?"

4 A. The following specific accounts from the Uniform System of Accounts  
5 ("USOA") are directly avoided (see Code of Federal Regulations, Title  
6 47, Telecommunication, Part 32):

7 ■ Account 6611: Product management

8 ■ Account 6612: Sales

9 ■ Account 6613: Product advertising

10 ■ Account 6621: Call completion services

11 ■ Account 6622: Number services

12 ■ Account 6623: Customer services -

13

14 Q. YOU HAVE DISCUSSED "DIRECTLY AVOIDED COSTS." WHAT ARE  
15 THE "INDIRECT AVOIDED COSTS?"

16 A. Within the USOA there are a number of expense accounts that are  
17 either common costs or general overhead. By definition, overhead  
18 costs support all other functions, including those that are avoided,  
19 such as marketing. For example, the Human Resources department  
20 incurs expenditures in the staffing of the marketing department. As  
21 marketing expenses are avoided, so are the expenses incurred in  
22 supporting marketing. Therefore, the portion of these expense items  
23 equal to the proportion of direct avoided costs to total expense is  
24 excluded as an avoided cost. Consistent with the FCC's paragraph  
25 918, account 5301 rather than 6790 is used to calculate the avoided

1 uncollectible revenues.

2 The following USOA accounts include common costs or general  
3 overhead which support marketing and customer service operations:

- 4 ■ 6120 - General Support
- 5 ■ 6711 - Executive
- 6 ■ 6712 - Planning
- 7 ■ 6721 - Accounting and finance
- 8 ■ 6722 - External Relations
- 8 ■ 6723 - Human resources
- 9 ■ 6724 - Information management
- 10 ■ 6725 - Legal
- 11 ■ 6726 - Procurement
- 12 ■ 6727 - RESOURCE + DEVELOPMENT
- 12 ■ 6728 - Other general and administrative, and
- 13 ■ 5301 - Uncollectibles

14 Expenses in these accounts are, at least, partially avoidable.

15

16 Q. ARE THERE YET OTHER COSTS TO BE CONSIDERED?

17 A. Yes. While the ILECs will avoid substantial costs when they provide  
18 wholesale services, they will incur a small amount of incremental  
19 expenses to service the accounts of the resellers. However, these  
20 costs will be quite small. The ILECs already are set-up to perform the  
21 wholesaling function because they provide wholesale-like functions to  
22 interexchange carriers ("IXCs") and Enhanced Service Providers  
23 ("ESPs"). The incremental cost of providing these services to resellers  
24 of wholesale local exchange service should be minimal. The FCC  
25 addresses this issue by treating only 90 percent of the costs in certain

1 of the directly avoided categories as avoided for purposes of setting  
2 default discounts. Specifically, the FCC determined that 90 percent  
3 of accounts 6610, and 6623 would be avoided, while 100 percent of  
4 accounts 6621 and 6622 would be avoided.

5 The FCC approach is very conservative. For example, Account  
6 6623 (Customer Services) records the cost of setting up and billing  
7 end user accounts. The purchaser of wholesale services will be  
8 providing this service to its own end users. Any cost of billing the  
9 purchaser of wholesale services, who will be billed for many end user  
10 lines, will be minuscule in comparison with the cost of billing each of  
11 those individual lines separately. Billing retail customers requires  
12 setting up accounts and billing individual customers. Wholesale  
13 customers, on the other hand, will be fewer in number, and are more  
14 acquainted with billing processes, thus enabling them to be served at  
15 much lower cost. Although there may be some minor Customer  
16 Services costs incurred by ILECs to provide wholesale services, those  
17 costs are so small that they could reasonably be completely excluded  
18 as avoided costs. Nevertheless, MCI has followed the approach used  
19 by the FCC for calculating default discounts and retained a portion of  
20 the expenses in these accounts in the wholesale rate.

21

22 Q. WHAT OTHER FACTORS MUST BE TAKEN INTO ACCOUNT IN  
23 ARRIVING AT THE APPROPRIATE WHOLESALe PRICES?

24 A. The FCC approach divides total avoided costs by total expenses on a  
25 "subject to separations" basis. That is, both interstate and intrastate

1 costs were included. MCI's original model used this approach.  
2 However, this study uses the original MCI model, as modified by the  
3 FCC, using ARMIS 43-04 data on state operations, rather than the  
4 Subject to Separations data in the original study.

5 The services to be resold are largely intrastate. The FCC has  
6 specifically concluded that even though access charges will not be  
7 moved to economic cost until after a transition period, interstate  
8 access services will not be subject to the wholesale discount. (paras.  
9 873-874) Therefore, it is necessary for consistency to calculate the  
10 appropriate wholesale discount by dividing total avoided ARMIS  
11 intrastate costs by the total intrastate expenses for services that will  
12 be resold. Absent this modification, both the numerator and the  
13 denominator of the discount calculation will include expenses  
14 allocated to services that will not be resold. The necessary revision  
15 can be done with the aid of ARMIS Report 43-04, which breaks down  
16 the relevant costs on a jurisdictional basis. (Note: Most of the  
17 interstate costs in the "directly avoided" ARMIS accounts will be  
18 avoided by ILECs selling local services at wholesale. That some of  
19 these costs appear in interstate accounts is an artifact of the  
20 separations process. Therefore, it would be appropriate to add  
21 interstate expenses in these accounts to the numerator of the  
22 discount calculation. This study does not take this step in recognition  
23 of the fact that complex jurisdictional issues are raised thereby. MCI  
24 will modify its wholesale discount studies if the FCC rules on this  
25 issue. )

1 Q. TAKING ALL OF THE ABOVE INTO ACCOUNT, WHAT ARE THE  
2 RESULTS OF YOUR ANALYSIS?

3 A. Having identified the accounts that can be fully or partially associated  
4 with retailing functions that the ILEC will not perform, the next step is  
5 to quantify the actual savings and produce a percentage discount.  
6 The results on a holding company basis are shown in the white paper  
7 attached as Exhibit 22 (DGP-2).

8  
9 Q. WHAT ARE THE RESULTS FOR BELLSOUTH - FLORIDA?

10 A. The BellSouth - Florida result is <sup>25.06</sup>~~25.38~~%, and is set forth with the  
11 other BellSouth states in Exhibit 22 (DGP-3).

12

13 Q. HOW SHOULD THE COMMISSION REQUIRE THAT THESE  
14 DISCOUNTS BE APPLIED TO SERVICES RESOLD BY MCI?

15 A. Discounts should be developed and applied on a uniform basis to  
16 promote consistency and simplify the process. The wholesale  
17 discount as calculated in this study for each ILEC should be applied to  
18 each of the telecommunications services offered at wholesale rates.  
19 The published information ARMIS Report 43-04 data provide a  
20 sufficient basis for an aggregate discount across all services. These  
21 data are broadly consistent across ILECs and are reported in a format  
22 that is familiar. Service by service data are much harder to come by.  
23 Even if more detailed information were publicly available on a product-  
24 by-product basis, the consistency of the information would be  
25 questionable due to the numerous allocations and assumptions the



1 ILEC would have to make to develop the product-specific information.  
2 While the FCC Rules do not rule out service-specific discounts,  
3 requiring the ILEC to provide such detailed information on a product-  
4 by-product basis would be an administrative burden for the ILECs and  
5 the responsible federal and state regulatory agencies. Moreover, the  
6 result would be highly debatable product by product discount levels.

7 The discount should also apply to each rate element. Any other  
8 basis provides opportunities for abuse. For example, applying the  
9 discount on revenue per minute for a service may penalize resellers  
10 whose sales by rate element are weighted differently than those of  
11 the ILEC or other resellers.

12  
13 **Wholesale Services: Summary**

14 Q. WOULD YOU PLEASE SUMMARIZE THIS SECTION OF YOUR  
15 TESTIMONY?

16 A. Yes. Wholesale discounts are essential to the development of local  
17 competition. Adequate wholesale discounts will provide immediate  
18 consumer benefits by allowing retail competition to begin in advance  
19 of full facilities based competition. The methodology described here  
20 for developing these discounts is analytically correct and easy to  
21 administer.

22  
23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24 A. Yes, at this time. I expect to file additional direct testimony on  
25 August 23, 1996 relating to the ancillary arrangements that will be

1 required to eliminate barriers to competition and comply with the  
2 relevant rules ordered by the FCC in its rulemaking implementing the  
3 local competition provisions of the Act.  
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1                   **ADDITIONAL DIRECT TESTIMONY OF DON PRICE**  
2                                   **ON BEHALF OF**  
3                   **MCI TELECOMMUNICATIONS CORPORATION AND**  
4                   **MCImetro ACCESS TRANSMISSION SERVICES, INC.**  
5                                   **DOCKET NO. 960846-TP**  
6                                   **August 22, 1996**

- 7
- 8       **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 9       **A.    My name is Don Price, and my business address is 701 Brazos, Suite**  
10       **600, Austin, Texas, 78701.**
- 11
- 12       **Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**
- 13       **A.    I am employed by MCI Telecommunications Corporation in the**  
14       **Southern Region as Senior Regional Manager -- Competition Policy.**
- 15
- 16       **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?**
- 17       **A.    Yes, I filed direct testimony on August 21, 1996.**
- 18
- 19       **Q.    WHAT IS THE PURPOSE OF THIS ADDITIONAL TESTIMONY?**
- 20       **A.    The purpose of this testimony is to describe the ancillary**  
21       **arrangements that will be required to eliminate barriers to competition**  
22       **and identify the relevant rules ordered by the FCC in its rulemaking**  
23       ***implementing the local competition provisions of the***  
24       **Telecommunications Act of 1996.**
- 25

1           **ANCILLARY ARRANGEMENTS AND SERVICES REQUIREMENTS**

2           **Ancillary Arrangements: Overview**

3           **Q.    PLEASE EXPLAIN THE IMPLICATIONS OF THE**  
4           **TELECOMMUNICATIONS ACT OF 1996 AND THE RECENT FCC'S**  
5           **ORDER AND RULES.**

6           **A.    The Telecommunications Act of 1996 ("the Act") promotes**  
7           **competition by directly removing, or mandating that the FCC and**  
8           **state Commissions remove, significant impediments to efficient entry**  
9           **by imposing requirements such as access to unbundled network**  
10          **elements, interconnection, and resale of retail services. The Act also**  
11          **removes either directly or through the federal and state Commissions**  
12          **certain operational barriers to competition, by mandating local number**  
13          **portability, dialing parity, and nondiscriminatory access to rights of**  
14          **way. Eliminating these barriers by devising ancillary arrangements**  
15          **and service requirements is essential if competition is to develop in**  
16          **the local exchange market. These operational arrangements will give**  
17          **new entrants the opportunity to provide to their customers high**  
18          **quality, robust local exchange services. Absent these ancillary**  
19          **arrangements, MCI will always be placed in the position of providing**  
20          **inferior local exchange services and those services, regardless of their**  
21          **prices, will likely never be competitive with those of the incumbent**  
22          **local exchange carriers ("ILECs").**

23                   **The purpose of this portion of my testimony is to describe the**  
24                   **ancillary arrangements and service requirements that will be required**  
25                   **to eliminate barriers to competition, to identify the relevant rules**

1 ordered by the FCC in its rulemaking implementing the local  
2 competition provisions of the Act, and to identify the actions that the  
3 state Commissions must take to fully eliminate these barriers. The  
4 detailed interfaces and performance standards needed for these  
5 ancillary arrangements will be presented in testimony provided by  
6 another MCI witness.

7

8 Q. WHAT ARE THE KEY ANCILLARY ARRANGEMENTS ON WHICH  
9 YOUR TESTIMONY FOCUSES?

10 A. My testimony focuses on seven specific ancillary arrangements and  
11 services:

- 12 1. local number portability;
- 13 2. dialing parity;
- 14 3. directory assistance and operator services;
- 15 4. directory listing arrangements (both white and yellow pages);
- 16 5. access to 911 and E911 facilities and platforms;
- 17 6. access to poles, ducts, conduit, and rights-of-way; and
- 18 7. a bona fide request process for new unbundled network  
19 elements.

20

21 **Ancillary Arrangements: Local Number Portability**

22 Q. WHAT IS THE SIGNIFICANCE OF LOCAL NUMBER PORTABILITY?

23 A. Both Congress and the FCC have recognized that service provider  
24 portability -- the ability of end users to retain their telephone numbers  
25 when changing service providers -- is necessary to give customers

1 flexibility in the quality, price, and variety of telecommunications  
2 services they can choose to purchase. Conversely, it has been shown  
3 that the lack of local number portability ("LNP") would likely deter  
4 entry by competitive carriers into local markets because of the value  
5 customers place on retaining their telephone numbers. Therefore,  
6 pursuant to Section 271(c)(2)(B)(xi) of the Act and rules recently  
7 established by the FCC in its Telephone Number Portability order, In  
8 the Matter of Telephone Number Portability, CC Docket No. 95-116,  
9 First Report and Order and Further Notice of Proposed Rulemaking,  
10 July 2, 1996, ("LNP Order"), all local exchange carriers ("LECs") are  
11 required to provide permanent LNP according to specific  
12 implementation guidelines.

13 In addition, until the implementation date established by the  
14 FCC, Section 271(c)(2)(B)(xi) of the Act requires each Bell Operating  
15 Company ("BOC") to provide interim local number portability ("ILNP")  
16 measures through remote call forwarding ("RCF"), direct inward  
17 dialing ("DID"), or other comparable arrangements, with as little  
18 impairment of functioning, quality, reliability and convenience as  
19 possible.

20  
21 Q. WHAT ARE THE IMPLICATIONS OF LONG TERM (OR TRUE) NUMBER  
22 PORTABILITY TO THESE ARBITRATION PROCEEDINGS?

23 A. Because of actions taken by this Commission, the industry is moving  
24 in a direction that should provide number portability to Florida  
25 customers in accordance with the FCC's implementation schedule.

1 For additional information on the responsibilities that states have  
2 under the FCC's LNP Order, please refer to Exhibit 23 (DGP-4).

3

4 Q. WHAT ARE THE IMPLICATIONS OF INTERIM NUMBER PORTABILITY  
5 TO THESE ARBITRATION PROCEEDINGS?

6 A. The Commission must adopt a cost recovery mechanism for interim  
7 LNP measures that is "competitively neutral" and is consistent with  
8 basic criteria established in the LNP Order, i.e., it must not give one  
9 service provider an appreciable incremental cost advantage over  
10 another service provider, and it should not have a disparate effect on  
11 the ability of competing providers to earn normal returns on their  
12 investment.

13 The Commission must approve terminating access  
14 arrangements in the interim LNP context, such that terminating access  
15 charges paid by IXCs on calls forwarded as a result of RCF or other  
16 comparable number portability measures are shared between the  
17 forwarding and terminating carriers.

18 The Commission must order the incumbent LEC to accept  
19 certain billing arrangements necessitated by use of RCF and DID for  
20 number portability purposes.

21

22 Q. WHAT RELIEF IS MCI SEEKING FROM THIS COMMISSION  
23 REGARDING INTERIM PORTABILITY?

24 A. MCI requests that this Commission take the following steps with  
25 regard to cost recovery and implementation of interim LNP measures:

1           (1)    The Commission should mandate that each carrier must pay for  
2                    its own costs of currently available number portability  
3                    measures. This is the simplest and most direct mechanism for  
4                    ILNP cost recovery that meets the FCC's competitively neutral  
5                    cost recovery criteria.

6                    This mechanism does not require special reporting  
7                    between carriers of revenues, minutes of use, number of  
8                    customer telephone numbers, etc. This is especially important  
9                    because ILNP measures will soon be replaced by permanent  
10                   LNP. Development and monitoring of the accounting and  
11                   reporting systems necessary to implement another, more  
12                   complicated, competitively neutral cost recovery mechanism  
13                   would be extremely inefficient given the short time frame it will  
14                   be in place. A second-best cost recovery option, which also is  
15                   fairly simple and straight-forward and meets the FCC's criteria  
16                   is to allocate ILNP costs based on a carrier's number of active  
17                   telephone numbers (or lines) relative to the total number of  
18                   active telephone numbers (or lines) in a service area.

19           (2)    The Commission should direct the incumbent LEC to adopt  
20                    meet-point billing arrangements for access charges paid by IXCs  
21                    terminating calls directed to MCI via LEC-provided RCF or DID.  
22                    The appropriate split of access charges is: (i) the forwarding  
23                    LEC charging the IXC for transport from the IXC point of  
24                    presence to the end office where the RCF/DID is provided; and  
25                    (ii) the terminating LEC charging the IXC for the terminating



1 LEC's terminating switching function and common line. Any  
2 additional intermediate switching and transport costs incurred  
3 by the forwarding LEC should be recovered as part of the  
4 competitively neutral cost allocation mechanism. In addition, if  
5 MCI is unable to identify the particular IXC carrying a call  
6 subject to forwarding, the LEC should provide MCI with the  
7 necessary information to permit MCI to issue a bill to the IXC.  
8 This may include sharing Percentage Interstate/Intrastate Usage  
9 data.

- 10 (3) The Commission must direct the incumbent LEC, when it is the  
11 recipient provider, to accept MCI's billing to the incumbent  
12 provider for charges resulting from third number and collect  
13 calls being billed to the new entrant's directory numbers, per  
14 the customer's direction. If this does not occur, MCI will have  
15 to indicate in its line databases that collect or third-number  
16 billing are not accepted for this number. When RCF or DID is  
17 used to forward calls to an MCI customer, the donor provider  
18 must agree to maintain the Line Information Database record for  
19 that number to reflect appropriate conditions as reported to it  
20 by MCI.

21  
22 **Ancillary Arrangements: Dialing Parity**

23 Q. WHAT IS THE SIGNIFICANCE OF "DIALING PARITY" IN  
24 ESTABLISHING APPROPRIATE COMPETITIVE CONDITIONS?

25 A. The Act, in Section 251(b)(3), imposes on all LECs:

1           The duty to provide dialing parity to competing providers  
2           of telephone exchange service and telephone toll service,  
3           and the duty to permit all such providers to have  
4           nondiscriminatory access to telephone numbers, operator  
5           services, directory assistance, and directory listing, with  
6           no unreasonable dialing delays.

7  
8           Dialing parity achieved through presubscription allows  
9           customers to preselect any provider of telephone exchange service or  
10          telephone toll service without having to dial extra digits to route a call  
11          to that carrier's network. In the Implementation of the Local  
12          Competition Provisions of the Telecommunications Act of 1996, CC  
13          Docket No. 96-98, Second Report and Order and Memorandum  
14          Opinion and Order, August 8, 1996 ("Second Order"), the FCC  
15          concluded at paragraph 4

16                 ...that section 251(b)(3) requires LECs to provide dialing  
17                 parity to providers of telephone exchange or toll service  
18                 with respect to all telecommunications services that  
19                 require dialing to route a call...

20          Thus, customers must be able to access directory and operator  
21          services and complete local and toll calls using the same dialing string,  
22          regardless of the selected local or toll provider.

23  
24          Q.     PLEASE EXPLAIN THE IMPLICATIONS OF THESE OBLIGATIONS ON  
25          BOTH "TOLL" AND "LOCAL" DIALING PARITY.

1     **A.     The FCC adopted broad guidelines and minimum standards to**  
2     **implement toll dialing parity, including the requirements that LECs use**  
3     **the "full 2-PIC" method (though states have the flexibility to impose**  
4     **additional requirements), that dialing parity be defined by LATA**  
5     **boundaries (though states may redefine dialing parity based on state**  
6     **boundaries if determined to be in the public interest), and that LECs**  
7     **file dialing parity implementation plans that must be approved by state**  
8     **Commissions. LECs, including BOCs, must implement dialing parity**  
9     **by February 8, 1999, and provide dialing parity throughout a state**  
10    **coincident with their provision of in-region, interLATA or in-region,**  
11    **interstate toll service.**

12                 **For local dialing parity, the FCC requires (para. 9 of the Second**  
13    **Order):**

14                 **...a LEC to permit telephone exchange service customers,**  
15                 **within a defined local calling area, to dial the same**  
16                 **number of digits to make a local telephone call,**  
17                 **notwithstanding the identity of the customer's or the**  
18                 **called party's local telephone service provider.**

19                 **The FCC declined to prescribe national guidelines for LECs to**  
20    **accomplish local dialing parity, consumer education and carrier**  
21    **selection (para. 80 of the Second Order).**

22  
23    **Q.     HOW ARE THE IMPLEMENTATION COSTS ASSOCIATED WITH**  
24    **DIALING PARITY TO BE RECOVERED?**

25    **A.     The FCC addressed recovery of dialing parity implementation costs at**

1 para. 92 of the Second Order:

2 We conclude that, in order to ensure that dialing parity is  
3 implemented in a pro-competitive manner, national rules  
4 are needed for the recovery of dialing parity  
5 implementation costs. We further conclude that these  
6 costs should be recovered in the same manner as the  
7 costs of interim number portability...

8

9 That is, cost recovery for local and toll dialing parity (including  
10 intraLATA equal access when it is implemented) must be limited to  
11 incremental costs, and recovered from all providers in the area served  
12 by a LEC, including that LEC, using a competitively-neutral allocator  
13 established by the state. (Paragraphs 94 - 95 of the Second Order)

14 The FCC's requirement for nondiscriminatory access requires  
15 ILECs to allow competing providers access that is at least equal in  
16 quality to that the LEC provides itself. Thus, call set-up and call  
17 processing times for MCI should be equivalent to that for the ILEC and  
18 any dialing delays must be no longer than those experienced by the  
19 ILEC's customers for processing calls on the ILEC network for  
20 identical calls or call types.

21

22 Q. WHAT ARE THE ISSUES PERTAINING TO DIALING PARITY TO BE  
23 RESOLVED IN THIS PROCEEDING?

24 A. MCI requests that the Commission ensure that only costs incremental  
25 and directly related to dialing parity are recovered by allowing dialing

1 parity implementation costs to be subject to investigation and review.

2

3

4 **Ancillary Arrangements: Directory Assistance and Operator Services**

5 Q. YOU MENTIONED DIRECTORY ASSISTANCE AND OPERATOR  
6 SERVICES AT THE OUTSET OF YOUR TESTIMONY AS ONE OF THE  
7 ANCILLARY SERVICES THAT IS CRITICAL. WHAT IS THE  
8 COMPETITIVE SIGNIFICANCE OF THESE SERVICES?

9 A. Access to directory assistance and operator services ("DA/OS") is an  
10 essential component of basic telephone service. New entrants such  
11 as MCI must be able to provide DA/OS services that are comparable in  
12 quality to those provided by ILECs. Customers must be able to reach  
13 MCI's DA/OS using the same dialing string as the ILEC and with no  
14 unreasonable dialing delays, as described in the dialing parity section  
15 above.

16

17 Q. WHAT IS REQUIRED BY THE TELECOMMUNICATIONS ACT AND THE  
18 FCC'S RULES?

19 A. Section 271(c)(2)(B)(vii) of the Act requires Bell operating companies  
20 to provide as a condition for entering the in-region long distance  
21 market :

22 Nondiscriminatory access to...

23 (II) directory assistance services to allow the other carrier's  
24 customers to obtain numbers; and

25 (III) operator call completion services.

1           The FCC recently concluded in its Second Order (at paragraph 101)

2           that

3                     the term "nondiscriminatory access" means that a LEC  
4                     that provides telephone numbers, operator services,  
5                     directory assistance, and/or directory listings ("providing  
6                     LEC") must permit competing providers to have access to  
7                     those services that is at least equal in quality to the  
8                     access that the LEC provides to itself.

9

10                    The FCC also concluded, in the First Report and Order in CC  
11                    Docket Nos. 96-98 and 95-185 ("First Order" or "the Order"), at  
12                    paragraph 534:

13                            We further conclude that, if a carrier requests an incumbent  
14                            LEC to unbundle the facilities and functionalities providing  
15                            operator services and directory assistance as separate network  
16                            elements, the incumbent LEC must provide the competing  
17                            provider with nondiscriminatory access to such facilities and  
18                            functionalities at any technically feasible point.

19

20                            In addition to a general obligation to provide unbundled access  
21                            to DA/OS facilities and functionalities, the FCC went further in  
22                            paragraph 536 to include additional obligations:

23                                    We therefore find that incumbent LECs must unbundle the  
24                                    facilities and functionalities providing operator services and  
25                                    directory assistance from resold services and other unbundled

1 network elements to the extent technically feasible. As  
2 discussed above in our section on unbundled switching, we  
3 require incumbent LECs, to the extent technically feasible, to  
4 provide customized routing, which would include such routing  
5 to a competitors operator services or directory assistance  
6 platform.

7

8 Each of these sections highlights the ILEC's obligation to offer  
9 these services as unbundled network elements on a nondiscriminatory  
10 basis. As additional direction, the FCC in paragraph 218 of its Order  
11 provided the following definition of "nondiscriminatory" to be used in  
12 interpreting sections of the Act and its own Order:

13 Therefore, we reject for purposes of Section 251, our historical  
14 interpretation of "nondiscriminatory" which we interpreted to  
15 mean a comparison between what the incumbent LEC provided  
16 other parties in a regulated monopoly environment. We believe  
17 that the term "nondiscriminatory" as used throughout section  
18 251 applies to the terms and conditions an incumbent LEC  
19 imposes on third parties as well as on itself.

20

21 Taken together, the Act and the FCC provide support for MCI  
22 to have the option of reselling the ILEC's DA/OS platform, as well as  
23 the option to purchase unbundled elements, including: DA database  
24 and sub-databases, data resident within a database for the purpose of  
25 populating an MCI database, and the DA platform including systems

1 and operators. In addition, ILECs must provide access at any  
2 technically feasible point and at nondiscriminatory terms and  
3 conditions at least equal in quality to the access that the LEC provides  
4 to itself.

5 The FCC specifically addressed the requirements and technical  
6 feasibility of obtaining nondiscriminatory access to DA databases as  
7 separate unbundled elements:

8 In particular, the directory assistance database must be  
9 unbundled for access by requesting carriers. Such access must  
10 include both entry of the requesting carrier's customer  
11 information into the database, and the ability to read such a  
12 database, so as to enable requesting carriers to provide operator  
13 services and directory assistance concerning incumbent LEC  
14 customer information...We find that the arrangement ordered by  
15 the California Commission concerning the shared use of such a  
16 database by Pacific Bell and GTE is one possible method of  
17 providing such access. (Footnotes omitted.) (Paragraph 538)

18  
19 The DA database should be sent to MCI by the ILEC  
20 electronically. The FCC concluded that any exchange of data  
21 currently between any incumbent LECs demonstrates technical  
22 feasibility (para. 554):

23 Finally, in accordance with our interpretation of the term  
24 'technically feasible,' we conclude that, if a particular method  
25 of interconnection is currently employed between two



1 networks, or has been used successfully in the past, a  
2 rebuttable presumption is created that such a method is  
3 technically feasible for substantially similar network  
4 architectures. Moreover, because the obligation of incumbent  
5 ILECs to provide interconnection of access to unbundled  
6 elements by any technically feasible means arises from sections  
7 251(c)(3), we conclude that incumbent ILECs bear the burden of  
8 demonstrating the technical infeasibility of a particular method  
9 of interconnection or access at any individual point.

10

11 Section 252(d)(1) of the Act states that prices of unbundled  
12 network elements must be based on cost. The Order adopted a  
13 pricing method based on forward-looking costs (para. 620). In  
14 purchasing DA/OS unbundled elements, DA data should cost no more  
15 than the ILEC's cost of delivery to MCI, with no systems or storage  
16 costs included.

17

18 Q. ARE THERE OTHER ISSUES PERTAINING TO DIRECTORY  
19 ASSISTANCE AND OPERATOR SERVICES OF WHICH THIS  
20 COMMISSION SHOULD BE AWARE?

21 A. Yes. It is important that DA/OS services be properly "branded." MCI  
22 customers that obtain MCI's DA/OS services via an ILEC's DA  
23 platform should be provided services in conjunction with MCI's brand  
24 name. Paragraph 971 of the FCC Order specifically directs incumbent  
25 ILECs to provide branding as part of their wholesale DA/OS offering to

1 other carriers:

2 Brand identification is critical to reseller attempts to compete  
3 with incumbent LECs and will minimize customer  
4 confusion....We therefore conclude that where operator, call  
5 completion, or directory assistance service is part of the service  
6 or service package an incumbent LEC offers for resale, failure  
7 by an incumbent LEC to comply with reseller branding requests  
8 presumptively constitutes an unreasonable restriction on resale.

9

10 Q. WHAT ARE THE ISSUES PERTAINING TO DIRECTORY ASSISTANCE  
11 AND OPERATOR SERVICES TO BE RESOLVED IN THIS PROCEEDING?

12 A. There are three issues that must be resolved. They are:

13 (1) Customers should be able to retrieve directory information for  
14 all subscribers either through the ILEC's database or an MCI  
15 database, regardless of their local exchange provider, with the  
16 exception of unlisted telephone numbers or other information a  
17 LEC's customer has specifically asked the LEC not to make  
18 available. Because all customers benefit from DA services that  
19 are complete and accurate, there should be no charge for ILEC  
20 storage of MCI customer information in the DA database.

21 (2) The Commission should require that MCI's local exchange  
22 customers' information be included in an ILEC's DA database  
23 and accessed through the ILEC's DA platform. Also, MCI  
24 should be permitted to obtain an ILEC's DA information for the  
25 purpose of populating an MCI DA database.

1           (3) Proprietary or sensitive information should be identified in the  
2           database of another provider by the specific information's  
3           "owner" for purposes of limiting access for reasons other than  
4           directory assistance, and/or, licensing arrangements which  
5           would allow greater flexibility in the use of the data with proper  
6           compensation to the owner of the data.

7           The specific arrangements related to operational implementation for  
8           DA/OS are covered in the testimony of another MCI witness.

9

10       **Ancillary Arrangements: Directory Listings**

11

12       Q.     TURNING TO THE FOURTH OF THE ANCILLARY SERVICES THAT  
13       YOU LISTED ABOVE, WHAT PRINCIPLES REGARDING THE  
14       PROVISION OF DIRECTORY LISTINGS ARE CONTAINED IN THE  
15       TELECOMMUNICATIONS ACT AND THE FCC'S ORDER AND RULES?

16       A.     Section 271(c)(2)(B)(viii) of the Act obligates Bell Operating  
17       Companies choosing to pursue the provision of in-region long distance  
18       services to provide:

19                 White pages directory listings for customers of the other  
20                 [interconnecting] carrier's telephone exchange service.

21

22                 Section 251(b)(3) of the Act imposes the duty on all  
23       telecommunications carriers:

24                 The duty...to permit all such [telephone exchange service and  
25                 telephone toll service] providers to have nondiscriminatory

1 access to...operator services, directory assistance, and  
2 directory listing, with no unreasonable dialing delays.

3

4 At paragraphs 141 and 142 of the Order, the FCC stated:

5 We conclude that section 251(b)(3) requires LECs to share  
6 subscriber listing information with their competitors, in "readily  
7 accessible" tape or electronic formats, and that such data be  
8 provided in a timely fashion upon request... Under the general  
9 definition of "nondiscriminatory access," competing providers  
10 must be able to obtain at least the same quality of access to  
11 these services that a LEC itself enjoys. Merely offering  
12 directory assistance and directory listing services for resale or  
13 purchase would not, in and of itself, satisfy this requirement, if  
14 the LEC, for example, only permits a "degraded" level of access  
15 to directory assistance and directory listings. (Footnote  
16 omitted.)

17

18 Q. WHAT ARE THE COMPETITIVE IMPLICATIONS OF THESE  
19 PASSAGES?

20 A. First, a single, complete white pages directory listing all subscribers in  
21 a geographic area, regardless of their local service provider, is in the  
22 public interest. A unified directory is of equal value to the customers  
23 of all carriers, since customers will not know the local carrier of the  
24 party for whom they are seeking information. In addition, it would be  
25 frustrating and inefficient to cull through multiple carrier-specific

1 directories. Nor would it be efficient for each local exchange carrier to  
2 publish its own white pages directory.

3 Second, the listing information used for white pages serves as  
4 the basis for the simple listings (referred to as the "Service Required  
5 Listings") in Yellow Pages. In most situations, it would not be  
6 efficient for each local service provider to publish its own yellow  
7 pages directory. It is traditional for the ILEC to provide each business  
8 customer a Service Required Listing under the appropriate classified  
9 heading in its yellow pages directory, even if the business does not  
10 purchase a display ad, or even a bold-faced listing. CLEC business  
11 customers must be afforded similar treatment with respect to Service  
12 Required Listings in the ILEC's yellow pages directory at no charge. If  
13 CLEC business customers were treated differently from ILEC  
14 customers, the ILEC could use its position as the sole provider of a  
15 yellow pages directory to place the CLECs at a competitive  
16 disadvantage in the business market.

17 The specific arrangements related to operational implementation  
18 for directory listings are covered in the testimony of another MCI  
19 witness.

20

21 Q. WHAT ARE THE ISSUES PERTAINING TO DIRECTORY LISTINGS TO  
22 BE RESOLVED IN THIS PROCEEDING?

23 A. There are four such issues. They are:

24 (1) The Commission should require that all relevant CLEC  
25 subscriber information should be incorporated in (or, in the case

- 1 of "non-published" numbers, excluded from) the white pages  
2 directory listings at no charge to the CLEC since all customers  
3 benefit from a unified directory. Data should be passed from  
4 the CLEC to the ILEC using the directory assistance process.
- 5 (2) The Commission should require that if an ILEC provides  
6 pertinent business information in the Customer Guide  
7 (information) pages of its white pages directory (e.g., rates,  
8 calling areas, sales, service, repair and billing information, etc.),  
9 the same information also must be provided for the CLEC at no  
10 charge.
- 11 (3) The CLEC customer data provided to the ILEC is valuable since  
12 it can be used for leads for Yellow Pages advertising. In  
13 exchange for that data, the ILEC should provide a published  
14 white pages directory for each CLEC subscriber at no charge.  
15 The ILEC should deliver the white pages directories to CLEC  
16 subscribers as well as to its own subscribers, with the total  
17 element long run incremental costs of that distribution assigned  
18 to all local exchange carriers on a pro rata basis. Since a  
19 "sweep" of all dwellings is less costly than leaving directories  
20 only with subscribers, if the ILEC were to refuse to perform the  
21 distribution, it would be artificially imposing costs on the  
22 CLECs. A CLEC can negotiate with the ILEC for an alternative  
23 arrangement -- for example, delivery of the directories to the  
24 CLEC rather than to subscribers, if the CLEC wishes to place its  
25 own cover on the directories.

1           (4)    CLEC business customers must be treated the same way as  
2                    ILEC business customers with respect to free Service Required  
3                    Listings in the ILEC's yellow pages directory.  
4

5           **Ancillary Arrangements: 911 and E911 Platforms**

6           Q.    YOU MENTIONED THE NEED FOR MCI TO HAVE ACCESS TO 911  
7                    AND E911 ABOVE.  WHAT ARE THE PUBLIC POLICY REASONS  
8                    UNDERLYING THAT CLAIM?

9           A.    There is no question that the public safety requires that 911 service  
10                   be provided at the highest possible level of quality.  To achieve such  
11                   quality, MCI and the ILEC must ensure the seamless interconnection  
12                   of their networks for the delivery of 911 services.  Such  
13                   interconnection impacts both carriers' networks and their operations  
14                   support systems.  
15

16          Q.    WHAT ARE THE NETWORK REQUIREMENTS OF INTERCONNECTION  
17                    FOR 911/E911?

18          A.    Seamless interfaces are required to support 911 service between the  
19                   incumbent's and MCI's networks.  One crucial network requirement is  
20                   a dedicated trunk group for routing 911 calls from, for example, MCI's  
21                   switch to the incumbent's selective router.  An additional interface  
22                   requirement is that the incumbent provide selective routing of E-911  
23                   calls received from MCI's switch.

24                    The incumbent is obligated to provide such trunking and  
25                    routing, upon request by MCI, pursuant to the Act.  The ILEC must

1 establish terms and conditions that permit 911 calls placed by MCI's  
2 customers to reach the Public Safety Answering Point ("PSAP") in a  
3 manner equal to 911 calls originated on the ILEC's network.

4 To ensure that such interconnection is of high quality, MCI also  
5 requires that the ILEC provide industry-standard signaling on the  
6 trunks used to interconnect with the 911 tandem. Signaling is how  
7 information on call processing is passed between various network  
8 elements to permit calls to be established and disconnected. The ILEC  
9 must adhere to industry signaling standards in support of 911 calls.  
10 This is consistent with the ILEC's duty under Section 251(c)(2)(C) to  
11 provide interconnection that is at least equal in quality to that which it  
12 provides to itself.

13 The ILEC must also provide MCI with reference and routing data  
14 to assist in the configuration of the interconnected dedicated 911  
15 trunks and to ensure that 911 calls are correctly routed.

16 The ILEC must afford to MCI's 911 trunks the same level of  
17 priority service restoration that it affords its own 911 trunks. The  
18 ILEC also should notify MCI at least 48 hours prior to any scheduled  
19 outages that would affect 911 service, and communicate immediately  
20 with MCI in the case of an unscheduled outage. If the ILEC does not  
21 provide equal restoration priority to MCI, and if outage notices are not  
22 provided, MCI will not have interconnection that is "at least  
23 comparable" to the access the ILEC provides to itself.

24

25 Q. WHAT ARE THE NECESSARY DATABASE ARRANGEMENTS TO



1           SUPPORT THE INTERCONNECTION OF NETWORKS FOR 911 AND  
2           E911?

3       A.    A new entrant must have access to the databases necessary to input  
4           and maintain customer address and phone numbers in the proper  
5           format. For example, the Automatic Location Identification ("ALI") is  
6           a proprietary database managed by the incumbent, but should be  
7           treated as the property of any participating new entrant. Further, it is  
8           essential that information be exchanged on network testing and  
9           outages to permit all network providers to respond to such event  
10          appropriately.

11                 Another requirement for successful 911 integration will be the  
12           ability to maintain accurate and up-to-date information. A key  
13           element of a large database, such as the one that permits PSAP  
14           operators to link a customer's phone number with the street address,  
15           is the need for consistent and uniform data. In large metropolitan  
16           areas with thousands of street names, for example, it is imperative  
17           that street names be referenced consistently. If Oak Ave. and Oak St.  
18           denote two different streets in the same city, a lack of consistency in  
19           listings in the database could hamper the response of emergency  
20           crews.

21                 ILECs possess or control a number of systems that are used to  
22           screen and edit data for inclusion in the 911 ALI database. In order to  
23           achieve consistency in street addresses, customers' data are edited  
24           against a database referred to as the master street address guide  
25           ("MSAG"). New entrants should be permitted access to the MSAG,

1 any mechanized systems used in the editing process, and any other  
2 systems and processes used in populating the 911 ALI database.

3 Access to these databases must be available on conditions that  
4 are comparable to the ILEC's access. Because the ILEC has electronic  
5 interfaces to such systems, providing anything less to MCI would  
6 violate the statutory requirement that interconnection be provided at  
7 quality levels "at least equal" to that the incumbent provides to itself.  
8 In its recent Order, the FCC has interpreted the Act to give MCI the  
9 right to access such operations support systems on a  
10 nondiscriminatory basis. (Order at Paras. 516 - 528)

11

12 Q. WHAT ARE THE ISSUES PERTAINING TO 911 SERVICE TO BE  
13 RESOLVED IN THIS PROCEEDING?

14 A. There are three such issues, and they are:

- 15 (1) ILECs should provide the appropriate trunking, signalling and  
16 routing of 911 and E911 calls from MCI switches.
- 17 (2) ILECs should be required to provide MCI's 911 trunks the same  
18 level of priority service restoration that it affords its own 911  
19 trunks. ILECs should be required to provide at least 48 hours  
20 notice of any scheduled outages that would affect 911 service,  
21 and immediate notice of any unscheduled outage.
- 22 (3) MCI should be allowed access to the MSAG, any mechanized  
23 systems used in the editing process, and any other systems and  
24 processes used in populating the 911 ALI database.

25

1       **Ancillary Arrangements: Rights-of-Way**

2       **Q.     WHAT OBLIGATIONS ARE IMPOSED BY THE ACT REGARDING**  
3       **ACCESS TO RIGHTS-OF-WAY BY BELLSOUTH?**

4       **A.     The Act imposes on carriers (at section 251(b)(4)):**

5               **The duty to afford access to the poles, ducts, conduits,**  
6               **and rights-of-way of such carrier to competing providers**  
7               **of telecommunications services on rates, terms and**  
8               **conditions that are consistent with section 224.**

9       **MCI believes that "poles, ducts, conduits and rights-of-way" refers to**  
10       **all the physical facilities and legal rights needed for access to**  
11       **pathways across public and private property to reach customers.**

12       **These include poles, pole attachments, ducts, conduits, entrance**  
13       **facilities, equipment rooms, remote terminals, cable vaults, telephone**  
14       **closets, rights of way, or any other inputs needed to create pathways**  
15       **to complete telephone local exchange and toll traffic. These**  
16       **pathways may run over, under, or across or through streets, traverse**  
17       **private property, or enter multi-unit buildings.**

18

19       **Q.     HOW DO THE RECENT FCC RULES IMPACT BELLSOUTH'S**  
20       **OBLIGATION TO PROVIDE ACCESS TO RIGHTS-OF-WAY AND**  
21       **OTHER PATHWAYS?**

22       **A.     To ensure that ILECs do not use their access to rights of way to**  
23       **discriminate against new entrants, the FCC established general rules**  
24       **(para. 1151 - 1157), stating (para. 1122):**

25               **in furtherance of our original mandate to institute an**

1           expeditious procedure for determining just and reasonable pole  
2           attachment rates with a minimum of administrative costs and  
3           consistent with fair and efficient regulation, we adopt herein a  
4           program for nondiscriminatory access to poles, ducts, conduits  
5           and rights-of-way. (Footnote omitted.)

6           Significant steps to reduce barriers to entry were achieved by  
7           addressing: requests for access and the requirement to expand  
8           capacity; cost recovery associated with expanded capacity; and the  
9           rates at which capacity is made available. Noting that utilities may  
10          expand capacity for their own needs, and that the principle of  
11          nondiscrimination applies to physical facilities as well as to rights of  
12          way, the FCC stated (para. 1162 of the Order) that a lack of capacity  
13          on a particular facility does not automatically entitle a utility to deny a  
14          request for access. Further, since modification costs will be borne  
15          only by the parties directly benefiting from the modification, harm to  
16          the utility and its ratepayers is avoided. The FCC chose not to  
17          prescribe the circumstances under which a utility must replace or  
18          expand an existing facility and when it is reasonable for a utility to  
19          deny a request for access, however, the FCC required (para. 1163)  
20          "...utilities to take all reasonable steps to accommodate requests for  
21          access..."

22                 The FCC required (para 1209) that absent a private agreement  
23                 establishing notification procedures, written notification of a  
24                 modification must be provided to parties holding attachments on the  
25                 facility to be modified at least 60 days prior to the commencement of

1 the physical modification. This provision provides at least some  
2 notice so that entrants have the chance to evaluate the impact and  
3 opportunities presented by the proposed modifications.

4 Where there are costs associated with freeing capacity (e.g.,  
5 by reconfiguring placement of cables on poles to allow for more  
6 cables), the FCC requires (para 1213) modification costs be paid only  
7 by entities for whose benefit the modifications are made, with  
8 multiple parties paying proportionate shares based on the ratio of new  
9 space occupied by each party to the total amount of new space  
10 occupied by all parties joining in the modification.

11  
12 Q. WHAT TERMS AND CONDITIONS SHOULD THIS COMMISSION  
13 REQUIRE AS A RESULT OF THIS ARBITRATION PROCEEDING?

14 A. To ensure that CLECs are able to obtain nondiscriminatory access to  
15 poles, conduits and rights-of-way in a timely manner requires that  
16 ILECs provide certain information to new entrants. In addition, ILECs  
17 should not interfere with or attempt to delay the granting of permits  
18 for MCI's use of public rights-of-way or access to private premises  
19 from property owners.

20 (1) The Commission should require ILECs to provide information on  
21 the location and availability of access to poles, conduits and  
22 rights-of-way within 20 business days of MCI's request. An  
23 ILEC must not be permitted to provide information to itself or  
24 its affiliates sooner than it provides the information to other  
25 telecommunications carriers. For 90 days after a request, ILECs

1 should be required to reserve poles, conduits and rights-of-way  
2 for MCI's use. MCI should be permitted six months to begin  
3 attachment or installation of its facilities to poles, conduits and  
4 rights-of-way or request ILECs to begin make ready or other  
5 construction activities.

6 (2) Compensation for shared use of ILEC-owned or -controlled  
7 poles, ducts, and conduit should be based on TELRIC.

8 Additional arrangements related to access to rights of way are  
9 covered by the testimony of another MCI witness.

10

11 **Ancillary Arrangements: Bona Fide Request Process for Further Unbundling**

12 Q. WHAT IS THE NEED FOR A PROCESS BY WHICH MCI CAN REQUEST  
13 FURTHER UNBUNDLING OF THE BELLSOUTH NETWORK?

14 A. The Act and the FCC Order recognized explicitly that in the future,  
15 requesting carriers are likely to seek further unbundling of ILEC  
16 network elements or the introduction of entirely new network  
17 elements. For example, the FCC Order stated at para. 246,

18 ...we have the authority to identify additional, or perhaps  
19 different unbundling requirements that would apply to  
20 incumbent LECs in the future.

21

22 Since MCI plans to maintain a technologically advanced network, it  
23 fully expects to be one of those requesting carriers, even as it  
24 continually expands its facilities-based network. To ensure that an  
25 efficient process exists for approving future unbundling requests, we

1 propose that the Commission implement the following bona fide  
2 request process, consistent with the Act and the FCC Order, that  
3 places the burden on the ILEC to demonstrate that a request is not  
4 technically feasible.

5           When a carrier requests a new unbundled element from an  
6 ILEC, if the ILEC does not accept the request within ten days, the  
7 requesting carrier has ten days to file a petition with the Commission  
8 seeking its determination that the ILEC be required to provide the  
9 unbundled element. In its petition, the requesting carrier must provide  
10 an explanation of why the failure of the ILEC to provide access to that  
11 element would decrease the quality, or increase the financial or  
12 administrative cost of a service the requesting carrier seeks to offer,  
13 compared with providing that service using other unbundled elements  
14 in the ILEC's network. The requesting carrier also may provide  
15 evidence that it is technically feasible for the ILEC to provide the  
16 unbundled element and that such provision would not negatively  
17 affect network reliability. The ILEC must respond within ten days of  
18 the petition being filed and demonstrate either that it is technically  
19 infeasible to provide the requested unbundled element, or that such  
20 provision would harm network reliability. The state Commission  
21 would then rule on the petition within 20 days of the ILEC response,  
22 and in no case more than 30 days after the filing of the requesting  
23 carrier's petition. In reaching its determination, the burden of proof  
24 must lie with the ILEC.

25

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes, it does.

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1 negotiations between MCI and BST misrepresent MCI's position as to those  
2 negotiations; 2) that Mr. Scheye's and Mr. Milner's testimonies on ancillary  
3 services represent bad public policy and do not comply with BST's obligations  
4 pursuant to the Act; and 3) that the testimonies of Mr. Scheye and Mr. Reid  
5 regarding resale are contrary to the spirit and letter of the Act and would  
6 frustrate the intent of the Act to promote a vigorous competitive market.

### 8 NEGOTIATIONS BETWEEN MCI AND BST

9 Q. MR. SCHEYE'S TESTIMONY STATES AT PAGE 3 THAT THE "ONLY  
10 BASIS OF NEGOTIATIONS WAS THE REQUIREMENTS OF THE ACT"  
11 AND AT PAGE 5 THAT THE INTERIM AGREEMENT "WAS  
12 NEGOTIATED UNDER THE TERMS OF THE ACT." ARE THESE  
13 STATEMENTS CORRECT?

14 A. No. Negotiations between MCI and BST began on July 18, 1995, almost  
15 seven full months before the Telecommunications Act of 1996 ("the Act") was  
16 signed into law. When those negotiations began, the Florida legislature had  
17 recently passed a new telecommunications statute that, at least from MCI's  
18 perspective, served as the basis for negotiations. Negotiations were not  
19 concluded and the interim agreement not signed until the eve of the Georgia  
20 PSC's hearings on MCI's complaint against BST on interconnection and  
21 unbundling issues, on May 13, 1996. Furthermore, MCI had earlier expressly  
22 advised BST that the interim negotiations should be completed before we  
23 began negotiations under the Act. I believe these facts make it clear that the  
24 interim agreement was clearly *not* negotiated under the terms of the Act.

**ANCILLARY SERVICES/ARRANGEMENTS**

1  
2 Q. MR. SCHEYE DISCUSSES A NUMBER OF ISSUES ADDRESSED IN  
3 YOUR AUGUST 22, 1996 TESTIMONY REGARDING ANCILLARY  
4 SERVICES AND ARRANGEMENTS. ON WHICH OF THESE ISSUES  
5 ARE YOU PRESENTING REBUTTAL?

6 A. I am rebutting Mr. Scheye's testimony on these ancillary issues in the areas of  
7 branding, local dialing parity, access to number resources, recovery of costs of  
8 interim number portability measures, and directory distribution.  
9

**Branding**

10  
11 Q. WHAT ARE YOUR COMMENTS REGARDING THE ISSUE OF  
12 BRANDING?

13 A. I have several responses to Mr. Scheye's testimony on the branding issue. I  
14 would first like to respond briefly to his statement at page 21, lines 14-15 that  
15 branding "is not required to promote competition." This statement is rather  
16 curious coming from an employee of a company that spends millions of dollars  
17 each year to promote its corporate name. Even though my residence is in a  
18 state served by another RBOC, I saw a number of advertisements by BellSouth  
19 during the Olympics that were clearly designed to promote its brand name.  
20 Mr. Scheye's assertion that brand identity is irrelevant to a competitive market  
21 given the millions of dollars spent by BellSouth on non-product related  
22 advertising during such high-visibility events is simply not credible.

23 I would also briefly discuss Mr. Scheye's testimony that "BellSouth  
24 cannot offer branding ... when providing resold local exchange service...."

1 Mr. Scheye's testimony in this regard is artfully worded. He would have the  
2 Commission believe that it is not technically possible for BST to provide  
3 branding, although close examination of his testimony indicates that he is  
4 really seeking to expand the meaning of "technically feasible" in a way that  
5 permits BST to avoid its obligations under the Act. Mr. Scheye states at page  
6 22 of his testimony that BellSouth "lacks the capability to" provide the  
7 branding that is requested by MCI and AT&T. The question BST must  
8 answer, however, is *not* whether it "lacks" a particular capability. The FCC's  
9 recently adopted rules are very clear on this point.

10 Technically feasible. Interconnection, access to unbundled network  
11 elements, collocation, and other methods of achieving interconnection  
12 or access to unbundled network elements at a point in the network shall  
13 be deemed technically feasible absent technical or operational concerns  
14 that prevent the fulfillment of a request by a telecommunications carrier  
15 for such interconnection, access, or methods. A determination of  
16 technical feasibility does not include consideration of economic,  
17 accounting, billing, space, or site concerns, except that space and site  
18 concerns may be considered in circumstances where there is no  
19 possibility of expanding the space available. The fact that an  
20 incumbent LEC must modify its facilities or equipment to respond to  
21 such request does not determine whether satisfying such request is  
22 technically feasible. An incumbent LEC that claims that it cannot  
23 satisfy such request because of adverse network reliability impacts must  
24 prove to the state commission by clear and convincing evidence that

1 such interconnection, access, or methods would result in specific and  
2 significant adverse network reliability impacts. (Part 51.5 of the FCC's  
3 Rules, "Terms and definitions." Emphasis added.)

4 If it is possible for BST to modify its network to provide the requested  
5 capability, then it is "technically feasible." (Note that BST has not sought to  
6 prove that "specific and significant adverse network reliability impacts" on its  
7 network would result from providing the requested routing, an option which it  
8 has under the definition.) The Commission should hold BST to a rigid  
9 standard for demonstration of technical feasibility, and not accept the broader  
10 standard Mr. Scheye has urged.

11  
12 Q. MR. SCHEYE STATES AT PAGES 27-28 THAT MCI'S BRANDING  
13 CONCERNS REGARDING INTERACTION BETWEEN BST'S  
14 EMPLOYEES AND MCI CUSTOMERS CAN BE RESOLVED. DO YOU  
15 AGREE?

16 A. Yes, with one exception. The suggestions of Mr. Scheye in this regard appear  
17 to resolve MCI's concerns that its customers be properly advised as to the role  
18 performed by BST technicians working on MCI's behalf, and that BST's  
19 employees not be permitted to market, either directly or indirectly, BST  
20 services to MCI customers.

21 The area where I take issue with Mr. Scheye is his statement that  
22 BST's technicians will use "generic access cards" and will write "MCI" on  
23 those cards when leaving them behind at a customer location. As noted in  
24 MCI's original petition in this proceeding, MCI believes it is reasonable for

1           BST's personnel to leave behind cards provided by and identifying MCI as the  
2           provider of service in a resale and/or unbundled network element situation.  
3           Mr. Scheye has not claimed that such a request is technically infeasible, and  
4           the use of an MCI-specific card should not have an effect on BST's costs.  
5           Therefore, MCI's request should be granted.

6  
7           **Local Dialing Parity**

8           Q.     AT PAGE 74 OF HIS TESTIMONY, MR. SCHEYE STATES THAT ANY  
9           ISSUES PERTAINING TO LOCAL DIALING PARITY "SHOULD BE  
10           DISMISSED FOR PURPOSES OF THIS PROCEEDING." DOES MCI  
11           SHARE THAT VIEW?

12          A.     Not entirely. I agree that, to the extent that BST in the future seeks to recover  
13           costs that in its opinion arise by virtue of its obligation to provide local dialing  
14           parity, the Commission cannot address those issues in this proceeding except  
15           to reserve the right to scrutinize such costs and determine the appropriate  
16           means of recovering those costs at that time. There are, however, local  
17           dialing parity issues raised elsewhere in Mr. Scheye's testimony that should  
18           remain in this proceeding.

19  
20          Q.     WHAT ARE THE OTHER "LOCAL DIALING PARITY ISSUES" TO  
21           WHICH YOU REFER?

22          A.     At page 26 of his testimony, Mr. Scheye provides an example of use of an  
23           MCI calling card in support of his claim that it is unnecessary for BST to  
24           provide local dialing parity to MCI for operator services, directory assistance,

1 or repair calls. Because MCI's access to operator services, directory  
2 assistance, and repair are issues which will impact the extent to which it is  
3 able to compete on an equal footing with BST, these issues should be  
4 addressed in this arbitration proceeding.

5 As to Mr. Scheye's example, I agree with him that the dialing sequence  
6 an end user must enter to use MCI's calling card is lengthy. I would point  
7 out, however, that his example completely overlooks the fact that  
8 interexchange carriers compete on an equal footing in the marketing of their  
9 calling card services. In other words, the end user of one carrier does not  
10 have a preferential dialing pattern over end users of other carriers. Thus, if  
11 Mr. Scheye's calling card example demonstrates anything, it demonstrates the  
12 importance for MCI's customers to have access to directory assistance,  
13 operator services, and repair on the same basis as BST's customers in terms of  
14 the digits dialed to reach those services. Permitting BST to require that MCI's  
15 customers dial differently, or dial additional digits, to reach DA, operator  
16 services, or repair, would negate the local dialing parity requirement in the  
17 Act and provide BST with an undeserved competitive advantage.

18  
19 **Q. ARE THERE TECHNICALLY FEASIBLE WAYS IN WHICH BST COULD**  
20 **OFFER NONDISCRIMINATORY ACCESS TO, FOR EXAMPLE, REPAIR**  
21 **SERVICES?**

22 **A. Yes. It is my understanding that Bell Atlantic, the RBOC with telephone**  
23 **operations in the mid-Atlantic states, has agreed to no longer use 611 for**  
24 **access to its repair service centers. In the future, all local service providers**

1 will utilize 1-800- (or 1-888-) numbers to reach their respective repair service  
2 centers, thereby achieving local dialing parity with regard to access to repair  
3 services. Note also that this solution resolves the issue of branding for calls to  
4 repair service centers, because if the local service provider chooses not to  
5 provide its own service center functions but rather to have Bell Atlantic  
6 provide the functions, the use of discrete, carrier-specific 800- numbers  
7 facilitates the branding of service calls by Bell Atlantic's customer service  
8 representatives.

9  
10 **Directory Assistance/Operator Services**

11 Q. HAVE YOU REVIEWED THE TESTIMONY OF BST WITNESS KEITH  
12 MILNER REGARDING WHAT HE TERMS THE UNBUNDLED  
13 SWITCHING ELEMENT?

14 A. Yes, I have.

15  
16 Q. WHAT IS YOUR REACTION TO MR. MILNER'S CONCLUSION THAT  
17 THE "SELECTIVE ROUTING" NECESSARY TO DELIVER DIRECTORY  
18 ASSISTANCE AND OPERATOR SERVICES TRAFFIC TO MCI'S  
19 OPERATOR SERVICES PLATFORM IS NOT TECHNICALLY FEASIBLE?

20 A. Mr. Milner's conclusion regarding the "technical feasibility" to provide such  
21 routing of DA and operator services traffic appears to rely on the same  
22 standard presented in Mr. Scheye's testimony; i.e., that such capability is "not  
23 currently available." Indeed, Mr. Milner's testimony states that such a  
24 capability might be possible, and that "further study" is required. (Direct



1 testimony of Keith Milner in Docket No. 960833-TP, dated August 12, 1996,  
2 at page 47.) The Commission should not permit BST to use a "not currently  
3 available" standard for the provision of unbundled network elements, because  
4 that is not the standard set forth in the Act.

5 Other information suggests that, if BST were to conduct that "further  
6 study," it would determine that such capability could be developed. It is my  
7 understanding that Bell Atlantic has recently agreed to provide such selective  
8 routing, based on AIN capability in its network. Again, the absence of current  
9 "capability" should not be confused with "technical infeasibility."  
10

#### 11 **Numbering Resources**

12 **Q. MR. SCHEYE STATES AT PAGE 73 THAT THE ISSUE OF MCI**  
13 **OBTAINING NXX (CENTRAL OFFICE) CODES IS COVERED BY THE**  
14 **INTERIM AGREEMENT YOU DISCUSSED AT THE OUTSET OF THIS**  
15 **TESTIMONY. IS MR. SCHEYE'S STATEMENT CORRECT?**

16 **A. No, it is not. There is only one reference in the interim agreement to**  
17 **numbering resources, and that reference speaks solely to MCI's use of NXX**  
18 **codes. There is nothing in the interim agreement that addresses the way in**  
19 **which numbering resources are to be made available to MCI by BST.**  
20

#### 21 **Interim Number Portability Issues**

22 **Q. AT PAGE 70 OF HIS TESTIMONY, MR. SCHEYE STATES THAT THE**  
23 **ISSUE OF RECOVERY OF COSTS OF INTERIM NUMBER**  
24 **PORTABILITY MEASURES SHOULD NOT BE SUBJECT TO**

1           **ARBITRATION. DO YOU AGREE?**

2           **A. I strongly disagree. Since May 13, 1996 when the interim agreement was**  
3           **signed, the FCC issued its LNP Order (cited in my direct testimony filed**  
4           **August 22, 1996). As I noted in my direct testimony, the LNP Order provides**  
5           **that cost recovery mechanisms for interim number portability measures should**  
6           **not afford one service provider an appreciable incremental cost advantage over**  
7           **another service provider. The only thing in this regard MCI is seeking in this**  
8           **proceeding is to bring into compliance with that FCC order the monthly**  
9           **recurring charge in the interim agreement. (The monthly charge previously**  
10           **approved by this Commission is likewise out of compliance with that FCC**  
11           **Order, and should also be addressed at some point.) As I noted in my direct**  
12           **testimony, the simplest approach is to simply require all carriers to absorb**  
13           **their own costs of implementing interim number portability measures, given**  
14           **the relatively short time frame during which such measures will be used.**

15

16           **Directory Listings/Directory Distribution**

17           **Q. THE ISSUE OF DIRECTORY LISTINGS AND DIRECTORY**  
18           **DISTRIBUTION IS RAISED AT PAGES 68-69 OF MR. SCHEYE'S**  
19           **TESTIMONY. DO YOU AGREE WITH HIS CONTENTION THAT THESE**  
20           **ISSUES HAVE EITHER BEEN RESOLVED OR SHOULD NOT BE**  
21           **RESOLVED IN THIS ARBITRATION PROCEEDING?**

22           **A. I agree with Mr. Scheye to the extent that a number of issues have been**  
23           **resolved in the agreement between MCImetro and BAPCO. To the extent that**  
24           **there are outstanding issues, however, I disagree, and believe that those issues**

1 should be resolved through arbitration. For example, Mr. Scheye's example  
2 of the issue of a customized cover for directories delivered to MCI's customers  
3 is an issue on which MCI has the right to a decision by this Commission, in  
4 the absence of agreement on the issue.

## 6 RESALE ISSUES

### 7 Restrictions on Resale

8 Q. IS IT MR. SCHEYE'S RECOMMENDATION THAT BST WOULD  
9 "OFFER FOR RESALE AT WHOLESALE RATES ANY  
10 TELECOMMUNICATIONS SERVICE THAT [BST] PROVIDES AT  
11 RETAIL TO SUBSCRIBERS WHO ARE NOT TELECOMMUNICATIONS  
12 CARRIERS," AS REQUIRED BY SECTION 251(c)(4) OF THE ACT?

13 A. No. Mr. Scheye urges the Commission to exclude potentially significant  
14 offerings from its responsibility to permit resale. Included in his  
15 recommendation are grandfathered services and contract service arrangements,  
16 although in neither case does he argue that they are not "telecommunications  
17 services" provided "at retail to [end user] subscribers. The claim is that it  
18 would be "illogical" to require BST to permit the resale of these types of  
19 offerings. What Mr. Scheye does not address, however, is the potential for it  
20 to use grandfathering and/or contracts to avoid its responsibility to resell all  
21 retail offerings of telecommunications services.

22 Perhaps an example will demonstrate MCI's concern. In some  
23 jurisdictions, centrex services are offered *only* as either a grandfathered  
24 service or pursuant to contract. If both grandfathered and contract services

1 were excluded from the services to be resold, there would be no competition  
2 for centrex except where competitors have been able to construct their own  
3 switches and/or networks. In evaluating Mr. Scheye's testimony on this point,  
4 the Commission should recall that one of the purposes of permitting resale  
5 competition is to enable competition to occur in advance of such network  
6 deployment and/or in those locations where deployment of competitors'  
7 network facilities is not cost effective. Thus, not only is Mr. Scheye's  
8 recommendation contrary in my view to the letter of the Act, it also violates  
9 the spirit of the Act that new policies be implemented to promote as rapidly as  
10 possible development of a vigorous competitive market. The Commission  
11 should require that both grandfathered services and contract services be  
12 available for resale. As I discussed in my direct testimony filed August 21,  
13 1996, certain restrictions on such resale could be permitted, such as limiting  
14 the resale of grandfathered services to the customers who took the  
15 grandfathered service from BST.

16  
17 **Calculation of the Wholesale Discount**

18 **Q. WHAT IS THE PURPOSE OF CALCULATING A WHOLESALE**  
19 **"DISCOUNT?"**

20 **A. The purpose of calculating a wholesale "discount" is to quantify the costs of**  
21 **the incumbent LEC -- in this case, BST -- that are *not* incurred in the**  
22 **provision of service at wholesale. This is so the costs that are not incurred in**  
23 **the provision of wholesale services (i.e., BST's costs of retailing) can be**  
24 **deducted from BST's retail rates to yield appropriate wholesale rates. This is**

1 what is required by Sect. 252(d)(3) of the Telecommunications Act of 1996  
 2 (“the Act”). The concept is relatively simple, and can be shown with the  
 3 following illustration:

4  
 5 
$$\begin{array}{r} \text{BST's retail rate(s)} \\ \text{minus} \quad \underline{\text{BST's costs of retailing}} \\ \text{equals} \quad \text{BST's wholesale rate(s)} \end{array}$$

8  
 9 Q. IS THE APPROACH YOU HAVE DESCRIBED CONSISTENT WITH THE  
 10 APPROACH TAKEN BY BST'S WITNESS WALTER REID?

11 A. No. Mr. Reid's approach seeks to determine costs that will no longer be  
 12 incurred by BST. Although I am not an attorney, I do not believe such an  
 13 approach is consistent with the Act.

14  
 15 Q. WHY IS IT NOT SUFFICIENT FOR BST TO DETERMINE THE COSTS  
 16 THAT IT WILL NO LONGER INCUR?

17 A. There is no argument that BST will continue to be a retail provider of  
 18 telecommunications services or that it will incur retailing costs. But by  
 19 looking only at the costs that BST will no longer incur, the resulting discount  
 20 would *overstate* the wholesale rates, place BST in an unfair competitive  
 21 position in the retail market, and deny to end users the benefits that resale  
 22 competition could otherwise bring.

23 In contrast with what I believe is required by the Act, the effect of Mr.  
 24 Reid's approach can be shown graphically as follows:

1                                    BST's retail rate(s)  
 2                    minus        some of BST's retailing costs  
 3                    equals        BST's wholesale rate(s) [*which includes the rest of*  
 4                                    *BST's retailing costs*]

5

6                    As this illustration demonstrates, by failing to take into account *all* of BST's  
 7                    retailing costs in calculating the discount, the resulting wholesale rates will  
 8                    burden BST's wholesale customers with recovery of the portion of BST's retail  
 9                    costs that were ignored in the calculation of the discount.

10

11            Q.        WHAT RETAILING COSTS WERE IGNORED IN THE ANALYSIS MR.  
 12                    REID RECOMMENDS BE USED TO SET WHOLESALE RATES?

13            A.        The analysis ignored the following costs:  
 14                                    retailing costs that BST believed were "non-volume sensitive"  
 15                                    retailing costs that BST believed it would continue to incur  
 16                                    costs of functions supporting BST's retailing activities; i.e., "indirect"  
 17                                    costs  
 18                                    costs associated with call completion and number services functions

19

20            Q.        WHY IS IT WRONG TO IGNORE COSTS THAT ARE NOT "VOLUME  
 21                    SENSITIVE" IN CALCULATING THE WHOLESALE DISCOUNT?

22            A.        The costs that Mr. Reid ignores on the basis that they are not "volume  
 23                    sensitive," such as the advertising costs he cites at page 14 of his testimony,  
 24                    are unquestionably retailing costs. If Mr. Reid's analysis is accepted by this

1 Commission, the result would be that BST's retail competitors would be forced  
2 to pay a portion of BST's advertising costs and any other costs Mr. Reid  
3 considered to be "non-volume sensitive." It should be obvious that BST's  
4 retail competitors will incur costs to promote their own retail offerings. To  
5 require them to pay not only their own promotional and advertising costs, but  
6 also a portion of BST's advertising and promotional costs would put them at a  
7 competitive disadvantage. I do not believe that such a result is consistent with  
8 the requirements of the Act.

9  
10 Q. WHY IS IT WRONG TO IGNORE COSTS THAT BST WILL CONTINUE  
11 TO INCUR IN CALCULATING THE WHOLESALE DISCOUNT?

12 A. As with the other costs he has ignored, Mr. Reid does not contend that the  
13 costs he has ignored in his analysis are not retailing costs, only that BST will  
14 continue to incur those costs. Again, this ignores what I believe is the clear  
15 intent of the Act to deduct from retail rates the costs associated with retailing.  
16 If Mr. Reid's approach is accepted by this Commission, it would put BST's  
17 retail competitors in the position of having to pay for a portion of BST's  
18 retailing costs.

19  
20 Q. WHY IS IT WRONG TO IGNORE COSTS THAT ARE NOT DIRECTLY  
21 RELATED TO BST'S RETAILING OPERATIONS?

22 A. As I noted in my direct testimony filed August 21, 1996 in this proceeding,  
23 BST incurs overhead costs which support all other functions, including those  
24 that are associated with its retail operations. The example I used was the costs

1 of the Human Resources department associated with the staffing and support of  
2 the marketing department. It is intuitively apparent that such overhead  
3 expenses would be less if there were no retailing functions to support. The  
4 fact of ignoring such indirect costs would mean that BST's retail competitors  
5 would be forced to pay a portion of BST's overhead costs that support its  
6 retailing activities. This would provide a competitive advantage to BST,  
7 because its competitors will have to recover their own overheads to compete in  
8 the retail market, while being required to pay a portion of BST's retail-related  
9 overheads.

10  
11 Q. WHY IS IT INCORRECT TO IGNORE COSTS ASSOCIATED WITH CALL  
12 COMPLETION AND NUMBER SERVICES?

13  
14 A. Call completion and number services will either be provided by the other  
15 provider or the subject of a separate contract. (These are both discussed in my  
16 additional direct testimony filed in this proceeding on August 22, 1996.) To  
17 include those costs in the calculation of the wholesale discount would require  
18 BST's retail competitors to pay twice for those functions.

19  
20 Q. GIVEN ALL THE ABOVE, IS IT YOUR TESTIMONY THAT THE  
21 ANALYSIS MR. REID RECOMMENDS BE USED TO QUANTIFY THE  
22 WHOLESALE DISCOUNTS DOES NOT MEET EITHER THE  
23 REQUIREMENTS OF THE ACT OR OF THE RECENTLY ISSUED FCC  
24 ORDER?



- 1 A. Yes. For all the reasons previously discussed, Mr. Reid's analysis fails to  
2 meet the standards of either the Act or the FCC's rules for calculating the  
3 wholesale discount.  
4
- 5 Q. DOES THE AVOIDED COST MODEL WHICH YOU SPONSORED IN  
6 YOUR AUGUST 21, 1996 DIRECT TESTIMONY INCLUDE ALL OF  
7 BST'S RETAILING COSTS?
- 8 A. Yes. The model captures BST's retailing costs as required by Sect. 252(d)(3)  
9 of the Act and Part 51.609 of the FCC's Rules, and therefore provides a  
10 proper basis for calculating the wholesale discount. I have provided as an  
11 attachment to this testimony Exhibit 24 (DGP-5), which shows the model's  
12 calculation of the BST-Florida discount based on the 1995 actuals in BST's  
13 ARMIS report.  
14
- 15 Q. IN SUMMARY, HOW DOES MCI'S AVOIDED COST STUDY DIFFER  
16 FROM THE OTHER STUDIES PRESENTED IN THIS PROCEEDING?
- 17 A. As noted above, the analysis presented by BST through Mr. Reid's testimony  
18 attempts to overcome the rebuttable presumption in Part 51.609(d) of the  
19 FCC's Rules with respect to costs in certain accounts (i.e., accounts 6611-  
20 6613 and 6621-6623) which the FCC concluded were presumed to be avoided.  
21 On the other hand, the analysis presented by AT&T attempts to overcome the  
22 rebuttable presumption in Part 51.609(d) of the FCC's Rules with respect to  
23 costs in certain accounts (i.e., accounts 6110-6116 and 6210-6565) which the  
24 FCC concluded were presumed to not be avoided.

1           In contrast with both these approaches, the model which I am  
2 presenting and the result of which is reflected in Exhibit 24 (DGP-5) does not  
3 attempt to rebut any of the presumptions in Part 51.609(d) of the FCC's rules,  
4 and included and excluded accounts strictly in accordance with the FCC's  
5 presumptions in that section of its Rules.  
6

7           **Application of the Wholesale Discount**

8           Q.     YOU STATED EARLIER THAT BST'S WITNESS REID IGNORES OR  
9           MISUNDERSTANDS THE IMPACT OF THE APPLICATION OF THE  
10           WHOLESALE DISCOUNT. PLEASE EXPLAIN.

11          A.     Mr. Reid's testimony makes much of the fact that there are a number of  
12           retailing costs that BST will continue to incur. The implication of his  
13           testimony is that taking these costs into account in calculating the wholesale  
14           discount will somehow impact BST's ability to recover its costs. That  
15           implication is wrong.

16  
17          Q.     WHY?

18          A.     It is wrong because the discount will *only* be applied to those services that  
19           BST provides on a wholesale basis. But BST will continue to recover its  
20           retailing costs through every one of its services that it continues to provide on  
21           a retail basis. Thus, BST will have ample opportunity to recover its retailing  
22           costs. Because the wholesale discount will only be applied to those services  
23           that BST provides on a wholesale basis, the proper calculation of the wholesale  
24           discount -- i.e., by including *all* of BST's retailing costs -- is totally unrelated

1 to the question of whether BST will be able to recover its retailing costs, and  
2 in no way impairs BST's ability to recover those costs.

3

4 **Separate Wholesale Discounts for Customer Classes**

5 **Q. IS IT APPROPRIATE TO CALCULATE SEPARATE WHOLESALE**  
6 **DISCOUNTS FOR DIFFERENT CUSTOMER CLASSES?**

7 **A. There is nothing theoretically wrong with calculating different discounts for**  
8 **different customer classes. The problem raised by Mr. Reid's**  
9 **recommendation is that there is no way to verify the correctness or validity of**  
10 **the allocations that he makes in arriving at his residential and business**  
11 **discounts.**

12

13 **Q. WHAT DO YOU MEAN THAT MR. REID HAS NOT PROVIDED ANY**  
14 **DEMONSTRATION OF THE REASONABLENESS OR VALIDITY OF HIS**  
15 **ALLOCATION OF COSTS BETWEEN RESIDENCE AND BUSINESS**  
16 **SERVICES?**

17 **A. Mr. Reid states at page 6 of his direct testimony that:**

18 **The discount is based on the relationship between**  
19 **avoided costs and revenues and is calculated by dividing**  
20 **the 1995 costs that will be avoided by the amount of**  
21 **1995 revenue subject to being discounted.**

22 **There is nothing in Mr. Reid's testimony, however, to explain the basis for his**  
23 **assignment or allocation of costs. Absent such an explanation, there is no way**  
24 **to conclude that the percentages he presents appropriately capture the relative**

1           retailing costs of the two different customer classes.

2

3       Q.   MR. REID'S TESTIMONY INCLUDES AN EXAMPLE PURPORTING TO  
4           SHOW THAT APPLICATION OF A SINGLE OVERALL DISCOUNT  
5           COULD CAUSE BST TO "LOSE" MONEY. IS HIS EXAMPLE  
6           PERSUASIVE?

7       A.   Not at all. The only thing demonstrated by the example is that the magnitude  
8           of the "loss" that falls out of the example flows directly from the assumptions  
9           made in the example.

10

11      Q.   DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

12      A.   Yes, at this time.

13

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1           Q           (By Mr. Melson) Mr. Price, have you  
2 prepared a brief summary of your three pieces of  
3 testimony?

4           A           Yes, I have.

5           Q           Would you give it, please?

6           A           Yes. Good morning, Commissioners. I must  
7 confess, as I sit here, I have got a bit of a sense of  
8 deja vu because I recall about nine months ago we were  
9 sitting in this same room dealing with complaints  
10 brought against BellSouth on similar issues under the  
11 1995 Florida statute. Since that time, BellSouth has  
12 announced a number of agreements with various local  
13 service providers, and notwithstanding that fact, I  
14 think the issue today is whether or not Florida  
15 consumers really have a choice of local service  
16 providers. And I think, for the most part, they do  
17 not.

18                       The purpose of my testimony and the other  
19 testimony of MCI witnesses who are appearing today is  
20 to express the way in which, with your assistance,  
21 under the Federal Telecommunications Act, BellSouth  
22 will meet its statutory obligations to remove  
23 artificial barriers to entry. Now, what you've heard  
24 already in this proceeding is that there's three  
25 methods under the Federal Act by which entry can

1 occur. We've heard about facilities-based entry,  
2 we've heard about partial facilities-based entries  
3 through unbundling, and also through resale.

4 Well, my testimony in this proceeding deals  
5 with the issue of resale and then also touches on some  
6 ancillary services that are necessary to provide  
7 services by an alternate provider. As to resale, the  
8 key conclusions of my testimony are that effective  
9 resale in the local exchange market is essential to  
10 full facilities-based competition. Now, what I mean  
11 by that is -- and I believe it was pointed out by  
12 Mr. Gillan yesterday -- this is not an either/or  
13 situation, rather it's a question of how one  
14 accomplishes facilities-based entry. And we believe  
15 that resale is necessary in order that  
16 facilities-based entry take place.

17 There's a great example in the long distance  
18 business, which we've already discussed some in this  
19 proceeding, as has been mentioned. MCI began as a  
20 reseller of AT&T's services. And, of course, today we  
21 are the second largest provider of telecommunications,  
22 interexchange telecommunications, in the United States  
23 and a worldwide provider of telecommunication  
24 services.

25 Independent of the impact on

1 facilities-based competition, resale has its own  
2 benefit to the marketplace. Consumers can benefit by  
3 the availability of retail competitors to the  
4 underlying wholesale provider, but those benefits  
5 can't be captured until and unless all  
6 telecommunication services are made available for  
7 resale and are made available at discounts that fully  
8 reflect the costs that are avoided by not providing  
9 services on a retail basis.

10 Finally, the conclusion of my testimony is  
11 that the appropriate discount for BellSouth in  
12 Florida, based on its own '95 reported data to the  
13 FCC, is a discount 25.06%.

14 Now, let me back up and touch a little bit  
15 on a couple of the key points. Making all services  
16 available for resale means such services as CENTREX,  
17 optional calling plans, grandfathered services,  
18 promotion and contracts must be included in that list.  
19 If they are excluded, BellSouth will be able to use  
20 that exclusion to avoid its obligation to resale  
21 services under the Act, and consumers would be denied  
22 the corresponding benefit.

23 There are, of course, some restrictions that  
24 are permitted under the Act, and I've addressed those  
25 in my testimony. Essentially, the only restriction

1 should be the availability of services across classes.  
2 And even there, only one minor instance that I  
3 mentioned, which is flat rate residential service,  
4 should not be permitted to be resold, for example, to  
5 business and PBX customers.

6           Turning to the calculation of the discount,  
7 I think it's imperative that the Commission examine  
8 BellSouth's costs associated with its retailing  
9 activities. I identified the accounts that are  
10 associated with that in my testimony, and won't go  
11 into that here, but I will say that BellSouth's  
12 recommendation in this proceeding does not take into  
13 account all of the appropriate costs associated with  
14 its retailing and, therefore, I do not believe that it  
15 complies with the letter and the intent of the Act.

16           Turning to the ancillary services, I want to  
17 just touch on a couple of those. The Commission knows  
18 from the earlier proceedings that there's a number of  
19 ancillary services and arrangements that are  
20 important. And, of course, there's ongoing activity  
21 in the area of true number portability. But with  
22 respect to interim number portability, I think it's  
23 imperative that the Commission approach this matter  
24 from the same standpoint that the FCC did in its July  
25 2nd Order, which was to mandate a competitively



1 neutral way of recovering those costs. And what I've  
2 recommended is that each carrier should be responsible  
3 for recovering its own costs associated with the  
4 interim number portability measures. There are a  
5 number of reasons for that, but the primary one is  
6 that it provides a heavy incentive to get with the  
7 program. It provides true number portability as  
8 quickly as possible.

9           Turning to operator services, there's really  
10 only one remaining issue that we're seeking  
11 arbitration on in this area, and that's what BellSouth  
12 has called "customized routing." MCI seeks to provide  
13 operator services and directory assistance to its  
14 customers using its own facilities and its own  
15 personnel. That functionality should be provided by  
16 BellSouth as it has not demonstrated that it is not  
17 technically feasible to do so.

18           I touched briefly on access to 911. Those  
19 issues are largely resolved to MCI's satisfaction,  
20 although we do not as yet have agreed language on  
21 that.

22           A new issue that has arisen as a result of  
23 the Federal Act is access to poles, ducts, conduit and  
24 rights of way. BellSouth has specific obligations  
25 under the Act to permit nondiscriminatory access to

1 its assets or its rights of way, etcetera. It's  
2 imperative that BellSouth provide information to  
3 requesting entities on the location of those  
4 facilities. It's imperative that BellSouth make those  
5 facilities available in a nondiscriminatory way. And  
6 by that, what I mean is, that it must treat itself the  
7 same way that it treats all comers with respect to  
8 those assets, and it should not be permitted to  
9 reserve space or capacity in those assets for any  
10 extended length of time. In fact, I recommend only 90  
11 days for the reservation.

12           And finally, I suggest that the Commission  
13 should institute a bona fide request process for  
14 additional unbundling beyond what we've requested in  
15 this proceeding. That process would enable us to take  
16 advantage of new capabilities as they are needed in  
17 the marketplace in an expedited way.

18           In conclusion, I would simply ask that as  
19 the Commission considers the parties' positions on  
20 these matters and as it reaches its decision, it  
21 should ask itself the following questions: Does the  
22 decision of the Commission create an environment that  
23 promotes investment in the development of a  
24 flourishing array of new services? I think that was  
25 one of the intents of the Act, and I think it's

1 important that the Commission keep that in mind.

2 Does the Commission's decision establish  
3 prices that mirror a fully competitive market, as  
4 opposed to protecting one or the other of the  
5 competitors? And finally, does the Commission's  
6 decision provide vigilant oversight against  
7 anticompetitive practices?

8 If the Commission can answer yes to all  
9 three of these questions, Florida consumers will  
10 rapidly reap the benefits of competition. That  
11 concludes my summary.

12 MR. MELSON: Mr. Price is available for  
13 cross.

14 MR. HATCH: Madam Chairman, this is one  
15 instance where there is a significant difference  
16 between AT&T and MCI, and I would like the chance to  
17 cross on this issue.

18 CHAIRMAN CLARK: Go ahead, Mr. Hatch.

19 CROSS EXAMINATION

20 BY MR. HATCH:

21 Q Mr. Price, could you turn to your Exhibit  
22 DGP-5, please? I think it's attached to your rebuttal  
23 testimony.

24 A All right.

25 Q Do you see there Account 6610 in the first

1 line of that Exhibit?

2 A Yes, I do.

3 Q That's a summary account, isn't it?

4 A Yes.

5 Q It includes Accounts 6611, 6612, 6613?

6 A Yes.

7 Q In your model you treat, by virtue of  
8 Account 6610, all the rest of those accounts as only  
9 90% avoided; is that correct?

10 A That is correct.

11 Q Is that what that reference to Paragraph 928  
12 of the FCC Order, is that what that's designed to  
13 indicate?

14 A Yes.

15 Q That's where that 90% figure comes from?

16 A Yes, it is.

17 Q That 90% figure that's referenced in  
18 Paragraph 928 comes from the FCC's methodology to  
19 calculate a default avoided cost; isn't that correct?

20 A I would agree with that.

21 Q That 90% figure is not included in the FCC's  
22 criteria for general calculation of avoided cost, is  
23 it?

24 A Bear with me just a moment. It is not  
25 included in part 51.609 of the FCC's rules that are

1 associated with the calculation of the wholesale  
2 discount, that is correct.

3 Q Okay. Under the FCC's criteria, is it  
4 appropriate to treat those four cost accounts as 100%  
5 avoided?

6 A It would certainly be consistent with the  
7 FCC's rules to treat it that way, yes.

8 Q Would you agree that if those four cost  
9 accounts were treated as 100% avoided, the discount  
10 produced by MCI's study would go up? It would  
11 increase?

12 A Yes, it would.

13 Q As I understand it, by using ARMIS 43-04  
14 data, the MCI study is able to separate out interstate  
15 access costs; is that correct?

16 A Well, I'd say it slightly differently. I  
17 would say the MCI study relied on separated costs and  
18 that separation was done by BellSouth in its reporting  
19 to the FCC of its Florida operation.

20 Q But the study includes intrastate access  
21 costs, does it not?

22 A Yes, it does.

23 Q Would you agree that access should not be  
24 included in the calculation of the discount rate?

25 A It is certainly the case that access is not

1 a service that will be subject to the discount and,  
2 theoretically, it would be appropriate to make that  
3 adjustment.

4 I did not make that adjustment because of  
5 the fact that the separations process gives us a set  
6 of guidelines, if you will, as to how costs can be  
7 separated from the total company level down to the  
8 state jurisdiction. Once we get below the state  
9 jurisdiction level, there is not an accepted set of  
10 rules by which we can take costs and attribute them to  
11 specific services or service categories. So while  
12 that could be done, it would, I guess for lack of a  
13 better word, it would be somewhat arbitrary in that  
14 whatever methodology I propose would be one that could  
15 be challenged by AT&T or BellSouth or anyone else.

16 Q If you assumed that there was agreement on  
17 the methodology for calculating that amount of the  
18 intrastate level, if you removed intrastate access,  
19 would MCI's discount produced by its study increase?

20 A Yes, it would.

21 Q MCI's study uses the ratio of avoided direct  
22 costs divided by total costs to calculate the portion  
23 of avoided direct costs; isn't that correct?

24 A Yes. That's reflected at what's shown as  
25 Line 49 of that exhibit with the calculation of the

1 percent of direct expenses avoided. If you look at  
2 the denominator in that calculation, it's essentially  
3 all of the costs that are reflected there on that  
4 schedule.

5 Q Would you agree that the FCC's cost study  
6 criteria require that indirect costs are avoided in  
7 proportion to the avoided direct costs?

8 A Yes.

9 Q And if that's so, doesn't this require that  
10 using a ratio of avoided direct costs divided by total  
11 direct cost?

12 A That is certainly a plausible interpretation  
13 of the FCC's Order.

14 Q Rather than total costs as you did in your  
15 model?

16 A Well, I think, obviously, I wouldn't have  
17 sponsored this if I didn't think the other was also a  
18 plausible interpretation. Either of those is a  
19 plausible interpretation because that phrase in the  
20 Order is slightly ambiguous.

21 Q And if your denominator was total direct  
22 costs, if you used that in your model, wouldn't your  
23 discount increase?

24 MR. LACKEY: Madam Chairman, I object to  
25 this line of cross.

1           **CHAIRMAN CLARK:** Go ahead, Mr. Lackey.

2           **MR. LACKEY:** It was my understanding that  
3 AT&T was not supposed to be allowed to cross. I had  
4 to get my breath.

5           **CHAIRMAN CLARK:** Take your time.

6           **MR. LACKEY:** Was not to be allowed to cross  
7 this witness on a friendly basis. What Mr. Hatch is  
8 doing is he's taking him through the calculation of  
9 the indirect cost allocator and trying to get MCI to  
10 support what Mr. Lerma did yesterday. They don't have  
11 any conflict on this, and that's improper cross  
12 examination, I believe.

13           **MR. HATCH:** Madam Chairman, AT&T's method of  
14 determining avoided cost is distinctly different from  
15 MCI's method of determining avoided costs. Now, I'm  
16 explaining, or exploring, what I believe are the  
17 differences; how they got where they got, how we got  
18 where I got -- or AT&T got. That's the sole purpose  
19 of this line of cross.

20           The fact that it doesn't go BellSouth's way  
21 does not mean that it's necessarily friendly cross.

22           **CHAIRMAN CLARK:** Mr. Lackey, it says the  
23 cross examination on common issues will be limited to  
24 differences and positions on the issues, and I  
25 understand that to be what this cross examination is.



1           **MR. LACKEY:** All right. I suppose that  
2 we'll have to see.

3           **CHAIRMAN CLARK:** You know, I understand that  
4 you cross examined the witness on the same thing. I  
5 understand that there is a difference of  
6 interpretation as to what the FCC's Order requires,  
7 whether it's what's required in the proxy or you can  
8 do something else with. I think he can cross examine  
9 based on what we have on the floor.

10           **MR. LACKEY:** Yes, ma'am. I could be  
11 completely wrong. But I believe yesterday, you'll  
12 recall Mr. Lerma was talking about how Southwest Bell  
13 said his method was right and how somebody else said  
14 his method was right, and I believe that's where  
15 Mr. Hatch is going when he's referring to the  
16 methodology and the proportion -- the formulas that  
17 are contained in 919 and 920 of the FCC Order, that's  
18 all. If that's not what he's doing, then I apologize.

19           **CHAIRMAN CLARK:** They have differences on  
20 positions on those issues, and I believe that is  
21 acceptable cross.

22           **MR. LACKEY:** All right, thank you.

23           **CHAIRMAN CLARK:** Go ahead, Mr. Hatch.

24           **Q**        **(By Mr. Hatch)** I'm not sure that I caught  
25 the answer to my last question. I believe it was if

1 you change the denominator that you used in your model  
2 to total direct costs, then would not the discount  
3 produced by your model increase?

4 A Yes, it would.

5 Q The MCI study only includes those cost  
6 accounts that the FCC established as presumed avoided;  
7 isn't that correct?

8 A That is correct.

9 Q Did MCI attempt to prove that any other cost  
10 accounts are avoided?

11 A No, we did not.

12 Q Would you agree that if other cost accounts  
13 were included in MCI's study, the discount produced by  
14 your model would increase?

15 A Yes. To the extent that you add additional  
16 dollars to the numerator, the discount would increase.

17 Q Your model here tracks more closely with the  
18 calculation of the FCC's default calculation, doesn't  
19 it?

20 A Yes, very much so. And I believe I  
21 mentioned that in my rebuttal testimony in this  
22 proceeding.

23 Q Would you characterize comparing the FCC's  
24 default calculation with its instructions and  
25 rationale for its calculation of the avoided cost

1 discount that we talked about earlier as a more  
2 conservative approach?

3           Essentially, the question is: Isn't the  
4 default calculation a more conservative approach to  
5 wholesale cost than the FCC's criteria for determining  
6 a wholesale avoided cost?

7           A     Yes, sir, I understood the question. Well,  
8 if you look at Exhibit DGP-5, again you'll note that  
9 beginning at Line 24 there are a number of accounts  
10 that are shown as excluded. All of those accounts are  
11 accounts that in MCI's original filing with the FCC we  
12 had included in the calculation of the avoided cost  
13 discount.

14           So, yes, by taking those out we would  
15 certainly agree that there is a more conservative  
16 approach. And, again, that is consistent with the  
17 calculation of the default as you've characterized it.

18           Q     MCI, in it's study, does not attempt to  
19 rebut any of the FCC's presumptions or include any  
20 cost accounts that aren't specifically identified by  
21 the FCC as presumptively avoided; isn't that correct?

22           A     That is correct, and it goes back to the  
23 very first couple of your questions having to do with  
24 Account 6611, 12 and 13 and 6623. The 90% factor  
25 there, again, is consistent with the calculation of

1 the default and actually assumes that BellSouth is  
2 entitled to either continuing costs associated with  
3 wholesaling or new costs associated with wholesaling,  
4 even though I don't believe Mr. Reid's testimony has  
5 made a demonstration of that fact.

6 MR. HATCH: Thank you, Mr. Price. That's  
7 all the questions we have.

8 CHAIRMAN CLARK: We are going to take a  
9 break until a quarter to 11:00. And we will begin --  
10 Mr. Horton? No.

11 We will begin with cross examination by  
12 BellSouth. Thank you.

13 (Brief recess.)

14 - - - - -

15 CHAIRMAN CLARK: Let's call the hearing back  
16 to order. Mr. Carver.

17 MR. CARVER: Yes, ma'am, I have a few  
18 questions. May I take just a moment?

19 CHAIRMAN CLARK: That's fine.

20 MR. CARVER: I'm sorry, I'm beginning to get  
21 a cold, and I had a cough drop in my mouth.

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## CROSS EXAMINATION

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BY MR. CARVER:

Q Good morning, Mr. Price.

A Good morning.

Q I want to talk to you also about the resale discount that you proposed. Let me begin with a clarification, or request for clarification rather. In your testimony you use a number of 25.38%, and I think in your summary you said 25.06%. Which is it?

A The number that you referred to at first is a number that appears, I believe, at Page 21 of my direct testimony and that change was made as part of the corrections to my testimony this morning.

Q Okay. So it's 25.06?

A Yes. And that compares to the 1995 actual that is reflected in Exhibit DGP-3 for Florida BellSouth.

Q Now, AT&T has proposed a discount of how much, do you know?

A Not off the top of my head, no, sir.

Q Well, let's see. Subject to check, would 39.9%, does that sound about right?

A Subject to check, yes.

Q So that's about roughly 15% higher than what -- the number you got performing pretty much the

1 same, I wouldn't say calculation, but performing a  
2 calculation using the same model?

3 A Well, I don't know if it's the same model or  
4 not. It's certainly a calculation, just like Mr. Reid  
5 has a calculation.

6 Q Well, let me ask it this way then. Do you  
7 know how AT&T got their number 15% higher than yours?

8 A I have not studied their proposal in this  
9 proceeding, no.

10 Q Now, Mr. Hatch asked you some questions  
11 about whether particular things that AT&T did with  
12 their number was plausible. Would it be safe to say  
13 that you don't think what AT&T did was correct in  
14 those areas where their calculation differs from  
15 yours?

16 A I don't remember a question by Mr. Hatch of  
17 the nature that you've characterized it.

18 Q Okay. Well, maybe I misunderstood. There  
19 were some particular items on your DGP-5, on that  
20 exhibit, and he asked you if doing particular things  
21 were plausible. And I think in those instances it  
22 would be calculating things differently than you did.  
23 Do you recall that?

24 A I believe the references that Mr. Hatch was  
25 making in his questions had to do was passages in the

1 FCC's Order and in the rules that relate to that  
2 51.609.

3 Q Well, let me ask generally. Although it  
4 might be plausible to do things differently than you  
5 did, isn't it safe to say that you believe that your  
6 calculation is correct applying the FCC model?

7 A It is certainly true that what I've done I  
8 believe to be plausible, and I believe it is in  
9 accordance with the calculation of the defaults that  
10 the FCC did in its Order, yes.

11 Q Okay. Now, you understand that the  
12 BellSouth number, the number that we are proposing in  
13 this docket, was calculated in a different manner,  
14 correct?

15 A Yes, I do.

16 Q Now, are you familiar with Mr. Reid's  
17 testimony?

18 A Yes.

19 Q Now, he also -- just in case, let me put it  
20 in this way. Just in case the FCC's Order is upheld,  
21 he also did a calculation using the FCC model; is that  
22 correct?

23 A He used a similar format as what's reflected  
24 in my Schedule DGP-5. He certainly did  
25 methodologically take some -- performed calculations

1 in a way that differ methodologically from what I've  
2 done.

3 Q That the bottom line to his number, if you  
4 know, but wasn't it around 19%?

5 A Subject to check, yes.

6 Q So, basically, using the same model, we've  
7 got a number of 19%, you've got one of 25%, AT&T has  
8 come up with 40%, correct?

9 A All right.

10 Q And you don't know how AT&T got their number  
11 up to 40%? I think you answered that one, didn't you?

12 A Well, I believe what I've said is  
13 methodologically all of them differ. I mean, you  
14 know, there are numbers that are added and divided in  
15 different ways and the result differs because of what  
16 is included and what is excluded. Methodologically,  
17 there are differences in all of those approaches.

18 Q Okay. Let's talk a little bit about the  
19 model that's being used here. Originally, this was  
20 proposed by MCI to the FCC; is that correct?

21 A There was a proposal by MCI to the FCC in  
22 our original comments in the 9698 proceeding.

23 Q I keep calling this thing that was proposed  
24 a model. Is that the correct terminology?

25 A Could you repeat --



1 Q Is there a better name for what was proposed  
2 than a model?

3 A No, that's probably a fair statement.

4 Q Okay. Just so we're clear on terms, I just  
5 want to make sure that I'm using the terminology  
6 correctly.

7 Now, when MCI originally proposed the model  
8 to the FCC, the wholesale discount that your model  
9 yielded was 25.6%; is that correct?

10 A The proposal to the FCC by MCI originally  
11 was on a regional company basis and so it can't be  
12 directly compared to the BellSouth Florida specific  
13 number that I'm sponsoring in this proceeding.

14 Q But the regional number was 25.6%?

15 A Subject to check, yes.

16 Q Now, the FCC made some changes to the MCI  
17 model and came up with a figure of 19.2%; is that  
18 right?

19 A Subject to check, yes.

20 Q Now, if you can tell me briefly how MCI in  
21 this case got the number from 19.2 up to 25.6; in  
22 general terms, what's the difference in that 6% there?  
23 Or rather, what's the explanation for the difference?

24 A Well, I believe I've already testified that  
25 the numbers aren't directly comparable because one was

1 a regional number and this is BellSouth Florida's  
2 specific numbers. So I'm not real sure how to answer  
3 your question.

4 Q So the regional number is 19.2, the Florida  
5 specific is 25.6. What I'm wondering about this is  
6 when you first proposed the model to FCC, you were at  
7 25%. They lowered it to 19. And now in a state  
8 specific basis, you are almost back up to where you  
9 were before. Is that just a coincidence?

10 A I'm not sure it's a coincidence. It's a  
11 result of our reading of the FCC Order and the rules  
12 and attempting to perform a calculation that we  
13 believed was consistent with exactly how the FCC  
14 proceeded in the calculation of its default.

15 Q Okay.

16 A I mean, if you look at my Exhibit DGP-3,  
17 what you'll see is across the BellSouth region there's  
18 a fairly Broad range of numbers. I mean, you've got a  
19 high of 25%, you've got a low of less than 19%, so the  
20 numbers do vary when you depart from a regional basis  
21 and start looking at state specific numbers.

22 Q Okay, so -- I just want to be clear on this.  
23 When you start at 25, you went back down to 19, now  
24 you are up to 25. You didn't put back in what the FCC  
25 said to take out. In other words, it's a different

1 calculation?

2           A     There are several changes that are  
3 represented by the models that result in my Exhibit  
4 DGP-3 for the entire region and my Exhibit DGP-5  
5 specific to Florida for 1995, from what was done in  
6 the original MCI proposal to the FCC. Those changes  
7 involve the exclusion of a number of accounts that are  
8 specified beginning at Line 21 -- I'm sorry, Line 24  
9 of my Exhibit DGP-5. Another difference has to do  
10 with the use of state -- jurisdictional state costs as  
11 opposed to total company costs, which was what was  
12 originally used by MCI. And, again, we believe that  
13 is in accordance with the part of the FCC's Order that  
14 talks about using a methodology that matches with the  
15 way that rates are set at the state level.

16                 With those two changes, I think that has a  
17 lot to do with the difference in the results.

18           Q     Okay. Thank you. Now, I want to make sure  
19 I understand how the percentage discount relates to  
20 the calculation you are doing here. And let me just  
21 give you my rough and general understanding, and tell  
22 me if this is pretty much correct.

23                 The percentage corresponds to a fraction.  
24 And above the line on the fraction, you have avoided  
25 costs. Below the line on the fraction you have total

1 costs; is that correct?

2           A     Well, you certainly have a fraction. I  
3 think the way that I would express it would be that  
4 above the -- in the numerator, above the line as you  
5 put it, you would have the costs associated with  
6 retailing, and below the line would you have total  
7 costs.

8           Q     And the costs associated with retailing are  
9 the costs that you say are avoidable, or avoided, as a  
10 result of wholesaling a particular service?

11          A     Not as a result of the wholesaling a  
12 particular service, but as a result of becoming a  
13 wholesaler. In other words, taking into account all  
14 of the retailing costs that BellSouth incurs.

15          Q     I think my question may be too simplistic  
16 for the answer you are giving me. All I'm trying to  
17 get to is what's above the line is avoided cost,  
18 right? That the fraction is basically avoided costs  
19 over total costs?

20          A     Generally, yes.

21          Q     Okay. So basically, if, say, your total  
22 cost were \$4 million, your avoided cost were 1  
23 million, the fraction is one-fourth, and the discounts  
24 25%?

25          A     Generally, yes.

1           Q     Okay. Now, this discount, it applies to  
2     tariffed services, correct?

3           A     Actually, I would hope that it applies to  
4     all of your telecommunication services. That's what  
5     I've proposed in my testimony and what I believe is  
6     consistent with your obligation under the Act.

7           Q     Well, are there telecommunication services  
8     that BellSouth has that aren't tariffed?

9           A     I believe you have got a proposal before  
10    this Commission to have a contract service for PBX  
11    trunks. So if that's a contract, I would assume that  
12    it's not provided to be a tariff.

13          Q     Now, you've included as an avoided cost the  
14    publishing directory listing expense; is that correct?

15          A     I have picked up from your ARMIS report Line  
16    7076 which equates to -- yes.

17          Q     Okay. Why have you picked that up as an  
18    avoided cost?

19          A     Well, certainly, MCI is going to incur some  
20    of its own costs associated with listings, but we  
21    believe that is a cost that will be compensated for  
22    under our proposal separately and, therefore, does not  
23    need to be included in the calculation.

24          Q     Okay. I'm going to come back to -- explain  
25    to me what you mean by "compensated separately."

1           A     Well, to the extent that -- well, let me  
2 back up. MCI's proposal and what has been agreed to  
3 in the interim agreement is that we will provide the  
4 listings to -- I hate it when I go down the wrong  
5 path. Let me start over again.

6                     To the extent that our customers' listings  
7 are included in your books, we believe that those  
8 listings have value. And in compensation for the  
9 value of that listing, BellSouth has agreed not to  
10 charge us expressly for that listing. If the cost of  
11 that listing were to be included in the resale  
12 discount, we believe that we would be charged even  
13 though there was not an explicit charge, because that  
14 implicit charge would be recovered through the lower  
15 discount that would be -- result from that.

16           Q     So if I understand what you are saying,  
17 BellSouth would still incur the publishing cost. But  
18 what you are saying is because putting your listings  
19 in our directory has a value to us, you think that  
20 compensates for the expenses that we would incur; is  
21 that correct?

22           A     I believe that's what the agreement between  
23 the two companies said. And all I'm saying is that if  
24 we were to not take that into account here in the  
25 calculation of the avoided costs, then we would be

1 paying you, although not directly but indirectly.

2 Q And your payment is we get to put your  
3 customers' listing in our directory?

4 A No. The payment would be that you would be  
5 recovering that cost from us as a part of the  
6 wholesale price that we would pay you for services we  
7 sold.

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9 (Transcript continues in sequence in  
10 Volume 6.)

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