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BELLSOUTH TELECOMMUNICATIONS, INC.
REBUTTAL TESTIMONY OF ALPHONSO J. VARNER
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NOS. 960833-TP, 960846-TP, 960757-TP, 971140-TP
DECEMBER 9, 1997

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

A. My name is Alphonso J. Varner. I am employed by BellSouth as Senior Director for State Regulatory for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes. I filed direct testimony and one exhibit on November 13, 1997.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony addresses the direct testimony filed by the other parties' witnesses on November 17, 1997. In responding to other parties' witnesses, my testimony refutes erroneous positions and assertions found in the intervenors' testimony concerning, but not limited to, such issues as: 1) the appropriate pricing standard for

1 unbundled network elements ("UNEs") and interconnection services; 2)
2 combination of UNEs, and 3) recovery of operations support systems
3 ("OSS") costs.

4

5 Q. DO YOU HAVE ANY GENERAL COMMENTS ON THE TESTIMONY
6 FILED BY THE OTHER PARTIES?

7

8 A. Yes. The Florida Public Service Commission (the "Commission") has
9 received detailed testimony from several witnesses generally opposing
10 the views of BellSouth. Throughout my testimony, along with the
11 testimony of our other witnesses, BellSouth responds to a substantial
12 portion of the detail in their testimony in order to demonstrate that these
13 parties' conclusions are seriously flawed. BellSouth does not attempt,
14 however, to respond to each and every erroneous allegation. Given
15 the complexity of these filings, it would be very easy for the
16 Commission to become mired in the details; however, it is unnecessary
17 for the Commission to do so. The focus of this proceeding must remain
18 on determining the appropriate prices for UNEs and interconnection
19 services, which generally, BellSouth has proposed at the minimum
20 level necessary to recover actual costs.

21

22 Q. AT PAGE 4, MR. ELLISON SUGGESTS, "RATES SHOULD BE SET
23 TO RECOVER TOTAL ELEMENT LONG RUN INCREMENTAL COST
24 (TELRIC), PLUS A REASONABLE CONTRIBUTION TO FORWARD -
25 LOOKING COMMON COSTS." DO YOU AGREE?

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A. No. The pricing standards (including TELRIC) contained in the Federal Communications Commission's First Report and Order ("FCC's Order") in CC Docket 96-98, which do refer to costs, have been vacated by the Eighth Circuit Court of Appeals ("Eighth Circuit"). This Commission, therefore, is not obligated to use the FCC's pricing standards when setting the appropriate prices for UNEs and interconnection services in Florida.

Sections 51.505-51.515 (inclusive) of the FCC's rules, which specify a rate structure for the pricing of unbundled elements and interconnection, were vacated. Additionally, Sections 51.601-51.611 (inclusive) regarding resale, and 51.701-51.717 (inclusive) regarding reciprocal compensation for transport and termination of local telecommunications traffic, were also vacated. The Eighth Circuit was very clear in its ruling that states have sole jurisdiction for establishing prices for UNEs and interconnection. The FCC has no role in establishing prices and cannot compel the states to adhere to any particular pricing methodology.

Indeed, this Commission has adopted Total Service Long Run Incremental Cost ("TSLRIC") as the basis for pricing UNEs and interconnection. TSLRIC, however, as with any other cost methodology, should not dictate the actual price of the UNE or interconnection element. There are other costs to consider and the

1 Telecommunications Act of 1996 ("the Act") allows for a reasonable
2 profit above actual costs.

3

4 Q. AT PAGE 5 OF HIS TESTIMONY, DR. SELWYN ADDRESSES THE
5 EIGHTH CIRCUIT'S RECENT DECISION STATING , "WHILE THE 8TH
6 CIRCUIT COURT REVERSED THE FCC'S PREEMPTION OF STATE
7 JURISDICTION OVER THE PRICING OF THESE ELEMENTS, IT HAS
8 NOT CHALLENGED THE VALIDITY OF THE FCC'S ADOPTION OF
9 TELRIC AS THE APPROPRIATE PRICING STANDARD." HAS THE
10 EIGHTH CIRCUIT IMPLIED THAT TELRIC IS AN APPROPRIATE
11 PRICE STANDARD?

12

13 A. No. Specifically, the Eighth Circuit ruled, "Having concluded that the
14 FCC lacks jurisdiction to issue the pricing rules, we vacate the FCC's
15 pricing rules on that ground alone and choose not to review these rules
16 on their merits." Therefore, to say that the Eighth Circuit did not
17 challenge the validity of TELRIC is to give it credibility as a pricing
18 standard that it does not merit.

19

20 Dr. Selwyn notes that the Eighth Circuit vacated the FCC's pricing rules
21 then immediately, in the same paragraph, states that the FCC recently
22 ordered that an ILEC's nonrecurring charges reflect forward looking
23 economic costs. Dr. Selwyn's statement is completely irrelevant,
24 having just acknowledged that the FCC has no ability to dictate to the
25 ILECs pricing standards that are rightfully within the jurisdiction of the

1 state commissions.

2

3 Q. DOES THE ACT SPECIFY HOW INTERCONNECTION AND
4 UNBUNDLED ELEMENTS SHOULD BE PRICED?

5

6 A. No. As I stated in my direct testimony, the Act does not prescribe any
7 specific cost standard. The Act does state that prices should be based
8 on cost, be nondiscriminatory and may include a reasonable profit.
9 This does not mean that prices must equal cost, nor does it establish a
10 particular pricing methodology that must be followed. There are
11 numerous pricing methodologies that could meet the requirements of
12 the Act. The fact that prices may include a reasonable profit indicates
13 that, at a minimum, the Act contemplates that prices would at least
14 cover actual cost. If this were not the case, there would be no reason
15 for the reasonable profit opportunity to exist. A profit cannot be
16 realized until the actual costs of the item are recovered.

17

18 Q. IN SIMILAR CASES IN OTHER STATES AT&T AND MCI HAVE
19 SUGGESTED THAT PRICES SHOULD BE SET EQUAL TO
20 ECONOMIC COSTS. DO YOU AGREE?

21

22 A. No. There are several reasons why prices should not be set equal to
23 economic costs. First, it would be impractical to establish a rigid rule
24 for prices to equal any specific cost standard in today's dynamic
25 telecommunications environment. Pricing must account for the cost of

1 the element plus the market, regulatory and competitive conditions
2 which exist. Pricing is not so simplistic that it can be narrowed to an
3 exact numerical exercise. Prices for unbundled network elements must
4 be based on cost, but must also provide the proper signals to, and be
5 functional in, the marketplace. For example, BellSouth is
6 recommending that virtual collocation be priced at the interstate tariff
7 rates that already exist in the marketplace. These proposed prices are
8 based on cost but also account for the fact that there is an existing tariff
9 for virtual collocation.

10

11 Second, establishing a "price equals cost" requirement ignores that this
12 proceeding addresses prices for network components of the services
13 (i.e., local interconnection and unbundled network elements) that
14 BellSouth offers. To establish a uniform "price equals cost" pricing
15 policy would require addressing all of the services offered by BellSouth,
16 including basic local exchange service, which would necessitate
17 consideration of the implications of past social pricing objectives,
18 universal service obligations and price regulation. These
19 considerations cannot be accomplished in this limited proceeding.

20

21 Third, prices should be set so that sellers and buyers have the
22 incentive to make appropriate economic choices. Finally, prices must
23 cover total costs, including incremental, common and historical costs.
24 This requirement is necessary for a firm to remain in business and for
25 all market participants to make efficient investment decisions.

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Q. DOES THE ACT PROVIDE ADDITIONAL SUPPORT FOR THE RECOVERY OF HISTORICAL COSTS?

A. Yes. Section 252(d) of the Act, which addresses pricing standards, requires a state commission to establish a “just and reasonable” rate for interconnection and unbundled network elements. Whether or not the parties agree as to the *appropriate cost methodology upon which prices are to be based*, the point remains that prices must be just and reasonable. The question must then be asked: Is it just and reasonable to set a price that does not cover BellSouth’s actual costs? The answer is an unequivocal, “No”. In order for the just and reasonable standard of the Act to be met, BellSouth must be able to recover its actual costs, including historical costs.

Q. THERE HAS BEEN SOME CRITICISM OF BELLSOUTH’S PROPOSAL TO USE EXISTING TARIFFED RATES FOR SOME UNES. PLEASE COMMENT.

A. BellSouth has priced all of its unbundled network elements at the TSLRIC plus shared and common cost results with the exception of the proposed loops and port which include a residual recovery requirement, and virtual collocation which is proposed at the existing interstate tariff rates. These exceptions are only reasonable given their circumstances. The prices for the proposed loops and port do indeed

1 contain an element to recover actual historical costs. The Act does not
2 prohibit including such costs and the FCC's rules addressing historical
3 costs have been vacated.

4

5 As noted in direct testimony, virtual collocation rates already exist in
6 interstate tariffs and adoption of BellSouth's cost study results would
7 only set the stage for competitors to pick and choose from the tariff or
8 the cost study results, creating an opportunity for arbitrage. It is
9 important to note that virtual collocation will only occur in those
10 instances where BellSouth cannot support a physical collocation
11 installation due to space requirements. Further, the Act does not
12 specify a pricing standard for collocation. Based on these facts,
13 BellSouth has proposed a reasonable course of action regarding virtual
14 collocation.

15

16 Q. ARE EXISTING TARIFFS BASED ON EMBEDDED COST
17 METHODOLOGIES?

18

19 A. No. Unless otherwise directed by a state or federal Commission,
20 BellSouth has, for at least the past ten years, performed *incremental*
21 *cost studies* in support of tariff filings and not embedded cost
22 methodologies. Make no mistake - BellSouth has not advocated that
23 prices be set equal to incremental cost. The incremental cost
24 establishes only the lower bound for the price - often referred to as the
25 *price floor*. It is important to note, once again, that BellSouth's rate

1 proposal in this proceeding contains only one set of rates that are
2 based on existing tariff rates - virtual collocation.

3

4 Q. MR. ELLISON (PAGE 5) AND DR. SELWYN (PAGE 4) SUGGEST
5 THAT PRICES MUST BE SET AT EFFICIENT FORWARD LOOKING
6 COSTS. IN YOUR OPINION, DOES THIS METHODOLOGY
7 ADDRESS BELL SOUTH'S HISTORICAL COSTS?

8

9 A. No. Historical costs are borne by the incumbent local exchange
10 carriers ("ILECs") to maintain a ubiquitous network capable of meeting
11 all reasonable requests for service, and at least for the foreseeable
12 future, ILECs will retain carrier of last resort responsibilities. The costs
13 actually incurred to provide unbundled network elements on a going
14 forward basis will not be recovered from the users of these elements if
15 historical costs are ignored. Any proposal by the other parties that
16 does not allow BellSouth to recover its full costs is discriminatory in that
17 only BellSouth's customers bear the burden of the shortfall and ALEC
18 customers do not.

19

20 In its proposal to recover a portion of historical costs, BellSouth has
21 chosen a simple, straightforward method: 1) identify the primary area,
22 in this case investment, impacted by recognizing only forward-looking
23 incremental costs; 2) identify the primary services impacted, in this
24 case the unbundled loops and port; and, 3) calculate the impacts of
25 these elements. Because the majority of network investment is

1 associated with outside plant and switching, BellSouth has limited the
2 historical cost calculation used to help recover the shortfall (from
3 recovering only TSLRIC plus shared and common costs) to only the
4 proposed unbundled loops and unbundled port.

5

6 Historical costs are real costs that will be incurred on a going forward
7 basis and BellSouth encourages the Commission to recognize these
8 costs and include them in determining the rates for loops and ports.
9 These costs are real, and cannot simply be wished away.

10

11 Q. DOES BELLSOUTH REFER TO THE DIFFERENCE BETWEEN
12 FORWARD-LOOKING AND ACTUAL COSTS AS THE "RESIDUAL
13 RECOVERY REQUIREMENT"?

14

15 A. Yes.

16

17 Q. PLEASE EXPLAIN FURTHER WHY HISTORICAL COSTS
18 (REPRESENTED BY THE RESIDUAL RECOVERY REQUIREMENT)
19 SHOULD BE RECOVERED.

20

21 A. First, telecommunications networks, such as BellSouth's, have
22 enormous sunk costs. These networks have evolved over time using
23 technology available at the time to serve customers wherever they
24 decided to locate during the evolution of the network. In addition,
25 ALECs are today, and will be in the future, using the current network;

1 therefore, the costs being incurred today by BellSouth are the real
2 costs of that network. ALECs should pay that real cost, and not the
3 cost of an idealized, hypothetical network they are not using.

4
5 Second, if rates are always set equal to forward-looking costs, then
6 technological changes will not allow BellSouth to recover costs.
7 Technology continues to force costs down. Actual costs will always be
8 higher than the cost of the newest technology for the foreseeable
9 future. BellSouth will never be able to cover its actual costs if it always
10 has to price all of its products equal to forward-looking costs.

11
12 Third, pricing without regard to historical costs gives ALECs a free ride
13 on investment in existing networks. As I stated previously, technology
14 will continue to force costs down in the future, and, as a result, over
15 time, the actual cost of BellSouth's network will also decline. The
16 decline, however, will not be precipitous because BellSouth cannot
17 instantaneously transform its network to new technology. New
18 technology will be introduced as economically reasonable. In fact, a
19 "flash cut" to a new technology would be more costly than gradual
20 introduction because it would shorten the life of all current technology.
21 ALECs advocate pricing using new technology as if it were magically
22 "flash cut", but then want it to be treated as if it would not be replaced
23 on a "flash cut" basis by the next innovation.

24
25 Finally, such a situation would allow an ALEC to use the ILEC's

1 network without having to bear historical costs that would arise if the
2 ALEC were to build and use its own network. If an ALEC were to build
3 its own network, or purchase from another provider, it would have to
4 pay for historical costs. The bottom line is that ALECs are requesting
5 from the Commission a better deal than they could possibly expect in a
6 competitive marketplace.

7

8 Q. IN SIMILAR PROCEEDINGS, PARTIES CLAIM THAT BELLSOUTH'S
9 APPLICATION OF THE RESIDUAL RECOVERY REQUIREMENT
10 ONLY ON LOOPS AND PORTS RESULTS IN A DISCRIMINATORY
11 PRICING STRUCTURE. DO YOU AGREE?

12

13 A. No. As stated earlier, BellSouth identified the network elements that
14 were significantly impacted by a difference between forward-looking
15 costs and actual costs. In Florida, the proposed loops and 4-wire
16 analog port were significantly impacted. If rates are set to recover the
17 economic cost of the unbundled loop or port as well as the residual
18 recovery requirement, all ALECs ordering unbundled loops and ports
19 will pay the same rate. They will also be incurring the same costs that
20 BellSouth incurs, therefore, I fail to see how this pricing structure is
21 discriminatory.

22

23 In similar proceedings, witnesses have claimed that BellSouth is only
24 applying the residual recovery requirement to monopoly elements -- in
25 other words, BellSouth is only "marking up" those elements that are not

1 competitive. Contrary to such assertions, BellSouth has proposed to
2 include the residual recovery requirement in prices only for those
3 elements where the difference between TSLRIC plus shared and
4 common costs and actual costs is significant.

5

6 Q. DON'T HISTORICAL COSTS SIMPLY REFLECT THE LEC'S
7 REVENUES UNDER RATE-OF-RETURN REGULATION.

8

9 A. No. The rates proposed by BellSouth reflect, where appropriate, the
10 difference between forward-looking costs and actual costs for all of the
11 reasons previously discussed. Revenues have no bearing at all on
12 BellSouth's rate proposal. Indeed, if BellSouth were attempting to
13 develop rates reflective of revenue requirements, it would be necessary
14 to include a portion of the shortfall generated by basic residential
15 exchange access rates which are currently priced significantly below
16 cost for universal service purposes. No consideration of revenue
17 requirement entered into the rate development.

18

19 Q. BELLSOUTH HAS BEEN CRITICIZED IN SIMILAR PROCEEDINGS
20 FOR LACKING INCENTIVE TO OPERATE EFFICIENTLY UNDER
21 RATE OF RETURN REGULATION. ARE SUCH CRITICISMS WELL
22 FOUNDED?

23

24 A. No. BellSouth is running a business, and one of its primary goals has
25 always been to operate efficiently. Further, this Commission has

1 always had the duty to ensure that BellSouth operated efficiently and
2 the authority to disallow any expenditures that it determined were not
3 the result of prudent business decisions. In Florida, prior to coming
4 under price regulation in January 1996, BellSouth operated under an
5 incentive regulation plan for several years. Under all types of
6 regulation, BellSouth has been required to operate efficiently.

7

8 Again, let me stress that BellSouth is simply attempting to recover its
9 actual costs associated with providing these unbundled network
10 elements. These costs are real, and cannot simply be wished away.

11

12 Q. MR. ELLISON'S PRICE EXHIBIT DEMONSTRATES THAT AT&T IS
13 PROPOSING ITS NONRECURRING RATES BASED ON AN
14 ASSUMED "MIGRATION" OF A CUSTOMER FROM AT&T TO
15 BELL SOUTH. MR. LYNOTT CONFIRMS THIS USE OF MIGRATION
16 IN SUPPORTING AT&T AND MCI'S NON-RECURRING COST
17 MODEL. WHAT IS WRONG WITH THIS ASSUMPTION?

18

19 A. Mr. Ellison and Mr. Lynott assume incorrectly that "migration" of the
20 customer from BellSouth to AT&T or MCI can be accomplished by
21 provision of UNEs. Migration of a customer only occurs in a resale
22 environment, not when an ALEC orders unbundled elements, and is
23 therefore not appropriate discussion for this proceeding. According to
24 the Eighth Circuit, the 1996 Act, "does not permit a new entrant to
25 purchase the incumbent LEC's assembled platform(s) of combined

1 network elements (or any lesser existing combination of two or more
2 elements) in order to offer competitive telecommunications services.”
3 The Eighth Circuit found that ALECs can combine unbundled network
4 elements in any manner they choose. The Court was very specific,
5 however, to state that requesting carriers will combine the unbundled
6 elements themselves.

7

8 The Eight Circuit made clear that the arguments put forth by AT&T and
9 others, that BellSouth is required to combine UNEs for ALECs, does
10 not hold water. As a result, AT&T now argues that ILECs like
11 BellSouth must permit the “efficient recombination of elements” and
12 must “provide existing network element combinations to new entrants
13 without disruption.” The Eighth Circuit, however, did not qualify its
14 ruling in that or any other manner, but only found that ILECs such as
15 BellSouth should provide unbundled elements to ALECs for ALECs to
16 combine. It is, therefore, the ALEC’s responsibility to combine UNEs,
17 and in doing so, to determine what is efficient for that ALEC.

18

19 Q. PLEASE EXPLAIN HOW AT&T AND MCI’S NON-RECURRING COST
20 MODEL CONTINUES TO SUPPORT THE “PLATFORM” APPROACH
21 WHICH THE EIGHTH CIRCUIT HAS TWICE REJECTED?

22

23 A. The Non-recurring Cost Model proposed by AT&T and MCI and
24 supported by Dr. Selwyn assumes conversion of an existing service to
25 unbundled network elements, which BellSouth has combined for the

1 ALEC, with little or no human intervention. This is entirely incorrect,
2 because for example, connecting UNE loops to an ALEC requires, at a
3 minimum, activity to physically move connection of the loop from the
4 existing connections at BellSouth's switch to the ALEC's connecting
5 facility. Thus, the model's assumption of 98% flow through is invalid on
6 its face. As I noted earlier, such an assumption includes migration of
7 an existing customer which is a resale function and not an appropriate
8 assumption for the provision of UNEs.

9
10 I wish to make clear that, if an ALEC orders unbundled elements,
11 BellSouth will provide them in a manner that allows the ALEC to
12 combine them. If, however, AT&T, MCI or any other ALEC wishes to
13 migrate a customer's service on a "switch as is" basis which does not
14 involve disruption of a customer's service, this can be done through
15 resale. BellSouth is willing and able to transition existing services to
16 an ALEC on a "switch as is" basis, and in doing so, BellSouth will bill
17 the ALEC for the retail service minus the applicable wholesale discount.

18

19 Q. DOES THE FCC'S RECENT ACCESS REFORM DECISION HAVE
20 ANY IMPACT ON THE ISSUE OF NETWORK ELEMENT
21 COMBINATIONS?

22

23 A. No. In its recent access reform decision, all the FCC did was reaffirm
24 its rule that access charges should not apply to unbundled elements. It
25 did not reaffirm that recombined elements should be offered. As I

1 stated earlier, the Eighth Circuit vacated the FCC Rules that prohibited
2 charging access on unbundled elements and that purported to require
3 BellSouth to provide combined network elements. The fact that the
4 FCC has resurrected this access charge position under access reform
5 has no bearing on this proceeding.

6

7 Q. DOES THE RECENT FCC ORDER ON THE AMERITECH/MICHIGAN
8 271 APPLICATION HAVE ANY IMPACT ON THIS PROCEEDING?

9

10 A. No. There is nothing in the Ameritech Order that is binding on the
11 Commission. The FCC provided its opinions concerning the
12 appropriateness of Ameritech's application; however, those opinions
13 should not be misconstrued as rules. The Commission is not required
14 to follow any of those opinions. Indeed, state commissions, including
15 this Commission were at the forefront in challenging the FCC to
16 preserve their right to act in the best interest of consumers. The Eighth
17 Circuit gave state commissions that right. Other parties would now
18 have the Commission abdicate that right to the FCC. The Ameritech
19 Order is an attempt by the FCC to reimpose the same rules and
20 requirements on the states that the Eighth Circuit very recently told the
21 FCC that it did not have the authority to impose. In fact, the Eighth
22 Circuit issued a second order on October 14, 1997 that mandates that
23 the FCC comply with the Court's July 18, 1997 decision that intrastate
24 pricing authority rests with the state commissions.

25

1 The Commission still has sole authority to establish appropriate rates
2 for UNEs and interconnection in Florida. The issue of what the FCC
3 can require for interLATA relief will be addressed between the FCC and
4 BellSouth when an interLATA application is filed. The Florida
5 Commission's ability to establish prices in this proceeding is in no way
6 impacted by the FCC's recent Order. The Commission has the
7 authority to establish prices that recover actual costs, including
8 historical costs.

9

10 Q. MR. BISSELL AND MR. KLICK DISCUSS PROVISIONING AND
11 COSTING OF COLLOCATION. WHAT OBLIGATIONS DOES THE
12 ACT IMPOSE ON ILECs CONCERNING PROVISIONING OF
13 COLLOCATION?

14

15 A. Section 251(c)(6) of the Act specifies that "the duty to provide, on rates,
16 terms and conditions that are just, reasonable, and nondiscriminatory,
17 for physical collocation of equipment necessary for interconnection or
18 access to unbundled network elements at the premises of the local
19 exchange carrier, except that the carrier may provide for virtual
20 collocation if the local exchange carrier demonstrates to the State
21 commission that physical collocation is not practical for technical
22 reasons or because of space limitations."

23

24 Q. DOES THE ACT SPECIFY A PRICING STANDARD FOR
25 COLLOCATION?

1

2 A. No. The pricing standards specified in the Act relate to Sections
3 251(c)(2) and 251(c)(3); therefore, no standard is specified for the
4 pricing of collocation. BellSouth has provided the Commission with
5 forward-looking studies for both physical and virtual collocation.
6 BellSouth has proposed rates for physical collocation that are equal to
7 economic costs. As described earlier in my testimony, the rates being
8 proposed for virtual collocation are the existing FCC tariff rates.

9

10 Q. DOES BELLSOUTH'S PHYSICAL COLLOCATION STUDY
11 OVERSTATE THE FORWARD-LOOKING COSTS?

12

13 A. No. Testimony filed by opposing parties proposes that the appropriate
14 cost methodology for collocation should be based on a hypothetical
15 central office building designed so that collocators would always be
16 physically located in close proximity to BellSouth's main frame. There
17 is absolutely no basis in the Act or in any valid FCC Rules to support
18 this methodology.

19

20 When intervenors collocate, they will do so in existing buildings and use
21 space where it is available in those buildings. They will not be
22 collocated in their hypothetical building. Even though they want to act
23 as if the existing building has been demolished, they include no
24 provisions for recovering the remaining costs of the existing building or
25 demolishing it. In fact, the methodology proposed by the intervenors is

1 contrary to the requirements of the Act because the Act specifically
2 states that physical collocation is to be provided at the premises of the
3 local exchange carrier. It is ludicrous to propose that the *appropriate*
4 cost methodology for collocation would ignore the incumbent's current
5 central office configurations.

6

7 Additional support for BellSouth's position is found in the FCC's Rules
8 at paragraph 51.323 which provides the standards for physical and
9 virtual collocation. Under this section, paragraph (f)(1) states the
10 following:

11

12 "An incumbent LEC shall make space available within or on its
13 premises to requesting telecommunications carriers on a first-
14 come, first-serve basis, provided, however, that the incumbent
15 LEC shall not be required to lease or construct additional space to
16 provide for physical collocation when existing space has been
17 exhausted."

18

19 Additionally, paragraph (f)(3) states that:

20

21 "When planning renovations of existing facilities or constructing or
22 leasing new facilities, an incumbent LEC shall take into account
23 projected demand for collocation of equipment."

24

25 It is obvious from these rules that the FCC and the Act envisioned

1 physical collocation arrangements being constructed in the ILEC's
2 existing central office buildings, taking into account the existing
3 physical configuration of BellSouth's equipment. Obviously, prices for
4 collocation should be based on that same configuration, not the
5 hypothetical one posited by AT&T and MCI.

6

7 Q. AT&T HAS SUGGESTED THAT AT&T'S PORT PRICES INCLUDE
8 THE PRICE OF SWITCHING FEATURES AND FUNCTIONS. DO
9 YOU AGREE?

10

11 A. No. AT&T significantly understates the price of local switching. In fact,
12 the Hatfield Model, which AT&T typically relies upon for developing its
13 port prices, can only produce a high level cost calculation for local
14 switching that bears little resemblance to actual cost. It is incapable of
15 disaggregating switching in order to produce specific costs that include
16 local switching and features such as BellSouth has done. Indeed, in
17 the Hatfield model, the cost of switching appears to be the same
18 whether a customer uses all of the features or none of them. This is
19 inaccurate.

20

21 As noted in Mr. Ellison's price exhibit, AT&T will only recommend rates
22 for the 4-wire analog port after reviewing BellSouth's cost study results.
23 In the event that Mr. Ellison makes a downward adjustment to
24 BellSouth's 4-wire analog port study to develop AT&T's port price, he
25 will do so by totally ignoring the costs BellSouth incurs for provision of

1 vertical features.

2

3 By contrast BellSouth has developed a recurring 4-wire analog switch
4 port cost of \$11.14, which represents the cost of switching without any
5 cost of vertical features. BellSouth has also developed recurring costs
6 totaling \$6.18 for the features that are compatible with a 4-wire analog
7 port. Provision of the 4-wire analog switch port with all available
8 features requires that BellSouth cover the cost of the port and the
9 features, resulting in its proposed monthly recurring price of \$17.32.
10 Any price set at a lesser level will not allow BellSouth to recover its
11 actual costs.

12

13 Q. IS BELLSOUTH'S APPROACH CONSISTENT WITH THE FCC'S
14 REQUIREMENTS?

15

16 A. Yes. The approach BellSouth is proposing is consistent with the FCC's
17 requirements. In its August 8, 1996 Interconnection Order, the FCC
18 concluded that, "...the local switching element includes all vertical
19 features...". (paragraph 412). The FCC's Order, however, goes on to
20 say that, "At this time we decline to require further unbundling of the
21 local switch into a basic switching element and independent vertical
22 feature elements." (emphasis added, paragraph 414). The FCC further
23 states, "In addition, the record indicates that the incremental costs
24 associated with vertical switching features on a per-line basis may be
25 quite small, and may not justify the administrative difficulty for the

1 incumbent LEC or the arbitrator to determine a price for each vertical
2 element. Thus, states can investigate, in arbitration or other
3 proceedings, whether vertical switching features should be made
4 available as separate network elements". (footnote omitted, paragraph
5 414)

6
7 Q. DOES BELLSOUTH'S PROPOSAL FOR UNBUNDLED LOCAL
8 SWITCHING COMPORT WITH THE EIGHTH CIRCUIT'S DECISION?

9
10 A. Yes. The Eighth Circuit's decision and the FCC's Third Order on
11 Reconsideration appear to more clearly define what BellSouth is
12 obligated to offer under the Act. As a result of these Orders, BellSouth
13 has analyzed its obligations under the Act and determined that
14 BellSouth is only required to offer a port with all compatible features for
15 which it has provided cost studies. For this reason, BellSouth is not
16 required to offer individual vertical features on a stand alone basis.
17 BellSouth, therefore, offers its 4-wire analog port for \$17.32 including
18 all available features.

19
20 Q. PLEASE DESCRIBE YOUR GENERAL OBSERVATIONS
21 CONCERNING DR. SELWYN'S TESTIMONY AND ATTACHED
22 "WHITE PAPER".

23
24 A. Dr. Selwyn's testimony serves primarily as an introduction to his paper
25 entitled, *Regulatory Treatment of ILEC Operations Support Systems*

1 *Costs which I will refer to as the "white paper". His white paper,*
2 purporting to address ILEC arguments concerning Operations Support
3 Systems ("OSS") cost recovery, arrives at four conclusions. Of his four
4 conclusions, the first is irrelevant to the issues in this proceeding and
5 the last three are simply erroneous. As opposed to a point by point
6 rebuttal of his testimony and white paper, I will limit my comments to his
7 four broad conclusions.

8

9 Q. WHAT IS DR. SELWYN'S FIRST CONCLUSION AND WHY IS IT
10 IRRELEVANT TO THIS PROCEEDING?

11

12 A. Dr. Selwyn concludes, "Most, if not all, of the "costs" that ILECs claim
13 are being imposed upon them by the Act and associated federal and
14 state implementation regulations represent efficiency improvement
15 programs that either were already underway prior to the enactment or
16 should be pursued by ILECs irrespective of the presence of
17 competitors or any specific Section 251(c) obligations." Much of Dr.
18 Selwyn's white paper is devoted to this conclusion. His discussion
19 makes it very clear that the costs he refers to are for those OSS
20 "network management tools whose purpose is to improve the overall
21 efficiency of ILEC operations and quality of ILEC services and
22 performance" (page 6). This, however, is an irrelevant conclusion.
23 BellSouth is not proposing to recover from ALECs the costs associated
24 with its operations support systems and processes either currently in
25 place or planned that support provision of services to its end user

1 customers. BellSouth is only proposing to recover the costs of the
2 electronic interfaces that provide access to BellSouth's internal systems
3 by ALECs. The majority of the white paper contents are, therefore,
4 devoted to a non-issue.

5

6 Q. DR. SELWYN'S SECOND CONCLUSION STATES, "COSTS
7 INCURRED BY ILECs IN ORDER TO ACCOMMODATE THEIR
8 OPERATION IN A MULTI-CARRIER ENVIRONMENT, SUCH AS THE
9 COSTS OF ESTABLISHING AND OPERATING ELECTRONIC
10 INTERFACES WITH OTHER LOCAL EXCHANGE CARRIERS, ARE
11 NOT COMPLIANCE-DRIVEN COSTS." PLEASE COMMENT.

12

13 A. Dr. Selwyn is incorrect. He argues that these same type of electronic
14 interface costs are also incurred by the ALECs and are the necessary
15 costs of doing business in a multi-carrier marketplace. He appears to
16 believe that just because the ALECs incur some cost to use the
17 electronic interfaces, they should not have to bear the cost to develop
18 and implement them, even though the ALECs are the beneficiaries of
19 the interfaces. Taken to its logical conclusion, this assertion would
20 mean that ALECs should not be charged for any UNEs.

21

22 First, the cost to develop and implement the electronic interfaces at
23 issue are real costs that BellSouth has proven to have occurred.
24 These costs have been caused by the entrance of new local service
25 providers into the local exchange marketplace. They would not have

1 occurred otherwise. As such, if BellSouth is unable to recover these
2 costs from the cost causers (ALECs), they will have to be recovered
3 from other customers, namely BellSouth's end users. BellSouth's end
4 user customers, however, will not use nor receive benefit from these
5 electronic interfaces. In effect, what Dr. Selwyn proposes is that
6 BellSouth's end users subsidize ALECs' entry into the local market
7 such that ALECs gain the ability to access those very customers. From
8 another perspective, his proposal means BellSouth pays twice, once to
9 develop the OSSs that are internally used for its own end users and
10 again to pay for the ALEC's access to these OSSs.

11

12 Next, the electronic interfaces which allow ALECs to access
13 BellSouth's internal systems are considered unbundled network
14 elements. As such, they fall under the pricing standards of the Act
15 which allow for cost recovery by BellSouth. To ignore this basic right to
16 recover cost incurred by the ALECs is to be in violation of the Act.

17

18 Finally, companies such as AT&T and MCI that sell their services
19 through resellers surely recover their costs of serving resellers through
20 the prices they charge resellers. Yet, they argue that BellSouth should
21 not be allowed to recover similar costs from ALECs.

22

23 Q. PLEASE COMMENT ON DR. SELWYN'S THIRD CONCLUSION THAT
24 STATES, "TO THE LIMITED EXTENT THAT ANY *POSITIVE*
25 COMPLIANCE COSTS MAY BE INCURRED BY ILECS ALONE,

1 THESE SHOULD BE RECOVERED ACROSS THE ENTIRE
2 COMMUNITY OF ILEC CUSTOMERS, AND NOT BE IMPOSED
3 EXCLUSIVELY UPON CLECS AND RESELLERS.”
4

5 A. Dr. Selwyn's third conclusion is also erroneous. Some how, Dr. Selwyn
6 makes an unfounded leap, suggesting that because Congress intended
7 to bring the benefits of competition to all consumers, Congress
8 intended that ILEC consumers should foot the bill. To support his
9 position, Dr. Selwyn employs an “apples and oranges” analogy by
10 suggesting that, when the Americans with Disabilities Act was passed,
11 existing hotels and restaurants could not impose their compliance costs
12 on new hotels and restaurants. While Dr. Selwyn is correct that they
13 could not impose those costs on their competitors, he conveniently
14 ignores that they did not have to develop anything for their competitors
15 either. Further, existing hotels and restaurants were not required to
16 make their reservations systems, housekeeping services and staffs,
17 food service facilities and administrative services available to the new
18 entrants based on cost. BellSouth is already providing interconnection
19 and UNEs at cost based rates to ALECs. BellSouth should not also
20 have to subsidize ALECs' entry into the business, as Dr. Selwyn
21 proposes.

22
23 Q. PLEASE ADDRESS DR. SELWYN'S FOURTH CONCLUSION.
24

25 A. Dr. Selwyn's fourth conclusion which is also related to his second and

1 third conclusions, suggests that those OSS related costs found to be
2 recoverable by the ILEC, should be spread over ILECs and competitors
3 using forward looking economic cost. First, as noted previously,
4 BellSouth's end users should not bear the cost of ALEC entry into the
5 local exchange marketplace. Next, Dr. Selwyn seems to imply that
6 BellSouth's cost studies are not forward looking. This is simply
7 incorrect. BellSouth's studies are forward looking using the most
8 efficient technology currently available as described by Ms. Caldwell
9 and Mr. Zarakas. In addition, BellSouth applies an appropriate level of
10 shared and common cost as described by Mr. Walter Reid. BellSouth
11 has priced its electronic interfaces at the minimum level that allows it to
12 recover those costs.

13

14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15

16 A. Yes.

17

18

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20

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22

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