

ORIGINAL

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF ALPHONSO J. VARNER
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 971140-TP
JANUARY 29, 1998

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. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I graduated from Florida State University in 1972 with a Bachelor of Engineering Science degree in systems design engineering. I immediately joined Southern Bell in the division of revenues organization with the responsibility for preparation of all Florida investment separations studies for division of revenues and for reviewing interstate settlements.

Subsequently, I accepted an assignment in the rates and tariffs

1 organization with responsibilities for administering selected rates and
2 tariffs including preparation of tariff filings. In January 1994, I was
3 appointed Senior Director of Pricing for the nine state region. I was
4 named Senior Director for Regulatory Policy and Planning in August
5 1994, and I accepted my current position as Senior Director of
6 Regulatory in April 1997.

7

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

9

10 A. The purpose of my testimony is to address fully Issues 3, 6 and 8 in
11 this proceeding. In addition, both Mr. Hendrix and I address varying
12 aspects of Issues 7, 9 and 10. I intend to outline BellSouth's position
13 with regard to the appropriate price to be applied to combinations of
14 unbundled network elements ("UNEs"). I also intend to define the
15 appropriate non-recurring charges to be applied to specific elements
16 when requested at the same time on the same order.

17

18 Q. PLEASE PROVIDE THE BACKGROUND EVENTS THAT
19 INFLUENCED BELL SOUTH'S RESPONSES TO THE ISSUES IN THIS
20 DOCKET.

21

22 A. On June 19, 1997 the Florida Public Service Commission (the
23 "Commission") issued orders approving both the MCI and AT&T
24 interconnection agreements signed with BellSouth. At that time, the
25 pricing provisions of the FCC's Interconnection Rules established in

1 CC Docket No. 96-98 (FCC's Rules) were stayed by the United States
2 Court of Appeals for the Eighth Circuit ("Eighth Circuit"). However, the
3 FCC's Rules that required BellSouth to provide combinations of UNEs
4 to alternative local exchange companies ("ALECs") remained in effect.
5 Due to the Eighth Circuit's October 15, 1996 stay, the Commission
6 could set prices for UNEs and any UNE combinations without guidance
7 from the FCC. The Commission, however, did not rule on the price of
8 UNE combinations within the proceedings that ultimately produced the
9 arbitrated agreements between BellSouth and MCI and BellSouth and
10 AT&T.

11
12 Subsequent to those events, on July 18, 1997, the Eighth Circuit
13 vacated the FCC's pricing rules affirming that state commissions held
14 jurisdiction over intrastate pricing. In addition, the Eighth Circuit ruled
15 that incumbent local exchange companies ("ILECs"), such as
16 BellSouth, did not have to combine UNEs for ALECs, ruling that it is the
17 ALEC's responsibility to perform the combination function. The Eighth
18 Circuit stated in its Order under Section II.G.1.f, "While the Act requires
19 incumbent LECs to provide elements in a manner that enables the
20 competing carriers to combine them, unlike the Commission, we do not
21 believe that this language can be read to levy a duty on the incumbent
22 LECs to do the actual combining."

23
24 On October 14, 1997 the Eighth Circuit reiterated its July 18, 1997
25 decision with regard to the combination of UNEs stating that the

1 Telecommunications Act of 1996 (the "Act"), "does not permit a new
2 entrant to purchase the incumbent LEC's assembled platform(s) of
3 combined network elements (or any lesser existing combination of two
4 or more elements) in order to offer competitive telecommunications
5 services." The Eighth Circuit was very specific that requesting carriers
6 will combine the unbundled elements themselves.

7
8 On January 16, 1998 the United States Supreme Court ("Supreme
9 Court") granted certiorari to review the Eighth Circuit's decision
10 regarding pricing including recombination of network elements.
11 Nevertheless, with respect to the interconnection agreements
12 BellSouth signed with MCI and AT&T, language requiring BellSouth to
13 combine UNEs will remain in those agreements only until such time as
14 the Supreme Court has completed its review, assuming the Supreme
15 Court upholds the Eighth Circuit's decision. The interconnection
16 agreements today contain language requiring that, should "...any final
17 and nonappealable legislative, regulatory, judicial or other legal action
18 materially affects any material terms of the Agreements, the parties will
19 renegotiate mutually acceptable terms as may be required." (emphasis
20 added) Therefore, assuming the issues now before the Supreme Court
21 become final, BellSouth will, at that time, renegotiate with MCI and
22 AT&T the portion of the agreements relating to combinations of UNEs.

23
24 Currently, language in the interconnection agreements obligates
25 BellSouth to provide combined UNEs. However, the interconnection

1 agreements do not contain the price that BellSouth will charge for
2 combining UNEs during the period before the Eighth Circuit's decision
3 is final.

4

5 It is with this frame of reference that BellSouth is responding to the
6 issues in this docket. BellSouth's responses deal primarily with the
7 situation during the interim period before the Supreme Court rules on
8 decisions made by the Eighth Circuit.

9

10 Q. DID THE COMMISSION STAFF ACKNOWLEDGE THE EIGHTH
11 CIRCUIT'S RULING IN ITS NOVEMBER 20, 1997
12 RECOMMENDATION IN THIS DOCKET?

13

14 A. Yes. At page 12, the Staff cites the Eighth Circuit's decision and the
15 recommendation states, "Staff believes that the current state of the law
16 does not require incumbents to provide combined network elements (or
17 assembled platforms) to requesting carriers, whether presently
18 combined or to be combined by incumbents."

19

20 Q. IS IT BELLSOUTH'S POLICY TO PROVIDE COMBINATIONS OF
21 UNEs TO ALECs AT UNE PRICES?

22

23 A. No. It is not BellSouth's policy, nor has it ever been BellSouth's policy
24 to provide combinations of UNEs that replicate retail services at UNE
25 prices.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Throughout the numerous arbitration proceedings in the BellSouth region, including in BellSouth's Petition for Reconsideration in the MCI and AT&T arbitration proceedings in Florida, BellSouth's policy has been that when BellSouth combines UNEs for an ALEC that recreate existing BellSouth services, those combinations should be priced at the retail service rate minus the applicable wholesale discount. Those positions presented to the commissions in Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee resulted in arbitration orders consistent with BellSouth's position.

Based on the Eighth Circuit's decision, BellSouth is no longer obligated to combine UNEs, but can do so if it desires. As such, should an ALEC request BellSouth to combine UNEs, BellSouth will negotiate with that ALEC for appropriate rates, terms and conditions for such combinations.

Issue # 3: If the answer to either part or both parts of Issue # 1 is no, how should the price(s) be determined?

Issue # 6: If the answer to either part or both parts of Issue # 4 is no, how should the price(s) be determined?

Q. HOW SHOULD PRICES BE DETERMINED FOR COMBINATIONS OF UNEs WHICH DO NOT RECREATE AN EXISTING BELLSOUTH RETAIL SERVICE?

1
2 A. Assuming the Supreme Court upholds the Eighth Circuit's ruling, no
3 distinction needs to be made between whether combinations recreate
4 services or not. Based on the Eighth Circuit's ruling, BellSouth is not
5 required to offer combinations. To the extent such combinations are
6 offered, pricing standards of the Act do not apply. Since provision of
7 UNE combinations is not required under Section 251 of the Act,
8 negotiation and arbitration under Section 252 is not applicable. On the
9 other hand, combinations of UNEs when combined by MCI and AT&T
10 should be priced at the individual UNE prices.

11
12 It is BellSouth's position that prices for UNE combinations which do not
13 recreate an existing BellSouth retail service, should be negotiated
14 between the parties. These prices should be market based to reflect
15 the increased risk associated with the use of UNEs outlined by the
16 Eighth Circuit. Specifically, the Eighth Circuit, in its July 18, 1997
17 Order at Section II.G.1.g, stated, "Although a competing carrier may
18 obtain the capability of providing local telephone service at cost-based
19 rates under unbundled access as opposed to wholesale rates under
20 resale, unbundled access has several disadvantages that preserve
21 resale as a meaningful alternative. Carriers entering the local
22 telecommunications markets by purchasing unbundled network
23 elements face greater risks than those carriers that resell an incumbent
24 LEC's services." The Order further states, "A carrier providing services
25 through unbundled access, however, must make an up-front

1 investment that is large enough to pay for the cost of acquiring access
2 to all of the unbundled elements of an incumbent LEC's network that
3 are necessary to provide local telecommunications services without
4 knowing whether consumer demand will be sufficient to cover such
5 expenditures. Moreover, our decision requiring the requesting carriers
6 to combine the elements themselves increases the costs and risks
7 associated with unbundled access as a method of entering the local
8 telecommunications industry and simultaneously makes resale a
9 distinct and attractive option.”

10

11 Q. HOW SHOULD PRICES BE DETERMINED FOR COMBINATIONS OF
12 UNES WHICH DO RECREATE AN EXISTING BELLSOUTH RETAIL
13 SERVICE WHERE THE COMBINATION IS PERFORMED BY MCI OR
14 AT&T?

15

16 A. As previously discussed, assuming the Eighth Circuit's decision is
17 upheld, a distinction between whether combinations recreate services
18 or not will not be necessary. In addition, when MCI or AT&T combine
19 UNEs themselves to provision services, whether or not they recreate
20 an existing BellSouth service, prices for such combinations of UNEs
21 should be the individual UNE prices. In the interim period, until the
22 contracts are revised to reflect that decision, UNE combinations that
23 recreate a BellSouth service should be priced the same regardless of
24 whether BellSouth or the ALEC does the combining.

25

1 Q. HOW SHOULD PRICES BE DETERMINED FOR COMBINATIONS OF
2 UNES WHICH DO CREATE AN EXISTING BELLSOUTH RETAIL
3 SERVICE WHERE THE COMBINATION IS PERFORMED BY
4 BELLSOUTH?

5
6 A. As discussed in the previous answer, BellSouth will not be required to
7 perform UNE combinations assuming the Eighth Circuit's decision is
8 upheld. If BellSouth offers combinations, BellSouth may negotiate a
9 price (sometimes referred to as a "glue charge") with MCI or AT&T for
10 that combination function. Such negotiations would be outside the
11 scope of BellSouth's responsibility under the Act. As noted, provisions
12 for combining UNEs are not required by Section 251 of the Act;
13 consequently, negotiations and arbitration provisions of Section 252 do
14 not apply. Thus, if BellSouth and MCI or BellSouth and AT&T are
15 unable to agree on terms and conditions and prices, then BellSouth
16 would not perform the combining function.

17
18 However, the Commission is addressing this issue based on the
19 current contract. BellSouth's position is that, until the current contracts
20 are revised, when BellSouth provisions combinations of UNEs that
21 recreate existing BellSouth retail services, the price to the ALEC will be
22 the retail price of that service minus the applicable wholesale discount.

23
24 It is expected that the typical request by MCI or AT&T would be for
25 BellSouth to provide a combination of UNEs (as a preassembled

1 combination, or on a switch "as is" basis) without the physical work of
2 combining the elements. This exemplifies the situation over which the
3 Commission has expressed concern. In essence, MCI or AT&T would
4 order a BellSouth retail service simply by placing the order as a series
5 of UNEs. This situation is, quite frankly, the one most likely to exist
6 and is the one MCI and AT&T have actually demanded. This migration
7 of a customer's service or switch "as is" is simply resale, since MCI and
8 AT&T are not purchasing UNEs, but are, in fact, purchasing a finished
9 retail service. In such cases, BellSouth will bill the retail service rate
10 minus the applicable wholesale discount.

11

12 Q. PLEASE ILLUSTRATE THE EFFECTS OF APPLYING UNE PRICES
13 FOR BELLSOUTH PROVIDED UNE COMBINATIONS TO MCI AND
14 AT&T THAT RECREATE BELLSOUTH'S LOCAL EXCHANGE
15 SERVICE.

16

17 A. I have prepared and attached my Exhibit AJV-1 which illustrates the
18 consequences of pricing certain UNE combinations at UNE prices
19 versus the wholesale pricing standard which is the appropriate
20 standard to apply. Exhibit AJV-1 contains three charts; Chart A
21 displays a typical business customer, Chart B displays a typical PBX
22 customer and Chart C displays a typical residential customer. Each
23 chart contains three pricing scenarios comparing the tariffed retail rates
24 and related charges to retail rates minus the wholesale discount and
25 corresponding UNE rates and related charges.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Using Chart A, this typical business customer has two lines with hunting and a single vertical feature on each line. Based on these assumptions, this customer pays BellSouth \$70.68 per month for each line.

Now consider that this business customer decides to purchase local service from MCI or AT&T. If, when MCI or AT&T order the service, they request BellSouth's service to resell to their customer, MCI and AT&T would pay BellSouth \$62.36 per month for each line. This price is the retail rate less the wholesale discount approved by this Commission. BellSouth would continue to receive access charges associated with this line.

Next, consider that when MCI or AT&T order service, they request that the customer be switched "as is" to UNEs. The service would be provided in the same manner as resale with the capabilities and functions also being the same. Simply by changing the words they use when the service is ordered, the revenues paid to BellSouth, based on the UNE rates ordered by the Commission, would drop to \$31.52 for this line. Not only does BellSouth lose significant revenue, but MCI and AT&T are not subject to the joint marketing restriction on resold services, as I will discuss in more detail later. In effect, MCI and AT&T receive an effective discount from retail rates of 55.4% simply because they place the order as UNEs instead of resale. Chart B displays a

1 similar outcome with MCI and AT&T receiving an effective discount
2 from retail rates of 57.4%.

3

4 Chart C, which illustrates the same scenario for a typical residential
5 customer, shows that use of UNEs to provide service results in a
6 significantly lower discount from retail than using UNEs for business
7 customers. However, it is still economically more advantageous than
8 ordering service as resale. Once again, not only do MCI and AT&T
9 receive a 19.3% discount over retail prices, but they avoid paying
10 interstate access charges and also avoid the joint marketing
11 restrictions associated with resold services outlined in the Act.

12

13 In all three scenarios, if MCI and AT&T are allowed to receive UNE
14 combinations at UNE prices, there is ample reason for MCI and AT&T
15 to always order services using UNEs. It is difficult to conceive of a
16 situation in Florida in which an ALEC would choose to use the resale
17 option, when they can effectively bypass that option through sham
18 unbundling. Thus, if sham unbundling is allowed to occur, it would
19 render useless the resale pricing standard of the Act.

20

21 Q. YOU MENTIONED THAT ALLOWING MCI AND AT&T TO USE SHAM
22 UNBUNDLING WOULD PERMIT THEM TO AVOID THE JOINT
23 MARKETING RESTRICTIONS OF THE ACT. PLEASE EXPLAIN.

24

25 A. Congress included language in the Act that created a balance between

1 a Bell Operating Company's ("BOC's") ability to enter the long distance
2 market and a large interexchange carrier's ("IXC's") ability to jointly
3 market its interLATA services with services obtained from the BOC
4 through resale. Section 271(e)(1) of the Act states, "Until a Bell
5 operating company is authorized pursuant to subsection (d) to provide
6 interLATA services in an in-region State, or until 36 months have
7 passed since the date of enactment of the Telecommunications Act of
8 1996, whichever is earlier, a telecommunications carrier that serves
9 greater than 5 percent of the Nation's presubscribed access lines may
10 not jointly market in such State telephone exchange service obtained
11 from such company pursuant to section 251(c)(4) with interLATA
12 services offered by that telecommunications carrier." Section 251(c)(4)
13 describes the resale of existing services.

14
15 The Act's purpose in imposing this restriction was to prevent a large
16 IXC from exercising an unfair marketing advantage over the BOC until
17 the BOC was either permitted to enter the long distance market or until
18 36 months had passed since enactment of the Act. If MCI and AT&T
19 are allowed to order BellSouth's existing retail services using UNE
20 rates, versus the resale situation that it actually is, and avoid complying
21 with the joint marketing restrictions, the joint marketing restrictions of
22 the Act no longer have meaning. MCI and AT&T would effectively have
23 the ability to manipulate the Act's pricing standards to their best
24 advantage and thumb their noses at the Act's joint marketing
25 restrictions that were specifically intended to apply to MCI, AT&T and

1 Sprint.

2

3 The Commission appears to be concerned about this area as
4 evidenced in a statement contained in the Commission's December 31,
5 1996 Order in the AT&T and MCI arbitration proceeding. In that Order,
6 the Commission expressed concern, "...about the possibility that the
7 joint marketing prohibitions in Section 271(e)(1) could be
8 circumvented." BellSouth requests the Commission act on that
9 concern and deny MCI and AT&T's demand for sham unbundling.

10

11 Q. PLEASE EXPLAIN MORE FULLY THE CONSEQUENCES THAT
12 WOULD RESULT, IF BELLSOUTH WERE REQUIRED TO PRICE
13 BELLSOUTH PERFORMED COMBINATIONS THAT CREATE
14 EXISTING RETAIL SERVICES AS UNEs INSTEAD OF RESALE?

15

16 A. As just described, such a requirement would nullify the Act's two
17 pricing standards as they apply to MCI and AT&T. MCI and AT&T
18 would be able to obtain a BellSouth retail service at UNE prices
19 allowing them to manipulate the pricing standards of the Act in a
20 manner not contemplated by Congress. In Section 252(d) of the Act,
21 Congress established two pricing standards, one for interconnection
22 and UNEs and one for the resale of existing services.

23

24 If allowed to obtain a BellSouth retail service at UNE prices, MCI and
25 AT&T could choose a pricing standard based simply on the manner they

1 order the service, as opposed to the appropriate pricing standard being
2 applied to the local exchange service being provisioned. In this
3 manner, and as demonstrated in Exhibit AJV-1, MCI and AT&T would
4 purchase BellSouth combined UNEs for provision of service when
5 selling to their customers because it would be economically
6 advantageous to MCI and AT&T. Congress could not have intended
7 that an ALEC market its services to its customers simply through
8 manipulation of the Act's pricing standards that are intended to
9 distinguish between provision of services through resale or through
10 purchase of UNEs. Neither should this Commission allow MCI and
11 AT&T such latitude.

12

13 Q. HAS THE COMMISSION EXPRESSED CONCERN ABOUT THIS
14 SHAM UNBUNDLING?

15

16 A. Yes. In its December 31, 1996 Order in the AT&T and MCI arbitration
17 proceeding (Order No. PSC-96-1579-FOF-TP), the Commission stated,
18 "We note that we are concerned with the FCC's interpretation of
19 Section 251(c)(3) of the Act. Specifically, we are concerned that the
20 FCC's interpretation could result in the resale rates we set being
21 circumvented if the price of the same service created by combining
22 unbundled elements is lower."

23

24 Unfortunately, as Mr. Hendrix has noted, when BellSouth attempted to
25 include language in the interconnection agreements with MCI and

1 AT&T to address this concern, the Commission denied its inclusion.
2 Specifically, on page 7 of the May 27, 1997 Order in the AT&T
3 arbitration docket, the Commission stated, "We find BellSouth's
4 proposal to include this language and refusal to sign the Agreement
5 without such language completely unacceptable."
6

7 Q. WHAT ARE THE CONSEQUENCES TO CONSUMERS, IF MCI AND
8 AT&T ARE PERMITTED TO ENGAGE IN SHAM UNBUNDLING?
9

10 A. There are substantial margins in business vertical services and access
11 prices. That is no surprise. As a matter of public policy, this
12 Commission originally set these prices to support local residential
13 rates. If MCI and AT&T are permitted to capture or eliminate those
14 margins immediately, residential, principally rural, customers will be
15 harmed. It is the customers that MCI and AT&T do not want to serve
16 who will fund the multi-million dollar price breaks that MCI and AT&T
17 will receive. As stated, this revenue windfall will be achieved by simply
18 changing the way services are ordered. MCI and AT&T will simply
19 request combined elements instead of resold service. Nothing else is
20 different. Even on an interim basis, to protect consumers, the price for
21 combined elements should not equal the sum of unbundled element
22 prices when the combined elements and resold services are
23 equivalent.
24

25 Q. YOU INDICATED EARLIER THAT THE EIGHTH CIRCUIT FOUND

1 THAT ALECs SUCH AS MCI AND AT&T WILL COMBINE
 2 UNBUNDLED ELEMENTS THEMSELVES. DOES BELL SOUTH
 3 OFFER ANY UNE COMBINATIONS?

4
 5 A. No. As stated earlier, BellSouth does not generally offer to combine
 6 network elements. However, there are certain combined elements that
 7 BellSouth offers in order to fulfill its obligations under some existing
 8 agreements. For example, BellSouth offers common transport. The
 9 only technically feasible method of offering common transport is to
 10 combine it with the port. Consequently, BellSouth will combine the port
 11 and common transport. The table below identifies these exceptions
 12 and indicates those combined elements for which order coordination is
 13 available. Until the Eighth Circuit's Order is final (assuming it is upheld
 14 by the Supreme Court), the agreements with MCI and AT&T obligate
 15 BellSouth to provide other UNE combinations as well. As noted earlier,
 16 however, such combinations that replicate retail services will be treated
 17 for the purposes of provisioning and billing as resale.

18

UNEs	Combine	Coordinate
Loop + Cross Connect	X	X
Port + Cross Connect	X	X
Port + Cross Connect + Common Transport	X	X
Loop Distribution + NID	X	X
Port + Vertical Features	X	X
Loops with loop concentration	X	X
Port + Common Transport	X	X
Loops + LNP	N/A	X

19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

The price for each of the combinations in the above chart is the sum of the individual element prices.

Issue # 7: What standards should be used to identify what combinations of unbundled network elements recreate existing BellSouth retail telecommunications services:

Q. WILL STANDARDS OR CRITERIA FOR DETERMINING WHAT COMBINATIONS OF UNES RECREATE EXISTING BELLSOUTH SERVICES BE NECESSARY IF THE EIGHTH CIRCUIT'S DECISION IS UPHELD?

A. No. Assuming the Eighth Circuit's decision is upheld, this issue will be moot. The Eighth Circuit determined that BellSouth is not required to combine UNEs. If BellSouth does agree to combine UNEs, it will be through negotiations between the parties and be bound by the terms of a contract, not by a decision of this Commission. Mr. Hendrix is addressing the criteria to be used in the interim period under the AT&T and MCI contracts until the Eighth Circuit's decision is final.

Issue # 8: What is the appropriate non-recurring charge for each of the following combinations of network elements for migration of an existing BellSouth customer; (a) 2-wire analog loop and port; (b) 2-wire ISDN loop and port; (c) 4-wire analog loop and

1 port; and (d) 4-wire DS1 and port?

2

3 Q. HOW HAS BELLSOUTH ADDRESSED THIS ISSUE?

4

5 A. BellSouth's response to this issue conforms to the Commission's
6 requirement to provide non-recurring charges for individual UNEs when
7 ordered at the same time on the same order. That requirement was
8 described in the Commission's March 19, 1997 Order, No. PSC-97-
9 0298-FOF-TP (Final Order on Motions for Reconsideration and
10 Amending Order No. PSC-96-1579-FOF-TP). In that Order, the
11 Commission stated, "[W]e hereby order BellSouth to provide NRCs that
12 do not include duplicate charges or charges for functions or activities
13 that AT&T does not need when two or more network elements are
14 combined in a single order." The Commission also stated that the
15 same requirement is applicable to MCI.

16

17 The use of the word "migration" in Issue # 8 could lead to confusion in
18 the interpretation of issues in this docket. Specifically, Issue # 8 calls
19 for non-recurring charges ("NRCs") for each combination for "migration
20 of an existing BellSouth customer." In the telecommunications
21 industry, the term "migration" typically applies to a switch "as is." A
22 switch "as is" pertains only to a resale environment. This is not a
23 resale proceeding. BellSouth is focusing on NRCs as applied to
24 unbundled network elements that are ordered simultaneously, which is
25 consistent with the Commission's decision in the AT&T and MCI

1 arbitration orders. BellSouth's discounted NRCs are not intended to
2 accommodate a switch "as is."

3

4 Q. WHAT RATES HAS BELLSOUTH PROPOSED?

5

6 A. BellSouth's proposed NRCs are listed in my Exhibit AJV-2. This exhibit
7 demonstrates discounts on NRCs for UNE loops and ports when the
8 elements are ordered at the same time. The testimony of Mr. Landry
9 and Ms. Caldwell explain the duplicate charges that, when eliminated,
10 determine the discounts used in the exhibit.

11

12 Q. WHAT DO THE NEW NRCs REFLECT?

13

14 A. The discounted NRCs, listed on AJV-2, reflect the elimination of any
15 duplicate costs. The discounted NRCs were developed as follows:
16 BellSouth considered; (1) the non-recurring costs for each of the
17 applicable elements on a stand-alone basis, and then (2) the total that
18 would apply if the NRCs for the stand-alone items were added together
19 without considering duplicate costs. BellSouth then compared the
20 result for item 2 above to (3) the costs for the combination when any
21 duplicate charges have been removed. The comparison between
22 figures (2) and (3) provide a percentage difference that BellSouth will
23 use as the basis to discount the NRC for the specific combination. To
24 summarize, the new NRCs that BellSouth proposes for the combined
25 orders are specific numbers that are based on a percentage discount

1 that eliminates duplicate charges. All of these NRCs also include
2 shared and common costs.

3

4 **Issue # 9: Does the BellSouth-MCI interconnection agreement**
5 **require BellSouth to record and provide MCI with the switched**
6 **access usage data necessary to bill interexchange carriers when**
7 **MCI provides service using unbundled local switching**
8 **purchased from BellSouth either on a stand-alone basis or in**
9 **combination with other unbundled network elements?**

10

11 **Issue # 10: Does the AT&T-BellSouth interconnection agreement**
12 **require BellSouth to record and provide AT&T with detail usage**
13 **data for switched access service, local exchange service and long-**
14 **distance service necessary for AT&T to bill customers when AT&T**
15 **provides service using unbundled network elements either alone**
16 **or in combination?**

17

18 Q. MR. HENDRIX HAS ADDRESSED ISSUE NOS. 9 & 10 FROM THE
19 PERSPECTIVE OF THE AGREEMENTS WITH AT&T AND MCI. DO
20 THESE ISSUES, HOWEVER, REQUIRE FURTHER DISCUSSION?

21

22 A. Yes. The interconnection agreements require that BellSouth record all
23 billable usage events and send the appropriate recording data to AT&T
24 and MCI. It is important to note that this data will not include intrastate
25 interLATA data. Whereas the FCC has determined that interstate

1 access is to be billed by the ALEC when the ALEC provides service to
2 its customers using BellSouth's unbundled elements, this Commission
3 has not made a similar determination on intrastate, interLATA access.
4 This is a pricing decision for the state commissions to make. Since the
5 FCC has chosen to eliminate access charges for these services, a
6 source of contribution to support intrastate rates has been removed.
7 Consequently, this Commission should consider what action should be
8 taken to offset any loss of contribution previously provided by interstate
9 access charges.

10

11 Because the Eighth Circuit affirmed that the state commissions have
12 jurisdiction over intrastate pricing, it is up to this Commission to
13 determine the issue of intrastate, interLATA billing. BellSouth believes
14 it is appropriate for BellSouth to continue to bill and collect intrastate,
15 interLATA access charges and will do so until such time as this
16 Commission rules otherwise. As previously discussed, when MCI or
17 AT&T simply order local service through switch "as is" or UNE
18 combinations, through the artifice of claiming they are offering retail
19 services, such service should be priced as resale. Under resale,
20 BellSouth will continue to bill the applicable access charges, therefore,
21 it is not necessary to provide this data to MCI.

22

23 Q. DOES THIS COMPLETE YOUR TESTIMONY?

24 A. Yes.

25

Florida Retail, Resale and Rebundling Comparisons

A Typical Business Customer

	Rate Gp 12 Business Line	FL PSC Ordered Resale Discount @ 16.81%	FL PSC Ordered Unbundled Rates
Exchange Line	\$29.10	\$24.21	\$17.00
Port	-	-	\$2.00
Hunting	\$9.41	\$7.83	-
CF Don't Answer	\$3.25	\$2.70	-
Local Usage	-	-	\$5.45
IntraLATA Toll/ECS	\$7.73	\$6.43	\$1.92
InterLATA Intrastate Access	\$5.15	\$5.15	\$5.15
InterLATA Interstate Access	\$7.87	\$7.87	\$0.00
SLC	\$8.17	\$8.17	\$0.00
Total	\$70.68	\$62.36	\$31.52
Effective Discount from Retail			55.4%

Florida Retail, Resale and Rebundling Comparisons

A Typical PBX Customer

	Rate Gp 12 PBX Trunk	FL PSC Ordered Resale Discount @ 16.81%	FL PSC Ordered Unbundled Rates
Exchange Line	\$49.47	\$41.15	\$17.00
Port	-	-	\$2.00
Hunting	\$9.41	\$7.83	-
Local Usage	-	-	\$11.41
IntraLATA Toll/ECS	\$7.73	\$6.43	\$1.86
InterLATA Intrastate Access	\$5.15	\$5.15	\$5.15
InterLATA Interstate Access	\$7.87	\$7.87	\$0.00
SLC	\$8.17	\$8.17	\$0.00
Total	\$87.80	\$76.60	\$37.42
Effective Discount from Retail			57.4%

Florida Retail, Resale and Rebundling Comparisons

A Typical Residence Customer

	Rate Gp 12 Residence Line	FL PSC Ordered Resale Discount @ 21.83%	FL PSC Ordered Unbundled Rates
Exchange Line	\$10.65	\$8.33	\$17.00
Port	-	-	\$2.00
Call Waiting	\$4.00	\$3.13	-
Call Forward Variable	\$3.00	\$2.35	-
Local Usage	-	-	\$4.78
IntraLATA Toll/ECS	\$3.54	\$2.77	\$1.13
InterLATA Intrastate Access	\$3.56	\$3.56	\$3.56
InterLATA Interstate Access	\$7.05	\$7.05	\$0.00
SLC	\$3.50	\$3.50	\$0.00
Total	\$35.30	\$30.69	\$28.47
Effective Discount from Retail			19.3%

Notes for Charts A, B and C

1. Local usage rate based on \$0.0175 for first minute and \$0.005 for each additional minute.
2. The duration of a local call was assumed to be 2.0 minutes for business, 2.6 minutes for PBX trunks, and 3.9 minutes for residence, based on August '96 SLUS.
3. Total minutes of use for local calls was assumed to be 482 minutes for business, 1164 minutes for PBX trunks, and 583 minutes for residence, based on August '96 SLUS.
4. ECS minutes of use was assumed to be 37 minutes for business lines and PBX trunks, and 25 minutes for residence lines, based on December '95 data. For residence, ECS revenue is based on \$0.25 per call.
5. IntraLATA toll minutes of use was assumed to be 26 minutes for business lines and PBX trunks, and 16 minutes for residence lines, based on December '95 data.
6. Subscriber Line Charge (SLC) collected from resold lines but not from rebundled lines.
7. IntraLATA and InterLATA access charges based on December '95 data. Split between business and residence is from October '95 AMOS data.

**Florida Rate and Cost Analysis
 Unbundled Network Elements Ordered at the Same Time**

Case Ref. #	Rate Element	Standalone Non-recurring UNE Costs and Rates		Percent Discount for UNEs Ordered at Same Time		Non-recurring Costs and Rates for UNEs Ordered at Same Time	
		First	Additional	First	Additional	First	Additional
	UNEs (Non-recurring Only)						
	<i>2-Wire Analog Loop and Port</i>						
A.1.1	2-wire analog voice grade loop	140.00	42.00				
B.1.1	Exchange ports - 2-wire analog line port (Res./Bus.)	38.00	15.00				
	TOTAL	178.00	57.00	5%	7%	169.10	53.01
	<i>2-Wire ISDN Loop and Port</i>						
A.5.1	2-wire ISDN digital grade loop	306.00	283.00				
B.1.5	Exchange ports - 2-wire ISDN port	88.00	66.00				
	TOTAL	394.00	349.00	3%	4%	382.18	335.04
	<i>4-Wire Analog Loop and Port</i>						
A.4.1	4-wire analog voice grade loop	141.00	43.00				
B.1.2	Exchange ports - 4-wire analog voice grade port	66.14 electronic 106.09 manual	65.32 electronic 76.96 manual				
	TOTAL	207.14 electronic 247.09 manual	108.32 electronic 119.96 manual	4% 4%	7% 7%	198.85 electronic 237.21 manual	100.74 electronic 111.56 manual
	<i>4-Wire DS1 Digital Loop and Port</i>						
A.9.1	4-wire DS1 digital loop	540.00	465.00				
B.1.6	Exchange ports - 4-wire ISDN DS1 port	112.00	91.00				
	TOTAL	652.00	556.00	1%	1%	645.48	550.44