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BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF JERRY HENDRIX
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 990649-TP
AUGUST 11, 1999

Q. PLEASE STATE YOUR NAME AND COMPANY NAME AND ADDRESS.

A. My name is Jerry Hendrix. I am employed by BellSouth Telecommunications, Inc. as Senior Director - Interconnection Services Revenue Management, Network and Carrier Services. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.

A. I graduated from Morehouse College in Atlanta, Georgia in 1975 with a Bachelor of Arts Degree. I began employment with Southern Bell in 1979 and have held various positions in the Network Distribution Department before joining the BellSouth Headquarters Regulatory organization in 1985. On January 1, 1996 my responsibilities moved to Interconnection Services Pricing in the Interconnection Customer Business Unit. In my current position as Senior Director, I oversee the negotiation of interconnection agreements between BellSouth and Competitive Local Exchange Companies (CLECs).

1 Q. HAVE YOU TESTIFIED PREVIOUSLY?

2

3 A. Yes. I have testified in proceedings before the Alabama, Florida, Georgia,
4 Kentucky, Louisiana, Mississippi, South Carolina Public Service
5 Commissions; the Tennessee Regulatory Authority; and the North Carolina
6 Utilities Commission.

7

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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10 A. The purpose of my testimony is to present BellSouth's position on deaveraged
11 pricing for unbundled network elements (UNEs) and deaveraged UNE
12 combinations.

13

14 Q. WHAT IS THE DEFINITION OF 'GEOGRAPHIC DEAVERAGING' AS IT
15 RELATES TO UNES OR UNE COMBINATIONS?

16

17 A. The definition of 'geographic deaveraging' as it relates to UNEs or UNE
18 combinations is establishing different rates for elements in multiple defined
19 geographic areas within a state to reflect geographic cost or market differences.
20 The concept is that prices should vary where there are significant cost or
21 market variations. While statewide averaged prices currently exist, the purpose
22 of deaveraging is to better reflect differences that exist among the geographic
23 areas.

24

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1 Q. HAS BELLSOUTH DEVELOPED DEAVERAGED PRICES FOR UNES IN
2 THIS DOCKET?

3

4 A. No. First, this phase of Docket 990649-TP is designed to establish the
5 appropriate methodology for price deaveraging and not to establish prices.
6 Moreover, as stated in Mr. Varner's testimony, BellSouth does not believe that
7 it is appropriate to offer deaveraged prices for UNEs at this point in time.
8 Inappropriate deaveraged prices could seriously impact basic local exchange
9 service and create a disincentive to competition in rural areas.

10

11 Efforts to deaverage UNE prices and any related combinations without first
12 addressing universal service issues and the rebalancing of basic local exchange
13 service prices will compound the disincentives for Alternative Local Exchange
14 Carriers (ALECs) to compete in the more rural areas of Florida. Mr. Varner
15 discusses the dichotomy between retail prices and deaveraged UNE prices and
16 the impact on competition in Florida.

17

18 Q. WHAT IS BELLSOUTH'S POSITION ON DEAVERAGED PRICING?

19

20 A. BellSouth does not believe deaveraged pricing for UNEs or UNE combinations
21 is appropriate at this time. Deaveraged pricing should not be available until the
22 FCC completes the 319 proceeding and a listing of UNEs is known and
23 universal service issues are resolved.

24

25

1 Should the Commission desire to review a tentative proposal for geographic
2 price deaveraging, BellSouth recommends that the Commission establish two
3 geographic areas in Florida based on cost data and using existing rate groups.
4 As discussed in my testimony, with any such deaveraging, only the unbundled
5 loop price should be considered for deaveraging. The actual deaveraged prices
6 should be based on market conditions that exist in the designated geographic
7 areas.

8

9 Q. IF BELLSOUTH IS REQUIRED TO DEAVERAGE UNE PRICES, WHICH
10 UNE PRICES SHOULD BELLSOUTH DEAVERAGE (Issue 1a)?

11

12 A. First, BellSouth believes that it would be premature to require the deaveraging
13 of any UNE prices at this time because: (1) the FCC issued a Stay Order in CC
14 Docket No. 96-98 released May 7, 1999, and (2) the FCC's proceeding to
15 establish the minimum list of UNEs (319 proceeding) is not yet complete. The
16 319 proceeding refers to the FCC's Rule 51.319 remanded to the FCC by the
17 Supreme Court earlier this year. In addition, Universal Service Fund issues in
18 Florida are not yet resolved.

19

20 Recognizing that deaveraging is not appropriate at this time, BellSouth has
21 reviewed the current list of UNEs in conjunction with this docket. BellSouth
22 believes that a possible candidate for deaveraging is the loop, if the loop is
23 indeed determined to be a UNE at the conclusion of the 319 proceeding, and
24 only in those areas in which it is so determined. The loop element exemplifies

25

1 market and cost differences that are dependent on the geographic area in which
2 it is located.

3

4 As previously stated, the ruling in the FCC's 319 proceeding should provide
5 the list of UNEs that Incumbent Local Exchange Companies (ILECs) will be
6 required to provide to ALECs. BellSouth proposes to supplement this
7 testimony based on the FCC's order, which is expected in the next several
8 weeks.

9

10 Q. WHAT WOULD BELLSOUTH PROPOSE TO BE THE APPROPRIATE
11 BASIS FOR DEAVERAGING UNE PRICES (Issue 1c)?

12

13 A. FCC Rule 51.507 (f) requires state commissions to establish different rates
14 (prices) for elements in at least three defined geographic areas within the state
15 to reflect geographic cost differences. However, the FCC's Stay Order,
16 released May 7, 1999, recognized that the three-zone rule may not be
17 appropriate in all states. At this point, without the benefit of the FCC's 319
18 ruling, and due to the lack of an appropriate universal service fund mechanism
19 in Florida, BellSouth believes that if deaveraging must occur, the appropriate
20 basis for deaveraging UNE prices should be the market conditions as they exist
21 within each of the designated geographic areas. The actual determination of
22 the geographic areas can be made using geographic market and cost
23 differences.

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To assist the Commission in its efforts to begin addressing the issue of deaveraging UNE prices, BellSouth puts forth the following proposal.

BellSouth proposes two geographic areas within Florida using the existing rate groups as follows:

- Zone A:
 - *Rate Groups five (5) through twelve (12)
- Zone B:
 - *Rate Groups one (1) through four (4)

These groupings would be based on existing similarities within each group. For instance, it is reasonable to assume that loop lengths, constituting cost differentials, might be more similar in the urban areas where high density indicates shorter loop lengths on average. Conversely, in the rural setting, loop lengths typically on average would be longer. Also, it is reasonable to assume that market conditions would be different in each area.

Further, the actual deaveraged prices should be determined depending on whether the area is competitive versus non-competitive. As Mr. Varner explained in his testimony, BellSouth expects UNEs to be offered in the non-competitive areas. In the areas where capabilities are determined to be competitive, BellSouth will not be bound by the FCC's pricing rules when pricing those capabilities. BellSouth believes that any deaveraged pricing should be based on market conditions.

1 Q. WHICH, IF ANY, POTENTIAL UNE COMBINATIONS SHOULD BE
2 DEAVERAGED (Issue 1b)?

3

4 A. Given that the FCC is currently working to define the list of UNEs, any
5 decision by this Commission will need to be conformed to the FCC's ruling.

6

7 Nonetheless, if this Commission finds that currently combined combinations
8 that include the loop must be offered, then BellSouth proposes that such
9 combinations should be the only type of combination considered for
10 deaveraged pricing. The actual deaveraged price for loop/port UNE
11 combinations should be priced to meet market conditions.

12

13 Q. SHOULD THE DEGREE OF DEAVERAGING BE UNIFORM FOR ALL
14 UNES (Issue 1d)?

15

16 A. No. Market conditions in the different geographic areas are not the same for all
17 UNEs. The prices for deaveraged elements should ensure that an arbitrary
18 price variance set for all UNEs does not cause unnecessary harm to any
19 participant in the industry. When the FCC issues its ruling in the 319
20 proceeding, BellSouth will conform its pricing to be in compliance with the
21 ruling as it pertains to competitive areas and non-competitive areas. As stated,
22 the result of that ruling will likely produce different pricing guidelines for
23 different UNEs.

24

25

1 Q. SHOULD THE DEGREE OF PRICE DEAVERAGING BE UNIFORM FOR
2 ALL AFFECTED ILECS FOR WHICH DEAVERAGED RATES (PRICES)
3 ARE APPROPRIATE (Issue 1e)?
4

5 A. No. There are many differences among the ILECs. For example, ILECs have
6 different geographic terrain, network infrastructure, and market conditions. As
7 such, it is not appropriate for an ILEC to be compelled to utilize uniform
8 approach for deaveraging UNE prices. Requiring a uniform approach defeats
9 the whole purpose of deaveraged pricing.
10

11 Q. IF BELLSOUTH WAS REQUIRED TO DEAVERAGE UNE PRICES,
12 WHAT SUPPORTING DATA OR DOCUMENTATION SHOULD BE
13 PROVIDED (Issue 1g)?
14

15 A. At a minimum, BellSouth would provide cost studies to support the
16 designation of geographic areas. Additionally, depending on the results of the
17 FCC's 319 proceeding, BellSouth would provide the needed market or industry
18 data to support the actual proposed prices for each geographic area. This data
19 would likely include the number of collocators in an area or the number of
20 competitor entrance facilities in a specific geographic area. Until we have the
21 FCC's ruling, the actual required data will not be known.
22

23 Q. FOR WHICH UNES SHOULD BELLSOUTH BE REQUIRED TO SUBMIT
24 COST STUDIES (Issue 3b,c, d)?
25

1 A. BellSouth should only be required to submit UNE cost studies to support
2 BellSouth's designated geographic areas. Given that a loop might be the only
3 candidate for deaveraging, cost support should be limited to that UNE. Again,
4 depending on the results of the FCC's 319 proceeding, BellSouth would
5 provide the needed market or industry data to support the actual proposed
6 pricing methodology on a geographic-specific basis.

7
8 BellSouth should not be required to file recurring or nonrecurring cost studies
9 for any remaining UNEs or UNE combinations until the FCC completes its 319
10 proceeding and it becomes clear what UNEs and currently combined UNEs
11 ILECs will be required to provide.

12
13 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

14
15 A. Yes. BellSouth does not believe that it is appropriate to offer deaveraged
16 pricing for UNEs or UNE combinations at this time. Premature deaveraging
17 of UNE prices could have serious implications for basic local exchange
18 service. Additionally, BellSouth believes that it is premature to require price
19 deaveraging until the FCC's 319 proceeding is completed and the list of UNEs
20 is known.

21
22 Should this Commission wish to review a tentative proposal for geographic
23 price deaveraging, BellSouth recommends that the Commission establish two
24 geographic areas within Florida based on cost data and using existing rate
25 groups. BellSouth further recommends that only the unbundled loop price be

1 deaveraged. Though the methodology for price deaveraging is based on cost,
2 the actual deaveraged prices themselves should be based on market conditions
3 that exist in the designated geographic areas.

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5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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7 A. Yes.

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