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

September 10, 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. ARE YOU THE SAME JERRY HENDRIX WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut the testimony filed in this docket by Ms. Julia Strow, witness for Intermedia Communications, Inc. ("Intermedia"); Mr. James W. Sichter and Mr. Kent W. Dickerson, witnesses for Sprint Communications Company ("Sprint"); Mr. James C. Falvey, witness for e.spire

1 Communications, Inc. ("e.spire"); Mr. Joseph Gillan, witness for the Florida  
2 Competitive Carriers Association ("FCCA"); and Ms. Terry L. Murray, witness  
3 for Covad Communications Company ("Covad").  
4

5 Q. WHAT IS BELLSOUTH'S RESPONSE TO MS. STROW'S, MR.  
6 FALVEY'S, MR. GILLAN'S AND MR. SICHTER'S TESTIMONIES ON  
7 THE SUBJECT OF WHICH UNES SHOULD BE DEAVERAGED?

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9 A. Some parties recommend that all UNEs are subject to deaveraging unless there  
10 is no cost difference across different density zones. Others recommend that all  
11 loops be deaveraged. BellSouth agrees with Intermedia that until the FCC  
12 proceeding on remand of its Rule 51.319 is finalized and an order is issued  
13 identifying what elements will be UNEs and where they will be offered, an  
14 absolute determination cannot be made as to which UNEs should be  
15 deaveraged. Further, without in-depth investigation, as will be required in  
16 Phase 2 of this proceeding, and in consideration of the FCC proceedings  
17 underway, BellSouth recommends that only the 2-wire analog loop and the 4-  
18 wire analog loop be considered for deaveraging at this time. BellSouth bases  
19 this conclusion on the fact that these loops are basic UNEs and have significant  
20 cost differences depending on the geographic placement. Switching and port  
21 elements exemplify little cost difference when placed in one geographic  
22 location versus another. In addition, transport elements vary by distance but  
23 the rate structure is per mile, therefore, geographic placement may not dictate  
24 any significant cost differences. When orders are issued in the current FCC

1 proceedings, BellSouth reserves the right to submit supplemental testimony in  
2 this docket.

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4 Q. PLEASE STATE BELL SOUTH'S RESPONSE TO MS. STROW'S AND  
5 MR. FALVEY'S TESTIMONIES REGARDING THE BASIS FOR  
6 DEAVERAGING.

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8 A. Ms. Strow (page 6) and Mr. Falvey (page 2) both recommend that the only  
9 consideration for deaveraging is cost. As stated in my direct testimony,  
10 BellSouth proposes that the basis for deaveraging should include both  
11 differences in cost as well as differences in market conditions, since both can  
12 differ depending on the geography in which the service is placed. BellSouth  
13 agrees with other parties that cost should be a determinant for deaveraging,  
14 however, BellSouth believes that cost is only one determinant. It is anticipated  
15 that market conditions will also play an important role in the FCC 51.319  
16 Remand Order. The Order is expected to provide direction as to which UNEs  
17 will have to be made available depending on the level of competitive  
18 alternatives present in a given area. Therefore, BellSouth foresees that the  
19 basis for deaveraging will depend on both cost and market conditions.

20

21 A preliminary proposal recommended in my direct testimony for geographic  
22 price deaveraging is that the Commission establish two geographic zones in  
23 Florida using existing rate groups. These rate groups are in existence today  
24 and, administratively, it would be simple to use them as a foundation. The  
25 FCC Stay Order 96-98, states:

1                    “we recognize the possibility that the three-zone  
2                    rule may not be appropriate in all states. In some  
3                    states, for instance, it may be that local  
4                    circumstances dictate the establishment of only  
5                    two deaveraged rate zones.”  
6

7    Q.    MR. FALVEY STATES ON PAGE 3 THAT USING EXISTING RATE  
8           GROUPS AS A BASIS FOR GEOGRAPHICALLY DEAVERAGED RATES  
9           IMPLIES THAT BELLSOUTH IS BEING ANTICOMPETITIVE. DOES  
10          BELLSOUTH AGREE?  
11

12    A.    No. BellSouth believes that rate groups offer an obvious means of grouping to  
13           establish geographic zones because they are already established for the local  
14           market. Since UNEs are to be used for the local market, BellSouth’s  
15           preliminary proposal would be that this local market precedent be utilized to  
16           create geographic zones. Construing this approach as being anticompetitive is  
17           neither reasonable, nor correct.  
18

19    Q.    WHAT IS BELLSOUTH’S RESPONSE TO MR. FALVEY’S  
20           ACCUSATIONS THAT THE CURRENT STATEWIDE AVERAGED UNE  
21           COSTS ARE ANTICOMPETITIVE?  
22

23    A.    Mr. Falvey states that “the ILEC’s anticompetitive practice of building  
24           statewide averaged costs into their loop rates effectively raises e.spire’s, and  
25           other facilities-based CLEC’s costs so that it is difficult or impossible for

1 e.spire and other CLECs to compete in the low-end business or residential  
2 markets on a facilities basis” (direct at pages 4 and 5). BellSouth adamantly  
3 disagrees. BellSouth has done nothing more than implement the rates ordered  
4 by the Commission. BellSouth believes it to be anticompetitive to provide  
5 UNEs on a deaveraged basis when its retail services are structured to  
6 incorporate universal service support. BellSouth agrees with GTE’s witness,  
7 Mr. Doane, (page 2) that only when simultaneous deaveraging of UNE rates,  
8 rebalancing of retail rates, and explicit universal service support takes place  
9 will there be competitive neutrality.

10

11 Q. AS POINTED OUT BY MS. STROW ON PAGE 7, BELLSOUTH  
12 EMPLOYS A GEOGRAPHIC RATE STRUCTURE, CONSISTING OF  
13 THREE ZONES, FOR ITS INTERSTATE SPECIAL ACCESS SERVICES.  
14 IS THIS STRUCTURE APPROPRIATE TO USE FOR DEAVERAGING  
15 UNEs?

16

17 A. No, not necessarily. The geographic rate structure in place for interstate  
18 special access service is not based on population density, as these parties  
19 contend, but is based on DS-1 equivalents, which are business type circuits.  
20 Interstate special access is under completely separate and unique regulatory  
21 rules as compared with UNEs. Mirroring this structure for UNEs should not be  
22 the guiding determinant for BellSouth or any other ILEC. A new model will  
23 need to be developed for UNEs, which incorporates considerations for the local  
24 exchange markets, covering both residence and business services.

25

1 Q. COVAD'S WITNESS, MS. MURRAY, RECOMMENDS (PAGE 10) THAT  
2 COST STUDIES BE PREPARED AND SUBMITTED FOR ALL UNE  
3 LOOPS. DOES BELLSOUTH AGREE WITH THIS APPROACH?

4  
5 A. No. BellSouth believes that this approach is unnecessarily burdensome. As  
6 previously stated, the 2-wire and 4-wire analog loops are the only UNE  
7 candidates that BellSouth proposes at this point in time. BellSouth recognizes  
8 that all loops exhibit cost variations depending on geographic placement,  
9 however, BellSouth believes it to be appropriate to limit its recommendation  
10 for candidates to these basic UNEs until more instruction is available as a  
11 result of the FCC 51.319 Remand Order. At that time, BellSouth plans to file a  
12 supplement to this testimony identifying other possible candidates for  
13 deaveraging, while ensuring that it meets the FCC's established criteria.

14  
15 Q. MR. SICHTER RECOMMENDS ON PAGE 20 TEN ZONES AS A  
16 STRUCTURE FOR DEAVERAGING LOOPS. DOES BELLSOUTH  
17 AGREE WITH THIS RECOMMENDATION?

18  
19 A. No. This could create a tremendous administrative burden for the ILECs. As  
20 pointed out by Intermedia, "... ALECs and ILECs will only be able to  
21 administer only a limited number of different rates" (page 9). ILECs would  
22 have to maintain for each of the ten zones proposed the price for each  
23 deaveraged UNE, each USOC, and each recurring and non-recurring element.  
24 The ILEC would also be burdened with the billing of these UNEs for each of

1 the zones. It is BellSouth's belief that the Commission should also consider  
2 the complexity and costs of implementing deaveraging.

3

4 Q. WHAT IS BELLSOUTH'S RESPONSE TO MS. STROW'S TESTIMONY  
5 ON PAGE 9 RECOMMENDING THE DEGREE OF DEAVERAGING BE  
6 CONSISTENT ACROSS ALL ILECS?

7

8 A. BellSouth believes this recommendation is neither reasonable nor appropriate.  
9 The presumption should be that the deaveraging will not be uniform among all  
10 affected ILECs. ILECs are not the same in density of service or population.  
11 They do not necessarily have the same market conditions or even terrain. It is  
12 reasonable to assume that there might be a different number of zones in one  
13 ILEC's serving area versus another ILEC's serving area. BellSouth does not  
14 believe a prescribed number of zones should be mandated for all ILECs.  
15 Instead, each ILEC should evaluate the conditions within its own serving area  
16 and make recommendations in light of factors unique to that territory.

17

18 Q. MS. STROW CONTENDS ON PAGE 12 THAT ILECS SHOULD NOT BE  
19 ALLOWED TO ASSESS "GLUE" CHARGES ON TOP OF TELRIC-BASED  
20 RATES FOR UNE COMBINATIONS. DOES BELLSOUTH AGREE?

21

22 A. No. First of all, Section 252 (d) (1) of the 1996 Telecommunications Act states  
23 that the rates:

24 "(A) shall be-

- 1 (i) based on the cost (determined without reference to a  
2 rate-of-return or other rate-based proceeding) of  
3 providing the interconnection or network element  
4 (whichever is applicable), and  
5 (ii) nondiscriminatory, and  
6 (B) may include a reasonable profit.”  
7

8 BellSouth believes that this profit provision in the Act should be employed  
9 with UNE combinations. Federal regulators recognized and voiced concerns  
10 over the impact of unrestricted UNE combinations. Setting prices too low will  
11 discourage ALECs from building its own facilities even when that would be  
12 the correct economic decision. Setting prices too high will discourage ALECs  
13 from purchasing elements from the ILECs and encourage ALECs to  
14 inefficiently build their own networks. In both instances, the prices charged for  
15 services offered will not be the most efficient and it is the consumer that stands  
16 to lose. Prices must be functional in the marketplace, consistent with prices for  
17 similar services, and consistent with the policy goals set by Congress and the  
18 Florida General Assembly.  
19

20 Q. MR. FALVEY RECOMMENDS ON PAGE 11 THAT ILECs BE  
21 MANDATED TO CONVERT SPECIAL ACCESS CIRCUITS TO  
22 EQUIVALENT UNES OR UNE COMBINATIONS. DOES BELL SOUTH  
23 AGREE?  
24

1 A. No, BellSouth does not agree. Special access is not designed as a local  
2 exchange service and, as such, should not be mandated for conversion to  
3 equivalent UNEs or UNE combinations. Furthermore, as stated above, special  
4 access services have specific rules and regulations. Most special access  
5 circuits are interstate, not local. It is totally inappropriate to mandate the  
6 conversion of these circuits to equivalent UNEs or UNE combinations. This  
7 Commission has stressed the importance of accuracy of reporting for services  
8 that transit multiple jurisdictions. To mandate a conversion of special access to  
9 UNEs or UNE combinations is inconsistent with previous Commission orders  
10 and will only serve to eradicate the special access market, while promoting the  
11 gaming of the services involved.

12  
13 In addition, Mr. Falvey asserts on page 12 that conversions should be seamless  
14 and they are nothing more than billing changes for the ILEC. In actuality,  
15 conversions are more complicated than Mr. Falvey states. Obviously,  
16 BellSouth's goal is to perform this function without causing any service  
17 outages for ALECs. To attain this goal requires BellSouth to create and  
18 implement procedures and processes that ensure coordination exists between  
19 all affected systems and personnel. Coordination is key since the only way to  
20 convert currently combined services to UNEs or UNE combinations is for the  
21 conversion to flow through the down-stream provisioning systems to reflect the  
22 billing changes. USOCs have to be changed, accounting codes changed, and  
23 record-keeping databases have to be updated, i.e., all provisioning systems are  
24 affected. Billing for UNEs has to meet national standards which are different

1 from retail services. This is a complicated process that requires extensive  
2 coordination in order that service outages do not occur.

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4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5

6 A. Yes.

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