

**ORIGINAL**

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**IN RE:**

**INVESTIGATION INTO PRICING OF  
UNBUNDLED NETWORK ELEMENTS.**

§  
§

**DOCKET NO. 990649-TP**

**SURREBUTTAL TESTIMONY OF JULIA O. STROW**

**ON BEHALF OF**

**INTERMEDIA COMMUNICATIONS INC.**

**October 15, 1999**

1 **Q: Please state your name, employer, position and business address.**

2 **A:** My name is Julia Strow. I am employed by Intermedia Communications Inc.  
3 ("Intermedia") as Assistant Vice President, Regulatory Policy. My business address is  
4 3625 Queen Palm Drive, Tampa, Florida 33619.

5  
6 **Q: What are your responsibilities in that position?**

7 **A:** I am a primary interface between Intermedia and the incumbent local exchange carriers  
8 ("ILECs"). In that capacity, I am involved in interconnection negotiations with – and  
9 arbitrations against ILECs, and in rulemaking proceedings addressing unbundled network  
10 elements, interconnection, collocation, resale, and related matters. I am also responsible  
11 for strategic planning and the setting of Intermedia's state and federal regulatory policy.  
12 In addition, I testify on behalf of Intermedia in federal and state proceedings dealing with  
13 local competition issues.

14  
15 **Q: Have you previously filed testimony in this docket?**

16 **A:** Yes. I filed direct testimony on August 11, 1999 and rebuttal testimony on September  
17 10, 1999.

18  
19 **Q: What is the purpose of your testimony?**

20 **A:** The purpose of my testimony is to respond to several items in the rebuttal testimony of  
21 BellSouth Telecommunications, Inc. ("BellSouth") witnesses Varner, Caldwell and  
22 Hendrix, GTE Florida Incorporated ("GTEFL") witnesses Trimble and Doane, and Sprint  
23 witness Dickerson.

1 **Q: On pages 14-15 of BellSouth witness Caldwell's rebuttal testimony she argues that**  
2 **volume and term discounts advocated by Intermedia are not appropriate for UNE**  
3 **pricing stating, "BellSouth already recognizes the only applicable "economies of**  
4 **scale" in developing costs for UNEs." Please respond.**

5 **A:** As I stated in my direct testimony, the Commission should require that ILECs make  
6 UNEs available at volume and term discounts *where cost studies show that efficiencies*  
7 *are gained when ordered and provided in large volumes and for long periods.*

8 According to Ms. Caldwell, BellSouth does include such "economies of scale" in its cost  
9 studies that it will file in this docket, and that is exactly what I was asserting in my direct  
10 testimony.

11  
12 **Q: On page 15, lines 11-13, BellSouth witness Caldwell lists another reason BellSouth**  
13 **believes volume and term discounts are not appropriate stating, "the state**  
14 **commissions have ordered rates below what BellSouth filed. Thus, BellSouth does**  
15 **not fully recover the incremental cost when selling unbundled network elements."**  
16 **Do you agree?**

17 **A:** No. This argument has nothing to do with volume and term discounts being included in  
18 the cost studies to be filed in this docket. BellSouth is attempting to rehash previous state  
19 commission rulings regarding BellSouth's proposed rates in prior UNE pricing  
20 proceedings. Volume and term discounts must be considered as part of the ILECs cost  
21 studies in *this* docket.

22

1 **Q:** BellSouth witness Varner also argues, on page 14-15 of his direct, that volume or  
2 term discounts are already considered in BellSouth's cost studies and that "any  
3 additional volume and term discount would be a fictitious reduction of costs that  
4 already reflect the maximum volume and term discount." Please respond.

5 **A:** Again, as I stated above and in my direct testimony, Intermedia is asking is that the  
6 Commission require that ILECs make UNEs available at volume and term discounts  
7 where cost studies show that efficiencies are gained when ordered and provided in large  
8 volumes and for long periods.

9  
10 **Q:** Sprint witness Dickerson also addresses, on pages 22-23 of his direct testimony, that  
11 volume and term discounts should be a part of a properly constructed TELRIC cost  
12 study. Is your response to Mr. Dickerson the same as your responses to Ms.  
13 Caldwell and Mr. Varner above?

14 **A:** Yes.

15  
16 **Q:** On page 2, lines 15-18 of BellSouth witness Hendrix's rebuttal testimony he  
17 recommends that the only 2-wire analog loop and 4-wire analog loop should be  
18 considered for deaveraging at this time. Is this recommendation reasonable?

19 **A:** No. Deaveraging should not be limited to only 2-wire and 4-wire analog loops. ILECs  
20 should be required to file cost studies for all loops and transport in order to determine if  
21 there is a significant difference in cost that would warrant deaveraging. No policy reason  
22 exists to warrant limiting what should be deaveraged. As I discussed in my direct  
23 testimony, the FCC's rules *require* deaveraging for all elements.

1 **Q: Mr. Hendrix goes on to say on page 3 of his rebuttal testimony that, “the basis for**  
2 **deaveraging will depend on both cost and market conditions,” and that Intermedia**  
3 **recommends that only consideration for deaveraging is cost. Do you agree?**

4 **A:** No. The Communications Act and the FCC’s rules unequivocally require pricing based  
5 on cost, and prohibit the use of market-based pricing in establishing UNE rates. This  
6 reflects the common sense notions that: 1) ILECs maintain market power in the local  
7 areas they serve, and there are no market pressures to drive down the cost of UNEs to  
8 reasonable levels, and 2) ILECs don’t want to assist their competitors in entering local  
9 markets by providing UNEs, and so have every incentive to price UNEs at excessive  
10 levels Commission must therefore reject Mr. Hendrix’s proposal to allow ILECs to price  
11 UNEs at non-cost, “market” rates. There is one non-cost factor that the Commission may  
12 take into consideration, however. As I discuss on page 9 of my direct testimony, as a  
13 practical matter, ALECs and ILECs will be able to administer only a limited number of  
14 different rates. Therefore to make the process more efficient for the Commission, this  
15 docket should only require deaveraging for loops and transport at this time.

16  
17 **Q: GTE witness Trimble also states, on page 4, lines 18-20, “that it would be unduly**  
18 **burdensome for ILECs to have to submit deaveraged studies for all UNEs.” Is**  
19 **Intermedia actually asking for all UNEs to be deaveraged at this time?**

20 **A:** No. As I stated in my direct testimony on page 9 and my rebuttal testimony on page 12,  
21 this phase of the docket should only require deaveraging for loops and transport.  
22 Deaveraging of further unbundled elements can be accomplished in later phases of this  
23 docket.

1 **Q:** On page 5, lines 17-19, of BellSouth witness Hendrix's rebuttal testimony, he states  
2 that the geographic rate structure in place for interstate special access service is not  
3 based on population density but is based on DS1 equivalents which are business type  
4 circuits. Please respond.

5 **A:** Although I did only state that the zones were based on population density, I was merely  
6 using this as an example for which the Commission could create a presumption that  
7 BellSouth UNE costs are similarly affected by geography. Further, the number of DS1  
8 equivalents should generally correspond to population.

9  
10 **Q:** Is it true, as Mr. Hendrix states on page 7 of his rebuttal testimony, that you stated  
11 in your direct testimony that the degree of deaveraging should be consistent across  
12 all ILECs?

13 **A:** Yes. On page 9-10 of my direct testimony I did state the Commission should establish  
14 the presumptions that degree of deaveraging should be consistent across all ILECs.  
15 However, I did go on to say in that same paragraph that *this presumption can later be*  
16 *changed to the extent that the cost studies produced in this proceeding determine that*  
17 *that demonstrated differences in ILEC cost structures do not support such a uniform*  
18 *approach.* In fact, GTE witness Trimble points this out on page 6, lines 1-5, of his  
19 rebuttal testimony.

20  
21 **Q:** On page 9 of BellSouth witness Varner's rebuttal testimony he states, "ILECs are  
22 not required to combine UNEs. The quote of the Supreme Court's order that Ms.  
23 Strow refers to in her testimony simply upholds the FCC's rule 51.315(b), not

1           **subparts (c-f). Rule 51.315(c-f) remains vacated and as such, ILECs are not**  
2           **required to combine UNEs.**

3   **A:**    It is true that the FCC's "combination" rules, which are found in rules 315(c-f) are  
4           technically stayed, FCC rule 315(b) is not. Rule 315(b) prohibits an ILEC from  
5           separating network elements "that the ILEC currently combines." This rule – which has  
6           been upheld by the Supreme Court – requires ILECs to provide network elements as  
7           combinations of UNEs if they currently are offered as a combination. Under this rule, if  
8           an ILEC currently provides network elements in a combined manner – either as a  
9           combination of UNEs or as a service – the ILEC must provide the same network  
10          elements as combined UNEs ALECs upon request. For example, under Rule 315(b),  
11          Intermedia may take a DS1 special access line that it currently orders from BellSouth and  
12          convert it to a combination of DS1 loop and transport. To refuse such a conversion, the  
13          ILEC would have to separate currently combined elements, and would violate Rule  
14          315(b).

15  
16          In addition, as I discussed above and in my direct testimony, this Commission is fully  
17          empowered to define a new UNE – the extended link – that provides the combined  
18          functionality of loop, transport and central office multiplexing. This expanded UNE  
19          would function very much as the unbundled local loops that this Commission has already  
20          defined – an ALEC could order separate subloop components (NID, distribution plant,  
21          feeder plant) separately as discrete UNEs, or could order the combination of all three as a  
22          single loop UNE. BellSouth has not argued that such an arrangement constitutes an  
23          unlawful bundling requirement in violation of the Eighth Circuit decision. Adding

1 central office multiplexing and interoffice transport to establish an “extended loop” as a  
2 new UNE would be fully consistent with the Communications Act, the FCC’s rules, and  
3 the Supreme Court decision.  
4

5 **Q: On page 11 of Mr. Varner’s rebuttal testimony he states that Intermedia cannot**  
6 **have it both ways. The loop and transport combination is either a separate UNEs or**  
7 **a single UNE, not both. Do you agree?**

8 **A:** Not at all. As I stated in my rebuttal testimony on page 6, this Commission has authority  
9 under 251(c) of the Communications Act to define UNEs to include the combination of  
10 already existing separate UNEs. In fact, the Commission already does this. For example,  
11 the Commission has defined NIDs, feeder and distribution plant as separate UNEs, yet  
12 these can all be obtained in a combined form simply by ordering a loop. This  
13 Commission is similarly empowered to define other combinations as new UNEs.  
14

15 **Q: On pages 6 -7 of GTEFL witness Doane’s rebuttal testimony, he argues that**  
16 **deaveraging cannot not be done without first establishing a intrastate universal**  
17 **service fund or rebalancing retail rates. In addition, he states that Intermedia is**  
18 **creamskimming by only serving business customers in urban areas. Is this**  
19 **argument relevant to this proceeding?**

20 **A:** No. As I discussed in my rebuttal testimony, deaveraging, universal service, and rate  
21 rebalancing do not have to be addressed at the same time because they are not necessarily  
22 related. The issue in this docket is implementing deaveraging for UNE pricing which, as  
23 I have stated before, is *required* by the FCC’s rules. His statements about only serving



1 business customers provides all the more reason that UNE rates should be geographically  
2 deaveraged – if an ALEC purchases UNEs from an ILEC in higher cost areas, the ILEC  
3 should be able to recover the full cost of those UNEs. Aside from this issue, the ILEC  
4 argument about creamskimming is simply irrelevant – in purchasing UNEs priced at  
5 TELRIC, ALECs pay ILECs the full cost of the network element, plus an allocation of  
6 common costs, plus a reasonable profit. Whether the UNEs are purchased in high or low  
7 density areas, the ILEC is fully recovering its costs, as mandated by the Communications  
8 Act. Creamskimming arguments have no bearing whatsoever on how UNEs must be  
9 priced under the Act  
10

11 **Q: On page 21 of Sprint witness Dickerson’s rebuttal testimony he states, “although it**  
12 **seems out of character with the rest of Ms. Strow’s testimony, the wording in this**  
13 **section of her testimony seems to suggest that the ILEC’s embedded network mix of**  
14 **IDLC and UDLC, fiber vs. copper or wireless technology would enter into UNE**  
15 **deaveraging decisions. Assuming this a correct reading of Ms. Strow’s testimony, I**  
16 **cannot agree. Clearly the FCC TELRIC UNE pricing rules do not allow the relative**  
17 **presence of these technologies in the embedded network to enter into the**  
18 **determination of geographically deaveraged prices for UNEs.” Please respond.**

19 **A:** The FCC’s TELRIC rules require that rates be set using forward-looking costs. This  
20 forward-looking cost model assumes that, as ILECs deploy their networks in the future,  
21 they will use the most efficient technology available to do so. In its analysis, this  
22 Commission necessarily must make assumptions regarding the loop and transport  
23 facilities that ILECs will deploy in the future. If the Commission wishes to assume that

1 all loops deployed in the future by ILECs will employ integrated digital loop carrier  
2 (“IDLC”) and digital subscriber line (“DSL”) technology, that all loops will be digitally  
3 conditioned, and that all transport will use optical fiber cable, then Intermedia agrees that  
4 no additional information concerning ILEC deployment of these facilities is necessary.  
5 If, however, ILECs want to factor into its cost data analog loops, non-IDLC loop systems,  
6 systems that do not deploy DSL technology, and copper in interoffice transport, it must  
7 identify where and how this older technology will be deployed. This information is  
8 particularly important in setting geographically deaveraged UNE rates – in such a case,  
9 ILECs must identify any plans to keep deploying older – and higher cost – technology in  
10 rural or suburban areas, and limit its deployment of the most efficient network technology  
11 in urban areas. It is beyond dispute that these technology choices will affect the cost of  
12 UNEs. Finally, the Commission should establish a presumption that, if ILECs do not  
13 provide information on how and where IDLC, DSL and fiber technologies will be  
14 deployed, it will be assumed that they will be used exclusively, and that costs of older,  
15 more expensive technology must be excluded from the cost study.

16  
17 **Q: Does this conclude your testimony?**

18 A: Yes.

**I HEREBY CERTIFY** that a true and correct copy of the foregoing was served via U.S. Mail and/or facsimile this 14<sup>th</sup> day of October, 1999 to the following:

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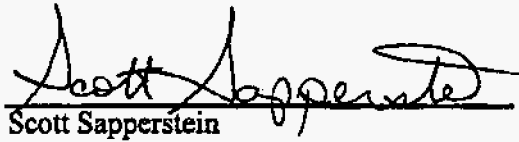
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