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March 1, 2002

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Florida Public Service Commission
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Re: Docket No. 000075-TP

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are an original and fifteen copies of prefiled Supplemental Direct Testimony of Paul E. Cain filed on behalf of AT&T Communications of the Southern States, LLC., AT&T Broadband Phone of Florida, LLC and TCG South Florida, Inc.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the copy to me.

Thank you for your assistance with this filing.

Sincerely,

Martin P. McDonnell

Martin P. McDonnell

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SUPPLEMENTAL DIRECT TESTIMONY OF PAUL E. CAIN

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, LLC,

AT&T BROADBAND PHONE OF FLORIDA, LLC
(Formerly known as MediaOne Florida Telecommunications, Inc.),

AND TCG SOUTH FLORIDA, INC.

DOCKET NO. 000075-TP

MARCH 1, 2002

Q. STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Paul E. Cain. I am employed by AT&T as a District Manager in the Business Services organization. My business address is 900 Route 202/206, Bedminster New Jersey, 07921.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND PROFESSIONAL EXPERIENCE AS THEY RELATE TO ISSUES IN THIS PROCEEDING.

A. I have worked in the field of telecommunications since 1989 when I joined National Economic Research Associates in White Plains, NY as a Research Associate investigating issues of pricing and competition for intrastate telephone service. In 1993, I joined Teleport Communications Group in Staten Island, NY where I served as Director - Government Affairs and Public Policy. In this capacity, I developed and advocated policy positions on universal service, residential service, and other issues bearing on the development of local competition. During 1998 and 1999, I was a member of the AT&T/TCG Integration Team and worked on a variety of projects designed to make effective use of the combined AT&T/TCG networks. In May 1999 I accepted my current position as District Manager for Switched Access and Interconnection Services with AT&T's Business Services Organization. In this position, I lead a team devoted to providing services to other local carriers and interexchange carriers via AT&T's core network and the network of the former TCG.

I earned a Bachelor's Degree in Economics from the University of Rochester and a Master's Degree in Economics from Rensselaer Polytechnic Institute.

Q. HAVE YOU TESTIFIED IN OTHER REGULATORY PROCEEDINGS IN THE PAST?

A. Yes. I have testified in California, Texas, and New Jersey.

Q. ON WHICH ISSUES ARE YOU TESTIFYING?

A. My testimony addresses portions of Issue No. 13 and Issue No. 17.

Q. ARE YOU ADOPTING TESTIMONY PREVIOUSLY FILED ON BEHALF OF AT&T IN THIS DOCKET?

A. No. The testimony filed in this docket that is being re-filed on these issues stands on its own in the record. My testimony is supplemental to the new issues raised by the Commission.

ISSUE 13: HOW SHOULD A "LOCAL CALLING AREA" BE DEFINED, FOR PURPOSES OF DETERMINING THE APPLICABILITY OF RECIPROCAL COMPENSATION?

a) What is the Commission's jurisdiction in this matter?

b) Should the Commission establish a default definition of local calling area for the purpose of intercarrier compensation, to apply in the event parties cannot reach a negotiated agreement?

c) If so, should the default definition of local calling area for purposes of intercarrier compensation be: 1) LATA-wide local calling, 2) based upon the originating carrier's retail local calling area, or 3) some other default definition/mechanism?

Q. WHAT IS AT&T'S POSITION ON ISSUE 13 (a) REGARDING THE COMMISSION'S JURISDICTION?

A. AT&T's position is that the Commission has jurisdiction to resolve this issue. Because this is a legal question, AT&T's position will be set forth more fully in its post-hearing brief.

Q. SHOULD THE COMMISSION ESTABLISH A DEFAULT DEFINITION OF LOCAL CALLING AREA (ISSUE 13(b))?

A. Although the Commission should continue to encourage negotiation, the Commission also should establish a policy that requires a LATA-wide local calling area for intercarrier compensation purposes if the parties cannot reach agreement by negotiation. The Commission should not define local calling areas for retail purposes nor should it establish a local calling area based on current ILEC practices, which would force ALECs to mirror ILEC local calling areas. Competition cannot thrive if the monopoly incumbents control the marketplace in this manner.

Q. HOW SHOULD LOCAL CALLING AREA BE DEFINED (ISSUE 13(c))?

A. The Commission should adopt a true LATA-wide local calling area, as discussed below. LATA-wide local calling allows for fair reciprocal compensation between all LECs for calls placed between ALEC and ILEC customers. All calls would be rated as local, thus simplifying the process of reciprocal compensation between carriers and more significantly, benefiting consumers by making it possible for ALECs to offer more flexible retail calling plans.

Q. WHAT IS A LATA?

A. LATAs were an artificial boundary established by the Department of Justice as a result of the AT&T divestiture, which separated the Bell System's long distance operations from its local operations, and established nine Bell operating companies.[1] The LATA is a contiguous geographic area that acted as a dividing line between the assets and liabilities of AT&T and the Bell Operating Companies. Calls within each LATA "belonged" to the monopoly local provider, while calls between LATAs were handled by long distance providers.[2] Thus, LATAs originally provided a clear line of demarcation for antitrust purposes. This line of demarcation was later eroded when long distance providers were allowed to carry intraLATA toll calls.

Q. ARE LATA BOUNDARIES RELEVANT TO THE DETERMINATION OF WHAT CALLS SHOULD BE TREATED AS LOCAL FOR RECIPROCAL COMPENSATION PURPOSES TODAY?

A. LATAs have lost their significance as legal boundaries and therefore should not control what calls are treated as local, whether for intercarrier

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[1] Modification of Final Judgment, *United States of America v Western Electric Company, Inc. and American Telephone and Telegraph Company*. Civil Action No. 82-0192. (D.C. Cir. 1982)

[2] Florida has seven (7) LATAs (Pensacola FW-EA, Panama City MR-EA, Jacksonville LO-EA, Gainesville OL-EA, Daytona Bch PO-EA, Orlando WI-EA, Southeast Fl GR-EA). Some states have two or three. Larger states may have several LATAs.

compensation or retail purposes.[3] They do, however, provide a familiar and convenient line of demarcation already recognized in LEC and ALEC networks, and are sufficiently broad in area to allow ALECs to offer innovative and competitive calling plans to their customers.[4]

Q. HOW ARE LOCAL TELEPHONE COMPANIES CURRENTLY COMPENSATED FOR TRAFFIC THAT ORIGINATES ON ANOTHER PROVIDER'S NETWORK BUT IS TERMINATED ON THEIR NETWORK?

A. Local telecommunications companies are entitled to receive compensation for terminating calls that are originated by other providers. If the call being terminated is a toll, or long distance call, the terminating local telephone company receives access charges. If the call being terminated is a local call, the terminating local telephone company receives reciprocal compensation.

Q. UNDER A LATA-WIDE LOCAL CALLING REGIME, HOW WOULD LOCAL TELEPHONE COMPANIES BE COMPENSATED FOR TRAFFIC THAT ORIGINATES ON ANOTHER PROVIDER'S NETWORK BUT IS TERMINATED ON THEIR NETWORK?

A. Any call that originated and terminated in the same LATA would be considered a local call, and the terminating provider would receive reciprocal

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[3] LATA boundaries are still essential to the operation of Section 271 of the Telecommunications Act.

[4] While a LATA-wide local calling area for intercarrier compensation purposes may be convenient and sufficient to meet industry and consumer needs at this time, the Commission should keep in mind that it is an artificial boundary that should be subject to review as the telecommunications industry and consumer expectations evolve.

compensation for terminating it. Terminating providers would continue to receive access charges for interLATA calls, as they do today. In a LATA-wide local calling area, the NPA-NXX of the calling and called parties would be used to determine the points of origination and termination. The dialing pattern (whether seven digits, ten digits or eleven (1+) digits) would be irrelevant, as would the path the call took to reach its point of termination.

Q. PLEASE DISCUSS THE BENEFITS OF ESTABLISHING A LATA-WIDE CALLING AREA FOR RECIPROCAL COMPENSATION PURPOSES.

A. The primary benefits of a LATA-wide calling area would be administrative ease and enhanced competition.

Administrative ease: A LATA-wide calling area would simplify retail call rating as well as intercarrier billing of reciprocal compensation. All intraLATA calls would be treated the same for reciprocal compensation purposes, with each minute billed the same way. Additionally, a clear "fall-back" policy statement while encouraging negotiation also would tend to reduce the number of issues that must be arbitrated.

Establishing the LATA as the calling area also will enhance competition by allowing ALECs to offer their customers local calling arrangements that may vary from those offered by the ILEC. Establishing the current ILEC calling areas as the default, on the other hand, will force ALECs to mirror those areas, to the detriment of competition.

Q. SHOULD ANY CALL THAT ORIGINATES AND TERMINATES IN THE SAME LATA BE TREATED AS A TOLL CALL?

A. No. In order to allow all LECs and their customers to achieve the consumer and administrative benefits that will result from establishing a LATA-wide local calling area for reciprocal compensation purposes, all calls that originate and terminate in the same LATA, as determined by the NPA-NXXs of the calling and called parties, should be treated as local. The Commission should not consider the numerous exceptions bound to be raised by the ILECs, who seek to complicate the issue in order to maintain their traditional (and sometimes anti-competitive) sources of income. ALECs attempting to compete with ILECs are using their networks in more flexible ways, and the Commission should encourage such innovation by instituting rational and simple compensation policies. When a call originates and terminates in the same LATA and travels between one local provider and another, neither dialing pattern nor the path between the two networks should determine the compensation for that call. There simply is no reason, other than entrenched monopoly thinking, for maintaining a distinction.

Q. WILL LATA-WIDE LOCAL CALLING RESULT IN FAIR COMPENSATION BETWEEN CARRIERS?

A. Yes. Every minute is compensated based on the same rate when the call originates and terminates within the same LATA. A LATA-wide local calling area results in the elimination of intraLATA toll charges for various paths that a call takes and eliminates the need to input different rates for those calls. Instead, a call is rated the same no matter what dialing pattern is used and is more easily managed in billing systems.

Q. WILL A NEW BILLING SYSTEM OR CAPITAL INVESTMENT BE NECESSARY FOR IMPLEMENTATION OF A DEFAULT LATA-WIDE LOCAL CALLING AREA?

A. No. Instead, the billing systems already in place would be simplified. The only labor involved is re-rating calls to one rate for all of the calls that originate and terminate in the LATA regardless of dialing pattern. It simplifies what is now a complex billing system and will alleviate future arbitrage over various calling plans, calling patterns, and incorrect rating of calls between carriers.

Q. PLEASE SUMMARIZE AT&T'S RECOMMENDATION ON THIS ISSUE.

A. As I stated above, AT&T recommends that the Commission establish a LATA-wide local calling area as the default mechanism. Establishing a LATA-wide calling area facilitates intercarrier compensation, fosters fair competition among local exchange telecommunications companies, and allows for a evolution of innovative calling plans for consumers; the true beneficiaries of this concept.

ISSUE 17: SHOULD THE COMMISSION ESTABLISH COMPENSATION MECHANISMS CONCERNING THE TRANSPORT AND DELIVERY OR TERMINATION OF TRAFFIC SUBJECT TO

SECTION 251 OF THE ACT TO BE USED IN THE ABSENCE OF THE PARTIES REACHING AGREEMENT OR NEGOTIATING A COMPENSATION MECHANISM? IF SO, WHAT SHOULD BE THE MECHANISM?

a) What is the potential financial impact, if any, of bill and keep arrangements for local exchange companies?

b) If the Commission imposes bill and keep as a default mechanism, will the Commission need to define generically "roughly balanced?" If so, how should the Commission define "roughly balanced?"

c) What potential advantages or disadvantages would result from the imposition of bill and keep arrangements as a default mechanism?

Q. WHAT IS AT&T'S POSITION ON ISSUE 17 REGARDING A COMMISSION-ESTABLISHED COMPENSATION MECHANISM?

A. AT&T strongly endorses the Commission's goal of reforming and unifying legacy intercarrier compensation regulations, and believes that the best way to reach this goal is to establish an intercarrier compensation rule where a "minute is a minute" for transport and termination purposes, regardless of the individual call's content, means of switching, the identity of the called party, or the identity of the carrier. The Commission should retain the current reciprocal compensation mechanism unless the parties agree otherwise through negotiation. Bill and keep is neither efficient nor competitively neutral, and as I discuss later, there are additional negative considerations to bill and keep that make it an unattractive alternative at this time.

Q. WHAT IS "BILL AND KEEP"?

A. Bill and keep is a compensation mechanism in which the terminating carrier recovers its costs of terminating a call from the customer who receives the call, rather than the calling party's local telephone provider. Thus, costs that have always been recovered from carriers for local calls would now be recovered directly from consumers.

Q. DOES AT&T SUPPORT BILL AND KEEP AS AN APPROPRIATE DEFAULT COMPENSATION METHOD?

A. No. Bill and keep preserves objectionable aspects of the existing patchwork of compensation. As a default mechanism, bill and keep would discourage good-faith negotiations between the ILECs and ALECs. The party that expects to originate more traffic than it terminates would have every incentive to dig its heels in, knowing that the default mechanism will govern. Further, bill and keep does not promote more efficient network usage by consumers. Instead, bill and keep encourages more unwanted calls because it effectively requires recipients to pay for terminating the unwanted calls. Bill and keep is not more "deregulatory" than cost-based intercarrier compensation. The Commission should continue to utilize reciprocal compensation as the default mechanism in the event that the parties are unable to negotiate an alternate intercarrer compensation regime.

Q. PLEASE DISCUSS THE REGULATORY DISADVANTAGES OF A BILL AND KEEP ARRANGEMENT AS A DEFAULT MECHANISM.

A. Bill and keep would be neither efficient nor competitively neutral and would result in significant unintended and undesirable consequences. Bill and keep would create new opportunities for both regulatory arbitrage and monopoly abuse by encouraging carriers to seek out customers who make more calls than they receive (e.g., telemarketers, stock brokers).

Nor is bill and keep more "deregulatory" than cost-based intercarrier compensation. Bill and keep would simply mean that costs that have always been recovered from carriers would now be recovered from consumers, but only so long as the traffic is roughly balanced. Once the traffic is out of balance, the parties must still engage in the rating and billing now necessary for reciprocal compensation.

Q. HOW WOULD CONSUMERS BE AFFECTED BY A BILL AND KEEP REGIME?

A. Bill and keep shifts the burden of recovering the cost of the call from the originator of the call to the recipient of the call. People who make very few calls or those who subscribe to phone service primarily for safety reasons (i.e., to make calls in an emergency) would likely see their phone rates increase. Customers that make a large number of calls (e.g., telemarketers) would likely see their rates decline.

Customers largely have no control over who calls them or how often, so they will be forced to pay for the "pleasure" of receiving dinner and family time interruptions from cranks and hawkers of credit cards, funeral plots, timesharing condominiums, vinyl siding, penny stocks and burglar alarms. Friends and relatives of individuals on low fixed incomes might think twice about calling them, reluctant to impose additional costs. Subscribers might also be forced to reconsider their phone plans to take into account the new influx of incoming calls that are largely beyond their control as a result of bill and keep. More broadly, the Commission will face new challenges in crafting a definition of basic service eligible for universal service support. These changes are likely further irritate customers who already are upset and confused about the proliferation of new charges on their bills and the daunting array of calling plans.

Q. WHAT FINANCIAL IMPACT WOULD BILL AND KEEP ARRANGEMENTS HAVE ON LOCAL EXCHANGE COMPANIES?

A. Bill and keep will cause a major adverse financial impact without a concomitant reduction in administrative costs. ALECs in particular will lose a source of income that is necessary to cover the cost for transporting and terminating calls originating on the ILEC's network. As outbound calls would surely increase under a bill and keep regime, the pricing signals used to charge end user customers would have to change dramatically in order to pay for the costs of running the network. Under current traffic patterns, ILECs would reap a considerable windfall, able to terminate their local traffic to the ALECs for free.

Q. ARE THERE ANY ADVANTAGES TO BILL AND KEEP ARRANGEMENTS AS A DEFAULT MECHANISM?

A. Yes, but only if exchanged traffic is precisely in balance. If each party is originating and terminating almost exactly the same amount of traffic for the other party, administrative work will be slightly less burdensome because the parties need not render bills and issue checks each month. Of course, this benefit could easily be achieved through negotiations because the parties could agree to offset reciprocal compensation payments if traffic is truly balanced already.

Q. IF THE COMMISSION IMPOSES BILL AND KEEP AS A DEFAULT MECHANISM, WILL THE COMMISSION NEED TO GENERICALLY DEFINE "ROUGHLY BALANCED TRAFFIC?"

A. Yes. A bill and keep arrangement can only provide for mutual recovery of costs when traffic between the parties is in balance. If traffic is out of balance, the carrier that terminates more traffic incurs greater termination costs than it is relieved of – in essence, subsidizing the other carrier. Thus, the definition of "balance" is essential to implementation of bill and keep.

FCC Rule 51.713(b) allows state Commissions to impose bill and keep arrangements only if traffic is roughly balanced between providers. It would inappropriately put the cart before the horse to impose bill and keep without defining roughly balanced. Without a Commission definition, LECs and ILECS otherwise must negotiate this issue, which inevitably will lead to disputes and ultimately force the Commission to decide this issue.

Q. SHOULD THE COMMISSION DECIDE TO IMPOSE A BILL AND KEEP ARRANGEMENT, HOW SHOULD THE COMMISSION DEFINE "ROUGHLY BALANCED TRAFFIC?"

A. LECs are unlikely to exchange exactly the same number of minutes of local traffic. FCC Rule 51.713(b) therefore does not require precision, but instead indicates that bill and keep may be appropriate when the exchange of traffic is approximately -- rather than precisely -- the same for each party, such that the difference between the amounts is insignificant.

Q. WHAT SHOULD BE THE "DEFAULT" COMPENSATION MECHANISM?

A. The Commission should retain reciprocal compensation as the appropriate default mechanism. Section 252(d)(2)(A) of the Act states that an interconnection agreement between an incumbent LEC and a new entrant cannot be found just and reasonable unless the agreement itself "provide[s] for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier." Reciprocal compensation appropriately imposes costs on the cost-causer, while bill and keep allows the originating company to retain the money it normally would have to pay for the use of the terminating carrier's network. Reciprocal compensation allows the costs to be shared by both the originating company and the terminating company. AT&T supports establishment of a cost-based reciprocal compensation rate as the default.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.