

1 BELL SOUTH TELECOMMUNICATIONS, INC.

2 DIRECT TESTIMONY OF BILL SMITH

3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

4 DOCKET NO. 020507-TL

5 NOVEMBER 26, 2002

6

7

8 Q. PLEASE STATE YOUR NAME, YOUR OCCUPATION, AND YOUR
9 BUSINESS ADDRESS.

10

11 A. My name is Bill Smith. I am the Chief Product Development and Technology
12 Officer for BellSouth. My business address is 675 West Peachtree Street, Atlanta,
13 Georgia 30375.

14

15 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND
16 AND EXPERIENCE.

17

18 A. I have been employed by BellSouth since 1979 and have been involved in
19 BellSouth's advanced technology efforts for more than 15 years. In my past
20 positions, I have been responsible for BellSouth's Internet, Entertainment, and
21 long distance operations as well as being an active participant in the development
22 of national and international telecommunications standards. In my current
23 position, I am responsible for setting the technology direction of BellSouth's core
24 infrastructure to take advantage of synergies between product and technology
25 development. My department includes broadband and Internet services, network

1 and information technology, internet protocol (IP) applications, strategy and
2 product innovation as well as BellSouth Entertainment, Inc.

3
4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5
6 A. My testimony explains BellSouth's deployment of broadband services in Florida
7 in order to assist the Florida Public Service Commission in considering Issue 5 –
8 Should the Commission order BellSouth to provide its FastAccess Internet
9 service, where feasible, to any Alternate Local Exchange Carrier ("ALEC" end
10 user that requests it? Specifically, I will: (1) provide an overview of the
11 investment that BellSouth has expended in the past five years in developing its
12 own broadband and high speed Internet access products; and (2) explain how
13 BellSouth should be able to take advantage of this investment in competing in
14 Florida.

15
16 Q. PLEASE EXPLAIN THE BROADBAND SERVICES OFFERED BY
17 BELL SOUTH IN FLORIDA.

18
19 A. BellSouth offers broadband service in Florida using Digital Subscriber Line
20 ("DSL") technology. BellSouth's DSL offerings include a federally regulated and
21 federally tariffed wholesale transport service that is offered through BellSouth's
22 Special Access FCC Tariff No. 1. This tariffed DSL service is designed for use
23 by Internet Service Providers ("ISPs"), such as AOL, MSN, DirectTV, and
24 BellSouth's own ISP operations. BellSouth also offers an enhanced high-speed
25 DSL-based Internet access service, referred to as BellSouth® FastAccess®

1 Internet Service (“FastAccess”). FastAccess is BellSouth’s retail DSL Internet
2 access offering that uses the regulated wholesale DSL transport service as a
3 component and includes other applications like email and newsgroups.

4

5 Q. WHEN DID BELLSOUTH BEGIN DEVELOPING ITS DSL PRODUCT
6 OFFERINGS?

7

8 A. BellSouth began investing in DSL in Florida in the late 1990s. BellSouth sought
9 to capitalize on the growing interest in the Internet; to respond to requests from its
10 current dial customers for higher speed Internet access; and to compete with the
11 high-speed cable modem products that were already available in the marketplace.
12 Before offering its DSL services, BellSouth had no DSL related equipment
13 deployed nor had BellSouth invested any substantial amounts of time or dollars in
14 DSL operations. As a result, when BellSouth began investing the resources
15 necessary to support its DSL product offerings, BellSouth was in precisely the
16 same position as every other DSL provider seeking to enter the broadband
17 marketplace. BellSouth has since analyzed carefully the marketplace and made
18 considerable investments in targeted markets, which has resulted in more than
19 70% of households in BellSouth’s nine-state region being capable of receiving
20 DSL service. BellSouth saw a business opportunity and then capitalized on this
21 opportunity by making wise, prudent capital investments to offer DSL service as a
22 competitive alternative in the broadband market. Other ALECs could have made
23 similar investments had they been so inclined.

24

1 Q. PLEASE OUTLINE THE INVESTMENTS BELLSOUTH HAS MADE IN
2 FLORIDA TO SUPPORT ITS DSL OFFERINGS.

3

4 A. To date, BellSouth has invested over \$393 million in Florida to support its DSL
5 offerings. This investment includes the cost of upgrading BellSouth's backhaul
6 network and deploying DSL capability in over 190 BellSouth central offices and
7 3,578 BellSouth remote terminals.

8

9 Q. HOW HAS BELLSOUTH SELECTED THE LOCATIONS WHERE TO
10 INVEST IN ORDER TO OFFER DSL SERVICE IN FLORIDA?

11

12 A. BellSouth's DSL investments have been made only after careful study of the
13 demand for high-speed Internet access at a neighborhood-by-neighborhood level,
14 and through subsequent prudent deployment decisions. Through a carefully
15 targeted deployment program, BellSouth has selected what it believes are the best
16 locations to locate its own central office and remote terminal Digital Subscriber
17 Line Access Multiplexers ("DSLAMs"). This efficient use of capital has been
18 critical to the competitive nature of BellSouth's DSL service and has allowed
19 BellSouth to deploy DSL service throughout the State, including in many rural
20 areas in Florida.

21

22 Q. DO BELLSOUTH'S INVESTMENTS IN DSL GIVE IT AN UNFAIR
23 ADVANTAGE IN COMPETING IN THE VOICE MARKET?

24

1 A. No. While BellSouth may enjoy an advantage in the voice market by being able
2 to package its voice service with FastAccess (as well as other services such as
3 wireless), there is nothing unfair about BellSouth's doing so.

4

5 First, BellSouth's DSL investments were made in a prudent and cautious manner,
6 after much analysis. While other providers may have invested substantial amounts
7 of money in DSL deployment, they were more concerned about gaining the
8 largest coverage footprint and did not focus on getting the most return on
9 investment by deploying in areas with the customers most likely to purchase DSL.
10 By only investing in areas where BellSouth believed it could successfully market
11 DSL service as a compliment to its existing voice service and thereby realize a
12 favorable return on its investment, BellSouth was able to increase deployment and
13 investment in later years as its DSL offerings became more popular. Of course,
14 BellSouth assumed all the risk associated with such investments.

15

16 Second, BellSouth's DSL investments allow BellSouth to offer a package of
17 products and services in order to meet a customer's total telecommunications
18 needs. The ability to offer such a package is essential for BellSouth to compete
19 successfully against those, such as cable providers, that also offer a full suite of
20 telecommunications products and services, including local service, long distance,
21 and Internet access.

22

23 Q. WOULD REQUIRING BELLSOUTH TO CONTINUE TO PROVIDE FAST
24 ACCESS WHEN AN END-USER SWITCHES VOICE TO AN ALEC USING
25 UNES HAVE AN AFFECT ON BELLSOUTH'S INVESTMENT IN DSL?

1 A. Yes. Such a requirement would have a negative affect on BellSouth's
2 investments. There are serious problems associated with the Commission's
3 granting the relief sought by FCCA, which are described in the Direct Testimony
4 of Keith Milner, John Ruscilli, and Eric Fogle. In addition to these problems,
5 however, requiring BellSouth to provide DSL service to any ALEC voice
6 customer would not allow BellSouth to take full advantage of its DSL investments
7 by jeopardizing BellSouth's capacity to maximize the return on those investments
8 and by hampering BellSouth's ability to compete effectively in the marketplace.
9 If BellSouth were not permitted to take full advantage of its DSL investments,
10 BellSouth would have little incentive to make such investments in the future.

11
12 Granting the FCCA's request would adversely affect BellSouth's ability to
13 continue to deploy DSL technology throughout the State. If BellSouth is required
14 to continue to provide FastAccess service to Florida ALEC voice customers
15 served via UNE-P, BellSouth will incur additional costs. These additional costs
16 would either have to be passed on to BellSouth's FastAccess customers or borne
17 by BellSouth's shareholders. In either case, imposing such costs upon BellSouth
18 would hamper BellSouth's ability to compete successfully in the broadband
19 market and would threaten BellSouth's ability to continue to deploy DSL
20 throughout the State.

21
22 Furthermore, the FCCA's request, if granted by the Commission would require
23 BellSouth to overhaul its DSL service by providing DSL on a stand-alone basis
24 when the service was designed as an overlay to an existing exchange facility.
25 Stand-alone broadband is costly and risky, as evidenced by the fact that three

1 stand-alone DSL providers – Rhythms, Northpoint, and Covad – have gone
2 bankrupt, with only Covad emerging intact.

3
4 BellSouth has determined that the additional operational costs associated with
5 providing stand-alone DSL service along with its reduced profitability makes this
6 option extremely unattractive. What is so incongruous about this issue is that the
7 FCCA is now asking the Commission to force BellSouth to provide a highly
8 competitive service in circumstances that BellSouth views as not being in its best
9 economic interests and under which ALECs have had only marginal success. In
10 effect, this Commission would be mandating that BellSouth become the advanced
11 services provider of last resort. Such a concept is completely inconsistent with a
12 competitive broadband market and BellSouth’s efforts to compete in that market.

13
14 Q. IN ITS COMPLAINT, FCCA ALLEGES THAT BELLSOUTH’S DSL POLICY
15 MAKES “CONSUMERS . . . RELUCTANT TO CHANGE VOICE
16 CARRIERS.” DO YOU AGREE?

17
18 A. No. As reflected in the Direct Testimony of John Ruscilli, CLECs are serving
19 more than 1.3 million access lines in Florida, which represents approximately
20 18.4% of the total access lines in the State. As a result, customer choice is alive
21 and well in Florida, without regard to BellSouth’s policy on DSL.

22
23 Furthermore, to the extent customers are “reluctant,” ALEC business decisions,
24 and not BellSouth’s DSL policy, are likely to blame. BellSouth’s DSL policy is
25 to provide DSL service on any BellSouth provided exchange line facility,

1 regardless of whether the voice service on that line is being provided by
2 BellSouth or by an ALEC engaged in resale. BellSouth's policy is consistent with
3 the manner in which BellSouth's DSL offerings were designed and tariffed, which
4 is as an overlay service to an existing exchange line. Any ALEC that wants to
5 resell BellSouth's voice service to a customer can provide that service on the
6 same line used by BellSouth to provide FastAccess. Thus, consumers that want
7 BellSouth FastAccess service can choose any reseller as a provider of voice
8 service. Any ALEC that chooses as a business decision not to resell BellSouth's
9 voice service forecloses the possibility of obtaining FastAccess.

10
11 Any ALEC that provides voice service to customers using loops leased from
12 BellSouth also can provide customers with the ALEC's own DSL service. Thus,
13 consumers that want DSL service can choose as their voice provider any ALEC
14 offering its own DSL service.

15
16 ALECs that provide voice service to customers using loops leased from BellSouth
17 also can provide their customers with DSL service by entering into a line splitting
18 arrangement with another DSL provider. Thus, consumers that want DSL service
19 could choose any ALEC that offers a DSL service via a line splitting arrangement.

20
21 In short, while blaming BellSouth for customers' "reluctance", ALECs
22 conveniently disregard that there are a variety of methods that are available to
23 provide DSL service. Because ALECs have made a series of business decisions
24 to not utilize these methods, ALECs should not be heard to complain about the
25 consequences of those decisions.

1

2 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

3

4 A. Yes.

5

6

0