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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Expanded Interconnection )  
Phase II and Local Transport )  
Restructure. )  
\_\_\_\_\_ )

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DIRECT TESTIMONY OF

DOUGLAS S. METCALF

ON BEHALF OF INTERMEDIA COMMUNICATIONS  
OF FLORIDA, INC.

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FPSC-RECORDS/REPORTING

1 Q: Please state your name, business affiliation, address, and  
2 on whose behalf you are testifying?

3 A: My name is Douglas S. Metcalf. I am President of  
4 Communications Consultants, Inc., 631 S. Orlando Avenue,  
5 Suite 250, Winter Park, Florida 32790-1148. CCI provides  
6 regulatory, tariff and management assistance to clients  
7 using or providing services affected by regulation. My  
8 responsibilities include the examination of costing  
9 methodologies and rate design policy. As most of the  
10 parties in Florida proceedings are aware, I usually appear  
11 before this Commission on behalf of the Florida Ad Hoc  
12 Telecommunications Users' Committee (Ad Hoc). I am  
13 appearing today with the encouragement of several Ad Hoc  
14 members, but at Intermedia Communications of Florida, Inc's  
15 (ICI) behest, in support of ICI's request that the  
16 Commission use its statutory authority to the fullest extent  
17 possible to promote competition in the provision of local  
18 services by allowing AAVs such as ICI to provide more than  
19 just private line and special access services within their  
20 Dedicated Transport Services (DTS).

21 Q: What is the Florida Ad Hoc Telecommunications Users'  
22 Committee?

23 A: It is an ad hoc group of large users of business telephone  
24 services within the state of Florida. The members are major  
25 customers of the local exchange companies (LECs) and the  
26 alternative access vendors (AAVs). They are vitally

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1 interested in the fairness of any tariff structure or rate  
2 and policy changes affecting business services, including  
3 the more competitive telecommunications market that should  
4 result from these hearings. Ad Hoc's current members are:  
5 Advantis (Sears/IBM) Honeywell Protection Svcs.  
6 Alarm Assn. of Florida NationsBank of Florida  
7 Barnett Technology Publix Supermarkets  
8 Corp. Seimens/Stromberg-Carlson  
9 Burdine's Southeast Switch (HONOR  
10 Dean Witter Reynolds Group)  
11 Florida Informanagement State of Florida - DMS  
12 Svcs. (FIS) SunTrust Service Corp.  
13 First Union National Telecredit, Inc.  
14 Bank  
15 Great Western Bank  
16 Harris Corporation

17 Q: What is the purpose of your testimony?

18 A: The purpose of my testimony is to support ICI's call for  
19 expanded competition to the fullest extent allowable under  
20 law.

21 Q: Does this call for expanded competition contemplate non-LECs  
22 providing both dedicated and switched services between  
23 non-affiliated entities?

24 A: Yes, it does.

25 Q: Do you believe such competition would be in the public

1 interest?

2 A: Yes, I do. Such competition would encourage users to take  
3 advantage of new, upgradeable technology and to purchase  
4 facilities for their efficiency and cost, not because there  
5 is only one supplier.

6 Further, expanded competition will discourage large users  
7 from purchasing private networks and facilities such as VSAT  
8 and microwave which have several detrimental longer term  
9 consequences for business users, the other remaining network  
10 users, the Commission and ultimately the LECs and IXC's.

11 Q: Would this Commission's granting of expanded interconnection  
12 for switched access transport aid in the development of  
13 competition in Florida?

14 A: Yes. In the FCC's proceeding for expanded interconnection  
15 for switched transport, Tier 1 LECs were required to offer  
16 expanded opportunities to interconnect with their switched  
17 networks for interstate switched transport. AAVs and other  
18 interconnectors would be able to offer transmission between  
19 LEC central offices and IXC's points of presence. The FCC  
20 generally set the terms and conditions for switched access  
21 transport as it had for special access. They found that  
22 expanded interconnection for switched transport would  
23 increase the scope of access competition, bringing the  
24 telecommunications industry closer to a more competitive  
25 network.

1 Concurrent with both the FCC's decision and the restructure  
2 of local transport rates, the Florida Commission must adopt  
3 policies specifically designed to eliminate regulatory  
4 barriers to full competition for switched services. The  
5 most logical way for the FPSC to accomplish this, is to base  
6 its expanded interconnection policies on the structure  
7 already established by the FCC. The FPSC has already  
8 accomplished this in its decisions regarding expanded  
9 interconnection for special access. It would not make  
10 economic or technical sense to establish a different policy  
11 for switched access transport.

12 **Q: What kinds of telecommunications services would business**  
13 **users like to see offered by AAVs such as ICI?**

14 **A: For large users, telecommunications costs are generally**  
15 **their third largest expense item after salaries and rent.**  
16 **Users have developed sophisticated networks to allow them to**  
17 **take advantage of every technological advancement they can**  
18 **so as to better succeed in their very competitive**  
19 **industries. However, their telecommunications networks are**  
20 **often somewhat inefficient because of regulatory**  
21 **restrictions which do not permit users to maximize the**  
22 **amount of data which can be pumped over the communications**  
23 **paths they buy from suppliers.**

24 **In Florida for instance, users cannot purchase paths from**  
25 **ICI to carry both their data and their switched traffic.**

1 Regulatory restraints currently permit users to send  
2 switched traffic to the LEC only over LEC facilities, even  
3 though it might be more efficient to purchase bulk capacity  
4 (which I'll often refer to in this testimony as "pipes")  
5 from an AAV. The AAV is not being asked to "switch" the  
6 traffic in some way, only to transport it to the appropriate  
7 LEC or IXC for switching and distribution. Further, from  
8 AAVs, users can only purchase dedicated paths for  
9 intracompany private line traffic and to carry toll traffic  
10 directly to their IXC. If users want dedicated pipes for  
11 transporting lots of data between them and a large customer,  
12 current regulatory barriers again make the LEC the only  
13 source. These restraints are inefficient, expensive, and  
14 counterproductive to what should be the Commission's long  
15 term goal of a competitive market fully utilizing wireline  
16 carrier based, publicly shared facilities.

17 Q: What is the major concern that the Commission should have  
18 with the current regulatory barriers?

19 A: From the users' perspective, limitations which restrict AAVs  
20 to carrying only data causes users to look at private  
21 network alternatives. VSAT performs the data function well,  
22 but does not handle voice traffic well. If users had  
23 facilities-based or wire-line alternatives which could carry  
24 voice and data on the same pipe and distribute DS-1s where  
25 they needed to go, they would have the incentive to stay on

1 the network where the LEC and AAVs could compete for their  
2 business. Residential users, LECs and IXC's would benefit  
3 because the revenue provided by these large users would  
4 still be available to supplement a portion of the revenue  
5 requirement.

6 Efficiency means utilizing dedicated circuits to the maximum  
7 extent possible, and packing them to whatever capacity will  
8 allow users the level of quality they require.

9 **Q: Is there any technical reason why the circuits large users  
10 desire to purchase from AAVs cannot be found?**

11 **A: No, most dedicated paths provided by LEC or AAV suppliers  
12 will meet the technical requirements of the users. The  
13 limitation is strictly a regulatory one.**

14 **Q: How can ICI's dedicated paths be of any use to large users  
15 in carrying traffic that will be terminated as local  
16 switched traffic?**

17 **A: With the Commission's decision to require expanded  
18 interconnection, AAVs such as ICI will have direct high  
19 capacity links between their fiber rings and the LEC's  
20 central office. Thus, all traffic carried by the AAV has  
21 the potential of being delivered to the LEC via the AAV's  
22 expanded interconnection facility. This opens up a whole  
23 new world for the AAVs and introduces great opportunities in  
24 improving the state's infrastructure for handling the  
25 communications needs of large users. Backup and disaster**

1 recovery plans in particular would be enhanced by these  
2 interconnections.

3 **Q: Specifically, what does the large user want the competitive**  
4 **market to offer?**

5 **A: Business users want all of their telecommunications service**  
6 **to be available from several competitive suppliers. Users**  
7 **know that a competitive market will produce the best**  
8 **combination of price and quality, as well as the most new**  
9 **and advanced offerings.**

10 At this time, large users would like basic dedicated  
11 transport service which can carry all of their traffic,  
12 whether it is private line, switched local or switched long  
13 distance to designated points for either termination or  
14 distribution. Large users do not want to have to place  
15 their private line traffic over one circuit from one vendor,  
16 and their switched traffic over another circuit from or to  
17 another vendor. And now with expanded interconnection, AAVs  
18 are well situated to compete to meet this fundamental need  
19 of the large user.

20 **Q: Would any of these offerings have direct benefits for other**  
21 **than large users?**

22 **A: Although many of the services appear today to benefit only**  
23 **the large users, as the technology is refined and costs come**  
24 **down, these services will prove to be a boon to all users.**  
25 **This is best demonstrated in the bells and whistles that are**



1       now available on customer premise equipment (CPE). Most of  
2       the features on our home phones were only available to large  
3       companies in the not-too-distant past.  
4       Whether every new offering directly benefits every user, or  
5       perhaps just large users, is relatively unimportant,  
6       however. Not allowing competition for needed services  
7       creates a vacuum which private network equipment suppliers  
8       (VSAT and microwave) fill. Losing large user revenue to  
9       private networks causes a permanent loss of that revenue to  
10      all of the LECs and IXC's, as well as the citizens.

11    **Q: Could you give the Commission an example of how a large user**  
12      **might actually use these dedicated transport services?**

13    **A: Yes. In a competitive DTS market, large users could**  
14      purchase a DS-3 from one vendor. That circuit consists of  
15      28 DS-1s or 672 individual channels or paths which can be  
16      used for any voice or data purpose.  
17      Those DS-1s or paths could be divided up among the user's  
18      various needs so that all local switched traffic could be  
19      aggregated and sent over a few DS-1s to the LEC for  
20      switching and termination. The long distance or toll  
21      traffic could be delivered over other DS-1s within the same  
22      pipe directly to one or two IXC's. Finally, their dedicated  
23      data and intracompany voice traffic could be distributed  
24      over a few dedicated DS-1s to other intracompany locations  
25      as well as to non affiliated large customers. For instance,

1 Sun Bank has several DS-1s directly between them and Walt  
2 Disney World, a very large customer.  
3 The ability to buy a single DS-3 at an economical rate, and  
4 pack all of a user's traffic onto it rather than buy more  
5 costly (per unit) DS-1s from the LECs and some AAVs, makes  
6 more sense from an economic and network management point of  
7 view.

8 Q: So large users are looking to vendors to provide general DTS  
9 as a fundamental component of its telecommunications system?

10 A: Absolutely, and large users are currently shopping for DTS  
11 and are pitting the LECs against AAVs such as Intermedia.  
12 That shopping effort does not always allow for an 'apples to  
13 apples' comparison because of the restrictions placed on the  
14 users and the AAVs. But when similar circuits can be found  
15 from several vendors, then we set up a competitive basis  
16 where the user achieves his goal of the best combination of  
17 price and quality. Moreover, what is interesting about the  
18 competition between LECs and AAVs in DTS is that the AAVs  
19 have been sufficiently effective, even under current  
20 regulatory restrictions, to spur the LECs to use bundling to  
21 achieve a competitive advantage.

22 Q: But the Commission has current restrictions on the services  
23 AAVs can provide. What if we keep them?

24 A: With the current rules, you're not just telling the AAVs  
25 they can't sell transport, you're telling large users we

1 can't buy it, and we can! We just look at the other  
2 available suppliers of substitute VSAT-type products. If  
3 their offerings show a cost effective return over a  
4 reasonable period of time, users buy private networks. The  
5 Commission, the citizens, the LECs, the IXC's and the AAVs  
6 then lose us as a customer. We take our revenue and apply  
7 it elsewhere, and leave all of you the continuing network  
8 costs of our abandoned facilities. That may be inefficient,  
9 or spiteful or stupid of us, but everyone becomes a loser  
10 because of it.

11 **Q: From your perspective, is the provision of DTS by both LECs  
12 and AAVs effectively competitive?**

13 **A: Technically, the DTS services are fully competitive. All  
14 communications paths carry information. The paths  
15 themselves can't distinguish between switched and dedicated  
16 or data and voice traffic. Any path can technically carry  
17 any type of information. Nevertheless, because of  
18 regulatory entry barriers, DTS is not perfectly competitive.  
19 Specifically, regulatory restraints prevent ICI or any other  
20 AAV from providing some specific services that large users  
21 want, services that would keep the users on some vendor's  
22 publicly shared network.**

23 **These regulatory restraints notwithstanding, LECs are  
24 nevertheless already feeling and reacting to the effective  
25 competitive presence of AAV DTS offerings. For example,**

1       LECs have bundled their services in order to gain a  
2       competitive advantage and to keep some large users on their  
3       services.

4   **Q:** Presumably the benefits of some of this bundling results in  
5       lower prices for large users. Isn't that sufficient?

6   **A:** Not totally. While this competitive pressure can save large  
7       users some money, it still doesn't make the market  
8       competitive in such a way that you manage your network to be  
9       efficient and cost effective. If the LECs limit their  
10      concessions because they know we can't go anywhere else and  
11      get the total package we want at the price we're willing to  
12      pay, they cause us to look elsewhere.

13     Speaking not as a large user, but as an expert who has  
14     observed the business thought process and logic that users  
15     go through when making network decisions, I have seen them  
16     open themselves to the private network option because they  
17     had no competitive wireline suppliers other than their LEC.  
18     Believe me, when you start computing the return on  
19     investment of a VSAT network, against the prices available  
20     today from the LECs without wireline competitors, it doesn't  
21     take long to give that option serious consideration.

22   **Q:** Please demonstrate the problem in financial terms we can  
23      understand.

24   **A:** I have used a perfect example several times before with the  
25      PSC staff, the LECs and the IXC's. Attachment A to this

1 testimony is the northern loop of the DS-3 network which  
2 belongs to the State of Florida, Department of Management  
3 Services (DMS). DMS runs the state's SunCom network, and  
4 supplies telecommunications services to many counties,  
5 municipalities and educational institutions throughout  
6 Florida. The numbers are those that were quoted by AT&T  
7 when DMS last put their network out for bid. Two things are  
8 abundantly clear from this example. The rate for 593 miles  
9 of competitively available DS-3 service was \$21,000 per  
10 month, while the monopoly LEC rates for drops in only five  
11 cities was \$23,000 per month. As the exhibit shows, some of  
12 these drops were a matter of feet in length at collocated  
13 points.

14 My point with this example is that a competitive access  
15 provider or a microwave equipment vendor could provide those  
16 drops at significant savings from the \$2,350+ average that  
17 the LECs are charging for each drop. The state's telecom  
18 managers have made a policy decision that they will not  
19 purchase capital equipment like microwave gear to eliminate  
20 these very short loops. Because of the current regulatory  
21 restrictions, they can't use an AAV for these drops because  
22 much of the SunCom network is switched voice traffic.  
23 Therefore, the department had no choice but to pay these  
24 egregious LEC rates.

25 Other large users, faced with similar cost disparities for

1 their local loops, would and have made the decision to buy  
2 microwave equipment and cut out the LEC for these legs. Of  
3 even more concern to the Commission should be those users  
4 who looked at the costs and payback, and decided to buy VSAT  
5 and cut out the LECs and the IXC.

6 Private network owners rarely return to wireline facilities  
7 because the private network never becomes totally obsolete  
8 or breaks down all at once. Instead, private networks are  
9 repaired and improved a piece at a time, and a total  
10 decision regarding a change back to a competitive wireline  
11 alternative never gets made.

12 Q: What dangers do you see in allowing the Commission's current  
13 regulatory interpretation to continue?

14 A: I see two problems. First, the LECs are using this time of  
15 exclusive provisioning of bundled services within DTS to  
16 launch preemptive strategies for tying up large customers to  
17 long term contracts. This lessens the market available to  
18 AAVs when they are finally able to compete for a user's  
19 total business. If enough of the market is tied up by  
20 long-term contracts, there may not be enough to ever  
21 establish real competition or competitors for this type  
22 service.

23 Second, users who want to evaluate alternatives to LEC  
24 offerings now look at VSAT and microwave networks, which is  
25 dangerous for all wireline carriers and vendors. If a

1 competitive market for switched voice and dedicated data  
2 transport were available, it seems logical that the pricing  
3 for that DTS service would drop, making wireline  
4 alternatives a more cost effective option.

5 Q: Clearly your desire to see more AAV competition would  
6 benefit users and the AAVs. Should the LECs be allowed to  
7 have more flexibility so they too can compete in pricing?

8 A: If it turns out after some period that the playing field is  
9 less than level and that the LECs need more flexibility,  
10 yes. When I have participated in other proceedings for Ad  
11 Hoc, I have often heard AAVs state that the LECs have  
12 significant flexibility with their Contract Service  
13 Arrangement (CSA) and Individual Case Basis (ICB) authority,  
14 and I have certainly seen that in some of proposals I have  
15 reviewed for large users. If the Commission allows AAVs to  
16 compete for a user's total transport requirements, the LECs  
17 still have these ICB and CSA options, and should be  
18 permitted more flexibility if it's needed. The more  
19 competitive flexibility that both the LECs and the AAVs  
20 have, the better - particularly as it relates to competing  
21 with VSAT and microwave vendors.

22 I understand that ICI disagrees with my slant on this point,  
23 and has taken the opposite position in this docket. ICI  
24 contends that the LECs have sufficient flexibility with  
25 their CSAs and ICBs, and that loosening up any more would be

1       premature until AAVs can carry bundled services via DTS. I  
2       understand their position and if I were ICI would probably  
3       say the same thing.

4       In sum, give the AAVs an initial chance to compete for all  
5       of the transport traffic that DTS can handle. Then, when  
6       and if it's necessary, you will have ample opportunity to  
7       increase LEC flexibility.

8   **Q:** Would you be in favor of more flexibility for the LECs even  
9       if current regulatory restrictions on AAVs are maintained?

10 **A:** That is a tough question. On the one hand, I want whatever  
11       the large user can get that will serve its needs at the  
12       lowest cost so it doesn't have to leave the network. To  
13       prevent user departure, additional flexibility for the LEC  
14       seems desirable in the short run. However, if AAVs are kept  
15       out of the transport of "switched traffic" over the long  
16       run, the LECs will continue using their current and  
17       additional flexibility strategically to keep or knock AAVs  
18       out of the arena. Large users want network choices and  
19       competition.

20 **Q:** What is your recommendation to the Commission in this case?

21 **A:** The Commission should recognize that transport is  
22       competitive, and that the opportunity for a more perfectly  
23       competitive market is being harmed by not allowing full  
24       competition for switched transport now. Some large user  
25       revenue is being lost, possibly forever, to capital



1 equipment and private networks which will never be as  
2 technically superior as the services that the AAVs and LECs  
3 can provide. Private networks are cost effective and  
4 attractive alternatives, however, because competition has  
5 not been allowed in the DTS market, an event that would have  
6 lowered the rates for DTS service and would have made a  
7 better business case for staying on some wireline carrier's  
8 network. The beneficiaries of that competition is all  
9 users, not just the large ones.

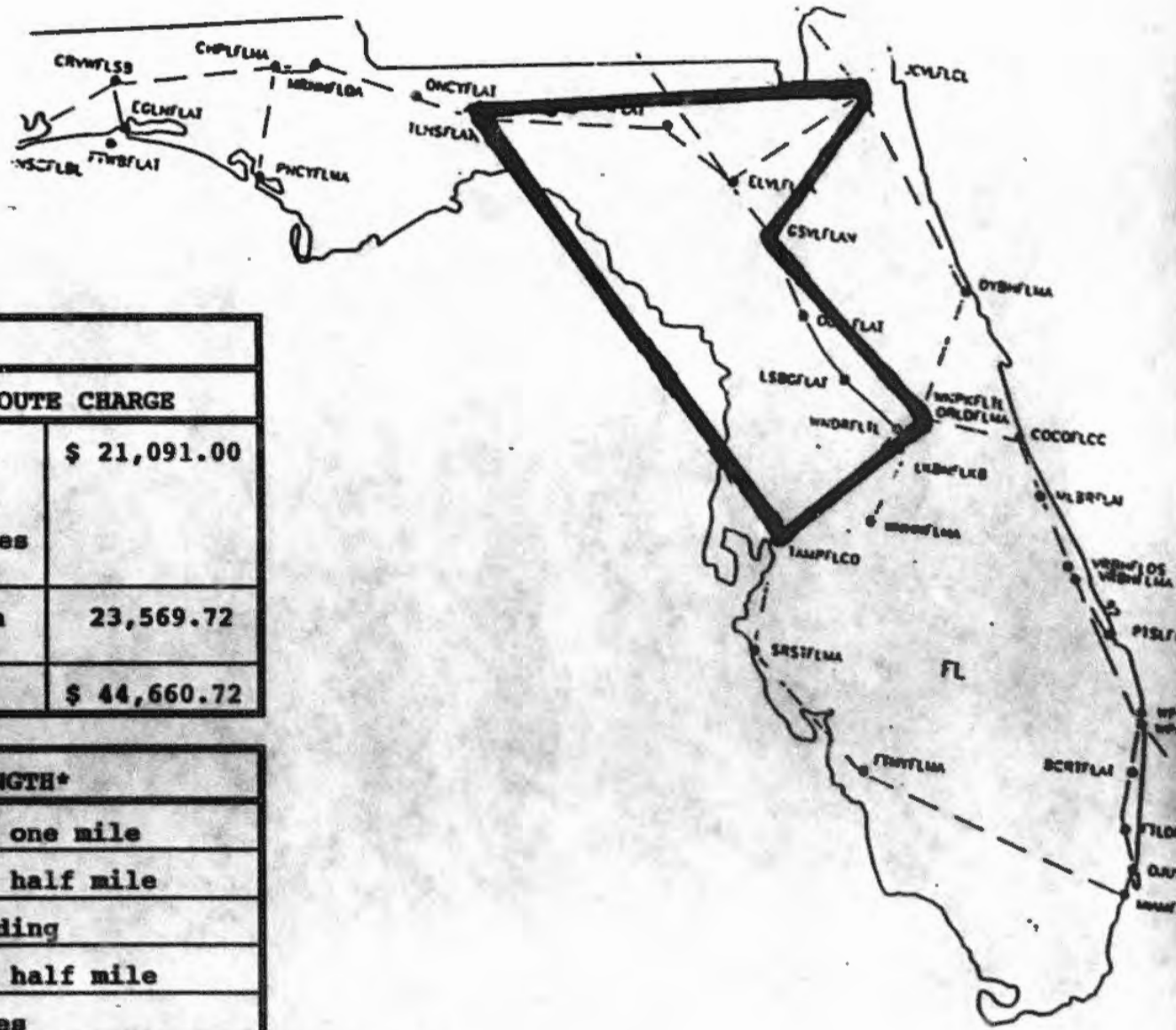
10 Q: Does this conclude your testimony?

11 A: Yes, it does.

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State of Florida  
 DNS T-3 Bid Information  
 Northern Loop

March 1993



AT&T BID	
LOCAL LOOP VS. T-3 ROUTE CHARGE	
Recurring cost for all five T-3 routes POP to POP Total distance = 593 miles @ \$35.57 per mile	\$ 21,091.00
Recurring cost for ten T-3 local loops	23,569.72
<b>TOTAL MONTHLY COST</b>	<b>\$ 44,660.72</b>

LOCAL LOOP LENGTH*	
TALLAHASSEE	Less than one mile
JACKSONVILLE	Less than half mile
ORLANDO	Same building
GAINESVILLE	Less than half mile
TAMPA	Seven miles

\* Used existing facilities, no new construction required.