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1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF A. J. VARNER
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 950985-TP
5 SEPTEMBER 15, 1995
6
7

8 Q. Please state your name, employer and business
9 address.

10
11 A. My name is Alphonso J. Varner. I am employed by
12 BellSouth Telecommunications, Inc. ("BellSouth") as
13 Senior Director for Regulatory Policy and Planning
14 for the nine state BellSouth Region. My business
15 address is 675 West Peachtree Street, Atlanta,
16 Georgia.

17
18 Q. Please give a brief description of your background
19 and experience.

20
21 A. I was graduated from Florida State University in 1972
22 with a Bachelor of Engineering Science degree in
23 systems design engineering. I immediately joined
24 Southern Bell in the division of revenues
25 organization with the responsibility for preparation

1 of all Florida investment separations studies for
2 division of revenues and for reviewing interstate
3 settlements.

4
5 Subsequently, I accepted an assignment in the rates
6 and tariffs organization with responsibilities for
7 administering selected rates and tariffs including
8 preparation of tariff filings. In January 1994, I
9 was appointed Senior Director of Pricing for the nine
10 state region. I assumed my current responsibilities
11 in August of 1994.

12
13 Q. What is the purpose of your testimony?

14
15 A. The purpose of my testimony is to discuss the
16 specific interrelationships among local
17 interconnection, universal service/carrier of last
18 resort, unbundling and resale. My testimony will
19 also respond to issues raised by the testimony of Mr.
20 Paul Kouroupas in this docket. Last, my testimony
21 describes the components of a comprehensive BellSouth
22 plan that addresses local interconnection and
23 unbundling issues as well as demonstrates
24 specifically why local interconnection, universal
25 service, unbundling and resale issues cannot be dealt

1 with in isolation of each other.

2

3 Q. Please describe what specific local competition
4 issues should be addressed by the Commission in this
5 proceeding?

6

7 A. The Commission should address the local
8 interconnection and unbundling issues discussed in my
9 testimony as well as those set forth in the testimony
10 of Mr. Robert C. Scheye and Dr. Aniruddha Banerjee.
11 A comprehensive list of the specific issues that
12 should be addressed by the Commission is attached as
13 Exhibit 1.

14

15 Q. What local competition issues are currently being
16 discussed with alternative local exchange carriers
17 (ALECs)?

18

19 A. As required by Florida statute, BellSouth is
20 negotiating with ALECs on the various local
21 competition issues. We are continuing to meet and
22 agree with Mr. Kouroupas that progress is being made.
23 In fact, we are close to agreement with Teleport
24 Communications Group, Inc. (TCG). Due to the
25 interrelationship of the issues, we believe that

1 optimally an agreement which encompasses all of these
2 issues should be reached simultaneously.
3 Consequently, final agreement on a single issue may
4 not be reached until a comprehensive agreement is
5 achieved. Although no resolution has been achieved
6 to date, these negotiations are continuing in an
7 effort to resolve the outstanding issues. A list of
8 the items being negotiated is attached as Exhibit 2.

9
10 Q. What is the interrelationship among local
11 interconnection; unbundling, universal service and
12 resale issues?

13
14 A. Local interconnection arrangements will be
15 significantly affected by the universal service
16 issues being addressed in Florida Docket No.
17 950696-TP. Specifically, the manner in which the
18 universal service support mechanism is modified to
19 include the required ALEC support will affect the
20 rate structure and level for local interconnection
21 arrangements. BellSouth's local interconnection
22 arrangements must also accommodate the unbundled
23 network components and capabilities required by
24 Florida Statute. The extent to which BellSouth
25 agrees or is required to unbundle may have an impact

1 on the interconnection arrangements. Because resale
2 provides another form of competition, decisions
3 associated with it must be decided in conjunction
4 with interconnection.

5

6 Q. How will the interim universal service support
7 mechanism impact the local interconnection rate
8 level?

9

10 A. ALECs, as new participants in the telecommunications
11 service market, should provide contribution to the
12 universal service and carrier of last resort
13 obligations just as other providers do today.
14 Furthermore, Florida Statutes require that each ALEC
15 contribute its fair share to support universal
16 service and carrier of last resort obligations.
17 Given this, the Commission is currently addressing an
18 interim universal service support mechanism in
19 Florida Docket No. 950696-TP. In that docket
20 BellSouth has proposed three interim alternatives to
21 meet the statutory universal service requirements. A
22 brief description of the proposed BellSouth
23 alternatives is provided below.

24

25 Alternative 1

1 Each local exchange carrier (LEC) would tariff a rate
2 element called the universal service preservation
3 charge. The amount of support would be bulk billed
4 to interexchange carriers (IXCs) and ALECs based on
5 their individual share of assessable revenue within
6 the state. Access charges would be reduced by the
7 amount of the universal service support.

8

9 Alternative 2

10 The amount that access charges would be reduced in
11 Alternative 1 becomes a tariffed per minute universal
12 service preservation charge in this alternative.

13 This charge would be assessed to an ALEC for
14 terminating calls on the LEC's network. Since this
15 charge applies to ALECs only, access charges would
16 not be reduced.

17

18 Alternative 3

19 The sum of the average Carrier Common Line charge and
20 the average Interconnection charge associated with
21 switched access transport becomes the universal
22 service preservation charge. This charge is assessed
23 in the same manner as that for Alternative 2.

24 Likewise, access charges are not reduced.

25

1 In each of the three proposals, the universal service
2 preservation charge precludes the need for any
3 separate Carrier Common Line or Residual
4 Interconnection charges for local interconnection.
5 The local interconnection rates will be impacted
6 regardless of which universal service interim support
7 mechanism is ultimately adopted, therefore, these
8 issues cannot be addressed in isolation.

9

10 Q. What is BellSouth's position on local
11 interconnection?

12

13 A. BellSouth supports a local interconnection plan that
14 includes the following components:

15

- 16 * Compensation arrangements for terminating traffic
17 on BellSouth and ALEC networks;
- 18 * A default to the toll access model if local calls
19 cannot be distinguished from toll;
- 20 * Charges for local interconnection should be based
21 on the switched access rate structure and rate
22 levels (the level and components may vary based on
23 universal service mechanism adopted); and
- 24 * A transitional structure that will eventually
25 merge all interconnection plans (local, toll,

1 independent, cellular/wireless) into one common
2 structure.

3 BellSouth's plan recognizes that carriers will not be
4 able to distinguish between different types of calls
5 and carriers. The arrangements existing today have
6 been predicated on the Modified Final Judgment (MFJ)
7 requirements and BellSouth's ability to distinguish
8 between the types of traffic and class of carrier
9 terminating on our network. Under the MFJ, BellSouth
10 is required by law to charge access on long distance
11 calls. Once local competition is permitted, ALECs
12 will begin terminating both local and toll traffic on
13 BellSouth's network. This, coupled with the impacts
14 of number portability and the assignment of NXX codes
15 to ALECs, will result in BellSouth's being unable to
16 differentiate among the types of traffic terminating
17 on its network. Thus, one comprehensive structure
18 for all types of calls and carriers should be the
19 ultimate goal. Many issues are likely to arise in
20 reaching that goal, including the issue of cost
21 recovery.

22

23 Q. At the present time and under existing conditions,
24 what is the appropriate rate structure for the
25 exchange of local traffic between LECs and ALECs?

1
2 A. The local interconnection rate structure should
3 mirror the BellSouth switched access rate structure
4 to the extent possible. As previously stated, ALECs
5 and LECs will likely exchange both local and toll
6 traffic. The predominant rate structure in place
7 today is the access structure. This structure is
8 fair and allows all parties to compete on a equitable
9 basis. The switched access structure would be very
10 difficult to change, at least in the short term since
11 BellSouth is legally bound by the MFJ to charge
12 access on long distance traffic. Therefore, this
13 structure is the most appropriate because it will
14 more readily accommodate all types of calls. This
15 structure also accommodates all the rate elements
16 necessary for the exchange of traffic between ALECs
17 and BellSouth and assists in the transition to a more
18 comprehensive plan. This rate structure is
19 appropriate for the exchange of traffic from ALEC to
20 LEC as well as from LEC to ALEC.

21

22 Q. Under the rate structure discussed above, what is the
23 proper rate level for the exchange of local traffic
24 that terminates on BellSouth's network?

25

1 A. The appropriate rate level should be based on
2 BellSouth's terminating switched access rates. Rate
3 levels for traffic sensitive switched access are
4 appropriate given that the Commission has already
5 deemed these rates just and reasonable. Likewise,
6 the non-traffic sensitive switched access rates have
7 also been found to be just and reasonable by the
8 Commission and appropriately provide a level of
9 support for universal service.
10
11 The rate level may also be affected by the interim
12 universal service support mechanism ultimately
13 adopted by the Commission. Under Alternative 1 of
14 BellSouth's universal service proposal, the ALECs and
15 IXCs will be bulk billed for universal service
16 support and access charges will be reduced by the
17 amount of this support. Therefore, there is no
18 impact on the local interconnection charges. Both
19 IXCs and ALECs would pay the same rates for
20 interconnection. With BellSouth's proposed
21 Alternatives 2 and 3, ALECs would be subject to
22 terminating switched access charges reduced by the
23 amount assessed for the universal service
24 preservation charge.
25

1 Q. What is the appropriate rate level for the exchange
2 of traffic that terminates on an ALEC's network?

3

4 A. The answer is highly dependent on the universal
5 service mechanism adopted by the Commission. If
6 either Alternative 2 or 3 is adopted, there would be
7 a differential in the rate level.

8

9 Q. Mr. Kouroupas states that compensation should be
10 determined based on five principles: Economic
11 Viability, Incentive for Infrastructure Development,
12 Maximize Competitive Opportunity, Unbundling, and
13 Administrative Efficiency. Does BellSouth's proposal
14 meet those criteria?

15

16 A. Yes. While BellSouth does not agree with Mr.
17 Kouroupas' basic premise that reciprocal compensation
18 arrangements are only important when traffic is
19 unbalanced, BellSouth does not take issue with the
20 criteria proposed by Mr. Kouroupas. BellSouth's plan
21 meets these criteria.

22

23 Economic Viability

24

25 BellSouth agrees that compensation must allow for

1 viable local exchange competition. BellSouth's plan
2 provides that each party be compensated for the
3 traffic terminating on each party's network.
4 BellSouth's terminating proposal is based on existing
5 prices for traffic, a structure which accommodates
6 the convergence of all plans, and the provision of an
7 economically viable vehicle to accomplish this.
8
9 Mr. Kouroupas' main concern seems to be the impact of
10 a usage sensitive cost structure on TCG's ability to
11 compete for customers with a flat rated service. The
12 chart on page 33 of Mr. Kouroupas' testimony purports
13 to show the affect of usage sensitive switched access
14 rates on TCG's ability to compete for flat rated
15 residence service. Although Mr. Kouroupas
16 acknowledges he may receive compensation for
17 BellSouth traffic terminating on TCG's network,
18 vertical services and toll services, he excludes
19 those revenues from his chart on the basis that there
20 is no guarantee that TCG will receive such revenues.
21 BellSouth submits that TCG's purpose in entering this
22 business is to make a profit. Consequently, his
23 chart is misleading by omission. The revenue sources
24 he has omitted are precisely the means by which LECs
25 have offset the revenue deficit that exists today

1 with our residential rates. Further, Mr. Kouroupas
2 has limited his chart to residential service and
3 ignores any business customers TCG may serve.

4

5 Incentives for Infrastructure Development

6

7 TCG's concern in this area appears to revolve around
8 where BellSouth will provide interconnection
9 arrangements. BellSouth's proposal includes
10 significant unbundling and physical interconnection.
11 The compensation arrangement coupled with unbundling
12 should facilitate the incentive for competition to
13 develop and infrastructure development. At the same
14 time our plan provides ALECs a way to utilize our
15 network to the extent they choose to do so.

16

17 Maximize Competitive Opportunities

18

19 Basing the BellSouth plan on the switched access rate
20 structure means that ALECs will only purchase those
21 services necessary for interconnection. This
22 provides ALECs with the greatest freedom to repackage
23 their services with other capabilities to sell as
24 retail offerings. BellSouth's plan does not impose
25 any restriction on the manner in which ALECs can

1 structure or price specific retail offerings.

2

3 Unbundling

4

5 BellSouth has committed to unbundle services to the
6 extent that it is technically and economically
7 feasible to do so in accordance with Florida
8 Statutes. BellSouth will provide those elements,
9 components and capabilities requested by ALECs under
10 the criteria outlined above. BellSouth has also
11 proposed in its plan a process similar to that used
12 in ONA to evaluate future unbundling requests.

13

14 Administrative Efficiency

15

16 The switched access structure proposed by BellSouth
17 provides a billing mechanism that must remain in
18 place for toll access arrangements regardless of the
19 local interconnection arrangement ultimately adopted.
20 By simply extending these toll arrangements to the
21 new local interconnection arrangements,
22 implementation costs could be minimized. Conversely,
23 a totally different structure would only serve to
24 exacerbate the problem of distinguishing between
25 different types of calls and carriers. Based on

1 information from other states, ALECs plan to have a
2 billing system in place to bill IXCs for access
3 charges. This system could also be used to bill for
4 local interconnection charges.

5

6 Q. Mr. Kouroupas defines reciprocal compensation as
7 equal compensation. Do you agree?

8

9 A. No. Reciprocal compensation means that both parties
10 will be compensated for the exchange of traffic but
11 does not mean that both parties will be compensated
12 at the same level. Mr. Kouroupas' definition also
13 leads to the erroneous conclusion that compensation
14 is only an issue when traffic is unbalanced.

15

16 Q. Mr. Kouroupas characterizes BellSouth's compensation
17 proposal as being a per minute of use arrangement.
18 Do you agree?

19

20 A. No. BellSouth's proposal, which includes a universal
21 service mechanism and local transport restructure is
22 actually a two part structure when combined with
23 BellSouth's proposal for usage sensitive
24 interconnection charges. Dr. Banerjee's testimony
25 addresses more fully the details of these proposed

1 plans.

2

3 Q. Do you agree with Mr. Kouroupas' assertion that the
4 absence of a long-term number portability arrangement
5 will result in traffic imbalances?

6

7 A. There are many factors that can impact whether the
8 traffic exchange between carriers is balanced or
9 unbalanced. The majority of these factors revolve
10 around marketplace dynamics. One benefit of
11 BellSouth's proposed structure is that it can
12 accommodate both balanced and unbalanced traffic.
13 Further, as stipulated on August 31, 1995, BellSouth
14 intends to make an interim number portability
15 arrangement available on January 1, 1996. It is
16 TCG's decision as to whether they choose to avail
17 themselves of number portability arrangement offered
18 by BellSouth.

19

20 It should also be noted that the number portability
21 issues raised by Mr. Kouroupas are an issue only with
22 embedded base customers and customers that are not
23 changing locations. New customers to an exchange and
24 those moving between exchanges are not affected.

25

1 Q. Is there a relationship between interconnection and
2 unbundling?

3

4 A. Yes. Interconnection arrangements will be impacted
5 by the level of unbundling ultimately agreed to or
6 required.

7

8 Q. What is the definition of unbundling?

9

10 A. Unbundling can be defined as the offering of a
11 service element on a stand alone basis, without any
12 requirement that the purchaser also take or purchase
13 any other service element. In some instances,
14 however, unbundling may be associated with a serving
15 arrangement.

16

17 Q. What criteria should be used in determining the
18 feasibility of unbundling a network element,
19 component or capability?

20

21 A. It is BellSouth's position that the existing ONA
22 model and criteria should be used to the extent
23 possible to determine the feasibility of unbundling
24 network elements, components or capabilities. The
25 ONA criteria adopted by the FCC includes the

1 following requirements that must be met for
2 unbundling:

3
4 Technical Feasibility: The element or capability can
5 be separately provided as a network component and it
6 is not dependent on other network components to have
7 functionality.

8
9 Costing Feasibility: The element or capability must
10 have a discrete, identifiable cost available under
11 existing cost methodology.

12
13 Market Demand: There must be a level of need
14 expressed by a customer or customers sufficient to
15 recover the costs of the element or capability.

16
17 Utility: There must be a demonstration that, if
18 unbundled, the element or capability has the ability
19 to be used in the provision of a service offering.
20 Under the ONA model, a requested unbundled element
21 must meet these requirements to be technically and
22 economically feasible as required by the Florida
23 Statutes.

24
25 Q. What unbundling of network elements, components or

1 capabilities is required at this time?

2

3 A. The BellSouth tariffs have or will have the unbundled
4 components, elements or capabilities that ALECs may
5 wish to purchase. These are discussed in more detail
6 in Mr. Scheye's testimony.

7

8 Q. Is any unbundling of local exchange service necessary
9 at this time?

10

11 A. No. BellSouth's existing or modified tariffs provide
12 all the unbundled elements and capabilities necessary
13 for an ALEC to provision local exchange service.
14 These elements (e.g., loops, interoffice transport)
15 are currently available in BellSouth's General
16 Subscriber Services, Private Line or Access Tariffs.
17 Given the availability of alternative substitutable
18 services for the provision of local exchange service,
19 it is not appropriate or necessary to require
20 additional unbundling of residential or business
21 local exchange service.

22

23 Q. What other capabilities would BellSouth be willing to
24 make available?

25

1 A. As listed on Exhibit 2, there are a number of
2 capabilities that have been requested by potential
3 ALECs that BellSouth plans to make available on an
4 unbundled basis. These include:

- 5
- 6 - Number Portability
- 7 - Centralized Message Database Service (CMDS)
- 8 - Collocation
- 9 - Directory Assistance (DA)
- 10 - Access to Emergency Services (911)
- 11 - Access to 800 Database
- 12 - Access to Operator Services
- 13 - White Page Listings and Directories
- 14 - Signaling
- 15 - Access to Numbers
- 16 - Line Identification
- 17 - Line Identification Database Service (LIDB)
- 18 - Exchange Lines and Ports
- 19 - Access to Poles, Ducts and Conduits

20

21 Mr. Scheye provides a more detailed discussion of
22 these elements in his testimony.

23

24 Q. How will BellSouth make these items available to
25 ALECs?

1

2 A. To the extent they are available, tariffs will be
3 used. In some cases these items will be offered
4 under contract. If new or additional costs
5 associated with the provision of these elements or
6 capabilities to an ALEC are identified, these costs
7 should be borne by the requesting party or parties.

8

9 Q. What process should be used to evaluate new
10 unbundling requests from ALECs?

11

12 A. BellSouth believes a process similar to the one set
13 forth by the FCC's Open Network Architecture (ONA)
14 Plan is appropriate for new local exchange network
15 unbundling requests. Under the ONA Request Process,
16 a 120 day review cycle begins once a request for a
17 new network capability is received. During this
18 time, the request is evaluated with respect to the
19 four criteria discussed previously (i.e., utility,
20 technical feasibility, cost feasibility, and market
21 demand). Parties requesting new unbundled features
22 should be required to also demonstrate how such
23 unbundling would facilitate competition and why those
24 capabilities cannot be provided by the requesting
25 party. This would help ensure that unbundling

1 requests would further the objectives contemplated by
2 the Statutes. If the request meets the criteria
3 outlined above, then it will be made available.

4

5 Q. Please summarize your testimony.

6

7 A. The Commission must recognize the interrelationships
8 that exist between local interconnection, universal
9 service, unbundling and resale issues. It is
10 imperative that these issues be addressed in a
11 comprehensive manner and not on a piecemeal basis.
12 As explained in my testimony, the interim universal
13 service support mechanism will affect the local
14 interconnection compensation arrangement. Therefore,
15 universal service cannot be addressed without
16 consideration of local interconnection. Likewise,
17 resale and unbundling issues must also be resolved in
18 the context of local interconnection as they will
19 impact local interconnection arrangements.

20

21 As proposed by BellSouth, a transitional
22 interconnection plan based on the switched access
23 rate structure and rate levels is the appropriate
24 model for local interconnection arrangements. A
25 transitional structure that moves toward one common

1 interconnection structure is appropriate to support
2 the convergence of traffic types and providers that
3 will ultimately result from competition.

4
5 BellSouth currently provides many unbundled features,
6 functions and capabilities desired by potential ALECs
7 and plans to offer other capabilities either by
8 tariff or through contractual arrangements. To meet
9 the requirements of the Florida Statutes, the ONA
10 process and criteria for new service requests should
11 be employed to evaluate unbundling requests made by
12 ALECs.

13

14 Q. Does this conclude your testimony?

15

16 A. Yes.

17

18

19

20

21

22

23

24

25

PROPOSED ISSUES

1. What is the relationship of local interconnection with other local competition issues?
2. At the present time and under existing conditions, what is the appropriate rate structure for the exchange of local traffic between LECs and ALECs?
3. Under the rate structure discussed above what is the proper rate level for the exchange of local traffic between LECs and ALECs?
4. What, if any, is the relationship between the rate level for local interconnection paid by ALECs and the level of support required for universal service?
5. What are the potential issues that could arise between LECs and ALECs with respect to the exchange of local or toll traffic?
6. What are the consequences if an ALEC uses NXX codes in a manner different from the way LECs use NXX codes today?
7. Should an ALEC's local calling area be the same as LECs?
8. From a network perspective, what are the appropriate types of interconnection between ALECs and LECs?
9. In terms of basic interconnection, what financial arrangements are appropriate if an intermediary handles the traffic?
10. Where there is a significant imbalance in originating and terminating traffic between LECs and ALECs, what is the appropriate rate structure and rate level?
11. What impact will this docket have on existing interconnection arrangements?
12. Should tariffs be filed for interconnection?

13. What is the appropriate definition of unbundling?
14. What criteria should be used in determining the feasibility of unbundling a network element, component or capability?
15. What specific features, functions and capabilities offered by the LECs should be unbundled?
16. How should rate levels be developed for unbundled services?
17. What process should be used to evaluate new unbundling requests?

NEGOTIATION ITEMS

Local Interconnection

- Price Level
- Toll Default
- Use of NXX (LCA)
- Network (Trunking)
- Operational and Administrative
- Forecasts/Timing
- Tariffs/Contracts

Mutual Compensation

- Differential Tied to USF
- Size of Differential
- Co Carrier Status
- Contracts/Agreements

Resale

- Interest
- Packaging Restriction
- Discounts
- Class of Service
- Tariffs

Unbundling

- Price Level
- DA
- Listings
- CMDS
- Collocation
- Loops and Ports
- Number Portability

NEGOTIATION ITEMS

Unbundling (Cont.)

- 911
- LIDB
- 800 Data Base
- Signaling
- Operator Services
- Poles, Ducts, and Conduits
- Forecasts/Timing

Universal Service

- Relationship to Interconnection
- Size (Calculations)
- Method of Recovery
- Recipients
- Timing