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LYNWOOD F. ARNOLD, JR.
JOHN W. BAKAS, JR.
HARRY LEE COE, IV
LINDA DARSEY HARTLEY
C. THOMAS DAVIDSON
STEPHEN O. DECKER
LINDA E. JORGE
VICKI GORDON KAUFMAN
JOSEPH A. MCGLOTHLIN
JOHN W. MCWHIRTER, JR.
RICHARD W. REEVES
FRANK J. RIEF, III
DAVID W. STEEN
PAUL A. STRASKE

100 NORTH TAMPA STREET, SUITE 2800
TAMPA, FLORIDA 33602-5126
MAILING ADDRESS: TAMPA
P.O. BOX 3350, TAMPA, FLORIDA 33601-3350
TELEPHONE (813) 224-0866
FAX (813) 221-1854
CABLE GRANDLAW
PLEASE REPLY TO:
TALLAHASSEE

TALLAHASSEE OFFICE
117 S. GADSDEN
TALLAHASSEE, FLORIDA 32301
TELEPHONE (904) 222-2525
FAX (904) 222-5606

July 31, 1997

HAND DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 960786-TP, In re: Consideration of BellSouth Telecommunications, Inc. entry into InterLATA services pursuant to Section 271 of the Federal Telecommunications Act of 1996

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and fifteen copies of the Rebuttal Testimony of Joseph Gillan in the above docket.

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Please acknowledge receipt of the above on the extra copy enclosed herein and return it to me. Thank you for your assistance.

Sincerely,

Joe McGlothlin

Joseph A. McGlothlin

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CERTIFICATE OF SERVICE

960786-TL

I HEREBY CERTIFY that a true and correct copy of the foregoing **Rebuttal Testimony** of **Joseph Gillan on Behalf of Florida Competitive Carriers Association, AT&T Communications of the Southern States, Inc., MCI Telecommunications Corporation, and WorldCom, Inc.** has been furnished by U.S. Mail, by hand delivery(*), or by overnight delivery(**) on this **31st** day of **July, 1997**, to the following:

Monica Barone*
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

Thomas K. Bond**
MCI Telecommunications Corporation
780 Johnson Ferry Road
Suite 700
Atlanta, Georgia 30342

Richard D. Melson*
Hopping Green Sams & Smith
Post Office Box 6526
123 South Calhoun Street
Tallahassee, Florida 32314

Marsha E. Rule*
AT&T Communications
101 North Monroe Street
Suite 700
Tallahassee, Florida 32301

Floyd R. Self*
Messer, Caparello & Self
Post Office Drawer 1876
215 South Monroe Street, Suite 701
Tallahassee, Florida 32302-1876

Benjamin W. Fincher**
Sprint Communications Company
3100 Cumberland Circle
Atlanta, Georgia 30339
Mailstop: GAATLN0802

Robert S. Cohen*
Pennington, Moore, Wilkinson
& Dunbar, P.A.
Post Office Box 10095
215 South Monroe Street, Suite 200
Tallahassee, Florida 32302-2095

Laura L. Wilson*
Charles F. Dudley
Florida Cable Telecommunications
Association
310 North Monroe Street
Tallahassee, Florida 32302

Nancy B. White**
BellSouth Telecommunications, Inc.
Museum Tower Building, Suite 1910
150 West Flagler Street
Miami, Florida 33130

Nancy H. Sims*
Southern Bell Telephone Company
150 South Monroe Street, Suite 400
Tallahassee, Florida 32301

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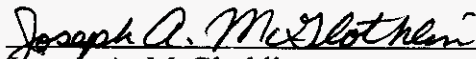
Patrick K. Wiggins*
Donna L. Canzano
Wiggins & Villacorta, P.A.
Post Office Box 1657
501 East Tennessee Street, Suite B
Tallahassee, Florida 32302

Enrico C. Soriano**
John E. Canis
Kelley Drye & Warren
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

C. Everett Boyd, Jr.*
Ervin, Varn, Jacobs, Odom & Ervin
Post Office Box 1170
305 South Gadsden Street
Tallahassee, Florida 32302

Kenneth A. Hoffman*
Rutledge, Ecenia, Underwood,
Purnell & Hoffman
215 South Monroe Street, Suite 420
Tallahassee, Florida 32301-1841

Andrew O. Isar**
Telecommunications Resellers
Association
4312 92nd Avenue, N.W.
Gig Harbor, Washington 98335


Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas, P.A.
117 South Gadsden Street
Tallahassee, Florida 32301
Telephone: (904) 222-2525

Attorneys for Florida Competitive
Carriers Association

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In Re: Consideration of BellSouth
Telecommunications, Inc.'s entry
into interLATA services pursuant to
Section 271 of the Federal Telecommunications
Act of 1996.**

**Docket No. 960786-TL
Filed: July 31, 1997**

REBUTTAL TESTIMONY

OF

JOSEPH GILLAN

ON BEHALF OF

FLORIDA COMPETITIVE CARRIERS ASSOCIATION,

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.,

MCI TELECOMMUNICATIONS, INC.

AND WORLDCOM, INC.

DOCUMENT NUMBER-DATE
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1 **Q. Please state your name and business address.**

2

3 A. My name is Joseph Gillan. My business address is P.O. Box 541038,
4 Orlando, Florida 32854.

5

6 **Q. What is the purpose of your rebuttal testimony?**

7

8 A. The purpose of my rebuttal testimony is to respond to BellSouth's claim
9 that it complies with each requirement of Section 271 of the Act and
10 should, therefore, be provided authority to enter the interLATA market.
11 In my rebuttal testimony, I make the following points:

12

13 First, I address BellSouth's admitted inability to provide the unbundled
14 local switching network element that is specifically required by the
15 Competitive Checklist. This network element is critical to bringing
16 competitive benefits to Florida consumers, particularly as part of the pre-
17 existing combination with the local loop. Consequently, the status of this
18 element should figure prominently in the Commission's review of
19 BellSouth's claimed compliance, and just as prominently in the
20 Commission's recommendation to reject BellSouth's application and
21 proposed SGAT.

22

1 Second, I respond to BellSouth's claim that both Track A and Track B are
2 available under Section 271 of the Act. Congress established a framework
3 that would permit BellSouth to provide interLATA service, but only after
4 BellSouth has taken the actions necessary to open the market to
5 competition. BellSouth inappropriately characterizes considering market
6 conditions as imposing a "metrics test" on its entry, but this perspective
7 ignores the importance of actual entry and competition to the ability to
8 judge BellSouth's claim that it can provide network elements on a scale
9 that will support competition.

10
11 Third, I respond to BellSouth's characterization that BellSouth's ability to
12 comply is in the hands of its competitors. This proposition assumes that
13 *every* potential entrant to the local market -- including, importantly, the
14 other Bell Operating Companies -- are part of an international conspiracy
15 to keep BellSouth from providing long distance services. It is simply
16 unreasonable to conclude that any one entrant has this power, much less
17 that all potential entrants have conspired to achieve such a result. There
18 is only one carrier whose management's actions (and inactions) stand
19 between BellSouth and interLATA authority -- and that carrier's name is
20 BellSouth.

21
22 Fourth, I rebut BellSouth's vague claim that Florida consumers would

1 benefit from the Commission supporting its premature entry. BellSouth's
2 chief economic witness has acknowledged in similar proceedings in other
3 states that consumers *will not* benefit from BellSouth's interLATA entry
4 until other carriers are similarly positioned to offer packages of local and
5 long distance services using network elements (and their own facilities) to
6 provide service.

7
8 Finally, although the Commission should clearly identify the reasons why
9 this application should be rejected, it should also make clear to BellSouth
10 that the Commission will not limit its review in future applications to only
11 the issues addressed here. Time and experience will expose additional
12 problems that must be corrected in order for competition to proceed. This
13 premature application should not become BellSouth's stepping stone to
14 interLATA relief through repetition, rather than compliance.

15
16 **Q. Has BellSouth demonstrated that it has taken the steps necessary to**
17 **open the local market to competition?**

18
19 **A.** No. Attached to my testimony is a basic matrix that illustrates, in
20 relatively simple terms, the core steps necessary to fully satisfy the
21 requirements of Section 271 of the Act. BellSouth may emphasize the
22 number of certificates the Commission has issued, or the number of

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"agreements" that have been signed (or the number of binders it filed with its petition). These measures of *administrative* activity, however, do not bring Florida consumers actual choice -- only the full implementation of the Act can accomplish what Congress intended.

Q. Does your testimony focus on a particular area of this matrix?

A. Yes. My testimony (both direct and rebuttal) focuses on a particular Checklist requirement -- BellSouth's inability/refusal to provide the local switching network element as required by the Act, effective federal rules, and this Commission's arbitration decisions. I focus on this element because of its potential to bring widespread local choice to residential and smaller business customers in Florida.

Because of the competitive significance of this approach, it is not surprising that BellSouth chooses to ignore it -- pretending instead that only service-resale and facilities-based entry are required by the Act (Varner direct, p. 36). The Competitive Checklist, however, is not a "2 out of 3" proposition -- BellSouth must implement and provide each of the Act's tools and fully support each with non-discriminatory operational support systems.

1 **Q. How important are operational support systems to each of the entry**
2 **methods?**

3

4 A. Operational support systems translate theory to reality. Importantly, the
5 operational support systems that BellSouth will use to provide its long
6 distance services -- most notably, the PIC-change process -- are fully
7 automated, inexpensive and routine. For consumers to gain the maximum
8 benefit from local competition, it must become as simple to move to new
9 local providers as it is to today change long distance companies.

10

11 The importance of operational systems increases with the potential
12 application of the entry tool. Service-resale and network-element
13 combinations are the most dependent upon working operational systems
14 because their potential broad application requires systems which can
15 accommodate very large volumes of interaction. Although the *volume*
16 requirements for other entry strategies may be less, the *efficiency* of the
17 systems is no less important. Operational systems will either bring
18 competitive choice or provide an insurmountable barrier to commercial
19 operation.

20

21 In part, my focus on unbundled switching and network-element
22 combinations reflects the potential of this approach to bringing choice

1 broadly to the market; but it also reflects my belief that creating the non-
2 discriminatory operational systems to support this approach will accelerate
3 the implementation of parallel systems used by service-resale and other
4 network elements. Only when BellSouth can fully support *each* method
5 of entry contemplated by the Act, however, will BellSouth comply with the
6 requirements of Section 271.

7

8 **Q. Does BellSouth acknowledge that it cannot provide the unbundled**
9 **local switching network element?**

10

11 A. Yes. BellSouth describes its "ability" to bill the local switching network
12 element with the following sentence (Milner direct, p. 21):

13

14 If an ALEC purchases unbundled switching from BellSouth,
15 BellSouth will either render a manually calculated bill or
16 retain the usage bill until a system generated bill is
17 available, whichever the ALEC elects.

18

19 **Q. Why do you believe BellSouth is unprepared to issue bills for this**
20 **network element?**

21

22 A. As I explained in my direct testimony, unbundled local switching raises
23 unique operational requirements, including issues related to billing. These
24 billing issues take two forms. First, an entrant providing service using

1 unbundled local switching becomes the provider of exchange access service
2 to its customers. As such, the unbundled local switching element must
3 record the usage that the entrant will need to accurately apply access
4 charges. Second, if the entrant does not request customized routing, then
5 the switch's existing routing tables will be used to terminate local calls
6 using the common transport network element. Consequently, BellSouth
7 must record local usage to bill for these elements and, if applicable, for use
8 of the switch itself.

9
10 **Q. What does this imply for the design of the OSS systems to support the**
11 **local switching network element?**

12
13 A. These attributes of the unbundled local switching network element mean
14 that billing records must be established which:

- 15
- 16 • Accurately record and bill for local traffic,
 - 17
 - 18 • Accurately record the switched access traffic
19 (originating and terminating) of the entrant's
20 subscribers so that the *entrant* can issue exchange
21 access bills to other interexchange carriers, and
22
 - 23
 - 24 • Accurately record the switched access traffic
25 (originating and terminating) of the entrant's
26 subscribers so that *BellSouth* can cease billing
27 interexchange carriers for the access traffic of end-

1 users for whom it is no longer the local telephone
2 company.
3
4

5 **Q. What problems are created by BellSouth's inability to issue an**
6 **automated bill for the local switching network element?**

7
8 A. There are a number of reasons why a manual billing process for this
9 critical network element is unsatisfactory and thus requires a Commission
10 finding that BellSouth does not provide this element as required by the
11 Checklist.

12
13 First. Manual billing violates the requirement that network elements,
14 including operational support systems such as billing, be provided in a
15 non-discriminatory manner. BellSouth cannot plausibly claim that it
16 satisfies this standard when it cannot even issue a bill except through a
17 manual process.

18
19 Second. The most important attribute of the local switching network
20 element (correctly defined) is its ability (properly provisioned) to support
21 wide-spread competition for even residential and smaller business
22 customers. Yet, for the network element most likely to be required on a
23 commercial scale, BellSouth declares that it will *manually* issue bills. It
24 is important to understand that this is not a question of one or two bills a

1 month. If entry using local switching is to achieve its potential, BellSouth
2 will be issuing hundreds of thousands of bills each month -- an
3 environment that absolutely requires automated billing.

4

5 Third. It is impractical for carriers to enter now and then wait for
6 BellSouth to develop the ability to issue bills in the future -- even
7 assuming that BellSouth's future billing would be reliable despite its
8 complete inability to issue bills today. Wall Street would never accept
9 such uncertainty in the entrant's costs and financial reports.

10

11 Fourth. There is no reason to believe that every interexchange carrier that
12 terminates toll traffic to the entrant's customers will agree to wait for an
13 access bill (and then pay it when it arrives), even if this condition were
14 acceptable to the entrant. Such a system would cast a cloud of uncertainty
15 over both local and long distance markets.

16

17 Finally, Mr. Milner's statement makes no reference to the necessary
18 adjustments to *BellSouth's* access bills to make sure that BellSouth does
19 not inadvertently bill for access traffic that rightfully belongs to the
20 entrant. I cannot believe that BellSouth intends to manually process its
21 carrier-access bills, but just such an arrangement is implied by Mr.
22 Milner's testimony.

1 **Q. Can BellSouth comply with the Competitive Checklist -- under either**
2 **Track A or Track B -- without substantial changes in its operational**
3 **support for unbundled local switching?**

4
5 A. No. First, although I am not a lawyer, it seems clear that BellSouth may
6 only proceed under Track A. Nevertheless, even if one assumes that
7 BellSouth could proceed under Track B, it would still be required to offer
8 (and be able to provide) this critical network element. With no ability to
9 bill for the local switching network element -- which, in effect, means that
10 BellSouth cannot accurately bill its own switched access service wherever
11 entry using the local switching network element occurred -- BellSouth
12 cannot plausibly claim that it can provide this network element at this time.
13 This deficiency is all the more important when considered in the context
14 of the importance of unbundled local switching to competitors being able
15 to offer services in competition with BellSouth.

16
17 **Q. Please explain why you believe that BellSouth cannot apply for**
18 **interLATA authority under Track B.**

19
20 A. Although BellSouth acknowledges that the FCC will ultimately decide this
21 question (Varner direct, p. 5), BellSouth apparently attaches no particular
22 significance to the FCC's prior deliberations on the issue. The FCC's

1 recent rejection of SBC's comparable claim that it could proceed under
2 Track B in Oklahoma should foreclose any further discussion of this
3 alternative for BellSouth. In fact, in its Order, the FCC explicitly stated
4 that decision applied equally to BellSouth (Memorandum, Opinion and
5 Order, CC Docket No. 97-121, footnote 92):

6
7 We note that when we refer to SBC's position, we
8 are also referring to the positions advanced by
9 Ameritech, Bell Atlantic, and BellSouth.

10
11 **Q. Mr. Varner defines "fully implemented" to mean that either the items**
12 **are actually in service or are functionally available. How do you**
13 **respond?**

14
15 **A.** I disagree with Mr. Varner on two levels. First, his distinction would only
16 be plausibly relevant for a Checklist item for which no entrant seeks
17 implementation. Mr. Varner identifies no such item and, as such, the
18 discussion has no significance.

19
20 Second, I believe it is clear that, in the case of an RBOC to which Track
21 A applies, BellSouth's approach of implementing the items only "on paper"
22 does not pass muster. I will use unbundled switching again to illustrate the
23 point. BellSouth *hasn't* provided it, and in fact *can't* provide it.

1 BellSouth's solution is to "address" it in an SGAT, and then declare "full
2 implementation." This example demonstrates the inherent danger of
3 substituting promises for compliance.

4

5 **Q. Do you have an overall observation concerning BellSouth's efforts to**
6 **avoid a Track A review of its application?**

7

8 **A. Yes.** Track A fundamentally requires that BellSouth's claims can be tested
9 by practical experience, a test which BellSouth appears intent on avoiding
10 by rushing its application for interLATA authority before most entrants
11 have an opportunity to use the tools it claims are available. BellSouth's
12 testimony in this proceeding reflects a single-minded strategy to obtain
13 interLATA authority before the conditions necessary for local competition
14 are understood. Components of this strategy include:

15

16 • Avoiding the requirements of Track A, in particular the
17 requirement that BellSouth be able to demonstrate, through
18 actual market experience, that it is providing required
19 Checklist items.

20

21 • Blaming the absence of local competition on potential
22 entrants by arguing that such entrants are conspiring to keep
23 BellSouth from complying with the Checklist.

24

25 • Characterizing the FCC as creating a "Black Hole" by
26 requiring that BellSouth fully comply with Track A.

27

1 The fundamental problem is that local competition is a difficult
2 undertaking that can only be evaluated by an informed review of actual
3 results.

4
5 **Q. Do you believe that BellSouth's perspective on the availability of Track**
6 **B is reasonable?**

7
8 A. No. BellSouth's perspective on the two Tracks in Section 271 is founded
9 on a different premise than my own. BellSouth apparently believes that
10 Congress intended the Telecommunications Act to provide entrants a
11 narrow window (10 months) to become full fledged local providers, after
12 which BellSouth would be authorized to provide interLATA services
13 whether or not it had fully implemented the tools necessary for local
14 competition to become a reality.

15
16 My testimony begins with the premise that Congress -- which has actively
17 debated telecommunications reform for nearly two decades -- has a far
18 better appreciation for the ambitious promise of this legislation than
19 BellSouth attributes to it. BellSouth's local network and presence
20 represents the cumulative efforts of over *100 years* of commercial
21 operation. And, as I explained in my direct testimony, BellSouth's
22 interLATA entry will benefit from *15 years* of concerted industry effort to

1 reduce each barrier to offering interexchange service. It is simply
2 unreasonable to believe (as BellSouth apparently does) that Congress
3 would impose on local entrants a *10 month* window to offset these
4 advantages, especially considering that entrants are almost entirely
5 dependent upon BellSouth for the basic tools they will need to compete.

6
7 **Q. BellSouth argues that by requiring BellSouth to comply with Track A,**
8 **the FCC has created a "black hole" where BellSouth's interLATA**
9 **entry is now dependent upon its competitors (Varner, p. 4). Do you**
10 **agree?**

11
12 A. No. BellSouth's "theory" necessarily assumes a conspiracy among all
13 potential entrants to the Florida market.

14
15 **Q. Is it reasonable to assume that such a conspiracy is possible?**

16
17 A. No. For such a conspiracy to make economic sense, each potential entrant
18 would have to trust that its fellow conspirators would "honor the vow" to
19 remain outside the market. Yet, each potential entrant would have the
20 incentive to enter early and gain the advantage over the others. For the
21 conspiracy to succeed, therefore, it would need to include *every* potential
22 entrant to BellSouth's region, including United, GTE, NYNEX, Bell

1 Atlantic, Ameritech, Southwestern Bell and US West. And, of course, in
2 the other RBOC regions, the conspiracy would have to include BellSouth
3 itself.

4
5 The simple fact remains that there is underway a large-scale effort to offer
6 local exchange services, both within BellSouth's region and beyond. The
7 fact that competition is coming so slowly to BellSouth can be explained by
8 its strategy to *claim* the market is open, while *denying* entrants the tools
9 they will need to offer competitive service. Only *demonstrated* compliance
10 -- documented by actual competition and experience -- can bring Florida
11 consumers lower prices and more choices.

12
13 **Q. Would Florida consumers benefit from BellSouth's premature entry**
14 **to the interLATA market -- that is, entry before BellSouth has**
15 **implemented each of the tools that its competitors will need to offer**
16 **local services?**

17
18 **A. No.** BellSouth witness Varner encourages the Commission to accelerate
19 its interLATA entry with vague claims regarding the benefits that
20 BellSouth will offer Florida consumers. (Varner direct, p. 7). Yet,
21 BellSouth's own behavior and testimony in other states acknowledges that
22 BellSouth's entry would only bring consumers lower prices if there are

1 *other* providers with the ability to compete with BellSouth, offering
2 packages of local and long distance service broadly across the market, and
3 in a manner which drives prices towards cost.

4
5 **Q. Why do you state that BellSouth's interLATA entry would only**
6 **benefit consumers if meaningful local competition is underway?**

7
8 A. BellSouth's own behavior demonstrates that the *conventional* long distance
9 market is already competitive and, as such, its entry would do nothing to
10 bring more choices or lower prices to consumers. BellSouth is today (and
11 has been since February of last year) authorized to enter the long distance
12 market like any other provider in 41 states. If conventional long distance
13 carriers -- that is, long distance companies that are not also a customer's
14 local telephone company -- were charging prices that are too high, then
15 BellSouth would be entering and competing for those profits in every
16 market outside of the Southeast. The fact that BellSouth has chosen to
17 ignore this opportunity demonstrates that its management recognizes the
18 **inherent competitiveness** of the interexchange market, even if its regulatory
19 witnesses do not.

20
21 BellSouth has deliberately limited its entry plans to its own region where,
22 as a provider of local and long distance service, it would have an

1 advantage over conventional interexchange carriers (that can provide only
2 long distance service). BellSouth's own economist admits that it would
3 use this advantage as a full-service provider to increase its profits unless
4 others can compete with packages of their own. Consider the following
5 discussion by BellSouth witness Dr. Taylor in a similar proceeding in
6 Louisiana (Docket U-22252, Tr. 1063-1064):

7

8 Dr. Taylor: ...[in Louisiana] when BellSouth comes in at
9 even a small discount below what AT&T
10 and MCI charge today, people will flock to
11 them in droves simply because they know
12 who they are. They have dealt with them
13 before, and its easier to have people value
14 one-stop shopping.

15

16 MCI: If consumers flock to BellSouth in droves at
17 something less than a 25 percent discount,
18 then what incentive does BellSouth have to
19 reduce rates by 25 percent?
20

21

22 Dr. Taylor: Oh, it has none whatsoever, but
23 AT&T and MCI do. I mean what
24 happens is BellSouth comes in at
25 what they think the most profitable
26 price for them is going to be.

27

28 I don't know what that is.
29 They will, in my view, take away
30 enough customers from MCI and from
AT&T that AT&T and MCI will respond.

31

32 This exchange proves two telling points. First, if BellSouth is granted
33 interLATA entry prematurely, prices *will not* fall and consumers *will not*
benefit because it can attract customers as a one-stop provider without

1 lowering prices. Consumers will only benefit if other carriers (MCI and
2 AT&T included) have the ability to compete by responding as one-stop
3 competitors with lower prices themselves. This second point is critical,
4 because as I explained in my direct testimony, the *only* entry method that
5 will enable entrants to offer local service and drive prices toward cost is
6 the use of network element combinations that include the local switching
7 network element.

8
9 **Q. Should the Commission provide BellSouth a blueprint to Checklist**
10 **compliance at the conclusion of this proceeding?**

11
12 **A.** No. BellSouth asks that this Commission detail with specificity each
13 deficiency in its application. I also support detailed findings concerning
14 BellSouth's deficiencies. What the Commission must expressly avoid,
15 however, is any finding which limits its review of future applications. I
16 raise this issue because BellSouth has argued in Georgia that the only
17 issues which are relevant to its second effort are those which the
18 Commission identified when it rejected the first application.

19
20 This proceeding is not about identifying the "blemishes" in BellSouth's
21 compliance. BellSouth is *far* from compliance and the complicated process
22 of detailed implementation is only just beginning. The Commission should

1 expect that BellSouth's next application will answer some issues, but it
2 should also expect that it will raise others.

3

4 It is impossible to predict at this time each of the problems that will be
5 created by BellSouth's next level of strategic decisions. This is, in fact,
6 one of the key reasons why Track A's focus on actual competitive activity
7 and the full implementation of interconnection agreements is so important.
8 BellSouth's ultimate compliance with the Checklist and all that it requires
9 can, in the final analysis, only be judged by its results.

10

11 **Q. Does this conclude your rebuttal testimony?**

12

13 **A. Yes.**

14

Roadmap to Local Competition

Area of Inquiry	Entry Technique		
	Resale	Network Elements	Facilities-Based
Are each of the tools required by this entry approach correctly defined?			
Are each of the tools required by this entry approach correctly priced?			
Are there non-discriminatory OSS supporting pre-order?			
Are there non-discriminatory OSS supporting ordering?			
Are there non-discriminatory OSS supporting provisioning?			
Are there non-discriminatory OSS supporting maintenance and repair?			
Are there non-discriminatory OSS supporting billing?			

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing **Rebuttal Testimony of Joseph Gillan on Behalf of Florida Competitive Carriers Association, AT&T Communications of the Southern States, Inc., MCI Telecommunications Corporation, and WorldCom, Inc.** has been furnished by U.S. Mail, by hand delivery(*), or by overnight delivery(**) on this **31st day of July, 1997**, to the following:

Monica Barone*
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

Thomas K. Bond**
MCI Telecommunications Corporation
780 Johnson Ferry Road
Suite 700
Atlanta, Georgia 30342

Richard D. Melson*
Hopping Green Sams & Smith
Post Office Box 6526
123 South Calhoun Street
Tallahassee, Florida 32314

Marsha E. Rule*
AT&T Communications
101 North Monroe Street
Suite 700
Tallahassee, Florida 32301

Floyd R. Self*
Messer, Caparello & Self
Post Office Drawer 1876
215 South Monroe Street, Suite 701
Tallahassee, Florida 32302-1876

Benjamin W. Fincher**
Sprint Communications Company
3100 Cumberland Circle
Atlanta, Georgia 30339
Mailstop: GAATLN0802

Robert S. Cohen*
Pennington, Moore, Wilkinson
& Dunbar, P.A.
Post Office Box 10095
215 South Monroe Street, Suite 200
Tallahassee, Florida 32302-2095

Laura L. Wilson*
Charles F. Dudley
Florida Cable Telecommunications
Association
310 North Monroe Street
Tallahassee, Florida 32302

Nancy B. White**
BellSouth Telecommunications, Inc.
Museum Tower Building, Suite 1910
150 West Flagler Street
Miami, Florida 33130

Nancy H. Sims*
Southern Bell Telephone Company
150 South Monroe Street, Suite 400
Tallahassee, Florida 32301

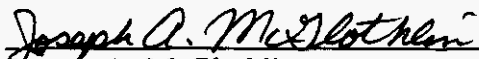
Patrick K. Wiggins*
Donna L. Canzano
Wiggins & Villacorta, P.A.
Post Office Box 1657
501 East Tennessee Street, Suite B
Tallahassee, Florida 32302

Enrico C. Soriano**
John E. Canis
Kelley Drye & Warren
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

C. Everett Boyd, Jr.*
Ervin, Varn, Jacobs, Odom & Ervin
Post Office Box 1170
305 South Gadsden Street
Tallahassee, Florida 32302

Kenneth A. Hoffman*
Rutledge, Ecenia, Underwood,
Purnell & Hoffman
215 South Monroe Street, Suite 420
Tallahassee, Florida 32301-1841

Andrew O. Isar**
Telecommunications Resellers
Association
4312 92nd Avenue, N.W.
Gig Harbor, Washington 98335


Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas, P.A.
117 South Gadsden Street
Tallahassee, Florida 32301
Telephone: (904) 222-2525

Attorneys for Florida Competitive
Carriers Association