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December 18, 1995

ORIGINAL
FILE COPY

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

via Hand Delivery

Re: Resolution of Petition(s) to Establish 1995 Rates,
Terms, and Conditions for Interconnection Involving
Local Exchange Companies and Alternative Local
Exchange Companies Pursuant to Section 364.162,
Florida Statutes; Docket No. 950985D-TP (TW)

Dear Ms. Bayo:

Enclosed for filing please find an original and fifteen copies
of the Rebuttal Testimony of Joan McGrath on behalf of Time Warner
AxS of Florida, L.P. and Digital Media Partners for the above-
referenced docket. You will also find a copy of this letter
enclosed. Please date-stamp the copy of this letter to indicate
that the original was filed and return to me.

If you have any questions regarding this matter, please feel
free to contact me.

Respectfully,

PENNINGTON & HABEN, P.A.

Charles W. Murphy
Charles W. Murphy

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CERTIFICATE OF SERVICE
DOCKET NO. 950985D-TP

I HEREBY CERTIFY that a true and correct copy of Time Warner AxS of Florida, L.P.'s and Digital Media Partners' Rebuttal Testimony of Joan McGrath has been served by either *Federal Express or Hand Delivery on this 18th day of December, 1995, to the following parties of record:

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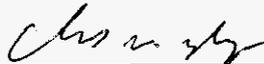
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CHARLES W. MURPHY, ESQ.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **DOCKET NO. 950985D-TP**
3 **REBUTTAL TESTIMONY OF**
4 **JOAN McGRATH**
5 **ON BEHALF OF TIME WARNER AXS OF FLORIDA, L.P.**
6 **AND DIGITAL MEDIA PARTNERS**

7
8 **Q: PLEASE STATE YOUR NAME, POSITION, AND BUSINESS**
9 **ADDRESS.**

10 **A: My name is Joan McGrath, and my business address is**
11 **160 Inverness Drive West, Englewood, Colorado,**
12 **80112. I am the Manager for Interconnect**
13 **Management at Time Warner Communications.**

14
15 **Q: HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?**

16 **A: Yes. I submitted Direct Testimony on behalf of**
17 **Time Warner AxS of Florida, L.P. and Digital Media**
18 **Partners, herein referred to as "Time Warner."**

19
20 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A: It is my understanding that Time Warner has adopted**
22 **all of my testimony that previously has been filed**
23 **in this docket. This includes my direct and**
24 **rebuttal testimony filed in response to TCG's**
25 **petition, my rebuttal testimony filed in response**

1 to Continental's petition, and my direct testimony
2 in Time Warner's petition in its docket. The
3 purpose of this additional testimony is to
4 supplement these filings by offering additional
5 rebuttal to the testimony filed on behalf of Bell
6 South Telecommunications, Inc., (BellSouth).

7

8 **Q: BELLSOUTH'S WITNESS ROBERT C. SCHEYE STATES THAT HE**
9 **BELIEVES THAT THE COMMISSION SHOULD SET LOCAL**
10 **INTERCONNECTION RATES TAKING INTO ACCOUNT THE**
11 **INTERRELATIONSHIP BETWEEN LOCAL INTERCONNECTION AND**
12 **UNIVERSAL SERVICE AND CARRIER OF LAST RESORT**
13 **SUPPORT (P. 3-4). IS THIS YOUR POSITION?**

14 **A:** No. As I have said in other testimony filed in
15 this case, these issues should be addressed
16 separately. Local interconnection arrangements
17 should be determined (and priced) in a manner that
18 encourages local competition. Doing so produces
19 choices and new, innovative services at lower
20 prices for consumers. Having a local
21 interconnection structure that encourages
22 competition in all parts of the local exchange
23 market, including residential and business
24 customers, is also the best way to ensure that
25 universal service goals are met. Thus, local

1 interconnection compensation should be set
2 independent of any universal service funding
3 requirement. The definition of universal service
4 assumes providing customers with basic local
5 exchange service where competition does not so
6 provide. Including a contribution to universal
7 service in interconnection rates will discourage
8 competition, therefore resulting in a greater need
9 for universal service funding. When these two
10 concepts are linked, as BellSouth has proposed,
11 local interconnection becomes more costly. The
12 Florida Public Service Commission's recent decision
13 in the universal service docket allows a petition
14 for support by a LEC that believes that competition
15 is eroding its ability to meet its universal
16 service and carrier of last resort obligations.
17 This process is adequate to ensure that LECs will
18 be able to continue to meet those obligations,
19 without deterring local competition and linking
20 this issue to interconnection compensation.

21

22 **Q: BELLSOUTH WITNESS SCHEYE LISTED THREE COMPONENTS**
23 **WHICH HE BELIEVES SHOULD BE PART OF A LOCAL**
24 **INTERCONNECTION PLAN (P. 4-6). DO YOU HAVE ANY**
25 **COMMENTS ON THESE COMPONENTS?**

1 A: Yes. Time Warner does not believe that switched
2 access charges are appropriate elements for local
3 interconnection, since these charges contain
4 contribution which is a deterrent to the
5 introduction of local competition and consumer
6 choice.

7
8 Further, BellSouth's proposed toll default
9 mechanism flies in the face of reason. BellSouth
10 has proposed that if it cannot tell whether a call
11 terminating from a BellSouth customer to a Time
12 Warner is local or toll, it will not pay any local
13 interconnection charges (if the Commission does not
14 adopt bill and keep), but will charge Time Warner
15 originating switched access charges. There are
16 several aspects of this proposal that make no
17 sense.

18
19 The billing of charges from BellSouth end users to
20 Time Warner end users is totally in the hands of
21 BellSouth. BellSouth will make a determination
22 that calls from a given BellSouth NXX to a given
23 Time Warner NXX are, from BellSouth's perspective,
24 either local or toll. It will bill those charges
25 accordingly. Under today's environment, where

1 there is no intraLATA presubscription, if BellSouth
2 declares a call to be toll, BellSouth will bill its
3 end user toll charges. Under this scenario, it is
4 ludicrous that BellSouth would then charge Time
5 Warner originating access charges, and be doubly
6 compensated (from BellSouth's end user and from
7 Time Warner's originating access charges) for this
8 call. If BellSouth declares a call to be local,
9 BellSouth will charge its customer its local
10 interconnection price (if flat rate, zero), and
11 then should pay Time Warner the usual local
12 interconnection compensation (bill and keep under
13 Time Warner's proposal). The determination as to
14 what is local and what is toll should be worked out
15 between the two local service providers before
16 business begins, so that for intercompany
17 compensation purposes, the two companies know what
18 calls will be considered local. There should be no
19 "toll default" mechanism. I might add that
20 intercompany compensation prices are not the same
21 as end user pricing.

22
23 For example, Time Warner may choose to have a
24 local calling area that is greater than or less
25 than that of the incumbent. This should not be at

1 issue. One of the consumer benefits of competition
2 is having a choice--of providers, of service types
3 and quality, and of prices.

4
5 Witness Scheye also states that a structure that
6 eventually merges all interconnection arrangements
7 into one common structure is optimal. This is
8 based on the notion that the distinction between
9 local and toll will eventually blur. In some
10 regards, I agree. However, to meet the goal of
11 having local competition, facilities-based local
12 service providers must have incentives to invest in
13 their networks, and so should be treated
14 differently from IXCs and other providers who are
15 not making local network investments. For example,
16 in New York, there is a LATAwide termination rate
17 for local service interconnection, which differs
18 from the toll access rates. BellSouth's single
19 rate for interconnection for both IXCs and ALECs
20 discourages ALECs from making a local
21 infrastructure commitment, thus impeding the
22 development of local competition and consumer
23 choice.

1 Q: WITNESS SCHEYE COMMENTED THAT NUMBER PORTABILITY
2 IMPACTS BELLSOUTH'S ABILITY TO DETERMINE WHETHER
3 CALLS ARE LOCAL OR TOLL (P. 6). IS THIS THE CASE?

4 A: Definitely not. Calls ported through BellSouth go
5 first to the consumer's BellSouth telephone number,
6 then to Time Warner. Time Warner customers using
7 ported numbers will still be the same customers in
8 the same local area as when BellSouth was serving
9 him. BellSouth will not have any problem
10 distinguishing between local and toll on ported
11 calls.

12

13 Q: HOW DO THE ALECS' DEPLOYMENT OF NXX'S ENTER INTO
14 THE DETERMINATION OF LOCAL AND TOLL TRAFFIC?

15 A: Section 364.16(3)(a), Florida Statutes, requires
16 that no local service provider shall knowingly
17 deliver traffic under a local interconnection
18 arrangement for which terminating access charges
19 would normally apply. Time Warner fully intends to
20 comply with this. The issue in this case is the
21 definition of what is local and what is toll for
22 interconnection purposes. The statute does not
23 define from whose perspective "local" should be
24 determined. BellSouth, of course, assumes that its
25 perspective is the only perspective. Time Warner

1 does not believe this needs to be the case. In a
2 changing local service environment, there may be
3 multiple definitions of "local", depending on the
4 local service provider, or even the particular
5 calling plan of a given provider.

6
7 For Time Warner to be able to comply with
8 BellSouth's definition of "local", Time Warner must
9 have access to sufficient numbering resources to be
10 able to mimic BellSouth's local calling areas for
11 interconnection purposes. BellSouth, as the North
12 American Numbering Plan Administrator in its area,
13 has the ability to affect ALEC access to scarce
14 numbering resources.

15
16 Rather than having Time Warner perfectly reflect
17 BellSouth's local calling areas, which can change
18 over time as new local calling plans are
19 implemented by BellSouth, the two companies should
20 sit down and agree on which calls should be
21 considered "local" and "toll" for interconnection
22 purposes, then BellSouth should provide Time Warner
23 with adequate numbering resources to implement this
24 agreement. Certainly witness Scheye's example of
25 one NXX for both Tallahassee and Panama City could

1 be problematic. However, having one NXX for each
2 of BellSouth's local calling areas would be a
3 tremendous waste of scarce numbering resources.
4 This could be worked out between the two companies.
5 As I stated in my direct testimony, a LATA-wide
6 local interconnection rate would minimize the use
7 of NXXs and would still comply with the statute for
8 local interconnection purposes.

9

10 Q: WITNESS SCHEYE STATES THAT BELLSOUTH WILL BE ABLE
11 TO READILY ACCOMMODATE MEASURING AND BILLING FOR
12 TERMINATING LOCAL USAGE (P. 8-9). IS THIS YOUR
13 UNDERSTANDING?

14 A: No. Based on witness Scheye's assertions during
15 negotiations, I understand that BellSouth does not
16 have this ability. However, even if it does, it
17 does not make sense to measure and bill for traffic
18 which will be in balance. Witness Scheye seeks to
19 minimize the significance of the expenses
20 surrounding the measurement of local traffic for
21 interconnection purposes. Measuring local traffic
22 between providers is one aspect of related costs
23 incurred by the new entrant. Billing and auditing
24 for this traffic is another example of an
25 unnecessary cost. I need only to refer to the

1 experience of the IXCs in measuring, auditing, and
2 billing access traffic with the LECs, who have
3 incurred large, unnecessary expenses related to the
4 measurement of IXC traffic, to refute these
5 assertions. Add to this the fact that, on average,
6 a given customer's local traffic is much more
7 voluminous than her toll traffic, and the expenses
8 relating to measuring local traffic become
9 overwhelming.

10

11 Q: WITNESS SCHEYE ASSERTS THAT A DIFFERENTIAL BETWEEN
12 TANDEM AND END OFFICE INTERCONNECTION IS
13 APPROPRIATE (P. 13). DO YOU AGREE WITH HIS
14 ARGUMENTS?

15 A: BellSouth fails to note that it has built its
16 tandem-based network to make itself more efficient,
17 so that for its own traffic, fewer interoffice
18 direct connections need to be made. BellSouth
19 proposes to charge Time Warner based on its network
20 design, failing to take into account Time Warner's
21 different network design. BellSouth needs to shed
22 the notion that the world will continue to be the
23 way it was in the past. Rather than having a
24 network interconnection charge that reimburses both
25 companies based on a neutral compensation scenario

1 which does not penalize (or reward) any particular
2 network design, BellSouth seeks to perpetuate its
3 own inefficiencies by making new entrants pay a
4 price based on those efficiencies.

5
6 For example, assume that the ALEC places only a
7 single switch, using longer "loop" plant to reach
8 its customers than does BellSouth. The total cost
9 to Time Warner for terminating a BellSouth local
10 call may or may not be less than BellSouth's cost
11 for terminating a Time Warner local call. Time
12 Warner may have more loop costs, and less switching
13 and transport costs than BellSouth.

14
15 If the interconnection rate structure is designed
16 so that the only costs Time Warner can recover in
17 its local interconnection tariff are switching and
18 interoffice transport costs, Time Warner will be
19 handicapped relative to BellSouth, and may be
20 prevented from recovering all of its costs
21 regardless of whether those costs are less than or
22 equal to BellSouth's costs. Particularly in the
23 early stage of local competition, Time Warner will
24 mostly be terminating calls from customers of
25 BellSouth rather than from its own customers.

1 Because of Time Warner's inability to recover its
2 costs using its preferred architecture, it will
3 have an incentive to try to mirror the architecture
4 of BellSouth, even if this were not the most
5 efficient architecture. Such a result would be
6 very bad for the public, because it would reduce
7 the dynamic efficiency benefits from entry. Time
8 Warner should not be constrained by BellSouth's
9 rate design from developing its network as
10 efficiently as possible.

11

12 **Q: WITNESS SCHEYE ASSERTS THAT BILL AND KEEP DOES NOT**
13 **ENCOURAGE ALECS TO PROVIDE EFFICIENT FUNCTIONALITY**
14 **INTERNAL TO THEIR OWN NETWORKS. DO YOU AGREE?**

15 **A: No. Actually Witness Scheye is incorrect. Bill**
16 **and keep encourages both the new entrant and the**
17 **incumbent LEC to more efficiently carry local**
18 **exchange traffic. This is because both the ALEC**
19 **and BellSouth can increase their profit margin, the**
20 **more efficiently they carry this traffic. Thus, in**
21 **both instances, providers are encouraged to**
22 **minimize their expenses or efficiently configure**
23 **their network to increase their net profit.**

1 Q: WITNESS SCHEYE CONTINUES TO ASSERT THAT EVEN UNDER
2 A BILL AND KEEP SCENARIO, THERE WOULD STILL BE A
3 NEED TO MEASURE AND BILL LOCAL TRAFFIC (P. 16). IS
4 THIS THE CASE?

5 A: No. Although the local service providers may
6 choose, for various reasons, to measure local
7 traffic exchanged with other local service
8 providers, there is a significant difference
9 between measuring traffic and billing for it.
10 Witness Scheye continues to confuse billing for
11 local traffic with billing for toll traffic (e.g.,
12 800 traffic and other toll traffic). Measuring and
13 billing for local traffic is both expensive and
14 resource-consuming and acts as an unnecessary
15 barrier to entry.

16
17 Q: DO YOU AGREE WITH WITNESS SCHEYE'S COMMENT THAT
18 BILL AND KEEP ONLY WORKS FOR COMPANIES SERVING
19 MUTUALLY EXCLUSIVE TERRITORIES, AND NOT FOR
20 OVERLAPPING SERVICE AREAS (P. 16)?

21
22 A: No. Witness Scheye likened the interconnection of
23 ALECs with BellSouth to the interconnection of IXCs
24 and BellSouth. Actually, the interconnection of
25 ALECs with BellSouth is more like that of cellular

1 companies with BellSouth--overlapping service
2 areas. There is one important difference, however.
3 Unlike cellular companies, ALECs must differentiate
4 local from toll for interconnection purposes,
5 according to Florida's statute. ALECs, as well as
6 LECs, have an obligation to ensure that traffic
7 terminating over local interconnection arrangements
8 is not traffic for which access charges are due.
9 Therefore, witness Scheye's analogy to IXCs and
10 LECs pooling revenues does not fit here.

11

12 It is reasonable and rational for interconnecting
13 LECs and ALECs to exchange traffic on a payment-in-
14 kind basis, so long as the area within which the
15 payment-in-kind arrangement applies is defined
16 between the two companies. As I suggested in my
17 direct testimony supporting Time Warner's petition,
18 LATAwide local termination is a reasonable
19 definition of the area within which bill and keep
20 should apply. The Commission has the discretion to
21 define "local" as it sees fit. For local
22 interconnection purposes, it should define "local"
23 as within the LATA, and should order bill and keep
24 for local traffic exchange.

1 Q: WITNESS SCHEYE ASSERTED THAT A "TANDEM HOTEL"
2 ARRANGEMENT IS APPROPRIATE FOR DISCUSSION IN THIS
3 VENUE. DO YOU AGREE?

4 A: No. Witness Scheye incorrectly characterized this
5 as a space rental issue. Rather, since more than
6 one ALEC may be collocated in BellSouth's tandem
7 for the purpose of interconnecting with BellSouth,
8 there appears to be no reason that those ALECs
9 should not be able to interconnect with each other
10 at that tandem as well. Further, if such
11 interconnection does not require the use of
12 BellSouth's tandem switch, there is no reason to
13 use the switch and exhaust it prematurely. Thus, a
14 direct connection between two ALECs which are
15 already collocated in BellSouth's tandem appears to
16 be efficient and reasonable.

17
18 Q: WITNESS SCHEYE STATED THAT HE BELIEVES ALECS SHOULD
19 BE REQUIRED TO PAY SOUTHERN BELL ANY ADDITIONAL
20 COSTS IT INCURS TO STORE ALEC DIRECTORY ASSISTANCE
21 INFORMATION. DO YOU AGREE?

22 A: No. Southern Bell gains value from having a
23 comprehensive directory assistance database. This
24 value translates to revenue through the sale of
25 this database to other directory assistance

1 providers or through the charging of end users for
2 directory assistance. The revenues BellSouth gains
3 from the additional directory listings should cover
4 any minimal BellSouth costs for storing ALEC
5 directory assistance information.

6
7 Q: WITNESS BANNERJE ASSERTS THAT BELLSOUTH MUST
8 RECOVER AS MUCH REVENUE FOR ITS INTERCONNECTION
9 RATE AS THE SUM OF THE DIRECT COST OF PROVIDING
10 INTERCONNECTION PLUS THE ALLEGED LOST CONTRIBUTION
11 CAUSED BY NEW ENTRY. IN OTHER WORDS, HE ARGUES
12 THAT NEW ENTRANTS SHOULD PAY BOTH THE COST OF
13 INTERCONNECTION PLUS THE ALLEGED LOST CONTRIBUTION.
14 DO YOU AGREE?

15 A: No. It is a poor public policy and incredibly
16 anticompetitive to recommend that new entrants pay
17 for the incumbents' past, current, and future
18 inefficiencies. In other words, BellSouth expects
19 both Time Warner and other new entrants to fund
20 BellSouth's alleged competitive losses due to the
21 existence of competition. It is incredibly
22 anticompetitive to expect a new entrant to replace
23 alleged contribution flows claimed to be lost due
24 to competitive entry, especially when BellSouth

1 expects to obtain the pricing flexibility of price
2 cap regulation on January 1, 1996.

3
4 The Washington Utilities and Transportation
5 Commission recently recognized that this approach
6 acts as a barrier to entry in denying requests from
7 U.S. West that new entrants finance alleged
8 contribution flows, and instead, ordered bill and
9 keep linked to database number portability. (See,
10 *Fourth Supplemental Order Rejecting Tariff Filings*
11 *and Ordering Refiling; Granting Complaints, in*
12 *Part, Washington Utilities and Transportation*
13 *Commission; Docket Nos. UT-941464, UT-941465, UT-*
14 *950146, UT-950265, pages 29-33 [October 31, 1995].)*

15

16 **Q: WITNESS BANNERJE ARGUES THAT IMPUTATION IS ONLY**
17 **WARRANTED FOR RETAIL SERVICES THAT DEPEND UPON**
18 **ESSENTIAL FACILITIES AVAILABLE ONLY FROM ONE OF THE**
19 **RETAIL COMPETITORS, AND THAT IF BELLSOUTH APPLIES**
20 **AN IMPUTATION TEST TO ITSELF, SO SHOULD THE NEW**
21 **ENTRANTS. DO YOU AGREE WITH THIS?**

22 **A:** No. Imputation prevents an entrant who has to buy
23 a monopoly bottleneck input from being placed in a
24 price squeeze. All aspects of interconnection
25 offered by BellSouth are today essential to new

1 entrants, and thus need to be imputed. Therefore,
2 the only fair way to approach the interconnection
3 rates that BellSouth proposes to charge new
4 entrants is to require BellSouth to impute the
5 entire interconnection rate into its own local
6 exchange rate. Time Warner has proposed bill and
7 keep, a scenario under which imputation related to
8 interconnection rates would not be needed. Because
9 Time Warner and other ALECs offer no essential
10 bottleneck facilities, the concept of imputation is
11 not applicable to either Time Warner or the other
12 new entrants. The public policy behind imputation
13 is to encourage competition and prohibit price
14 squeeze, and thus, should be applied to BellSouth
15 and the other incumbent LECs. If price squeezes
16 are not precluded, consumers are harmed by not
17 having the competitive benefit of new entrants--
18 innovative technology, lower prices, and equal or
19 better service quality.

20

21 **Q: PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

22 **A:** I have taken issue with BellSouth's proposal that
23 interconnection and universal service should be
24 linked. I have also argued that bill and keep
25 produces the most efficient network architecture

1 for ALECs, and that it is reasonable and rational
2 in an overlapping provider environment, contrary to
3 BellSouth's opinion. Further, I have disagreed
4 with BellSouth's proposal to charge different rates
5 for tandem and end office interconnection. I have
6 taken issue with BellSouth's toll default proposal,
7 and with its concerns regarding the termination of
8 traffic between BellSouth and Time Warner because
9 of NXX assignments. I have reasserted the
10 reasonableness of a "tandem hotel", and disagreed
11 with BellSouth's arguments in favor of measuring
12 and billing. I have explained why BellSouth
13 benefits from storing ALECs' directory assistance
14 listings. Finally, I have taken issue with
15 BellSouth's view of imputation.

16

17 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

18 **A: Yes, it does.**