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December 11, 1995

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

Re: Docket No. 950984-TP

ACK
AFA _____
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WAS _____
ORI _____

Dear Mrs. Bayo:

Enclosed for filing in the above referenced docket are an original and fifteen (15) copies of the Rebuttal Testimony of Joe Gillan on behalf of AT&T.

Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

Yours truly,

[Signature]
Michael W. Tye

Attachments

cc: J. P. Spooner, Jr.
Parties of Record

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12366 DEC 11 95
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Resolution of Petition(s)
to establish nondiscriminatory
rates, terms, and conditions for
resale involving local exchange
companies and alternative local
exchange companies pursuant to
Section 364.161, Florida Statutes

DOCKET NO. 950984-TP

REBUTTAL TESTIMONY OF

JOSEPH GILLAN

ON BEHALF OF AT&T COMMUNICATIONS

OF THE SOUTHERN STATES, INC.

DECEMBER 11, 1995

DOCUMENT NUMBER-DATE

12366 DEC 11 95

FPSC-RECORDS/REPORTING

I. Introduction

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, Orlando,
4 Florida 32854.

5

6 **Q. What is your occupation?**

7

8 A. I am an economist with a consulting practice specializing in
9 telecommunications. My clients span a range of interests and have included
10 state public utility commissions, consumer advocate organizations, local
11 exchange carriers, competitive access providers, and long distance companies.

12

13 **Q. Please briefly outline your educational background and related experience.**

14

15 A. I am a graduate of the University of Wyoming where I received B.A. [1978] and
16 M.A. [1979] degrees in economics. My graduate program concentrated on the
17 economics of public utilities and regulated industries with course work
18 emphasizing price theory and statistics. During graduate school, I served an
19 internship with Mountain Bell in its Demand Analysis Group modeling the
20 residential demand for local service.

1 In 1980, I joined the Illinois Commerce Commission where I had responsibility
2 over the policy content of Illinois Commission filings before the U.S. District
3 Court and the Federal Communications Commission; provided staff testimony
4 in various Commission proceedings concerning the divestiture agreement (e.g.,
5 the design of LATA boundaries for Illinois, and post-divestiture rate levels for
6 AT&T and Illinois Bell), and the original access charge plan to replace both
7 interLATA and intraLATA settlements procedures. While at the Commission,
8 I served on the staff subcommittee for the NARUC Communications
9 Committee and was appointed to the Research Advisory Council overseeing
10 NARUC's research arm, the National Regulatory Research Institute.

11

12 In 1985 I left the Commission to join U.S. Switch, a venture firm organized to
13 develop interexchange access networks in partnership with independent local
14 telephone companies. At the end of 1986, I resigned my position of Vice
15 President-Marketing to begin a consulting practice. Since then I have advised a
16 variety of clients ranging from state public utility commissions, consumer
17 advocates, interexchange carriers, competitive access providers, cable television
18 companies and local exchange carriers. I currently serve on the Advisory
19 Council for New Mexico State University's Center for Regulation.

20

21 **Q. On whose behalf are you testifying in this proceeding?**

1 A. I am testifying on behalf of AT&T Communications of the Southern States, Inc.

2

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

4

5 A. The purpose of my rebuttal testimony is to respond to the testimony of Southern
6 Bell witnesses Robert Scheye and Dr. Andrew Banerjee, specifically the
7 suggestion in their testimony that anything less than the *full* availability of the
8 BellSouth network to its local competitors, at *cost-based* rates, will provide
9 Florida consumers with a choice of local service providers.

10

11 This Commission (and others throughout the country) are overseeing a change
12 in the telecommunications industry as fundamental as the divestiture itself; the
13 emergence of local competition. The single most critical factor that will
14 determine the competitiveness of the industry is the pricing and availability of
15 the existing exchange network (in this case, BellSouth's) to other providers of
16 retail service.

17

18 BellSouth's characterizations that its tariffs already contain the ingredients for
19 meaningful local competition are misleading, as is its implication that few
20 operational issues can be expected to arise. Quite the contrary, the
21 "unbundling" and "interconnection" requests before the Commission in the
22 instant proceeding -- while extremely important -- will together provide only a

1 modest opportunity for competitive entry, almost certainly limited to
2 metropolitan areas, and significant steps will still be necessary to make local
3 competition a reality for most Florida consumers, even after these proceedings
4 are concluded.

5
6 This observation, however, does not diminish the significance of the issues
7 debated here. Quite the opposite, the decisions reached here will have
8 continuing importance as other necessary actions -- including the introduction
9 of wholesale configurations more complete than unbundled loops and ports,
10 vigilant oversight of the wholesale pricing of BellSouth's network to its rivals,
11 and close monitoring of areas of potential discrimination between BellSouth's
12 retail services and those of its rivals -- are addressed.

13

14 **Q. Please summarize the basic conclusions of your rebuttal testimony.**

15

16 **A.** The basic conclusions of my rebuttal testimony:

17

18 * The BellSouth network resource will remain the primary facility
19 underlying most retail services for the foreseeable future.

20

21 * Consumers will benefit most from the broadest array of services,
22 features and prices if the BellSouth network is opened to all retail providers on

1 equivalent terms, conditions and prices.

2

3 * Unbundled loops are one (although, not necessarily the most important)
4 of the wholesale offerings that BellSouth must introduce in order for Florida
5 consumers to enjoy a choice of local provider. Other offerings must include a
6 bundled wholesale offering, call termination, and various features available
7 solely from the local switch.

8

9 * The appropriate strategy for the pricing of BellSouth's wholesale
10 services is to price based on the direct economic cost of the wholesale
11 component (bundled or unbundled) being purchased.

12

13 **Q. How is your rebuttal testimony organized?**

14

15 A. First, the testimony provides a general discussion concerning the dependence of
16 BellSouth's rivals on its network, and describes the basic wholesale
17 configurations that will be needed to support local competition. As expected,
18 one of the principal configurations requires that *components* of the BellSouth
19 network (in particular, the local loop) must be available separately from other
20 network elements. The Commission can expect, however, requests for more
21 *complete* wholesale configurations (effectively combining loops and network
22 usage) so that customers beyond selected metropolitan locations may also

1 experience local competition. While my rebuttal testimony does not request
2 that the Commission introduce such arrangements in this proceeding,
3 BellSouth's position that it will not allow carriers to combine unbundled loops
4 and ports portends a future debate that the Commission must begin
5 understanding today.

6
7 Second, the testimony addresses the appropriate strategy to use when pricing
8 wholesale services. BellSouth's pricing suggestion -- that it be permitted
9 unfettered discretion to increase its wholesale prices above cost in accordance
10 with an "inverse elasticity" rule -- is a form of competitive euthanasia that must
11 be firmly and flatly rejected.

12
13 Finally, my testimony begins to identify areas of future action that the
14 Commission can anticipate as it further unravels BellSouth's franchise
15 monopoly and opens local markets to competition.

16
17 **II. Wholesale Configurations Underlying Local Competition**

18
19 **Q. Why is the BellSouth Network so important to the development of**
20 **competition?**

21
22 **A. There are two reasons why the BellSouth network is so important to the**

1 development of competition. First, BellSouth's local exchange network --
2 consisting of local loops to individual premises, local switching and an
3 expansive interoffice network web -- is simply too vast to replicate in the
4 foreseeable future. This is particularly true in Florida, which affirmatively
5 *banned* network deployment within so-called Equal Access Exchange Areas
6 (EAEAs) until 1990, and prohibited alternative loop networks (bypass) even
7 beyond that date. Even if these regulatory policies had not been in place,
8 however, it is important that the Commission recognize that sheer magnitude of
9 the BellSouth network will mean that it will be the dominant (if not monopoly)
10 network underlying virtually all services for quite some time.

11
12 Second, BellSouth inherits an indisputable advantage of a franchise monopolist
13 -- it already serves the entire marketplace. Communications, by its very nature,
14 requires connections between BellSouth and its rivals so that all customers can
15 reach one another, irrespective of which service provider they have chosen. As
16 a result, even in instances where a competitor can economically replicate a
17 *portion* of the BellSouth network, it must interconnect with and resell other
18 elements, including call termination to the subscribers that remain with
19 BellSouth.

20
21 **Q. How complex is the BellSouth exchange network?**

1 A. The BellSouth exchange network is vast, connecting over 3 million residential
2 housing units and essentially every commercial premise in its region. Although
3 BellSouth sometimes seeks to paint these statistics as a disadvantage -- implying
4 that its network is the result of a "governmental obligation" as opposed to its
5 own financial self-interest -- the ubiquity, reach and capacity of this network is
6 enormous.

7
8 BellSouth's exchange network consists of nearly 5 million *active* local loops
9 (switched access lines), providing both local and long distance service, plus
10 additional loop capacity that today lies dormant. Measuring the local network
11 solely in terms of loops, however, understates its significance and misrepresents
12 the enormous investment that would be necessary for even a single provider --
13 much less, the multiple providers necessary for a fully robust competitive
14 environment -- to duplicate. BellSouth's local network also includes a switching
15 matrix of 144 local switches and 70 remote switches, all interconnected by a
16 web of interoffice fiber facilities.

17
18 Because of the size and geographic reach of the BellSouth network, local
19 competition will proceed at a snail's pace unless this network can be used by
20 other carriers to provide local exchange and exchange access services.

1 **Q. Please identify the basic wholesale configurations that must be available for**
2 **Florida consumers to have a choice of their local service provider.**

3
4 A. There are two basic wholesale configurations: (1) an unbundled loop model, and
5 (2) the wholesale network option. The main subject of these dockets concerns
6 the pricing of the unbundled loop, and its traffic-termination complement (i.e.,
7 interconnection service).

8
9 The "unbundled loop" configuration combines a resold loop (i.e., the
10 transmission path that serves the individual subscriber) with a local switch
11 provided by the entrant. In addition, under this configuration, the reseller must
12 also obtain a "terminating service" to complete all of the local calls that
13 terminate with subscribers of BellSouth (which begins local competition with all
14 of the customers). This termination service is equivalent to the switched access
15 service used by interexchange carriers to complete toll calls.

16
17 The "wholesale service" option is a more complete network platform that
18 includes the loop, port, and the *seamless* termination of non-presubscribed
19 traffic. By "seamless termination" I mean that non-presubscribed calls are
20 routed directly by the BellSouth network to the called party, while 1+ calls
21 would be delivered to the presubscribed carrier's network for completion. Under
22 the wholesale configuration, BellSouth's exchange network is used by the

1 entrant to provide underlying dial tone, call completion, and various optional
2 capabilities that are associated with exchange switch: call waiting, call
3 forwarding, etc. This wholesale local platform is analogous to the wholesale
4 interexchange services that will be available to BellSouth, if (or when) it is
5 permitted to offer long distance services.

6
7 The principal difference between the wholesale and unbundled-loop
8 configurations is that the unbundled loop configuration requires a provider to
9 establish a collocated interconnection with BellSouth at each central office
10 where it intends to purchase loops, and install local switching capacity
11 necessary to support the line. In other respects, the use of the BellSouth
12 network to provide service (i.e., the use of the local loop and the termination of
13 the call) is essentially the same.

14

15 **Q. Are both of these configurations resale configurations?**

16

17 A. Yes. I am aware that sometimes an erroneous and artificial distinction is drawn
18 between the unbundled-loop and wholesale service configurations with the
19 inference that purchasers of unbundled-loops are "facilities-based" and users of
20 the "wholesale" option are resellers. More accurately, both configurations are
21 resale configurations. In fact, the unbundled-loop configuration is directly
22 analogous to the classic resale arrangement used in long distance, where the

1 reseller used its own switch and relied upon the transmission networks of others
2 to complete calls. The real distinction (discussed below) is that the wholesale
3 configuration is useful *throughout* a region, while unbundled loops limit a
4 carrier to particular end-offices.

5

6 **Q. Are these alternative configurations mutually exclusive?**

7

8 A. No. It is most likely that some entrants will employ both configurations,
9 serving some customers from their switch and others by reselling the wholesale
10 service offered by the local exchange carrier. Furthermore, some entrants will
11 rely on their own network to connect directly to customers (thereby avoiding
12 resale of the incumbent's local loop altogether). Assuming cost-based and non-
13 discriminatory pricing of the LEC's wholesale products, the market will decide
14 which configuration is the most efficient in any given case. As described below,
15 however, the unbundled-loop configuration suffers from a number of
16 deficiencies that limit its usefulness outside particular metropolitan applications.

17

18 It is important to understand, however, that by exposing these deficiencies I *am*
19 *not* suggesting that the process of network unbundling should be delayed or
20 perceived with diminished significance. Unbundling the network is a vital
21 element of a strategy enabling rational facilities deployment, permitting entrants
22 to enter the market with limited networks, expanding their facilities as cost

1 conditions permit. It is not, however, sufficient to assure that retail competition
2 will become available broadly to all consumers.

3

4 **Q. Why will the unbundled-loop option prove insufficient to promote local**
5 **competition?**

6

7 A. The unbundled-loop configuration is effective to serve customers in a specific
8 geographic region (the customers served by a particular central office). In this
9 sense, it is most useful to a carrier with a narrow geographic focus, willing to
10 slowly develop its customer base by concentrating on serving selected
11 locations. It does not appear that it can support broad competition throughout
12 an entire area, much less an entire state, certainly not quickly.

13

14 The deficiencies of the unbundled-loop configuration are three-fold:

15

16 * The unbundled-loop configuration is viable only after a collocated
17 interoffice network exists.

18

19 * The unbundled-loop configuration is not supported by the
20 administrative and operational systems necessary to allow large numbers of
21 subscribers to change local service providers and is thus incapable of supporting
22 an environment of one-stop shopping and BellSouth entry to the long distance

1 market.

2

3 * The unbundled-loop configuration demands extensive investment in
4 local switching and interoffice investment -- investment that will require time to
5 accomplish even where it is cost-effective.

6

7 **Q. What is the practical limit to the usefulness of the unbundled-loop**
8 **configuration?**

9

10 A. The unbundled-loop configuration effectively requires that a provider establish
11 a collocated presence at BellSouth's central office to provide local exchange
12 service. In Florida, BellSouth has more than 140 central offices; as of June 12,
13 1995, however, collocated networks had been established at only 18. While
14 this number may increase, the fact of the matter is that unbundled loops will not
15 provide a useful option to serve most Florida consumers for quite some time.
16 While an entrant uninterested in broadly serving the market may find this
17 limitation acceptable, interexchange carriers typically already have customers
18 throughout the region. And, as the market moves towards full service
19 competition -- with carriers offering packages of local and long distance service
20 to remain competitive -- interexchange carriers must be prepared to respond to
21 *all* of their customers, not just those conveniently served by selected end
22 offices.

1 Second, particularly if BellSouth were permitted to offer long distance services,
2 one could expect significant shifts in market share between existing providers.
3 Customers would be changing long distance carriers to consolidate with their
4 local service, and there would need to be a comparable opportunity to
5 consolidate local service with long distance. The unbundled-loop
6 configuration, however, requires a *physical* change in the network -- i.e., the
7 actual loop to the customer must be reconfigured from BellSouth's local switch
8 to cross-connect to a competitor. Physical circuit reconfigurations are far more
9 difficult than the software-controlled process currently used to effect a change in
10 a customer's long distance carrier (the PIC-change process). A fair transition to
11 a full service environment would require systems that can accommodate both
12 types of customer choices with comparable speed and ease.

13
14 Finally, the unbundled-loop configuration requires that BellSouth's interoffice
15 and local switching network be duplicated in order to provide broad coverage.
16 As noted above, this network is defined by over 200 end office and remote
17 switches, interconnected by an extensive interoffice network web carrying local
18 and access traffic to their respective destinations. Requiring competitors to
19 replicate this network as a predicate to offering local exchange service
20 throughout the region is only slightly less a barrier to entry than expecting
21 alternative networks to each and every subscriber premise.

1 **Q. Does it make sense to require competitors to duplicate BellSouth's**
2 **interoffice network to offer service?**

3
4 A. No. Requiring the duplication of the interoffice network (and local switching
5 matrix) as a predicate to local competition is both wasteful and problematic. It
6 is wasteful because it would impose an unnecessary barrier to competition,
7 forcing entrants to needlessly incur significant investment costs. The more
8 economically rational approach would be to correctly price BellSouth's full
9 network thereby encouraging investment where it is cost effective, but not
10 imposing an unnecessary investment threshold as a litmus-test for market
11 participation.

12
13 It is problematic because its final result -- a competitor's network defined by
14 BellSouth's central offices -- means that the architectural decisions of the
15 incumbent decide the basic architecture and network design of its rivals. If this
16 approach is pursued, each and every *subsequent* design decision by BellSouth --
17 to introduce, consolidate, or discontinue an end office -- would have serious
18 repercussions on the costs and networks of its rivals.

19
20 The point is that the BellSouth network is likely to remain the sole network
21 resource to most Florida consumers for the foreseeable future. Further, the
22 pricing and availability of this resource -- either in its unbundled-loop or

1 wholesale configurations -- is critical to the development of local competition
2 Finally, the process to open the local market to competition is complex, and will
3 require far more than the unbundling at issue here.
4

5 **Q. Please contrast your perspective on local competition with BellSouth's**
6 **proposal to offer loops and ports to competitors.**
7

8 A. BellSouth's proposal for wholesale offerings to support local competition
9 addresses none of the concerns identified above. BellSouth's "unbundled loop"
10 (a voice grade private line) is neither priced nor provisioned as a local loop.
11 Even more disturbing, however, is the structure of BellSouth's proposal to
12 provide "wholesale" dial tone .
13

14 BellSouth (Scheye, page 5) intends to only offer usage-rated ports at retail STS
15 prices and has announced that it will refuse to connect wholesale loops to
16 wholesale ports (Scheye, page 4) so that carriers may fashion full-service
17 platforms. In one sense, BellSouth is correct when it notes that it would be far
18 easier to fashion a wholesale service (as I have described above) that includes
19 the basic network elements of local exchange and exchange access service, than
20 it would be to force carriers to recombine unbundled elements (Scheye, page
21 13). But, this rationale supports the *introduction* of a wholesale platform, not
22 the adoption of a restriction that prohibits others from achieving the same result.

1 **Q. What would be the effect of the Commission sanctioning BellSouth's**
2 **wholesale approach?**

3
4 A. The BellSouth approach is deliberately structured to stop local competition in its
5 tracks by effectively foreclosing other carriers from offering services using the
6 BellSouth network. Given the absolute dominance of this network, such an
7 outcome is tantamount to foreclosing local competition, effectively denying
8 Florida consumers benefits that will be realized in other states that are
9 aggressively opening the market.

10

11 **III. Pricing of the Total Wholesale Network Service**

12

13 **Q. How does BellSouth propose to price its wholesale services?**

14

15 A. The BellSouth wholesale proposal offers a mixture of pricing philosophies:

16

17 * Wholesale network prices should be established by *historical*
18 *coincidence* (Scheye, pages 7-9), by adopting the prices of preexisting services
19 that share superficial similarities to the wholesale arrangements requested by
20 new entrants.

21

22 * Wholesale network prices should be established in accordance with the

1 *inverse elasticity* principle (Banerjee, page 11), which would increase the price
2 of network services above cost in proportion to the dependency of BellSouth's
3 rival on its network.

4

5 Neither of these strategies, however, is consistent with fostering a competitive
6 local exchange marketplace as envisioned by Florida Statute and stated
7 legislative intent:

8 “ The Legislature finds that the competitive
9 provision of telecommunications services,
10 including local exchange telecommunications
11 service, is in the public interest and will provide
12 customers with freedom of choice, encourage the
13 introduction of new telecommunications service,
14 encourage technological innovation, and encourage
15 investment in telecommunications infrastructure. . . .”
16 Section 364.01(3), Florida Statutes.
17

18 **Q. What principle should guide the establishment of wholesale prices?**

19

20 A. To maximize competition -- that is, to promote an environment that will present
21 Florida consumers with the greatest diversity of pricing plans, calling options,
22 and service features -- it is important that the underlying exchange network be
23 available to *all* retail providers of local exchange services on the same terms,
24 conditions and prices.

1 There are only two ways to assure that all retail providers have access to a
2 monopoly network on equivalent terms. The first is to prohibit the monopoly
3 from offering the retail service at all. This is the basic approach that underlaid
4 divestiture. BellSouth was foreclosed from the retail long distance market, but
5 divestiture assured that all *other* retail providers were on an equal footing.

6
7 In areas where *both* the monopoly and its rivals provide retail service, however,
8 the only viable mechanism is to establish the price of the underlying monopoly
9 component at its economic resource cost. The effective price of the monopoly
10 network to BellSouth's retail services will be the network's total service long run
11 incremental cost. Regulatory tools cannot change this fundamental fact. So that
12 all providers face the same effective price for the use of this network as
13 BellSouth's own retail service, the wholesale price charged these carriers must
14 reflect this underlying cost.

15
16 As a side note, the proper definition of cost for a wholesale network component
17 (unbundled) or platform (bundled) is far closer to the TSLRIC described by Dr.
18 Cornell than the LRIC suggested by Dr. Banerjee. First, Dr. Banerjee is
19 incorrect when he indicates that a LRIC cost analysis would not include service-
20 specific fixed costs (Banerjee, page 5). Both TSLRIC and LRIC measures
21 should be calculated over a time horizon where these costs are variable and thus
22 would be included in the analysis. The more important point is that wholesale

1 network cost analysis is not a retail cost study, attempting to isolate the
2 additional cost of an individual service offered on a network of multiple
3 products. Rather, the relevant analysis should identify the cost of specific
4 *network* elements (loops, basic switching, network usage, special features such
5 as call waiting etc.) that the retail carrier purchases so that it may fashion retail
6 services.

7

8 **Q. Does BellSouth understand the importance of cost-based rates?**

9

10 A. Yes. BellSouth recently filed comments with the European Commission
11 considering opening local markets to competition strongly advocating pricing
12 rules similar to those I support here:

13

14 BellSouth Europe supports the Green Paper's . . . position
15 that "Regulatory authorities should have a responsibility
16 . . . for ensuring . . . cost-oriented pricing structures.
17 "This should be done by insisting on LRIC-based
18 interconnection charges.

19

20 **Q. Will a pricing strategy based on "historical coincidence" yield correct**
21 **prices?**

22

23 A. No. The prices of the services that BellSouth proposes to use were never
24 established as wholesale components, they were never intended to promote

1 local competition, and they have never been scrutinized for the purpose of
2 judging their reasonableness in these roles.

3

4 **Q. Would Dr. Banerjee's "inverse elasticity" principle provide reasonable**
5 **wholesale prices?**

6

7 A. No. First, the inverse elasticity rule should not be applied to a wholesale
8 service. Distilled to its essence, the inverse elasticity rule increases the price of
9 an product -- in this case, the price of the underlying network that BellSouth's
10 competitor must buy in order to provide exchange service to a subscriber -- until
11 it effects the quantity demanded. In this instance, however, the effect on
12 demand from an excessive wholesale price is that BellSouth's rival is unable to
13 compete with BellSouth.

14

15 Under this set of incentives, what possible value could the inverse elasticity rule
16 provide? If "correctly" applied, BellSouth could use it to "justify" increasing its
17 prices to rivals to *exactly* the point at which the rival might offer service, but that
18 BellSouth received most of the profit. The "penalty" from increasing the price
19 beyond this point, however, is not a loss in demand, but the assurance that no
20 rival could compete with BellSouth for the customer's service.

21

22 Dr. Banerjee also ignores that the inverse elasticity rule, even where it might

1 apply in the pricing of retail services, is structured to adjust prices so as to meet
2 a "revenue requirement". With BellSouth's election of price cap regulation, the
3 concept loses all meaning.

4

5 **Q. Should the Commission be concerned with establishing operational parity**
6 **between the services of the reseller and those provided by BellSouth itself?**

7

8 A. Yes. The Commission should strive for parity between the retail services of
9 BellSouth and -- to the extent determined by the operational support systems of
10 BellSouth's wholesale offerings -- the retail services crafted by its rivals.
11 Further, the Commission should strive to make it as easy for consumers to
12 change retail local service providers as it currently is for customers to change
13 long distance carriers.

14

15 In this last regard, it is important to remember that the interexchange PIC-
16 change process is highly automated and time-tested. In contrast, the systems
17 needed to transfer an end user from BellSouth to a new local carrier using
18 BellSouth's wholesale services will all be new and, at least at the beginning, are
19 unlikely to be as automated or have as low an error-rate as the PIC-change
20 process.

IV. Summary

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22

Q. Please summarize your testimony.

A. Changing conditions in the marketplace, and potential changes in federal regulatory policies, all require that local exchange markets be opened to competition. Significantly, local network arrangements in the future will not be altogether different than they are today: the incumbent local telephone company will continue to own the predominant (if not monopoly) local facilities network. The key to a highly competitive retail service environment -- *in spite* of the incumbent's dominant position -- will be the structure and pricing of the incumbent's wholesale choices.

The two basic steps needed to accomplish local competition are introducing unbundled loops and the creation of an end-to-end total wholesale network arrangement that any provider can easily combine with its other services, including long distance, and enhance with its own retail marketing and customer support skills.

These network options must be introduced expeditiously, supported by operational systems that reflect their wholesale purpose, and priced appropriately.

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

2

3 **A. Yes.**

CERTIFICATE OF SERVICE

DOCKET NO. 950984-TP

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties of record this 11th day of December, 1995:

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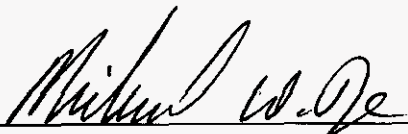
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