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REPLY TO:
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November 27, 1995

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. 950985A-TP
(Continental)

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.

Peter M. Dunbar
Peter M. Dunbar

- ACK
- AFA
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- Chase
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CERTIFICATE OF SERVICE
DOCKET NO. 950985A-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 27th day of November, 1995, to the following parties of record:

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PETER M. DUNBAR, ESQ.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **DOCKET NO. 950985A-TP (CONTINENTAL)**
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 DOCKET?**

16 **A:** Yes. On behalf of Time Warner AxS of Florida, L.P.
17 and Digital Media Partners (collectively "Time
18 Warner") I previously submitted the following
19 Prefiled Testimony: Direct and Rebuttal in the TCG
20 Petition; Direct in the Continental Petition, and
21 Direct in the Time Warner Petitions.

22
23 **Q: WHAT IS THE PURPOSE OF YOUR INSTANT TESTIMONY?**

24 **A:** The purpose of this testimony is to rebut the
25 Direct Testimony filed on behalf of Bell South

1 Telecommunications, Inc., (BellSouth) in the
2 Continental Petition. To this end, and to avoid
3 needless duplication, I adopt as Rebuttal Testimony
4 in the Continental Petition the following Prefiled
5 Testimony: my Direct and Rebuttal Testimony filed
6 in the TCG Petition, and my Direct Testimony filed
7 with the Time Warner Petitions. There are also a
8 few additional points that I would like to address.

9

10 Q: BELLSOUTH'S WITNESS ROBERT C. SCHEYE STATES THAT HE
11 BELIEVES THAT THE COMMISSION SHOULD SET LOCAL
12 INTERCONNECTION RATES TAKING INTO ACCOUNT THE
13 INTERRELATIONSHIP BETWEEN LOCAL INTERCONNECTION AND
14 UNIVERSAL SERVICE AND CARRIER OF LAST RESORT
15 SUPPORT. IS THIS YOUR POSITION?

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

1 interconnection rates should be set independent of
2 any universal service funding. The definition of
3 universal service assumes providing customers with
4 basic local exchange service where competition does
5 not so provide. Including a contribution to
6 universal service in interconnection rates will
7 discourage competition, thereby resulting in a
8 greater need for universal service funding. When
9 these two concepts are linked, as BellSouth has
10 proposed, local interconnection becomes less
11 economically efficient, with the result that the
12 development of local competition is hindered. It
13 appears to me that the Florida Public Service
14 Commission understands linking these issues for new
15 entrants does not permit competitive entry because
16 it has set up separate proceedings for temporary
17 number portability (Docket No. 950937-TP),
18 universal service (Docket No. 950696-TP),
19 resolution of interconnection disputes (Docket No.
20 950985-TP), and unbundling disputes (Docket No.
21 950984-TP).

1 Q: BELLSOUTH WITNESS SCHEYE EXPRESSED CONCERNS
2 REGARDING THE EFFICIENCY OF BILL AND KEEP (P. 8).
3 DO YOU BELIEVE THAT BILL AND KEEP DOES NOT
4 ENCOURAGE ALECS TO PROVIDE EFFICIENT FUNCTIONALITY?

5 A: Definitely not. In fact, as I stated in my direct
6 testimony, bill and keep is neutral in terms of
7 both the technology and architecture that any ALEC
8 might choose to adopt. Opening the local exchange
9 to entry and developing local exchange competition
10 benefits Florida residents with competition between
11 different technologies and different architectures.
12 If the compensation arrangements for terminating
13 traffic force new providers to choose inferior
14 technology or architecture, then a primary benefit
15 of entry will be reduced or eliminated. Such a
16 result would not be in the public interest.

17
18 Q: BELLSOUTH HAS PROPOSED RATES WHICH DIFFERENTIATE
19 THE PRICE BETWEEN CONNECTING AT A BELLSOUTH TANDEM
20 VERSUS AT A BELLSOUTH END OFFICE. WHAT EFFECT DOES
21 THIS HAVE ON THE NETWORK EFFICIENCY OF ALECS?

22 A: BellSouth, like other incumbent LECs, has a network
23 that has evolved over many years to become what it
24 is today--a series of end offices and tandems
25 interconnected in various ways (and not necessarily

1 efficiently). Most customers are served by
2 switches which are relatively close to the
3 customers. If the network were redesigned today
4 from scratch, its design would most likely be more
5 efficient.

6
7 Differential rates for tandems versus end offices
8 do not encourage efficient network design. For
9 example, assume that the ALEC places only a single
10 switch, using longer "loop" plant to reach its
11 customers than does BellSouth. The total cost to
12 Time Warner for terminating a BellSouth local call
13 may or may not be less than BellSouth's cost for
14 terminating a Time Warner local call. Time Warner
15 may have more loop costs, and less switching and
16 transport costs than BellSouth.

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

1 early stage of local competition, Time Warner will
2 mostly be terminating calls from customers of
3 BellSouth rather than from its own customers.

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

15

16 **Q: WITNESS SCHEYE STATED THAT THE EXCHANGE OF TRAFFIC**
17 **BETWEEN BELLSOUTH AND INDEPENDENT LOCAL EXCHANGE**
18 **COMPANIES (LECS) IS COMPENSATED WITH TERMINATING**
19 **ACCESS CHARGES. DO YOU HAVE ANY COMMENTS ON THIS**
20 **STATEMENT?**

21 **A:** Yes. Witness Scheye's comment is misleading. I
22 agree that today when BellSouth interconnects with
23 another LEC for the exchange of toll traffic, under
24 Florida's Modified Access Based Compensation (MABC)
25 Plan, the originating LEC pays terminating access

1 charges. For local interconnection, however, which
2 is the subject of this proceeding, the LECs
3 exchange traffic through a bill and keep
4 arrangement.

5

6 Q: DO YOU AGREE WITH WITNESS SCHEYE'S COMMENT THAT
7 BILL AND KEEP ONLY WORKS FOR COMPANIES SERVING
8 MUTUALLY EXCLUSIVE TERRITORIES, AND NOT FOR
9 OVERLAPPING SERVICE AREAS?

10 A: No. Witness Scheye likened the interconnection of
11 ALECs with BellSouth to the interconnection of IXCs
12 and BellSouth. Actually, the interconnection of
13 ALECs with BellSouth is more like that of cellular
14 companies with BellSouth--overlapping service
15 areas. There is one important difference, however.
16 Unlike cellular companies, ALECs must differentiate
17 local from toll for interconnection purposes; this
18 is necessary in order to comply with Section
19 364.10(3)(a), Florida Statutes, which requires
20 appropriate payment for terminating access service.
21 Therefore, witness Scheye's analogy to IXCs and
22 LECs pooling revenues does not fit here.

23

24 It is reasonable and rational for interconnecting
25 LECs and ALECs to exchange traffic on a payment-in-

1 kind basis, so long as the area within which the
2 payment-in-kind arrangement applies is defined
3 between the two companies. As I suggested in my
4 direct testimony supporting Time Warner's petition,
5 LATAwide is a reasonable definition of the area
6 within which bill and keep should apply. The
7 Commission has the discretion to define "local" as
8 it sees fit. For local interconnection purposes,
9 it should define "local" as within the LATA, and
10 should order bill and keep for local traffic
11 exchange.

12

13 **Q: WITNESS SCHEYE STATED THAT HE BELIEVES ALECS SHOULD**
14 **BE REQUIRED TO PAY SOUTHERN BELL ANY ADDITIONAL**
15 **COSTS IT INCURS TO STORE ALEC DIRECTORY ASSISTANCE**
16 **INFORMATION. DO YOU AGREE?**

17 **A:** No. Southern Bell gains value from having a
18 comprehensive directory assistance database. This
19 value translates to revenue through the sale of
20 this database to other directory assistance
21 providers or through the charging of end users for
22 directory assistance. The revenues BellSouth gains
23 from the additional directory listings should cover
24 any minimal BellSouth costs for storing ALEC
25 directory assistance information.

1 Q: PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

2 A: I have taken issue with BellSouth's proposal that
3 interconnection and universal service should be
4 linked. I have also argued that bill and keep
5 produces the most efficient network architecture
6 for ALECs, and that it is reasonable and rational
7 in an overlapping provider environment, contrary to
8 BellSouth's opinion. Further, I have disagreed
9 with BellSouth's proposal to charge different rates
10 for tandem and end office interconnection.
11 Finally, I have explained why BellSouth benefits
12 from storing ALECs' directory assistance listings.

13

14 Q: DOES THIS CONCLUDE YOUR TESTIMONY?

15 A: Yes, it does.