

1 **Q. Please turn to the second section of your testimony. First, would you briefly**  
2 **summarize Bell's position on local competition in Pennsylvania?**

3 A. Yes. Bell presents "five principles fundamental to the development of full and fair local  
4 exchange competition":

- 5 1. Incumbent LECs should be required to provide co-carriers only with "essential"  
6 services; the provision of all other services should be "a market decision."
- 7 2. Rates charged should at least cover the cost of service.
- 8 3. Rates should include a contribution to common costs.
- 9 4. Unbundling requirements should be fully reciprocal.
- 10 5. Technical and operational arrangements of the existing network must be  
11 respected.

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13 **Q. Do you agree with the first principle?**

14 A. No. Bell's first principle is self-serving, and not consistent with the public interest. By  
15 limiting unbundling requirements to "essential facilities" dominant carriers would be  
16 given excessive discretion to decide on the extent and type of wholesale services that it  
17 will offer.. A carrier with monopoly power should not be given this much freedom to  
18 decide for itself the extent to which serves the needs of wholesale customers. This is  
19 particularly true, since the wholesale offerings of the incumbent carrier represent a  
20 pivotal element in the transition to a more competitive local telephone market. With  
21 appropriate disaggregated and priced wholesale offerings, barriers to entry will be  
22 reduced; without such offerings, other carriers will find it difficult to enter the market.

23 Under Bell's approach, one could argue that cellular service is an  
24 "economically feasible" alternative to Bell's facilities, and thus bops need not be  
25 unbundled and provided to other carriers. Clearly, the public will benefit if competitors  
26 are given an opportunity to use components of the incumbent's network at reasonable

1 rates, since this will reduce barriers to entry. The Congress and the President seem to  
2 agree, since the Telecommunications Act of 1996 (the Act) recently signed into law,  
3 states that incumbent local exchange carriers have  
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5 [t]he duty to provide, to any telecommunications carrier for the provision of a  
6 telecommunications service, nondiscriminatory access to network elements on  
7 an unbundled basis at any technically feasible point on rates, terms, and  
8 conditions that are just, reasonable, and nondiscriminatory. . . . An incumbent  
9 local exchange carrier shall provide such unbundled network elements in a  
10 manner that allows requesting carriers to combine such elements in order to  
11 provide such telecommunications service. Sec.251(c)(3)  
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13 This provision is strongly pro-competitive, going far beyond the narrow  
14 approach adopted by the Company in its filing. I am an economist, and will not attempt  
15 to provide any legal interpretations; however, from my perspective, the fundamental  
16 tradeoff Congress made was to allow BA-PA and similarly situated LECs into the  
17 interLATA toll market, while requiring them to open their local telephone markets to  
18 competition. The strong unbundling requirements in the 1996 Act are an important and  
19 valuable part of that tradeoff.

20 In order to make a rapid and successful transition from monopoly conditions to  
21 effective competition, incumbent LECs should be required to provide a full array of  
22 unbundled services to co-carriers at just and reasonable rates. Certainly, the scope of  
23 mandatory wholesale offerings should not be limited to those services that are deemed  
24 “essential.” Competitors should be allowed to use any and all elements of the  
25 incumbent’s network, whether or not these elements are “essential.” Furthermore, they  
26 should be allowed to use the elements they want or need, without being forced to use  
27 other elements that they do not want, or need. Thus, wholesale services should be  
28 structured on a fully unbundled, discretionary basis, allowing purchasers to gain access

1 to network elements at any technically feasible point, and to combine elements in  
2 whatever manner they find desirable and appropriate.

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4 **Q. Would you please comment on Bell's second and third principles?**

5 A. I agree that the LECs should be given an opportunity to recover the reasonable and  
6 necessary costs of serving their customers, including co-carriers. However, this  
7 opportunity should not translate into a blank check. Bell should not be free to gold plate  
8 the service provided to co-carriers, nor should it be free to select overly expensive  
9 technologies or methods of providing service. The "cost" of serving co-carriers should  
10 be based upon appropriate economic costing principles, (e.g. TSLRIC), and the  
11 Commission should resolve any conflicts or disagreements concerning the magnitude of  
12 these costs in a manner that is consistent with the public interest.

13 I have no objection to the third principle, requiring unbundled service rates to  
14 include contributions to common costs, provided that the Commission recognizes that  
15 the extent of such contributions can and should vary, depending upon the relevant  
16 circumstances. For certain services, like number portability, a relatively small  
17 contribution to common costs would be appropriate and consistent with the public  
18 interest. Also, the definition of "common costs" may be controversial. Does Bell include  
19 claimed costs of such things as maintaining ubiquitous service and carrier of last resort  
20 obligations? Although the universal service docket should at least partly resolve this  
21 issue, the definition of "common costs" should be limited to the types of general and  
22 administrative overheads that are common to all business firms. Furthermore, it is  
23 reasonable for wholesale services to provide a smaller contribution than retail services  
24 to the recover of overhead costs, all other things being equal. Many overhead costs  
25 (e.g. corporate image building, market planning, public relations) would logically be  
26 much smaller, or non-existent, in a firm that only sells at the wholesale level

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**Q. What is your reaction to Bell’s fourth and fifth principles?**

A. I agree that unbundling requirements should be reasonably symmetrical. Appropriately interpreted, this tends to ensure that all carriers are treated fairly, regardless of whether or not they enjoy market power, and it reduces the likelihood that carriers will be able to engage in anti-competitive practices. This requirement is particularly important in situations where carriers other than the incumbent enjoy a degree of market power, (e.g., cable television firms). However, it will also be helpful in ensuring that a policy of widespread, mandatory unbundling can be implemented without unduly prejudicing specific carriers (e.g., the incumbent LECs). While the 1996 Act distinguishes between incumbent LECs and other carriers with regard to unbundling requirements, it would be reasonable and appropriate to go a step further, and require other LECs to also unbundle key elements of their network, since this requirement would advance the public interest.

Finally, I agree that it is reasonable to respect the technological requirements of the existing network, provided that it is understood that this does not mean that Bell’s technical and operational preferences will always prevail. The public interest should be the ultimate criteria for resolving conflicts between the incumbents and new entrants; the mere fact that the incumbent carriers’ network “exists” does not necessarily mean that these existing arrangements must always prevail in the event of a conflict.

All carriers, including the incumbents, should be required to maintain a reasonable degree of compatibility with all other carriers. No carrier should be allowed to introduce equipment or software that is technically incompatible with that of other carriers, if this would serve to defeat efforts to maintain ubiquitous and universal interconnection amongst competing networks. Even so, entrants should not be implicitly or explicitly forced to mirror the network design of the incumbent carrier. Network

1 integrity should not become an excuse for denying co-carriers access to network  
2 functions, or for rejecting the introduction of new or improved technology by new  
3 carriers.

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5 **Q. Does the newly enacted Telecommunications Act of 1996 speak to this issue?**

6 A. Yes. In addition to the provisions of section 251 mandating nondiscriminatory  
7 interconnections with the local network, the Act also provides for the resolution of  
8 disputes over technical standards. (Section 273). Furthermore, section 256 mandates  
9 coordination for interconnectivity in the following language:

10 **SEC. 256. COORDINATION FOR INTERCONNECTIVITY.**

11 (a) PURPOSE- It is the purpose of this section--

12 (1) to promote nondiscriminatory accessibility by the  
13 broadest number of users and vendors of communications products  
14 and services to public telecommunications networks used to  
15 provide telecommunications service through--

16 (A) coordinated public telecommunications network  
17 planning and design by telecommunications carriers and  
18 other providers of telecommunications service; and

19 (B) public telecommunications network **interconnectivity**,  
20 and **interconnectivity** of devices with such networks used to  
21 provide telecommunications service; and

22 (2) to ensure the ability of users and information providers  
23 to seamlessly and transparently transmit and receive  
24 information between and across telecommunications networks.

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27 Finally, section 273(e)(3) of the Act encourages cooperative technological innovation in  
28 the following language:

29 (3) NETWORK PLANNING AND DESIGN- A Bell operating company  
30 shall, to the extent consistent with the antitrust laws, engage in joint network  
31 planning and design with local exchange carriers operating in the same area of  
32 interest. No participant in such planning shall be allowed to delay the  
33 introduction of new technology or the deployment of facilities to provide

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telecommunications services, and agreement with such other carriers shall not be required as a prerequisite for such introduction or deployment.