

MCI Ex.
1.0

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application
of the Ohio Bell Telephone Company
for approval of an alternative form of
regulation.

Case No. 93-487-TP-ALT

In the matter of the Complaint of
the Office of Consumers' Counsel,

Complainant,

v.

Case No. 93-576-TP-CSS

Ohio Bell Telephone Company

Respondent,

Relative to the Alleged Unjust and
Unreasonable Rates and Charges

TESTIMONY OF DENNIS L. RICCA ON BEHALF OF
MCI TELECOMMUNICATIONS CORPORATION
MCI EXHIBIT NO. 1.0

I. WITNESS INTRODUCTION

1 Q. PLEASE STATE YOUR NAME, BY WHOM YOU ARE EMPLOYED, YOUR BUSINESS
2 ADDRESS AND YOUR POSITION.

3 A. My name is Dennis L. Ricca. I am employed by MCI
4 Telecommunications Corporation ("MCI"). My business address
5 is 205 N. Michigan Ave, Suite 3700, Chicago, Illinois 60601.
6 I am a Senior Manager for Regulatory and Legislative Affairs
7 for the Central Region of MCI.

8 Q. WILL YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND?

9 A. I received a Masters of Science Degree in Mathematics from the
10 University of Northern Iowa in 1979 and a Bachelor of Science

1 Degree from Western Illinois University in 1972.

2 Q. PLEASE STATE YOUR PREVIOUS WORK EXPERIENCE IN THE AREA OF
3 TELECOMMUNICATIONS.

4 A. I began working for Telecom*USA (then known as Teleconnect
5 Company, and later as Teleconnect Long Distance Services and
6 Systems Company) in August, 1983, as a Technical Training
7 Coordinator. My responsibilities included developing a
8 curriculum for and training new Customer Service
9 Representatives and their technical support staff.
10 Additionally, I was responsible for coordinating technical
11 training programs for switch technicians, switch database
12 personnel, and traffic engineers. I also coordinated
13 management training seminars for the operations and
14 engineering departments. By October of 1983, I spent almost
15 one-half of my time analyzing the initial access tariffs filed
16 with the FCC. In December of 1984, I began working full time
17 as a Regulatory Analyst. In August of 1986 I was promoted to
18 Manager of Regulatory Affairs, and in August of 1988 I was
19 promoted to Director of Regulatory Affairs for Telecom*USA.
20 In August, 1990 the purchase of Telecom*USA by MCI
21 Communications was completed. I was transferred to my present
22 position in October, 1990.

23 Q. WHAT ARE YOUR PRESENT RESPONSIBILITIES?

1 A. My major responsibilities are:

- 2 o Analysis of decisions issued by governmental regulatory
- 3 agencies to determine their effect on MCI.
- 4 o Analysis of filings and proposed tariffs to determine
- 5 their effect on MCI.
- 6 o Preparation and submission of various documents to be
- 7 transmitted to government agencies in the ten-state MCI
- 8 Central Region in response to government inquiries,
- 9 proposals and the tariff filings of other carriers.
- 10 o Advising key MCI personnel on public policy and
- 11 regulatory policy decisions.

12 Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

13 A. Yes. In Case No. 88-452-TP-COI, the Commission's
14 investigation into COCOTS and their provision of DA service,
15 I provided comments and reply comments. In Case No. 89-563-
16 TP-COI, the Commission's Investigation into the Regulation of
17 IXCs, I co-authored MCI's reply comments submitted to the
18 Commission in 1993. I appeared before the Commission in July
19 of 1993 to present a brief overview of the competitiveness of
20 the interexchange market and the differences between local
21 exchange carriers ("LECs") who also provide interexchange
22 service and non-LEC interexchange carriers (IXCs).

23 Q. HAVE YOU PREVIOUSLY APPEARED BEFORE ANY OTHER COMMISSIONS?

1 A. Yes. I have provided as MCI Exhibit 1.1 to this testimony a
2 complete list of testimonies and formal comments submitted to
3 various state public utility commissions.

4 II. PURPOSE

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

6 A. The purpose of my testimony is to reply to the testimony of
7 Mr. Richard A. Brown and Dr. Robert G. Harris on behalf of
8 Ohio Bell Telephone Company (hereafter referred to as Ohio
9 Bell, OBT or Ameritech Ohio) and to provide a view of the
10 competitiveness of the local and intraLATA toll market from
11 the perspective of an IXC. I will show that the plan proposed
12 by Ohio Bell for the flexible regulation of its intraLATA toll
13 and local service: (1) is not in the public interest; (2) is
14 inconsistent with the protection of consumers and in ensuring
15 that the rates they pay are minimized; (3) provides for no
16 increase in competition and therefore does not encourage
17 innovation not promote diversity and options in the supply of
18 telecommunications services; (4) that continuation of the
19 status quo as it relates to intraLATA dialing procedures
20 renders the access provided by OBT unfairly discriminatory;
21 (5) that it does not foster development of prudent investment
22 by telecommunications firms in the infrastructure of the
23 state; (6) that ratepayers will not benefit from the plan; (7)
24 that the quality and availability of telecommunications

1 services will be degraded, and; (8) that the plan to continue
2 the status quo with respect to dialing parity will unduly or
3 unreasonably prejudice or disadvantage MCI and other
4 telecommunications interexchange carriers.

5 To remedy these plan deficiencies I will show that any
6 proposal for streamlined regulation of intraLATA toll cannot
7 be approved unless and until this Commission orders the
8 implementation of intraLATA equal access (dialing parity)
9 consistent with this testimony and also consistent with the
10 general recommendation in the PUCO Staff Report of
11 Investigation ("Staff Report") at pages 77-79.

12 In support of the above statements, I will show that it is
13 technically and economically feasible to implement full 2-PIC
14 equal access within 12 months of the effective date of a
15 Commission order in this docket for all end offices in the
16 state that currently provided interLATA equal access. I will
17 show that each of the deficiencies I have outlined above are
18 addressed by adoption of this change to OBT's proposal.

19 III. DISCUSSION.

20 A. The OBT Plan Fails To Meet Public Interest Standards.

21 1. Background and Definitions.

22 Q. WOULD YOU BRIEFLY GIVE SOME BACKGROUND AND DEFINITIONS THAT

1 YOU WILL BE USING THROUGHOUT YOUR TESTIMONY?

2 A. Yes. I will start with a brief discussion of LATAs and define
3 other terms as I proceed with a brief look at the events
4 leading to this docket. LATA stands for Local Access and
5 Transport Area. The term came into existence at the break- up
6 of the Bell System into AT&T and the Regional Bell Operating
7 Companies ("BOCs") effective in 1984. This was the result of
8 a Consent Decree voluntarily entered into between the U. S.
9 Department of Justice and AT&T, and the BOCs and as
10 subsequently modified by the presiding District Court Judge,
11 Harold Greene. The decree is also referred to as the
12 Modification of Final Judgment, or MFJ. LATAs were initially
13 set around Standard Metropolitan Statistical Areas in such a
14 way as to insure that IXCs would be attracted to serve all
15 LATAs by virtue of the number of customers in each. The terms
16 of that decree also proscribed the BOCs from, inter alia,
17 providing telecommunications services that crossed LATA
18 boundaries (interLATA services). It is my opinion that the
19 court left the issue of intraLATA competition (competition
20 within the boundaries of the LATA) to the states.

21 Q. HOW MANY LATAs ARE THERE IN OHIO?

22 A. Eleven, but only eight are considered Ohio-based LATAs -the
23 Akron, Cincinnati, Cleveland, Columbus, Dayton, Mansfield
24 Toledo and Youngstown LATAs are the major LATAs in the state.

1 Several exchanges near the borders of the state are in the
2 Auburn/Huntington, Indiana LATA, the Richmond, Indiana LATA
3 and the Detroit, Michigan LATA. For purposes of illustration,
4 a call from Columbus (Columbus LATA) to Steubenville (Columbus
5 LATA) would be an intraLATA call. A call from Columbus
6 (Columbus LATA) to Marysville, (Mansfield LATA) would be an
7 interLATA call.

8 Q. HOW IS THE GENESIS OF LATAs RELEVANT TO THIS DOCKET?

9 A. Because of the size of the LATAs and the fact that Ohio Bell
10 strips off and carries all 0+, 1+ten-digit and seven-digit
11 dialed intraLATA calls originating in its territory, the
12 people of Ohio have been denied the benefits of competition
13 for a large percentage of their intrastate calls. I show
14 below that this lack of competition has negative implications
15 for consumers in the state. Given that many examples such as
16 the one above exist in which an intraLATA call travels a
17 greater distance than an interLATA call, consumers sometimes
18 find themselves confused about who their "long distance"
19 carrier really is. More important to this docket, the fact
20 that some LECs deny this type of access to MCI and other IXCs
21 creates unfair discrimination, unreasonable prejudice and
22 undue disadvantage against MCI and the other IXCs, granting an
23 unfair and unearned advantage to the LEC providing the
24 intraLATA toll service. This discrimination against other

1 IXC's denies any of the benefits that only competition provides
2 to the consumers of intraLATA toll service in Ohio. Moreover,
3 contrary to the testimonies of Mr. Brown and Dr. Harris, OBT
4 is not entitled to any lessening of regulation oversight until
5 such time as more competition is permitted to develop. As
6 presently constituted, Ohio Bell's application does absolutely
7 nothing to open its protected monopoly intraLATA market to
8 effective competition. Unless and until effective competition
9 is allowed, Ohio Bell's application is per se unacceptable and
10 should be denied in full.

2. IntraLATA Equal Access: Some Preliminary Definitions.

12 Q. WOULD YOU PLEASE DESCRIBE WHAT YOU MEAN BY EQUAL ACCESS?

13 A. In the interLATA market, when an end office is converted to
14 equal access, customers are provided an opportunity to
15 presubscribe to an IXC for their interLATA toll traffic.
16 Customers are notified of the availability of equal access in
17 their particular area through the mailing of ballots. The
18 first ballot is mailed at least 90 days prior to the
19 availability of equal access. A letter and brochure
20 explaining equal access and allocation, and an addressed
21 return envelope, are included with the ballot. The ballot
22 lists the names and telephone numbers of the IXCs
3 participating in the balloting process for that end office.

1 If no response is received by return of the first ballot or by
2 a notification from an IXC that has been directly contacted by
3 an end user, a second ballot is mailed to the customer
4 approximately 45 days prior to the equal access conversion.
5 While similar to the first ballot, the second ballot contains
6 the name of the IXC to whom the end user will be allocated if
7 no indication of their choice has been received by the LEC.

8 Whether by choice or by allocation, customers are assigned to
9 an IXC to carry their 1+ interLATA toll traffic.
10 (Additionally, their 1+ directory assistance calls to other
11 area codes, their 0+ interLATA toll calls, their 00- calls,
12 their 1+700 calls and their international calls are also
13 routed to the IXC chosen on the ballot). A consumer assigned
14 to one IXC can still use the services of a second IXC by
15 dialing five additional digits at the beginning of the
16 dialing. These digits take the form of 10XXX, where XXX is a
17 unique three digit code assigned to a carrier. 10XXX can also
18 be used to access an IXC for intraLATA calling. The IXCs have
19 dialing parity among themselves in that all IXCs that
20 participate in the equal access process can provide interLATA
21 toll calling on a 1+ basis. There is no similar process
22 whereby customers may select a carrier other than their LEC to
23 carry their intraLATA toll traffic on a 1+ basis in Ameritech-
24 Ohio's service territory.

1 Q. WHAT TYPES OF CALLS WOULD BE GIVEN DIALING PARITY UNDER MCI'S
2 PROPOSAL FOR INTRALATA EQUAL ACCESS?

3 A. Types of calls that would receive dialing parity under
4 intraLATA equal access are 1+¹ intraLATA toll calls, 0+
5 intraLATA toll calls, and directory assistance calls using
6 (1)-555-1212 (intra area code). Calls that would remain de
7 facto LEC monopoly calls would be intraexchange calls,
8 operator-assisted intraexchange calls, 411, 911, 0- and flat-
9 rated EAS calls. All of these call routing responsibilities
10 are consistent with the North American Numbering Plan,
11 administered by Bellcore under the direction of the BOCs and
the Federal Communications Commission.

13 Q. WHAT ABOUT MEASURED EAS CALLS?

14 A. It is MCI's position that where measured EAS is implemented
15 between exchanges between which there is no true community of
16 interest, these exchanges must be subject to presubscription
17 as I defined it above. Moreover, Ameritech should be
18 required to show that the rates for its measured EAS service
19 pass a valid imputation test as discussed in the testimony of

20 ¹By 1995 the provision of intraLATA toll calls within the same
21 area code will be required to be on either a seven digit or 1+ten
22 digit basis (1+area code+telephone number) according to the North
23 american Numbering Plan. MCI has taken the position across the
24 United States that seven digit calls be reserved for calls inside
25 the basic local calling area and 1 + ten digit calls be required
26 outside the basic local calling area.

1 MCI witness Don Laub (MCI Exhibit 2.0). Where the rates of
2 the measured EAS service flunk an imputation test, MCI
3 recommends that carrier access rates be lowered to a point
4 that allows the measured EAS rates to pass the imputation
5 test. It is MCI's position that, going forward, intraLATA
6 equal access, not below-access and predatorily-priced measured
7 EAS, is the way to accomplish lower rates and increased
8 customer choice for residential and business consumers.

9 3. The Importance of Dialing Parity.

10 Q. WHY IS IT THAT YOU BELIEVE DIALING PARITY IS SO IMPORTANT TO
11 A COMPETITIVE MARKET?

12 A. Although limited competition is currently allowed in the
13 intraLATA market, that competition is not fair and open
14 competition. In that market and from locations served by Ohio
15 Bell, all competitors are equal....except that one is more
16 equal than the others. I refer, of course, to Ohio Bell,
17 which strips every toll call dialed on 1+ or 0+ intraLATA
18 basis, regardless of the customer's desire that this type of
19 call be handled by another carrier.

20 On an interLATA basis, most market observers agree that true
21 competition started when equal access (of the type and nature
22 previously given only to AT&T) was made available to the other
23 common carriers (OCCs). Prior to the advent of equal access,

1 the only form of access available to the OCCs required the
2 dialing by the customer of anywhere from 11 to 16 extra digits
3 with a tone producing telephone for every call. (This method
4 will be referred to hereafter as the non-equal access method.)
5 All 1+ and 0+ calls were routed to AT&T or the LEC.

6 So severe was the discrimination caused by the non-equal
7 access method that the FCC and this Commission set a 55
8 percent differential for this type of access when equal access
9 was not available at an end office. This differential allowed
10 IXCs to offer toll rates that were anywhere from 20 to 30
11 percent below those of the dominant interLATA carrier, AT&T.
12 Even with this type of cost savings available to consumers,
13 the OCCs were only able to gain approximately 10 percent of
14 the interLATA market. When most equal access first became
15 available (from mid 1985 until the end of 1986), the OCC
16 market share quickly climbed to approximately 20 percent and
17 has increased slowly since 1986 to its current approximate 35
18 percent level.

19 In my experience with Telecom*USA during equal access
20 conversions, Telecom*USA customer numbers in an exchange rose
21 anywhere from 20 percent to 130 percent as a result of the
22 equal access balloting. The wide variations were believed to
23 be related to the market penetration already achieved by

1 Telecom*USA prior to equal access. Thus, the experience
2 gained in the interLATA market strongly suggests that the
3 availability of equal access dialing parity is the sine qua
4 non of an open and fair competitive telecommunications toll
5 marketplace.

6 In my opinion, the importance of dialing parity was recognized
7 by Judge Greene and the U.S. Department of Justice when those
8 parties arrived at the Consent Decree with AT&T which, inter
9 alia, required interLATA equal access be provided by the BOCs
10 once the divestiture of the BOCs by AT&T was accomplished. I
11 believe it was recognized again by Judge Greene and the U.S.
12 Department of Justice in arriving at the GTE consent decree
13 which required the GTE Operating Companies (GTOCs) to provide
14 equal access in order that GTE might purchase Sprint from
15 Southern Pacific Railroad. In my opinion, it was recognized
16 by the FCC in its various orders outlining the provision of
17 equal access by all carriers, not just the BOCs and GTOCs. It
18 should also be recognized by this Commission as it decides on
19 the proper public interest standard that must be met by Ohio
20 Bell before OBT is granted any rate flexibility for its toll
21 services.

2 Q. ARE THERE OTHERS WHO AGREE WITH YOU THAT LACK OF DIALING
3 PARITY IS A SIGNIFICANT OBSTACLE TO A COMPETITIVE INTRALATA

1 TOLL MARKET?

2 A. Yes. The lack of dialing parity and presubscription between
3 LECs and IXC's is a fundamental and substantial barrier to the
4 development of effective competition in the intraLATA market.
5 Additionally, a National Regulatory Research Institute (NRRI)
6 publication said the following regarding the lack of intraLATA
7 equal access.

8 The most significant barrier to successful
9 entry is the lack of equal access. The AT&T
10 divestiture required the installation of equal
11 access facilities for interstate toll access
12 services, but no such requirement exists for
13 intraLATA toll. The dial 1 access currently
14 routes all intraLATA toll calls to the
15 relevant local exchange company. Thus all
16 other companies receive unequal access. How
17 severe this barrier is depends on the
18 customer's perception of the inconvenience of
19 the unequal access. It is likely that unequal
20 access is a serious barrier to full
21 competition.² (Emphasis added.)

22 As noted above, access to the local network is controlled by
23 the LECs. This control gives the LECs monopoly power because
24 IXC's depend on this access to provide their services. On page
25 176 of the NRRI Addendum to the Staff Report of Investigation,
26 NRRI addresses this issue with specific direction to Ohio Bell
27 in this docket. Therein, it supports the same principle of
28 dialing parity advocated by MCI -- access should be provided
29 to competitors of OBT in a manner equivalent to that which OBT

30 ²Evaluating Competitiveness of Telecommunications Markets: A
31 Guide for Regulators, January 1988, The National Regulatory
32 Research Institute, at 133-134.

1 provides to itself.

2 The Staff Report in this docket makes clear the Commission
3 Staff belief that lack of dialing parity is a barrier to entry
4 which inhibits the development of effective competition.
5 (Staff Report, p. 77.)

6 4. 10XXX Dialing is NOT Equal Access.

7 Q. IS 10XXX DIALING AN EFFECTIVE SUBSTITUTE FOR 1+ DIALING?

8 A. No. As the Minnesota Public Utilities Commission and the
9 North Dakota Public Utilities Commission found, 10XXX is not
10 equal access. (See pages 30 and 34 infra.) The additional
11 digits required make this dialing pattern burdensome. As
12 Judge Greene stated regarding the MFJ, "[i]t is precisely
13 because five-digit access codes³ are inconvenient and
14 difficult to remember that the equal access provisions of the
15 decree mandate the universal use of the single digit."⁴

16 Some LECs have argued that speed dialers and auto-dialers
17 overcome the disadvantage inherent in the use of the 10XXX

18 ³The five digit 10XXX code that currently exists is scheduled
19 to become a seven digit 101XXXX code in 1995. Thus, the
20 discrimination caused by imposing this dialing procedure only on
21 non-Ohio Bell IXCs will constitute an even greater barrier to
22 effective competition than the 10XXX pattern does.

23 ⁴Opinion of Judge Harold H. Greene, U.S. v. Western Electric,
24 Civil Action No. 82-0192 (October 17, 1988), pp. 38-39.

1 code. Clearly, the inconvenience is not remedied without an
2 expense and effort by customers -- and by IXCs who must
3 educate the consumers as to the use of such a code -- and
4 such access cannot be properly considered "equal" to the 1+
5 intraLATA access enjoyed solely by customers of the LECs.
6 Indeed, the Minnesota Commission has required a 25 percent
7 discount on access charges in conforming end offices in which
8 intraLATA 1+ dialing parity and presubscription is not
9 available. Such a discount provides an economic incentive for
10 LECs to provide intraLATA equal access and reflects the
11 inferior quality of 10XXX access.

12 Q. IS IT TRUE THAT THE 10XXX METHOD OF ACCESS PROVIDED OVER
13 FEATURE GROUP D SERVICE IS LESS BURDENSOME THAN THE NON-EQUAL
14 ACCESS METHOD YOU DESCRIBED ABOVE AS THE ONLY ACCESS AVAILABLE
15 TO OCCs PRIOR TO EQUAL ACCESS?

16 A. In one way, it is not as burdensome. Only five extra digits
17 are required instead of the 11 to 16 identified earlier. In
18 another way, it is much more burdensome. The customer is
19 required to know LATA boundaries and dial the 10XXX number of
20 his/her presubscribed carrier only for the intraLATA calls.
21 Few customers are willing to dial the extra digits and even
22 fewer know what a LATA is, let alone where the boundary of
23 that LATA runs. LATA boundaries do not coincide with state
24 boundaries, area code boundaries nor county boundaries. At

1 least with the non-equal access method, as cumbersome as it
2 was, the dialing pattern remained the same for interLATA and
3 intraLATA calls.

4 5. Ohio Bell's Proposal For Flexible Regulation in the
5 IntraLATA Toll Market is Not in the Public Interest.

6 Q. MR. BROWN DISCUSSES BRIEFLY IN HIS DIRECT TESTIMONY THE FCC
7 CUSTOMER FIRST FILING OF AMERITECH. (OBT EXHIBIT 14.0) DOES
8 THE USAGE SUBSCRIPTION PORTION OF THE CUSTOMER FIRST PLAN
9 OBVIATE THE NEED FOR THE EQUAL ACCESS FOR WHICH YOU ARE
10 CALLING?

11 A. No, it does not. In fact, the extended 1-PIC proposed by
12 Ameritech in its filing is designed to allow the Ameritech
13 operating companies, including Ohio Bell, to leverage their
14 monopoly on local service to gain the same magnitude of market
15 share in the interLATA toll market that they have for local
16 service. This is especially true since the consumer would be
17 required under Ameritech's Customer First Plan to change
18 telephone numbers in order to change his/her local carrier.

19 Q. ARE THERE ANY OTHER PROBLEMS YOU SEE WITH THE AMERITECH
20 PRESUBSCRIPTION PLAN?

21 A. Yes. Ameritech, and hence Ohio Bell, would force any IXC
22 wishing to participate in the intraLATA presubscription market
23 to also obtain certification and sell local exchange service.

1 Q. HOW WOULD AN IXC BE FORCED INTO THE LOCAL SERVICE MARKET?

2 A. By providing a single PIC for local, intraLATA and interLATA
3 toll, the IXCs not currently engaged in the provision of local
4 service would be required to seek such certification prior to
5 entering the intraLATA presubscription market. Forced entry
6 into a market that a company may not wish to enter in order to
7 provide service in an unrelated market is the antithesis of a
8 competitive marketplace. That Ohio Bell even entertains such
9 notions demonstrates the lack of understanding the company has
10 for competition. This is not the move of a potential
11 competitor, but the move a certified monopolist.

12 Q. ARE YOU SAYING THAT THE PROPOSAL CONTAINED IN THE AMERITECH
13 CUSTOMER FIRST PLAN IS DIFFERENT THAN THE ONE YOU ARE
14 PROPOSING?

15 A. Yes, substantially different. Under MCI's proposal, customers
16 are provided with separate choices for interLATA and intraLATA
17 carriers. Additionally, if at some point in the future the
18 Commission desires to open the local market to the same level
19 of competition, then it should do so with a full 3-PIC option.
20 Ameritech-Ohio should not be allowed to propose options that
21 force competitors into markets they are unable to serve
22 economically.

23 Q. BEYOND THE CUSTOMER FIRST ISSUES YOU HAVE JUST COVERED, HAVE

1 YOU SEEN ANY OTHER TESTIMONY THAT INDICATES THAT THE
2 STREAMLINED REGULATION PROPOSED BY OBT IS IN THE PUBLIC
3 INTEREST OR INCREASES THE COMPETITIVE FORCES TO THE EXTENT
4 THAT COMPETITION CAN SERVE AS A SUBSTITUTE FOR REGULATION?

5 A. No. Absent adoption of the intraLATA equal access, there is
6 no increase in competitive pressure to help control the level
7 of rates for the non-competitive services and no indication
8 that the company intends to share efficiency gains, if any, or
9 overearnings with any of its customers. I am hard-pressed to
10 find any public benefit to this proposal.

B. The Solution: IntraLATA Equal Access.

12 Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN THIS REGARD?

13 A. I strongly urge the Commission to require the implementation
14 of intraLATA equal access, as expeditiously as possible, and
15 prior to granting any rate flexibility for any of Ohio Bell's
16 toll services.

17 1. Types of IntraLATA Equal Access Readily

18 Available in Ohio.

19 Q. HOW SHOULD INTRALATA EQUAL ACCESS BE IMPLEMENTED IN OHIO?

20 A. There are several methods of intraLATA equal access available.
21 For the purposes of my testimony I will discuss three in
22 detail. The two recommended by MCI are referred to by most of
23 the industry as the "Full 2-PIC" and the "Modified 2-PIC."

1 Q. WHAT DOES "PIC" MEAN?

2 A. PIC is an acronym for primary interexchange carrier. It is
3 used to refer to the IXC chosen by the customer to carry the
4 customer's 1+ calls.

5 Q. PLEASE DEFINE WHAT IS MEANT BY "FULL 2-PIC."

6 A. The Full 2-PIC method allows each customer for toll service to
7 presubscribe to any carrier for his or her interLATA toll
8 calls and to any other carrier or the interLATA PIC for his or
9 her intraLATA calls. Customer choice is maximized with this
10 option.

11 Q. PLEASE DEFINE MODIFIED 2-PIC.

12 A. The modified 2-PIC method allows each customer to have either
13 the customer's presubscribed interLATA IXC also carry 1+
14 intraLATA calls, or the customer may choose to have the LEC
15 currently providing that service continue to carry those
16 intraLATA calls. Although this option restricts the provider
17 of intraLATA toll service to only two entities, the customer
18 still benefits from the choice of utilizing either the IXC or
19 the LEC.

20 An advantage of this method over that of the full 2-PIC is
21 that it requires no new software nor hardware except that
22 necessary to divide the switch into two partitions using class

1 of service codes. This is the same method proposed by
2 Ameritech in its "Customer First" proposal, but "intraLATA
3 toll" area proposed by MCI is significantly different than
4 that proposed by Ameritech. Unrebutted evidence of record in
5 North Dakota indicates that the total software and hardware
6 costs for U S WEST in North Dakota average approximately
7 \$1,500.00 per switch for all models of switches currently
8 providing interLATA equal access. That the costs for this
9 method are reasonable and affordable is best shown by the
10 voluntary agreement of Western Reserve and Cincinnati Bell to
11 use this method in their respective alternative regulation
12 cases.

13 Q. HOW DOES THIS COMPARE TO THE FULL-2-PIC COSTS?

14 A. I have attached as MCI Exhibit 1.2 a copy of the Report of the
15 IntraLATA Equal Access Task Force to the Public Service
16 Commission of Kentucky. Page 38 of that report lists the
17 major switch vendors and the list prices associated with each
18 switch. AT&T switch estimated list prices, however, have
19 undergone substantial change. I have attached as MCI Exhibit
20 1.3 a letter from AT&T Network Services to Southern New
21 England Telephone Company indicating an availability date of
22 first quarter, 1995, and a list price per switch of \$30,000.

23 Q. WHICH OPTION DO YOU RECOMMEND IN OHIO?

1 A. MCI recommends the full two-PIC option. The Commission might
2 consider, however, allowing the modified 2-PIC option upon a
3 showing by Ohio Bell that the difference in costs and
4 availability are so substantial that the use of the modified
5 2-PIC brings greater benefit to Ohio consumers. This would
6 also give OBT at least some bargaining power with switch
7 manufacturers in pursuing the full 2-PIC right-to-use fees and
8 generic upgrade fees.

9 Q. WOULD ALL END OFFICES HAVE TO RE-BALLOTTED IF INTRALATA EQUAL
10 ACCESS WERE IMPLEMENTED?

11 A. Not necessarily. Re-balloting of end offices that have
12 already been converted to interLATA equal access could be
13 expensive and confusing for customers. If carriers want
14 customers to subscribe to their services after intraLATA equal
15 access is in place, they can solicit those customers through
16 their own marketing efforts.

17 Q. PLEASE EXPLAIN THE OPTION YOU DISCUSSED ABOVE THAT YOU BELIEVE
18 COULD BE USED BY OBT EVEN IF OBT LACKED 2-PIC CAPABILITY?

19 A. The extended one-PIC option appears to be the recommendation
20 of the Staff Report for implementation of dialing parity.
21 Ohio Bell would use the same software that it uses today to
22 provide consumer choice of interLATA long distance service.
23 The difference is that, unless OBT has received relief from

1 its interLATA restrictions, it would be precluded from
2 receiving presubscribed customers. For this reason, MCI has
3 not advocated the one-PIC option except in instances when an
4 LEC maintains that full and modified 2-PIC are not available.

5 Q. HOW WOULD EXTENDED ONE-PIC CHANGE THE ECONOMIC OR FINANCIAL
6 FEASIBILITY OF FULL OR MODIFIED 2-PIC?

7 A. I am confident that when faced with the prospect of either
8 losing all of the market through extended one-PIC or some
9 small portion of the market through full or modified 2-PIC,
10 OBT will find a way to immediately implement 2-PIC
11 capabilities. It has been my experience in the intraLATA
12 equal access arena that when the financial incentives exist
13 that create within the local exchange company the desire to
14 implement this technology, all of the formerly formidable
15 technical constraints are solved quickly.

16 Q. YOU SEEM TO HAVE A SPECIFIC EXAMPLE OR EXAMPLES IN MIND.
17 WOULD YOU PLEASE SHARE THEM?

18 A. Very specifically, when Iowa Network Services (INS), a
19 consortium of small, independent LECs in Iowa, first proposed
20 its centralized equal access proposal before the Iowa
21 Utilities Board (IUB), INS sought to have U S WEST, the Bell
22 Operating Company with statewide PTC responsibility in Iowa at
23 that time, pay INS's centralized equal access charge for all

1 intraLATA toll calls carried by U S WEST to or from exchanges
2 served by INS member companies. MCI disagreed and suggested
3 that 2-PIC intraLATA equal access be implemented. INS argued
4 that the 2-PIC software did not exist and that the task of
5 providing full-2-PIC was therefore not technically feasible.

6 When the IUB ruled that INS could only collect the centralized
7 equal access charge on intraLATA traffic if it were providing
8 intraLATA equal access, INS found, within two short months,
9 ways to overcome all of the technical barriers they had
10 previously posited. I do not believe that INS has superior
11 switch technicians or engineers than Ohio Bell. Nor do I
12 believe that the task of providing the switch software for
13 INS's centralized equal access was more difficult than
14 providing the same software for OBT switches. I do know,
15 however, that INS readily overcame the "technical" obstacles
16 only after it was given the economic incentive to do so.

17 2. IntraLATA Equal Access is Technically and
18 Financially Feasible.

19 Q. IS THE RECOMMENDATION FOR FULL 2-PIC TECHNICALLY FEASIBLE?

20 A. Yes, it is. It is not a technically difficult task to
21 accomplish given the highly sophisticated nature of today's
22 digital switches. All of the software coding necessary to
23 provide the logic for intraLATA equal access already exists in

1 switches which provide interLATA equal access.

2 The coding for sorting of interLATA and intraLATA calls, the
3 coding for carrier selection and the coding for routing the
4 call to the appropriate carrier all exist today in the
5 software used for interLATA equal access.

6 Q. IS THE TECHNOLOGY TO ACCOMPLISH THIS SERVICE CURRENTLY
7 AVAILABLE?

8 A. Yes, it is. The technology has been available from Northern
9 Telecom for its DMS 100/200 Switches since January, 1990.
10 Other switch manufacturers, including AT&T, have indicated
11 that they would also make this software universally available
12 as indicated in MCI Exhibits 1.2 and 1.3. In fact, Northern
13 Telecom actually provided the switch software for use by INS
14 in Iowa in early 1989.

15 Q. HOW DO YOU KNOW OF THIS SOFTWARE AVAILABILITY IN IOWA?

16 A. Both MCI and Teleconnect have received intraLATA equal access
17 from INS since early 1989. Customers in that balloting had a
18 choice of both an interLATA and an intraLATA carrier.
19 Similarly, MCI receives intraLATA toll traffic on a one-plus
20 basis from independent exchanges in Minnesota, South Dakota
1 and North Dakota.

1 Q. IS THE SOFTWARE AVAILABLE FROM VENDORS OTHER THAN NORTHERN
2 TELECOM?

3 A. Yes, it is available from every major switch vendor. The list
4 of switch manufactures, switch types, software generics and
5 list prices of the vendors to upgrade to intraLATA equal
6 access are included in MCI Exhibit 1.2. It is because of the
7 nearly universal availability of this software in LEC switches
8 that the Commission should require the implementation of
9 intraLATA equal access prior to granting any streamlined
10 regulation of OBT's intraLATA toll services.

11 Q. WHAT IS THE SOURCE OF THIS LIST?

12 A. The list is the result of switch vendors answers to requests
13 for information in Kentucky.

14 Q. YOU USED THE TERM "LIST PRICE" INSTEAD OF PRICE OR CHARGE
15 REGARDING THE COSTS SHOWN ON MCI EXHIBIT 1.2 AND 1.3. WHY?

16 A. Typically switch vendors do not charge the full amount of the
17 list price to the LECs for these types of features. While
18 there is no hard and fast rule for the amount of discounts, I
19 understand from discussions with switch vendor representatives
20 that the BOCs typically receive anywhere from 20 to 40 percent
21 discounts from list prices.

1 Implementation of IntraLATA Equal Access.

2 Q. HAVE ANY OTHER JURISDICTIONS ORDERED THE IMPLEMENTATION OF 1+
3 DIALING PARITY AND PRESUBSCRIPTION ON AN INTRALATA BASIS?

4 A. Yes. Minnesota was the first state to order the
5 implementation of 1+ intraLATA dialing parity and
6 presubscription. The Minnesota Public Utilities Commission
7 (MPUC) ordered Northwestern Bell (now U S WEST) to provide
8 intraLATA 1+ dialing parity and presubscription, and to
9 provide a discount of 25 percent in conforming end offices
10 from which intraLATA 1+ presubscription is not available.⁵

11 The relevant language in the order is as follows:

12 The Commission finds that 1-plus presubscription is
13 necessary for effective competition. While IXCs
14 competing with NWB for intraLATA traffic have FG-C
15 or FG-D access, they do not have 1-plus dialing
16 parity. An important part of equal access is the
17 reduction in the number of digits necessary when
18 dialing. The form of access made available to IXCs
19 in the intraLATA toll market, where consumers must
20 dial a 10XXX code to complete an intraLATA toll
21 call, cannot be considered equal access. This
22 possibly could be corrected by ordering the LECs to
23 provide 1-plus intraLATA dialing capability for all
24 IXCs. As an alternative, the Commission could
25 rectify this situation by adjusting access charges
26 to reflect the less than equal access afforded to
27 the IXCs in the intraLATA toll market.

28 Further, the discount is necessary and appropriate
29 to permit effective competition among intraLATA
30 competitors until equal access and presubscription
31 is available on an intraLATA basis. While the

32 ⁵ Minnesota Public Utilities Commission, Docket No.
33 P-999/CI-85-582; FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER AND
34 ORDER INITIATING SUMMARY INVESTIGATIONS; Issue Date: November 2,
35 1987; pp. 45-46.

1 adoption of a precise discount is a subjective
2 decision, this should not prevent the Commission
3 from establishing a discount . . . On the record
4 here, the Commission finds that the problem exists.
5 Thus, the Commission concludes that it would be
6 appropriate to provide a discount in conforming end
7 offices in which intraLATA 1-plus presubscription
8 is not available.

9 Based on the Commission's assessment of the
10 disadvantages to the IXC's of not having intraLATA
11 dialing parity, the Commission finds that a
12 discount of 25 percent is appropriate. This
13 discount will be in effect for the two year interim
14 period or until the Commission determines
15 otherwise. The discount will be reassessed when
16 information is available on the altered market
17 shares between IXC's with 1-plus dialing and those
18 with 10XXX access.⁶

19 Q. HAS INTRALATA EQUAL ACCESS BEEN IMPLEMENTED IN MINNESOTA?

20 A. Only partially. Pursuant to the Order in Docket No. 582, the
21 Equal Access and Presubscription Implementation Committee was
22 set up to implement intraLATA 1+ dialing parity and presub-
23 scription in Minnesota (Docket Number P-999/CI-87-697). The
24 committee was charged with eliminating the technical and
25 economic barriers to intraLATA equal access and establishing
26 an implementation schedule for intraLATA 1+ dialing parity and
27 presubscription statewide.

28 The committee investigated the costs and technology required
29 to implement intraLATA equal access, and developed a

30 ⁶Id.

1 methodology for implementation as well. Despite issuing its
2 report and recommendation to the Minnesota Commission on June
3 30, 1989, however, U S WEST has not provided this access in
4 Minnesota.

5 Soon after the Minnesota Committee issued its report,
6 Minnesota Independent Equal Access Committee ("MIEAC"), a
7 consortium of independent LECs, filed for operating authority
8 to offer centralized equal access in Minnesota. The MPUC
9 decided to investigate the MIEAC request before taking further
10 action on the intraLATA equal access issue. After it issued
11 its orders in the MIEAC proceeding,⁷ the MPUC re-established
12 that its original order was that implementation be made as
13 expeditiously as possible and that the costs of implementation
14 be concurrently updated. The original Minnesota Report has
15 been updated so that actual implementation statewide can
16 finally occur.⁸

17 Q. EARLIER IN YOUR TESTIMONY YOU MENTIONED THAT YOU SUBMITTED
18 TESTIMONY IN NORTH DAKOTA IN A SIMILAR CASE. WOULD YOU PLEASE

19 ⁷Before the Minnesota Public Utilities Commission, Order
20 Granting Certificate of Authority to Provide Equal Access Service,
21 Docket No. P3007/NA-89-76, issued January 10, 1991.

22 ⁸Order of the Minnesota Public Utilities Commission Docket
23 Nos. P-999/CI-85-582, P-999/CI-87-697 and P-999/CI-87-695, Order
24 Denying Petition and Reconvening the 697 Study Committee, March 30,
25 1993.

1 REVIEW THAT PARTICULAR CASE FOR THE COMMISSION?

2 A. Yes. Probably the most comprehensive order on intraLATA equal
3 access to date in the United States was issued by the North
4 Dakota Public Service Commission.

5 After notice and hearing on the steps needed to implement the
6 law, the North Dakota Commission found that:

7 "98. As a first and most important step to
8 realizing the benefits of competition, we believe
9 that both intraLATA 1-plus equal access and
10 interLATA 1-plus equal access should be implemented
11 in North Dakota rapidly. ... 101. ... 1-plus
12 intraLATA equal access is the single most important
13 step toward effective competition in the intraLATA
14 long distance market. Effective competition will
15 improve efficiency and result in lower prices for
16 consumers."⁹

17 As for 10XXX dialing, the North Dakota Commission found,
18 "10XXX dialing is not equal to 1+ access."¹⁰ It also found
19 that the arguments of U S WEST against intraLATA 1+ equal
20 access to be in some cases without merit and otherwise
21 outweighed by the benefits of intraLATA equal access.¹¹ I

22 ⁹North Dakota Public Service Commission, Findings of Fact,
23 Conclusions of Law and Order, Case No. PU-2320-90-183, issued April
24 7, 1992, paragraphs 98, 101.

25 ¹⁰Id., paragraph 100.

26 ¹¹Id., paragraph 99.

1 believe that the evidence in this proceeding will be similarly
2 viewed by this Commission.

3 Subsequent to the task force recommendations on the issues
4 outlined by the Commission, a state district court found that
5 the Commission must proceed with a rulemaking in order to
6 implement this type of change. Shortly thereafter U S WEST
7 sought and obtained legislation giving it veto power over
8 opening its monopoly intraLATA toll market to competition.
9 The constitutionality of that law is being challenged in the
10 North Dakota Supreme Court.

11 Q. ARE THERE ANY OTHER STATES THAT HAVE ORDERED OR ARE ACTIVELY
12 STUDYING INTRALATA EQUAL ACCESS?

13 A. Yes, but rather than go through the complete list, I will
14 limit my response to states in which Ameritech serves. The
15 Illinois Commerce Commission is currently pursuing a
16 rulemaking (Illinois Docket Nos. 93-0409, 94-0096 and 94-0046)
17 that will determine the nature and scope of intraMSA
18 (intraLATA) equal access. Illinois Bell is advocating the
19 method outlined in its Customer First Plan, but continues to
20 tie this issue to relief from the MFJ interLATA restrictions.
21 In Wisconsin, the Commission is proceeding with a rulemaking
22 after its latest order in Docket No. 05-TI-119 and has
23 indicated that it expects to implement intraLATA equal access

1 as soon as it can reasonably implement rules. In Michigan,
2 the Public Service Commission has ordered the implementation
3 of intraLATA equal access by Michigan Bell and GTE upon the
4 earlier of either their entry into the interLATA long distance
5 market or January 1, 1996. (Docket No. U-10138) Of course
6 the Western Reserve Alternative Regulation Case (Docket No.
7 92-230 and the Cincinnati Bell Alternative Regulation Case
8 (Docket No. 93-432) both have been settled in Ohio with the
9 agreement in each case of expeditious implementation of
10 intraLATA equal access. Only in Indiana is intraLATA equal
11 access not on the regulatory horizon.

12 4. The MFJ Permits IntraLATA Equal Access.

13 Q. DOES THE MODIFICATION OF FINAL JUDGMENT PROHIBIT INTRALATA
14 COMPETITION?

15 A. No. It is my opinion that Judge Greene never contemplated
16 that the IXCs would be excluded from providing intraLATA toll
17 traffic. He left it to the state regulators to decide what
18 intrastate calling arrangements best suit the public interest
19 in each state.¹²

20 It is my belief that the Court made it clear that its decision
21 with respect to the size of the LATAs presupposed that the

22 ¹²United States v. Western Electric Co., 569 F. Supp. 1057,
23 1109 (Dist. D.C. 1983).

1 states would permit intraLATA competition. The Court states
2 as follows:

3 . . . that the lack of competition in this
4 [intraLATA] market would constitute an intolerable
5 development. The opening up of competition lies at
6 the heart of this lawsuit and of the decree entered
7 at its conclusion, and the significant amount of
8 the traffic that is both intrastate and intraLATA
9 should not be reserved to the monopoly carrier.¹³

10 Although OBT may cite other portions of the MFJ in an attempt
11 to persuade this Commission not to implement intraLATA equal
12 access, I believe the MFJ permits the states to ultimately
13 determine whether competition will be allowed in the intraLATA
14 (intraLATA) market.

15 5. IntraLATA Equal Access is in the Public Interest.

16 Q. YOU STATED IN THE PURPOSE OF THIS TESTIMONY THAT INTRALATA
17 EQUAL ACCESS IS IN THE PUBLIC INTEREST. PLEASE EXPLAIN HOW
18 ORDERING OF INTRALATA EQUAL ACCESS WOULD BE IN THE PUBLIC
19 INTEREST?

20 A. As I have stated already, dialing parity is such an essential
21 component of a competitive telecommunications market that
22 without this parity, a competitive market cannot exist. The
23 Commission can take no greater, nor, for that manner, lesser

24 ¹³United States v. Western Electric Co., 569 F. Supp. 990, 1005
25 (Dist. D.C. 1983).

1 step to provide for an open competitive market free of
2 discrimination, rid of inferior and degraded connections, and
3 able to protect intraLATA ratepayers through competitive
4 services than to order the implementation of intraLATA equal
5 access. By taking this step in the development of
6 competition, it will immediately bring greater choice to Ohio
7 consumers. It will also begin the process of developing more
8 competitive markets which will benefit Ohio consumers and the
9 public interest in general in several ways. Also, absent
10 opening the market to greater competition, Ohio Bell's desire
11 for streamlined regulation is per se fatally defective.

12 Q. WHAT ARE THE WAYS THAT COMPETITION BENEFITS CONSUMERS?

13 A. First, competitive markets are generally superior to
14 noncompetitive markets at producing telecommunications
15 services which are most in demand by consumers. The
16 deregulation of the customer premise equipment market is a
17 good example of how the market responds to customer demand.
18 Consumers now have a much larger selection of telephone
19 equipment to purchase, and at lower prices, than was available
20 prior to the deregulation of that market.

21 In the interexchange long distance market, MCI, like other
22 competitive companies, must constantly respond to customer
23 demand or it will not survive. Moreover, competitive

1 companies such as MCI help to discover what those customer
2 demands are by experimenting with new offerings. It is not
3 always possible to determine in advance what unmet customer
4 needs exist until a company tries to make a profit by offering
5 new services. As customer wants and needs change, companies
6 that do not adapt quickly may lose customers to companies that
7 do respond.

8 Q. WHAT IS THE SECOND WAY IN WHICH COMPETITION BENEFITS
9 CONSUMERS?

10 A. A second benefit of competition is its unique ability to force
11 carriers to seek out lower cost means of providing services or
12 products. The competitive market thus establishes and
13 maintains reasonable charges for the services in that market.
14 Adam Smith recognized long ago the benefits to be derived from
15 competition.

16 If this capital is divided between two different
17 grocers, their competition will tend to make both
18 of them sell cheaper, than if it were in the hands
19 of one only; and if it were divided among twenty,
20 their competition would be just so much greater,
21 and the chance of their combining together, in
22 order to raise the price, just so much less. Their
23 competition might perhaps ruin some of themselves;
24 but to take care of this is the business of the
25 parties concerned, and it may safely be trusted to
26 their discretion. It can never hurt either the
27 consumer, or the producer; on the contrary, it must
28 tend to make the retailers both sell cheaper and
29 buy dearer, than if the whole trade was monopolized

1 by one or two persons.¹⁴

2 MCI must always seek more efficient ways to provide its
3 services to increase its market share and profits or, at
4 worst, to prevent the loss of customers to other carriers
5 which may have reduced their costs and rates. This benefit of
6 competition is also one reason the Commission must monitor
7 OBT's pricing - to ensure that OBT is not lowering its toll
8 rates at the expense of the bottleneck monopoly providers.

9 A third benefit of competition is its effect on technological
10 innovation. An entrepreneur can only hope to increase profits
11 and move ahead of his or her competitors by developing new
12 products or deploying cost-saving technological innovation.
13 The introduction of competition into the telecommunications
14 market has had a marked effect on the pace of innovation,
15 resulting in, or speeding the implementation of, domestic
16 satellite technology, digital data networks, computer
17 controlled PBXs and customer premise equipment, and optical
18 fiber transmission systems. An example of MCI's efforts to
19 seek more efficient ways to provide services is its recent
20 deployment of dispersion-shifted (DS) fiber. MCI installed
21 this new type of fiber optics technology in an 800 mile route

22 ¹⁴An Inquiry into the Nature and Causes of the Wealth of
23 Nations, by Adam Smith, edited by R. H. Campbell and A. S. Skinner,
24 Liberty Press, 1981, Volume I, pp. 361-362.

1 of its interstate network. The new system will operate at 2.4
2 gigabits per second using SONET (synchronous optical network)
3 protocols. It will be capable of carrying 32,256 simultaneous
4 calls on a single pair of fiber strands. This new technology
5 will also allow the sending of these higher bit rates over
6 longer distances without as many regeneration devices.
7 Because the number of regeneration devices is halved as well
8 as because the bit rates have been substantially increased,
9 the service provided over these new fiber strands will be
10 significantly more efficient.

11 AT&T accelerated its fiber deployment in response to a Sprint
12 marketing campaign touting an all-fiber optic network. This
13 is another example of competition-induced deployment of new
14 technology.

15 Innovative service offerings have also been introduced, e.g.,
16 1-800-COLLECT, MCI's 800 Service for residential customers,
17 MCI PRISM services, MCI Vnet products, MCI Vision and MCI's
18 Friends & Family Bonus Discount Plan. Thus Ohio customers
19 would receive modern and efficient telecommunications services
20 at the most economical and beneficial rates if the Commission
21 proceeds with the adoption of intraLATA equal access. It gets
22 none of the consumer benefits cited above if it adopts OBT's
23 plan without, as a prerequisite, an order opening the

1 intraLATA market to more competition.

2 Ex-FCC Chairman Al Sikes recognized the impact of competition
3 on the deployment of technology:

4 Today, the United States leads the world in the
5 deployment of four networks: broadcast, cable,
6 satellite, and long-distance. Each is more
7 advanced and more widely deployed than any place in
8 the world. In each case, our progress was also
9 years faster than the rest of the world, because
10 regulatory dams were not erected or -- to the
11 extent they were -- legal dynamite destroyed them.
12 Market forces -- the freedom to respond to and help
13 encourage demand -- assured relentless progress.
14 Competition, in short, acted like an accelerator.¹⁵

15 Competition does indeed act as an accelerator, propelling the
16 investment by multiple companies in the infrastructure of
17 Ohio. The current level of competition in the intraLATA toll
18 and USS market does not provide this same incentive.

19 Q. ARE THERE ANY OTHER BENEFITS TO CONSUMERS PROVIDED BY
20 COMPETITION?

21 A. A fourth important benefit of competition is that it permits
22 society to reduce expenditures on regulatory processes. Rate
23 and entry regulation were adopted to try to recreate, in
24 monopolistic markets, the kinds of outcomes that competitive
25 markets achieve naturally: production at the lowest cost and
26 prices that do not result in monopoly profits.

27 ¹⁵Remarks of FCC Chairman Alfred C. Sikes before the Town Hall
28 of California, January 11, 1991.

1 For competitive carriers such as MCI, streamlined regulatory
2 treatment can be applied. Then, when effective competition
3 develops for the services of traditional telephone companies
4 as well, much of the regulatory burden imposed on the
5 Commission can be eased, reducing costs to the consuming
6 public.

7 Q. HAS EXPERIENCE BORNE OUT YOUR POSITION THAT ALLOWING
8 COMPETITIVE ENTRY BRINGS BENEFITS TO CONSUMERS?

9 A. Yes. Allowing competitive entry into telecommunications
10 markets in this country has been highly beneficial. Competing
11 interexchange companies have been trying actively to meet
12 customers' needs. AT&T and MCI must respond quickly to the
13 pricing and marketing strategies of one another to remain
14 competitive. New products are continually being evolved to
15 create a competitive advantage. Both AT&T and MCI have been
16 actively taking steps to control expenditures and achieve
17 greater operating efficiencies. These cost-controlling
18 measures have helped to reduce interstate toll rates in Ohio
19 significantly since divestiture.

20 Q. WILL ORDERING INTRALATA EQUAL ACCESS BRING ALL OF THESE
21 BENEFITS TO OHIO CONSUMERS?

22 A. Ordering intraLATA equal access to be provided by all LECs is
23 a necessary first step if Ohio consumers are to reap the

1 benefits of competition. Permitting MCI's entry into
2 intraLATA 1+ and 0+ markets will immediately provide
3 additional choices -- for carriers and services -- to Ohio
4 consumers. However, fully effective competition will not
5 develop immediately in this market, which has been kept a
6 monopoly or near monopoly for so long. A more realistic
7 expectation is that competitive conditions will develop over
8 time if regulatory policies which allow that development are
9 in place. As competition expands, so will the benefits that
10 consumers receive from competition. Only with effective
11 competition in place and expanding should the Commission order
12 the flexible regulation sought by OBT.

13 Q. WOULD FAILURE TO OPEN THIS MARKET HARM OHIO CONSUMERS?

14 A. Yes. A policy of barring entry would be particularly costly
15 to consumers in light of 1) Ohio Bell's nearly complete
16 monopoly of intraLATA toll services, and 2) the significant
17 technical advances in communication, which may lead to far
18 cheaper techniques of providing services. Adam Smith also
19 warns us against narrowing competition:

20 To widen the market and to narrow the competition,
21 is always the interests of the dealers. To widen
22 the market may frequently be agreeable enough to
23 the interest of the public; but to narrow the
24 competition must always be against it, and can
25 serve only to enable the dealers, by raising their
26 profits above what they naturally would be, to
27 levy, for their own benefit, an absurd tax upon the
28 rest of their fellow-citizens. The proposal of any

1 new law or regulation of commerce which comes from
2 this order, ought always to be listened to with
3 great precaution, and ought never to be adopted
4 till after having been long and carefully examined,
5 not only with the most scrupulous, but with the
6 most suspicious attention. It comes from an order
7 of men, whose interest is never exactly the same
8 with that of the publick, who have generally an
9 interest to deceive and even to oppress the
10 publick, and who accordingly have, upon many
11 occasions, both deceived and oppressed it.¹⁶
12 (Emphasis added.)

13 Q. WOULD OBT OR UNIVERSAL SERVICE IN OHIO BE HARMED IF INTRALATA
14 EQUAL ACCESS WERE ORDERED?

15 A. No. Ohio Bell enjoys what I call customer inertia.

16 Q. PLEASE DEFINE WHAT YOU MEAN BY CUSTOMER INERTIA.

17 A. Customer inertia is the propensity of customers to stay with
18 their current provider of service. It is a significant
19 obstacle that a new firm entering a market or any firm
20 entering a new market must overcome if it is to be successful.

21 Q. DO YOU HAVE ANY EXAMPLES THAT YOU BELIEVE INDICATE THE POWER
22 OF THIS CUSTOMER INERTIA?

23 A. Yes. The best example I have seen came with the balloting for
24 equal access in the INS initial round of balloting in Iowa.
25 In that round of balloting U S WEST had indicated to INS that

26 ¹⁶Id., p 267.

1 it did not wish to participate on the intraLATA ballot. While
2 not placing the name of U S WEST on the initial ballot, INS
3 included a ballot choice that allowed the consumer to pick,
4 "No change to my current 1+ intraLATA carrier." A cover
5 letter explained that the current 1+ intraLATA carrier was U
6 S WEST.

7 On that initial ballot U S WEST, with no marketing effort to
8 try to retain customers, with, in fact, a determined effort to
9 avoid taking customers, would have retained 80 percent of the
10 intraLATA market. Only a subsequent formal complaint¹⁷ with
11 the Iowa Utilities Board kept U S WEST from "being forced" to
12 retain its dominant market position in the INS territory.

13 Q. IS THERE CURRENTLY COMPETITION IN THE INTRALATA TOLL MARKET?

14 A. Not effective competition. There is a fundamental difference
15 between the existence of competition and effective
16 competition. Some level of competition presumably exists as
17 soon as a second provider enters the market. Indeed, some
18 people even claim that competition exists when another company
19 has the potential to enter the market. This definition is not
20 useful, however, for describing market dynamics. When
21 considering the regulatory status and treatment of a company

22 ¹⁷Iowa Network Services, Inc., Northwestern Bell Telephone
23 Company, and the Participating Telephone Companies, Iowa State
24 Utilities Board Docket No. FCU-89-3, "Order Holding Discontinuance
25 of Service in Abeyance and Requiring Reballoting," March 31, 1989.

1 with monopoly services the definition of competition must be
2 drawn more stringently to protect the public interest. In the
3 absence of regulation, or in situations where regulation is
4 somehow reduced, effective competition must exist to protect
5 the public interest.

6 Q. PLEASE DEFINE WHAT YOU MEAN BY EFFECTIVE COMPETITION.

7 A. Competition is effective when, irrespective of the number of
8 firms in the industry, no single provider has the ability to
9 set prices above cost for some customer or customer class
10 without losing market share so fast as to be unprofitable.
11 Simply put, effective competition is price-constraining
12 competition.

13 The existence of captive customers or price discrimination
14 indicates that fully effective competition does not exist.
15 Barriers to entry would also prohibit the development of
16 effective competition. Thus competition can be said to be
17 effective if no firm has the ability to profitably set prices
18 that deviate from cost, and if it is easy for potential
19 competitors to enter the industry on the same terms and
20 conditions as any other firm. It is precisely this type of
21 competition that is necessary in order to protect the consumer
22 from monopoly abuse in the absence of effective regulation.

1 Q. IS OHIO BELL SUBJECT TO EFFECTIVE COMPETITION IN THE INTRALATA
2 MARKET?

3 A. NO. Certain barriers to the development of effective
4 competition remain in Ohio. As noted above, the lack of
5 intraLATA equal access is a major barrier to the development
6 of effective competition. Ohio Bell's continued artificial
7 monopoly on all 1+ten-digit and seven digit intraLATA calls
8 protects it from effective competition for its switched
9 services.

10 Q. WILL OBT SUFFER FINANCIAL HARM IF IT IS REQUIRED TO OFFER
11 INTRALATA EQUAL ACCESS?

12 A. NO. First, any traffic stimulation enjoyed by OBT would
13 likely result in increased access and billing and collection
14 revenues and decreased toll costs for OBT. This increase in
15 billing and collection and access revenues and decrease in
16 toll costs will offset, in part, or in total, any revenues
17 diverted from OBT. Indeed, if OBT's access and billing and
18 collection services provide more contribution relative to
19 their toll services, OBT would be better off providing access
20 in lieu of intraLATA toll.

21 Second, OBT should be able to recover any incremental equal
22 access charges by use of the same methodology used in the
23 interstate and interLATA jurisdiction. That is, it should be

1 allowed to recover those expenses that are solely related to
2 equal access conversion through an equal access recovery
3 charge (EARC). Alternatively, OBT would be allowed to collect
4 the charges through its local switching charges. Using either
5 scenario, the expenses should be amortized over eight years,
6 just as the interLATA EARC was recovered. Specifically, Part
7 36.421 (47 CFR Ch.1)¹⁸ should be used as a guideline for
8 identification of intraLATA conversion costs. Part 36.421
9 states:

10 Equal access expenses include only initial
11 incremental costs and other initial incremental
12 expenditures related directly to the provision of
13 equal access, that would not be required to upgrade
14 the capabilities of the office involved absent the
15 provision of equal access. Equal access expenses
16 are limited to such expenditures for converting to
17 central offices that serve competitive
18 interexchange carriers or where there has been a
19 bona fide request for conversion to equal access.

20 Equal access expenses are apportioned between
21 jurisdictions by first segregating them from all
22 other expenses in the primary accounts and then
23 allocating them on the same basis as equal access
24 investment.

25 There is no reason to reinvent the wheel. The above process
26 for identifying and recovering the costs of interLATA equal
27 access will work as well for purposes of intraLATA equal
28 access.

29 ¹⁸Code of Federal Regulations, Title 47, Chapter 1, Federal
30 Communications Commission.

1 Q. WILL TRAFFIC STIMULATION CAUSED BY THE MARKETING EFFORTS OF
2 IXCS IMPOSE ADDITIONAL COSTS ON OBT?

3 A. No. Ohio Bell will be fully compensated for all traffic
4 carried by new entrants through the access charge mechanism.
5 Access charges have been designed to permit LECs to recover
6 all of their cost of providing access service including a
7 significant level of contribution. Thus, properly designed
8 access charges fully compensate Ohio Bell for services it
9 supplies to IXCs such as MCI.

10 Q. DO YOU HAVE ANY EVIDENCE THAT SUCH STIMULATION WILL OCCUR?

11 A. Yes. Basic economics states that as prices fall, demand for
12 the services increases. Also, through advertising, IXCs seek
13 to shift the demand curve of the consumers upward. The
14 economic expectation, especially considering these two force
15 in tandem, is that demand will be stimulated. MIEAC (the
16 Minnesota Consortium of independent LECs) stated in both North
17 Dakota and Minnesota that it expects a ten percent stimulation
18 of demand upon converting to both interLATA and intraLATA
19 equal access.¹⁹

20 The INS experience in Iowa demonstrated these expected

21 ¹⁹Before the Minnesota Public Utilities Commission, Docket No.
22 P-3007/NA-89-76, The Minnesota Independent Equal Access
23 Corporation, Non-Proprietary Rate Design & Development and Cost
24 Support Statement, January 10, 1991, p.2.

1 results. In 1988 U S WEST carried all intraLATA 1+ traffic in
2 Iowa. According to its annual report filed with the Iowa
3 Board, U S WEST carried approximately \$120,590,000 worth of
4 toll revenue. After the implementation of equal access in the
5 INS exchanges in 1989, U S WEST carried \$110,620,000 in 1990.
6 INS, according to a report it filed with the Iowa Board,
7 carried about \$18,339,835 worth of intraLATA toll from its
8 exchanges in 1990. Not even accounting for the intraLATA toll
9 of MCI, Sprint or Teleconnect, the intraLATA toll revenue had
10 climbed \$8 million dollars. At the same time, U S WEST's
11 intrastate access revenues grew from \$47,471,000 in 1988 to
12 \$72,766,000 in 1990.

13 The net effect of these two figures show that not only did
14 stimulation minimize the toll revenue loss by U S WEST, but
15 the stimulation experienced by other carriers resulted in
16 gains in access charges far outstripping the toll revenue
17 loss. Similar results are quite possible in Ohio.

18 C. Other Safeguards Are Necessary to Allow Competition

19 A Fair Opportunity to Exist in Ohio.

20 Q. ARE THERE ANY REGULATORY SAFEGUARDS THAT WOULD ENHANCE OR
21 PROTECT THE DEVELOPMENT OF EFFECTIVE COMPETITION IN OHIO?

22 A. Yes. As competition develops in Ohio, imputation of access
23 charges in the LECs' toll rates and prevention of cross-

1 subsidization between competitive and non-competitive services
2 will be necessary. These issues are succinctly addressed in
3 the testimony of MCI witness Don Laub. The Commission should
4 apply the imputation, cost of service and cross-subsidization
5 standards that it adopts or intends to adopt in other
6 proceedings to OBT in this proceeding as well. The
7 Commission should take great care to enforce these protections
8 for the intraLATA toll market.

9 Q. DOES MCI SUPPORT AMERITECH'S DESIRE TO PREVENT ACCESS TO ITS
10 IMPUTATION AND COST STUDIES.

11 A. No. Ameritech argues that it should be allowed to prevent its
12 (phantom) competitors from analyzing the results of their
13 imputation and cost study tests. The only way an entity that
14 Ameritech decides to characterize as its competitor can
15 adequately review such materials is to hire an outside
16 consultant. This position is meritless and directly contrary
17 to my experience with Ameritech in its "Advantage Illinois"
18 and "Opportunity Indiana" price cap application dockets,
19 Illinois Commerce Commission Docket No. 92-0448 and Indiana
20 Utility Regulatory Commission Case No. 39705.

21 The position is meritless because how can Ameritech's largest
22 monopoly ratepayers -- IXCs like MCI, AT&T, Sprint, LDDS,
23 Allnet and LCI -- discover if Ameritech is engaging in

1 unlawful discrimination or predatory pricing? It is IXCs that
2 would be directly and immediately affected by such behavior,
3 and it is inexplicable, from a policy standpoint that they
4 cannot have the opportunity to analyze the information.

5 What Ameritech is trying to do here -- not allowing entities
6 it labels as competitors to access imputation and cost studies
7 -- is directly inconsistent with its activities in two other
8 alternative regulation cases in which I testified on behalf of
9 MCI that are cited above. In those two cases, Ameritech
10 provided the information to MCI under seal. No allegation was
11 ever made in those cases by Ameritech, the commissions or
12 staff that MCI violated the terms of its proprietary agreement
13 with Ameritech and gave the cost information to its marketing
14 department. It is outrageous that Ameritech feels it can
15 "game" the Commission here and seek the ability to deny its
16 largest monopoly ratepayers access to imputation and price
17 tests. The Commission should accordingly rule here that IXCs
18 should have access to imputation and cost-of-service
19 information (under seal, if proprietary treatment is
20 appropriate).

21 SUMMARY.

22 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

23 A. Yes. I have demonstrated that the current proposal of OBT is
24 not in the public interest. It affords no increase in

1 competition for the intraLATA toll and USS market and
2 therefore brings none of the benefits of competition to the
3 end users in Ohio. Continuation of the present system of
4 regulation must continue until Ohio Bell has implemented
5 intraLATA equal access. Only with this type of access in
6 place will the type of open and fair competition that is
7 requisite for lessened regulation occur. Without this dialing
8 parity, a competitive market cannot hope to exist and the
9 problems of unfair discrimination and imposition of inferior
10 connections will continue. Consumers will receive none of the
11 benefits required in order for this Commission to consider an
12 alternative regulation plan.

13 I have demonstrated that intraLATA equal access will increase
14 competition. Increased competition will, in turn, bring with
15 it many benefits for Ohio consumers. These benefits include
16 an immediate expansion of consumer choice; more and varied
17 services in the intraLATA market - such that consumers are
18 more likely to find a service that closely matches their
19 needs; a further acceleration of technology and innovation in
20 the intraLATA market; prices driven downward as they are
21 pushed closer to costs and the costs are reduced by the
22 innovations and new technologies; and, eventually, reduced
23 regulatory expenses for all competitive carriers.

1 Additionally, imputation and prevention of cross-subsidies are
2 necessary protections prescribed by the Act to insure the
3 development and maintenance of a healthy telecommunications
4 market. As such the Commission must complete the development
5 of a proactive monitoring system to ensure that the LECs do
6 not impose unfair and anti-competitive pricing practices on
7 the industry. It then needs to apply that system, to the best
8 of its ability, in the present case. Finally, the Commission
9 should treat the imputation cost studies of OBT as proprietary
10 but refuse to hold them hostage on behalf of Ohio Bell. All
11 that is necessary for the protection of the Ohio Bell privacy
12 interests are protective agreements similar to those used in
13 other states.

14 Q. DOES THAT COMPLETE YOUR TESTIMONY?

15 A. Yes, it does.