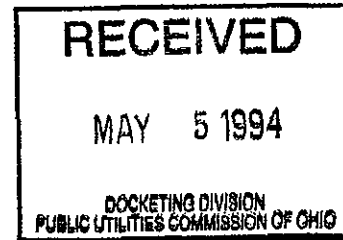


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May 4, 1994



Ms. Daisy Crockron
Chief, Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43266-0573


Re: Case No. 93-487-TP-ALT

Dear Ms. Crockron:

Enclosed for filing in the above docket are twenty (20) copies of the prefiled Testimony of Gary Ball on Behalf of TCG America, Inc.

Please file stamp the additional copy also enclosed and return to me in the enclosed, self-addressed stamped envelope as acknowledgement of receipt.

Very truly yours,

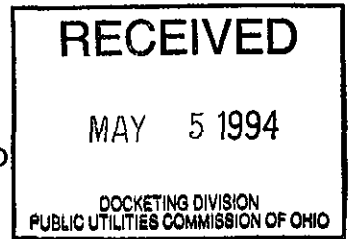

Clyde Kurlander

CK; cpjc

Encs.

CC: Service List

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO



In the Matter of the Application of
Ohio Bell Telephone Company for
Approval of an Alternative Form of
Regulation.

)
) Case No. 93-487-TP-ALT
)
)
)

TESTIMONY OF GARY BALL ON BEHALF OF TCG AMERICA, INC.

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS

2 A. My name is Gary Ball. My business address is Teleport
3 Communications Group, Inc. (TCG), One Teleport Drive,
4 Staten Island, New York 10311.

5
6 Q. WHAT IS YOUR CURRENT POSITION AT TCG?

7 A. I am Manager of Tariffs and Regulatory Analysis in
8 TCG's Regulatory and External Affairs Department. I
9 work closely with our sales and marketing departments
10 to tariff TCG's interstate services with the Federal
11 Communications Commission and its intrastate services
12 with the state commissions, including the engineering
13 and operational aspects of those services. I monitor
14 rates filed by other carriers for their impact on TCG's
15 service offerings.
16

1 Q. WHAT IS YOUR BACKGROUND PRIOR TO JOINING TCG?

2 A. From 1991 to early 1993, I worked for Rochester
3 Telephone. I started as a financial analyst in network
4 planning where I was responsible for analyzing the
5 impact of upgrades to Rochester's local telephone
6 network. I then held the position of Senior Analyst in
7 the Tariffs and Rates Department. I formulated pricing
8 for intrastate private line end switching services and
9 developed a private line pricing model. Before working
10 at Rochester, I received an MBA from the University of
11 North Carolina at Chapel Hill. I worked at
12 Westinghouse Electric Corporation for three years,
13 prior to graduate school, as a Radar Systems Engineer
14 providing technical support for the company's airborne
15 radar defense system. I received my Bachelor's degree
16 in electrical engineering from the University of
17 Michigan in 1986.

18
19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
20 PROCEEDING?

21 A. The purpose of my testimony is to address issues
22 related to "Barriers to Competition" in the Staff
23 Report of Investigation filed in this case. I will
24 specifically address the Staff's recommendation that
25 Ohio Bell Telephone Company/Ameritech of Ohio, Inc.
26 ("Ameritech") make available all of the components of

1 basic local exchange service on an unbundled basis. I
2 will also discuss uniform terminating compensation for
3 local traffic.

4
5 Q. HAS THE STAFF LISTED ALL THE BARRIERS WHICH TCG AMERICA
6 CAN IDENTIFY AS PRECLUDING EFFECTIVE COMPETITION?

7 A. No. TCG America fully supports the Staff's
8 identification of a procompetitive telecommunications
9 policy. I believe, however, that the Staff's list of
10 barriers to competition is incomplete. I would like to
11 therefore identify and explain additional barriers
12 which Alternative Exchange Providers ("AEPs") like TCG
13 America will face in providing local service in
14 Ameritech's service territory. I will specifically
15 address barriers associated with access to components
16 of Ameritech's bottleneck network and uniform
17 terminating compensation for local traffic.

18
19 Q. HOW CAN THE COMMISSION BEST ADDRESS THE REMOVAL OF THE
20 BARRIERS TO COMPETITION WHICH YOU WILL IDENTIFY?

21 A. I believe that the Commission should open an expedited
22 generic local competition docket to address these
23 issues. Parties can participate in the docket to
24 detail what the existing barriers are, explore how much
25 progress has been made towards removing the barriers
26 and finally, identify firm policies to completely

1 remove these barriers.

2
3 Q. WHAT ISSUES SHOULD THE COMMISSION ADDRESS IN THIS
4 GENERIC DOCKET?

5 A. The Commission should address the technical, legal and
6 economic barriers which must be affirmatively removed
7 in order for AEPs to provide competitive local calling
8 services.

9
10 Q. WHAT IS THE MOST SIGNIFICANT TECHNICAL BARRIER
11 CONFRONTING TCG AMERICA IN ITS ABILITY TO PROVIDE
12 COMPETITIVE SERVICES?

13 A. TCG America is currently unable to purchase on an
14 unbundled basis the line-side and trunk-side network
15 components of Ameritech's local bottleneck network.
16 Ameritech has proposed to disaggregate its exchange
17 access rate element into only two components: the
18 network access line and the central office termination
19 -- in other words, the link and the port. This
20 proposal clearly does not go far enough. While TCG
21 America, as an AEP, has a limited need to purchase
22 links to reach customers which are not physically
23 located on its network, it needs to be able to purchase
24 specific components of the bottleneck network.

1 Q. WHAT OTHER COMPONENTS DOES TCG AMERICA NEED AMERITECH
2 TO UNBUNDLE?

3 A. The Commission should require Ameritech to unbundle the
4 following logical, physical and administrative
5 functions of the LEC's bottleneck:

6 1) Physical

7 Links
8 End user ports
9 Local switching
10 Local calling port-end office
11 Tandem switching
12 Local Calling port-tandem switch
13 Interoffice transport
14 SS7/STP port
15 911/E911 Hub
16 LEC operator services
17

18
19 2) Logical

20
21 Directory assistance database
22 Line Information Database (LIDB)
23 SS7/SCP
24 Numbering/routing database
25 Advanced Intelligent Network
26

27 3) Administrative

28
29 Order processing systems
30 Billing systems
31 Circuit provisioning systems
32 Maintenance/repair systems
33 Customer service systems
34

35 Overall, there are "Nine Points" which the Commission
36 should address in a generic docket to facilitate the
37 technical interconnection and other arrangements which
38 are necessary prerequisites for effective local
39 competition. Points 2 through 6 comprise the physical,
40 logical and administrative network components I

1 described above. These points are:

- 2 (1) Central office interconnection arrangements;
3 (2) Connections to unbundled network elements;
4 (3) Seamless integration into LEC interoffice networks;
5 (4) Seamless integration into LEC signalling networks;
6 (5) Equal status in and control of network databases;
7 (6) Equal rights to and control over number resources;
8 (7) Local telephone number portability;
9 (8) Reciprocal inter-carrier compensation arrangements;
10 and
11 (9) Cooperative practices and procedures.

12 In addition, it is necessary to establish procedures
13 for acquisition of necessary rights-of-way on the same
14 terms and conditions as the LEC and mandate no
15 restrictions on the resale of LEC services.
16

17 Q. WILL AEPs BE ABLE TO COMPETE IN THE LOCAL MARKET
18 WITHOUT THESE POINTS BEING IN PLACE?

19 A. No. These "Nine Points" are the necessary technical,
20 operational and administrative requirements for the
21 development of local exchange service competition.
22

23 Q. WHAT IS THE MOST SIGNIFICANT LEGAL BARRIER CONFRONTING
24 TCG AMERICA IN ITS ABILITY TO PROVIDE COMPETITIVE
25 SERVICES?

26 A. I am not a lawyer. However, I do know that obtaining

1 certification from the Commission is a significant
2 barrier. TCG America filed for private line
3 certification under streamlined rules. After a
4 significant delay, the certificate was granted, but
5 Ameritech appealed the grant of authority. We can only
6 assume from our experience that obtaining a certificate
7 to provide local switched services will be more
8 difficult. Therefore, the current certification
9 process should be listed as a barrier to competition
10 for AEPs that the Commission should address in a
11 generic docket.
12

13 Q. WHAT ARE THE MOST SIGNIFICANT ECONOMIC BARRIERS
14 CONFRONTING TCG AMERICA IN ITS ABILITY TO PROVIDE
15 COMPETITIVE LOCAL SERVICES?

16 A. An AEP must be fairly confident that it can receive a
17 reasonable profit from offering competitive local
18 service. There are essentially three points which are
19 necessary to make local competition economically
20 viable. Without these points in place, the economic
21 inviability becomes a fundamental barrier to an AEP's
22 ability to enter the market. First, the Commission
23 must ensure that prices charged by the LEC for the
24 technical arrangements and interconnections I described
25 above are cost based and thus not excessive. If these
26 elements are priced above cost, competitors will not be

1 able to enter the marketplace. Second, the Commission
2 must address uniform compensation for terminating local
3 traffic. Third, the Commission should consider the use
4 of broad imputation requirements to prevent
5 discrimination between the incumbent LEC and
6 competitors, thus ensuring that all prices for
7 unbundled network components reflect underlying costs
8 and do not encourage anticompetitive pricing by the
9 LEC.

10
11 Q. CAN YOU IDENTIFY THE PRIMARY GOAL OF A WORKABLE
12 COMPENSATION ARRANGEMENT BETWEEN CARRIERS FOR
13 TERMINATING LOCAL TRAFFIC?

14 A. A viable compensation scheme will simply ensure that
15 the rate for the LEC's end-to-end local calling service
16 does not exceed the total rates for all unbundled
17 components the LEC uses to provide that local service.
18 Then, a reasonable margin should exist between the
19 market rate for an end-to-end local call and the cost
20 to terminate the call on the LEC's network or the AEP's
21 network. The competitor must use this margin to cover
22 its own network costs, which include switching,
23 transport, the provision of 911, 411 directory
24 assistance, sales, administrative, engineering and
25 other expenses.

1 Q. WHAT KIND OF COMPENSATION SCHEME IS VIABLE?

2 A. A generic docket would be the best forum for exploring
3 different types of compensation arrangements which are
4 agreeable to competitors and the LEC. I can say
5 initially that a reasonable compensation scheme can be
6 conceptually based on the margins interexchange
7 carriers retain after paying the LEC to originate and
8 terminate long distance calls. TCG believes that a
9 reasonable "benchmark" for this gross margin can be
10 based on the margins interexchange carriers ("IXCs")
11 retain after paying the LEC to originate and terminate
12 long distance calls. IXCs currently pay LECs
13 approximately 50 percent of the effective long distance
14 market rate to originate and terminate calls, or 25
15 percent at each end of the call. Since local
16 competitors will provide the originating function
17 themselves, they will only pay the LEC to terminate the
18 call and therefore, the local call completion rate
19 should be no more than 25 percent of the effective
20 market rate of an end-to-end local call. There are a
21 number of different compensation arrangements which the
22 Commission can investigate in the generic docket.

23
24 Q. CAN YOU DESCRIBE SOME DIFFERENT COMPENSATION SCHEMES
25 WHICH YOU THINK THE COMMISSION SHOULD REVIEW IN A
26 GENERIC DOCKET?

1 A. While TCG America can not endorse one particular
2 arrangement at this time, I can suggest that the
3 Commission should explore different types of
4 compensation plans in a generic docket. Some of these
5 are:

6 (1) Charge the LEC's local switching tariff rate for
7 termination of local traffic at an end office on its
8 network and charge transport for termination of
9 transport at a tandem;

10 (2) Permit the carrier that originates the local call
11 to keep the revenue associated with the call and not
12 pay the terminating carrier;

13 (3) Charge a flat rated DS1 tandem or end office port
14 rate to terminate an unlimited amount of traffic on the
15 LEC's network, priced in a cost based manner.

16 Q. DO YOU HAVE A GENERAL OPINION ON THE VIABILITY OF THESE
17 OPTIONS?

18 A. Local switching is economically viable because it
19 represents a functionality actually being provided to
20 the carrier that works to terminating the call, and
21 represents a movement toward cost based rates.

22
23 Permitting the carrier which originates the call to
24 keep the revenue associated with the call is
25 economically viable because the originating carrier
26 does not pay anything to the terminating LEC. In an

1 area that traditionally has had flat rate calling, this
2 scheme is especially appealing because costs are not
3 incurred by carriers in excess of revenues taken in
4 from end users. The flat rated port option is viable
5 if the competitor sends enough minutes of use per month
6 per DS1 port to recover the port charges.

7
8 Flat rate ports represent an administratively
9 simple means to implement competition.
10 Carriers will be inclined to efficiently
11 design their network and efficiently utilize
12 the LEC's network as well. I would
13 recommend that the LEC charge a lower port
14 charge for end offices and a higher charge
15 for tandems based on the LEC's transport
16 costs associated with termination at a
17 tandem. This would provide the proper
18 economic incentives for carriers to develop
19 robust networks.

20
21 Q. CAN YOU BRIEFLY DESCRIBE THE REASON FOR REQUIRING
22 IMPUTATION?

23 A. Imputation simply ensures that the incumbent carrier
24 can not charge discriminatory or anti-competitive rates
25 for components of its bottleneck network. In order for
26 an imputation requirement to be effective, the

1 incumbent must be required to impute every element it
2 uses to provide a service. If only a few cost elements
3 are required to be imputed, the incumbent will then
4 have too much freedom to discriminatorily price other
5 services elements.
6

7 Q. PLEASE SUMMARIZE YOUR TESTIMONY?

8 A. I have identified certain significant legal, technical
9 and economic barriers to competition which the
10 Commission should address in an expedited generic
11 proceeding. I have also discussed the elements
12 necessary for effective local competition including the
13 components of the incumbent LEC's bottleneck network
14 which an AEP must be able to purchase on an unbundled
15 basis. Finally, I described what is necessary for an
16 economically viable compensation arrangement between
17 carriers for the termination of local traffic.

18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19 A. Yes.
20

CERTIFICATE OF SERVICE

I hereby certify that a copy of the prefiled Testimony of Gary Ball on Behalf of TCG America, Inc. was served upon each person appearing on the attached Service List by regular U.S. mail, postage prepaid, at Chicago, Illinois this 5th day of May, 1994.


Clyde Kurlander

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