

**State Proceeding to  
Address Where CLECs are  
Not Impaired Without  
Access to Unbundled  
Switching**

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**December 3, 2003**

 **BELLSOUTH**<sup>®</sup>

# >> **Required Switching Impairment Analysis**

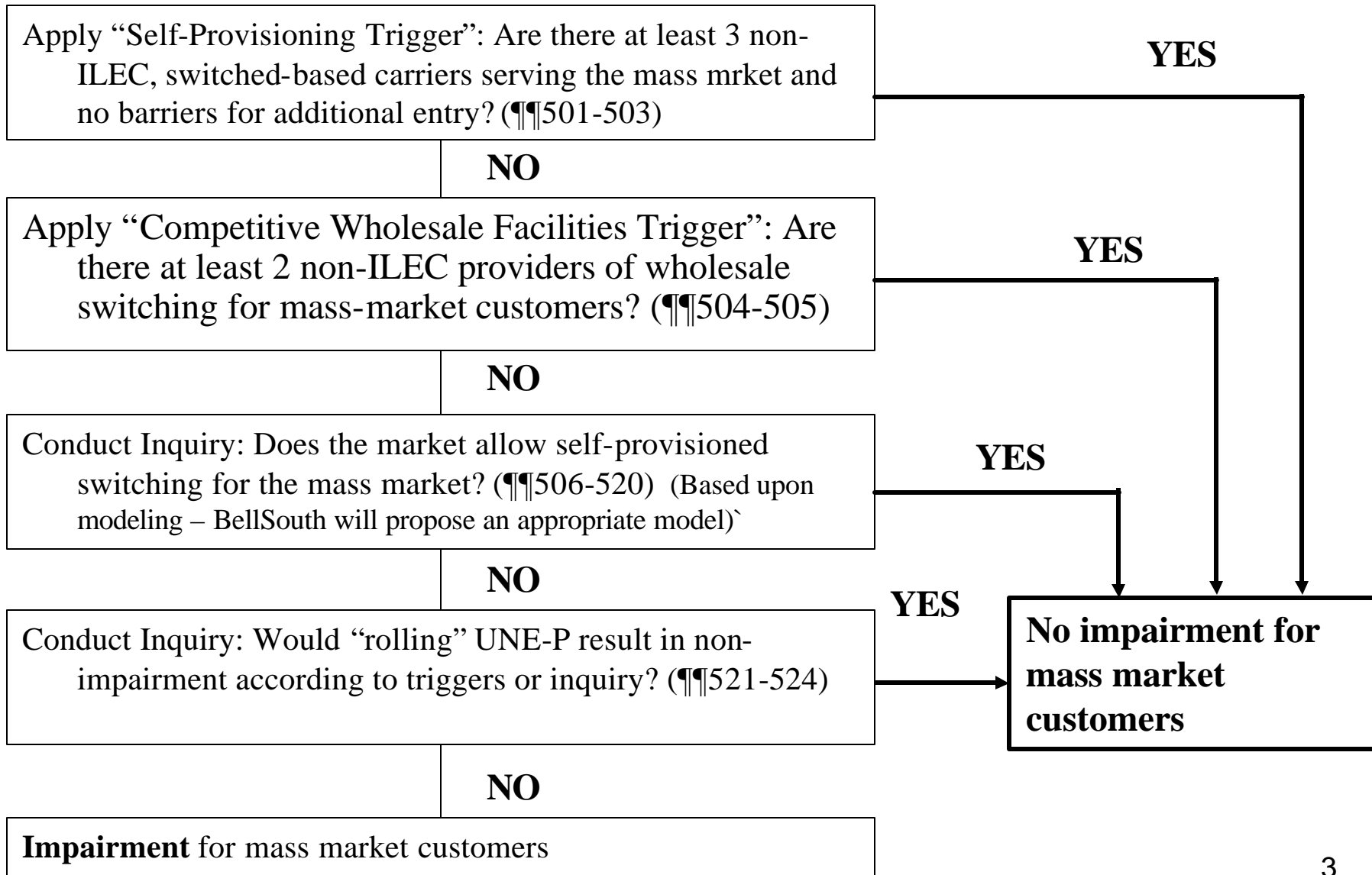
A finding of “no impairment” in a particular market can be made at any one of these steps:

- The Self-Provisioning Trigger analysis \*
- The Competitive Wholesale Trigger analysis \*
- The Potential Deployment analysis
- The Rolling Use of Unbundled Switching analysis

A finding of “impairment” in a particular market can only be made after the State Commission has considered each analysis that the ILEC chooses to present.

\* The FCC instructed the State Commission to make a finding of “no impairment” in any market area wherein either the Self-Provisioning Trigger or the Competitive Wholesale Trigger is met. In order to make a finding of “impairment” in a market area where either of the triggers is met, the State Commission would have to file a waiver with the FCC setting forth the reasons why relief should not be granted in that market area.

# >> Process to determine Switching Impairment



## **>> Issues to Address in the Switching Case**

- **The cross-over point (i.e., the number of lines) that distinguishes the Mass Market from the Enterprise Market**
  - Important to understand that the Mass/Enterprise distinction is not the typical Res/Bus distinction
  - BellSouth will propose that the cross-over point remain at 4, as initially set by the FCC
    - Practical effect is that, if a CLEC is providing 3 or less analog voice grade lines to the customer location, that customer is a “Mass Market” customer
    - All other customers are “Enterprise Customers”
- **The geographic area that comprises a “market”**

## >> **Switching – Defining the Market Areas**

### **FCC directed the State Commission to:**

- **Consider the locations of mass market customers being served by competitors** Rule 51.319(d)(2)(i)
- **Consider variations in factors affecting competitors' ability to serve each group of customers** Rule 51.319(d)(2)(i)
- **Consider competitors' ability to target and serve specific markets profitably and efficiently using currently available technologies** Rule 51.319(d)(2)(i)

### **FCC directed the State Commission not to:**

- **Define the market as the entire state** ¶ 495
- **Define the market so narrowly that a competitor serving that market alone would not be able to take advantage of available scale and scope economies from serving a wider market** ¶ 495

## **>> Switching – Defining the Market Areas**

- **BellSouth considered many definitions, such as UNE Zones, MSAs, LATAs and BTAs**
  - **When researching BTAs, BellSouth found where the Bureau of Economic Analysis (BEA) in the Department of Commerce had defined regional economic areas**
    - **First defined in 1977 with 183 areas**
    - **Redefined in 1993 with 172 areas**
    - **Redefinition done largely to incorporate newly available information on commuting patterns**



## ***Switching – Defining the Market Areas***

- **The BEA assembles economic area data on:**
  - **Earnings by industry**
  - **Employment by industry**
  - **Total personal income**
  - **Population**
  - **Per capita personal income**
  
- **This data may be used to analyze:**
  - **local area economic activity**
  - **local inter-industry economic relationship**
  - **inter-area population movements**
  
- **These economic areas are used as major units for the BEA's local area economic projections, which are used by:**
  - **government agencies for planning public-sector projects and programs**
  - **by businesses for determining plant locations and sales territories**
  - **by universities and other research groups for doing regional economic studies**

## **>> Switching - Defining the Market Areas**

- **Each of the 172 economic areas identified by the BEA consists of one or more economic nodes and the surrounding counties that are economically related to the nodes**
  - **The main factor used by the BEA to determine the economic relationships among counties is commuting patterns**
  - **Also considered regional newspaper circulation**



## **>> Switching – Defining the Market Areas**

- **Beginning with its 172 economic areas, the BEA's additional subdivision into economic nodes resulted in 348 Component Economic Areas (CEAs)**
- **These 348 CEAs cover the entire nation – no areas are left uncovered, as with MSAs (MSAs do not encompass rural areas)**
  - **71 CEAs cover the BellSouth 9-state franchise territory**
  - **10 CEAs cover the BellSouth franchise territory in Kentucky**

## **>> *UNE Zones cut by CEAs***

**BellSouth will propose that the market be defined as UNE Zones cut by Component Economic Areas (CEAs)**

- **State Commissions have already established UNE Zones, thereby identifying geographic areas that it believes have an economic relationship**
- **UNE Zones have differing UNE loop rates and for that reason the TRO suggested their use**
- **CEAs are well-defined and provide a meaningful way to economically relate wire centers**
- **Results in 20 market areas in BellSouth's franchise territory in Kentucky**

## **>> Switching – Triggers Analysis**

- **Markets that satisfy the self-provisioned switching trigger:**
  - **BellSouth will demonstrate to the Commission the markets where 3 or more CLECs are currently providing their own switching to mass market, analog voice customers**
  - **In fact, it is a simple counting exercise**
  - **If a CLEC is providing 3 or less analog lines to a customer, that customer qualifies as a mass market customer, and the CLEC has determined it is economically viable to serve that customer with analog lines**

## **>> *Switching – The BellSouth Model provides the Commission with an Impairment Analysis Tool***

- **For markets that do not meet either of the two triggers tests:**
  - **BellSouth will perform a “potential deployment” analysis to determine those markets where it is economically viable for a CLEC to self-provide switching ¶ 506**
- **For example, markets with one or two (but not three) CLECs serving mass market customers with their own switches may prove to be economically viable**
- **Indeed, markets where no CLEC has chosen to serve mass market customers may prove to be economically viable**

## **>> *The BellSouth Analysis of Competitive Entry Model (the BACE Model)***

- **The BACE Model will be used to support the “potential deployment” portion of the case**
- **The BACE Model meets or exceeds the FCC’s stated requirements for an economic analysis**
- **BellSouth expects the BACE Model will prove in the majority of markets where the triggers are met (sanity check), and will likely prove in additional markets in each state**

## >> **Transition Timeline**

**When the state commission makes a finding of no impairment in a particular market:**

- **CLECs can continue to add new UNE-Ps for 5 months**  
Rule 51.319(d)(2)(iv)(A)
- **CLECs have, at a minimum, 27 months to convert the embedded base of UNE-Ps to an alternative serving arrangement**  
Rule 51.319(d)(2)(iv)(A)
- **No conversion of UNE-Ps to an alternative serving arrangement is required until 13 months after the state commission's order finding no impairment**
- **Thus, access to unbundled switching at TELRIC rates continues quite some time after the state commission makes a finding of no impairment in specific markets**

## **>> *Examine and Approve a Batch Hot Cut Process***

- **The ILEC will have to demonstrate that it has a “batch hot cut” process in place that will enable CLECs to move customers from UNE-Ps to the CLECs’ switches. ¶ 488**
- **When addressing the “batch hot cut” process, the state commissions also have to look at the price charged for the batch hot cuts, and determine that the prices for batch hot cuts reflect any efficiencies that may be realized in doing hot cuts in batches. ¶ 489**

## **>> *Difference Between Hot Cut Process and Batch Hot Cut Process***

- **Difference is that a larger number of lines (a “batch”) are being moved from the ILEC’s switch to a CLEC’s switch**
- **Processes are the same, except that a Project Manager works with the CLEC prior to the orders being issued to negotiate due dates for the cuts and to ensure that all the necessary information is provided**
- **Physical activity when a hot cut is part of a batch is no different than the physical activity when only one customer is being cutover from UNE-P or retail to UNE Loop**
- **SEEMS penalties will continue to apply for poor performance.**
- **BellSouth’s business case model currently includes the Commission-ordered UNE rates for hot cuts; therefore, the cost to the CLEC is considered in the analysis**



## **>> Conclusion**

**In the switching case, BellSouth will:**

- **Propose a crossover point of 4**
- **Propose that the market area be UNE Zones cut by CEAs**
- **Demonstrate the markets where the self-provisioning trigger is met**
- **Demonstrate the markets where it is economically viable for CLECs to serve mass market customers, even though the current level of competition does not meet the triggers test**
- **Demonstrate that BellSouth's batch hot cut process meets the requirements set forth by the FCC**