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November 16, 1992

BY HAND DELIVERY

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Comprehensive Review of the Revenue Requirements
and Rate Stabilization Plan of Southern Bell
Telephone and Telegraph Company, Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing and distribution are the original and 15
copies of the Florida Interexchange Carriers Association's Direct
Testimony.

An extra copy of the Florida Interexchange Carriers
Association's Direct Testimony is also enclosed. Please stamp with
the date of filing and return it to me.

3 Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman
Vicki Gordon Kaufman

VGK/jwm
Enclosure

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DOCUMENT NUMBER-DATE
13482 NOV 16 1992
FPSC-RECORDS/REPORTING

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

In re: Comprehensive Review of the)	Docket No. 920260-TL
Revenue Requirements and Rate)	Filed: November 16, 1992
Stabilization Plan of Southern Bell)	
Telephone and Telegraph Company)	

**TESTIMONY OF JOSEPH GILLAN
ON BEHALF OF
THE FLORIDA INTEREXCHANGE CARRIERS ASSOCIATION**

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I. Introduction

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Q. Please state your name and business address.

A. My name is Joseph Gillan. My business address is P.O. Box 541038, Orlando, Florida 32854.

Q. What is your occupation?

A. I am an economist with a consulting practice specializing in telecommunications. A summary of my publications, prior testimony and qualifications is provided as Exhibit ____ (JPG-1).

Q. On whose behalf are your testifying?

A. I am testifying on behalf of the Florida Interexchange Carriers Association (FIXCA) which is an industry group formed to promote interexchange competition.

Q. What is the purpose of your testimony?

1 A. The purpose of my testimony is to address four issues that are particularly
2 critical to the continued development of interexchange competition.
3 Specifically, my testimony addresses:

4
5 1. Southern Bell's Expanded "Local" Service (ELS)
6 Proposal.

7
8 2. A Recommended Structure for the IntraLATA
9 Interexchange Marketplace -- Consumer
10 Sovereignty.

11
12 3. Southern Bell's Proposed "Price Cap" Plan.

13
14 4. Southern Bell's Corporate Network.
15

16 While the focus of my testimony is the interexchange toll market, the concerns
17 that I have identified are likely to find parallels in other areas of Southern
18 Bell's business since the same competitive relationships -- i.e., Southern Bell
19 as both competitor and monopoly supplier -- are not limited to the
20 interexchange market.

21
22 Q. Please summarize your recommendations to the Commission.

1 A. First, the Commission should reject Southern Bell's Expanded "Local" Service
2 proposal which requires that a customer accede to local measured service to
3 obtain lower toll prices -- and then accede to receiving lower toll prices only
4 from Southern Bell. If the Commission desires selectively discounted
5 interexchange prices, it should adopt a system of reduced access rate levels for
6 expanded calling zones so that all interexchange prices within a subscriber's
7 immediate area can be dramatically reduced.

8
9 Second, the Commission should rely on the exercise of customer choice to
10 effectively regulate (within appropriate limits) Southern Bell's prices for
11 interexchange services. Effecting this "consumer sovereignty" requires that the
12 Commission reform existing dialing patterns so that customers need not "dial-
13 around" Southern Bell to reach the services of the providers they prefer. The
14 convenience of 1+ dialing should be used to maximize the benefit that
15 consumers derive from the network, not as a shield to protect *Southern Bell*
16 from the preferences of the public.

17
18 Third, my testimony recommends that the Commission incrementally adjust
19 Southern Bell's existing incentive structure to correct those deficiencies which
20 became apparent during the pendency of the plan -- principally the plan's
21 inability to adjust to dramatic changes in capital conditions -- rather than
22 adopt the wholesale abandonment recommended by Southern Bell. The

1 Commission should match Southern Bell's pricing and earnings flexibility to
2 the level of competitive discipline that it faces. For instance, if my
3 recommendations for the intraLATA market are adopted, then additional
4 flexibility for Southern Bell may be appropriate. Absent such changes,
5 however, now is not the time for the Commission to abandon the existing
6 system of regulation while Southern Bell retains significant market power for
7 virtually all of its products.

8
9 Finally, I recommend that as the Commission recalibrates Southern Bell's
10 rates to establish a new baseline performance level, that it disallow Southern
11 Bell's investment in its interLATA "corporate" network. This investment far,
12 far, exceeds Southern Bell's internal communication needs and its presence
13 in Southern Bell's regulated rate base is forcing today's monopoly ratepayers
14 to finance a network whose justification appears to be Southern Bell's hope
15 for future (subsidized) reentry into the interexchange market.

16 17 II. Expanded "Local" Calling

18
19 **Q. Please describe the basic elements of the interexchange and local pricing**
20 **proposal that Southern Bell has packaged under the label expanded "local"**
21 **service (ELS).**

22

1 A. Southern Bell's proposal consists of two elements: (a) a heavily discounted
2 interexchange service (priced well below access charges), combined with (b)
3 the elimination of the subscriber's free local calling area. (i.e., the introduction
4 of local measured service).

5
6 The proposed local measured service (LMS) rate schedule is \$.02/minute with
7 caps for residential customers of \$10.00 per month and business customers of
8 \$30.00 per month. In addition, under this plan the subscribers' monthly access
9 line rate is reduced to further offset the impact from the LMS pricing of those
10 calls that had previously been free.

11
12 Those customers agreeing to local measured service would receive discounted
13 interexchange pricing (DIP) of all calls up to a 40 mile radius. The price
14 applicable to these interexchange calls would be only \$0.08 per minute.
15 Furthermore, for those customers who subscribe, the dialing pattern would
16 convert all calls within 40 miles to 7-digit dialing (i.e., these interexchange
17 calls will no longer be originated with the 1+ prefix).

18
19 Q. What issues are raised by Southern Bell's proposal to combine a discounted
20 interexchange product with LMS?

21
22 A. Southern Bell is basically using an interexchange discount to entice customers

1 to subscribe to local measured service. Importantly, the discounted
2 interexchange portion is priced at rates which violate the Commission's
3 requirement that Southern Bell impute the access charges that it levies on
4 interexchange carriers to its own cost of providing a toll service.¹ These
5 standards were adopted to assure that Southern Bell's toll products were
6 priced to reflect the same payment for monopoly access service that Southern
7 Bell imposes on its rivals. By pricing below the Commission's imputation
8 floor, Southern Bell would be able to capture consumers using price levels
9 that its rivals cannot match.

10
11 Southern Bell's proposal allows it to introduce lower prices by avoiding the
12 contribution burden it collects from the customers of its competitors, and not
13 from any advantage that Southern Bell possesses as a provider of
14 interexchange service. Further, by obligating the customer to also subscribe
15 to local measured service, Southern Bell proposes to recover some of the
16 revenues it would forgo in the competitive interexchange market from its
17 monopoly local service where it is protected from competitive threat. Of
18 course, with similar relief from Southern Bell's access charges, other
19 interexchange carriers could continue to meet their customers' needs for lower
20 prices and provide them with competitive alternatives.

21 ¹ See Order Establishing Parameters for Local Exchange Company Toll Pricing,
22 Order 24859, Docket 900708-TL, issued 7/29/91.

1 **Q. Is it appropriate to exempt Southern Bell's discounted interexchange service**
2 **from the Commission's imputation standards?**

3
4 **A. No. The only precedent for exemption from access charges is where a unique**
5 **community-of-interest exists that would justify the pricing privilege of local**
6 **service.² Southern Bell has made no attempt to justify this pricing system as**
7 **conforming to a local community of interest other than through its creative**
8 **labeling. Nor could it.**

9
10 **Southern Bell's proposed product is optional to each subscriber and is defined**
11 **geographically by a 40 mile radius. These parameters shout "toll product."**
12 **Local communities of interest do not extend concentrically from individual**
13 **exchanges according to an arbitrary mileage radius; nor are they defined on**
14 **an individual by individual basis as envisioned by the "optional" nature of the**
15 **Southern Bell plan. The DIP is a "loss leader" intended to extend Southern**
16 **Bell's formidable "local" monopoly well into the interexchange market.**

17
18 **By combining discounted interexchange service with LMS, Southern Bell**
19 **hopes to use its monopoly control over local service to dramatically reduce its**
20 **interexchange prices without experiencing the full revenue effect.**

21
22 ² **Order 25708, Docket 910179-TL, issued 2/11/92.**

A. Pressures for Lower Prices

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Q. Do you believe that interexchange usage prices should decline, particularly at the boundary where toll service and local service merge?

A. Yes, but as the Commission evaluates alternatives it should be careful to address the underlying problem and not just its symptoms. I believe that the primary problem is not that local calling areas are inadequate, but that toll prices are excessive in comparison to the price of local usage -- particularly at the boundary where the services meet. This disparity between local and toll price levels is the root issue which must be addressed. It is imperative, however, that any system of selective rate relief not grant an unearned preference to the services of one carrier exclusively (such as, in Southern Bell's proposal, Southern Bell itself).

Q. What is the cause of the toll/local disparity?

A. The source is the convergence of two conflicting pricing policies that have traditionally been applied to "toll" and "local" service. Local calling has been conventionally viewed as satisfying basic communications needs -- to friends, family, schooling, shopping, government services, etc Because of this routine dependence, regulatory policy has favored local calling by keeping its

1 usage price, in most instances, free.

2

3 In contrast, toll service has been considered discretionary and has traditionally
4 borne a much higher burden of contribution³ towards the LECs' common
5 cost. This heavier burden was originally imposed through the cost allocations
6 contained in the "separations" process; more recently, carrier access charges
7 have been used to recover this contribution. The point is that traditional
8 pricing relied upon conflicting paths to keep local calling prices deliberately
9 low with funding provided, in part, from toll prices that were kept artificially
10 high.

11

12 These policies collide at the local-calling boundary. And it is here, where the
13 policies converge, that market pressures for lower rates are likely to be
14 expressed. The mileage-based, concentric-ring method, however, is an
15 inherently arbitrary and unreliable standard with which to distinguish between
16 "local" and "toll". Rather than identifying a "community of interest" deserving
17 reduced prices, the concentric-ring method simply captures all calling within
18 an arbitrary mileage band.

19

20 In fact, as used in Southern Bell's proposal, the concentric ring is used more

21 ³ Contribution is used here to define the margin between a service's direct cost
22 and its price.

1 to discriminate between carriers than to distinguish between categories of
2 calling. Within the ring, Southern Bell allows its prices to fall; yet, the
3 customers of all other carriers are denied similar relief.

4
5 Importantly, the underlying problem of high toll rates should be addressed for
6 what it is -- a problem of high *toll* rates. And the principal cause of high toll
7 prices is high access charges. If the Commission decides that it prefers
8 reduced contribution from some sector of the toll market so that prices may
9 fall, then that policy should be implemented through reductions in access
10 rates. This approach would allow customers of all carriers to see lower rates.
11 The cost of access, as the primary *source* of the problem, should figure
12 prominently in its *solution*.

13
14 **B. The Access Charge Solution**

15
16 **Q. Why is it important to rely on access to obtain lower interexchange prices?**

17
18 **A. Access should be used to achieve lower interexchange prices for reasons of**
19 **both equity and efficiency. While the Commission may fairly vary**
20 **contribution burdens among various markets, within each market it should not**
21 **depend upon the customer's carrier selection. The importance of this**
22 **principle becomes particularly relevant in later sections of my testimony where**

1 I discuss empowering customers with greater control over their interexchange
2 calling decisions.⁴

3
4 Where the Commission chooses to grant interexchange rate relief, the
5 opportunity to provide reduced prices should be afforded all market
6 participants, including competitors of the local phone company. The
7 Commission should not, and need not, sacrifice the benefits of competitive
8 choice in order to obtain selectively discounted toll prices. If the cost of
9 access is reduced for all, then carriers can compete on the basis of
10 interexchange products and costs that are not distorted by an access-
11 contribution advantage reserved solely to Southern Bell.

12
13 **Q. What would be the impact of allowing Southern Bell to avoid access charges**
14 **using the cover of an expanded "local" calling plan?**

15
16 **A. There would be a number of direct and indirect impacts if the Commission**
17 **approves Southern Bell's ELS approach. These include:**

- 18
19 1. A significant reduction in that portion of the intraLATA
20 interexchange market open to competition.

21
22 ⁴ See Section III, A Consumer Sovereignty Approach to Interexchange Policy.

1 **2. Pressure for Southern Bell to expand its plan beyond 40 miles**
2 **as customers inevitably respond favorably to lower prices and**
3 **request a larger radius.**

4
5 **3. A substantial reduction in competitive opportunities in the**
6 **entire intraLATA market as the threshold traffic volumes**
7 **needed for competition shrink with the expansion of Southern**
8 **Bell's effective monopoly.**

9
10 **4. A shift in the contribution obligation previously recovered from**
11 **interexchange services to other products and services.**

12
13 **There is no end to this path once the Commission adopts the basic premise**
14 **that Southern Bell can selectively exempt itself from access charges wherever**
15 **it concludes that customers would prefer lower rates. There is nothing unique**
16 **about 40 miles that doesn't also apply to 45 miles, 50 miles or 100 miles.**
17 **Consumers will always prefer lower rates and Southern Bell will always prefer**
18 **(revenues permitting) to price in a manner which its rivals cannot match.**

19
20 **Q. What portion of the intraLATA market would be directly removed from**
21 **competition under Southern Bell's proposal?**

22

1 A. The most direct competitive impact would occur in that portion of the market
2 which subscribes to ELS. Southern Bell assumes that approximately 12% of
3 its customers will choose this option resulting in the elimination of more than
4 \$62 million of the MTS market.⁵ Of course, if more customers subscribe, the
5 impact will be greater.⁶

6
7 Q. What percentage of the MTS market does this represent?

8
9 A. The projected revenue reduction of \$62 million is approximately 22% of the
10 MTS market. Furthermore, the testimony of Nancy Sims indicates that
11 Southern Bell anticipates introducing "enhancements" to its plan that would
12 yield an additional *net* reduction of \$22 million in 1995.⁷ Assuming that the
13 relationship between MTS revenues and the net reduction is the same for its
14 1995 "enhancements", this implies an additional remonopolization of the MTS
15 market of approximately \$58 million/year. Combined, Southern Bell's plan
16 would remonopolize over 40% of the intraLATA MTS market even at the

17 ⁵ See Attachment 2 to the direct testimony of Nancy Sims.

18 ⁶ South Central Bell has implemented a similar pricing proposal in Mississippi.
19 There, 32.8% of the residential customers subscribed, and 55.2% of the
20 businesses. Southern Bell's financial projections here assume a residential
21 penetration rate of slightly less than 6% and a business penetration rate of
22 approximately 12%.

23 ⁷ The *net* reduction reported in Ms. Sims' testimony presumably includes the
24 increased revenues that Southern Bell would receive from the LMS
25 component of its proposal.

1 relatively modest subscription levels assumed by Southern Bell.

2

3 **Q. Will the competitive impact be limited to just this portion of the market?**

4

5 **A. No. To effectively compete in the present environment carriers must**
6 **overcome the customer's reluctance to dial additional digits to deliver**
7 **intraLATA traffic to their chosen carrier. For the largest customer, special**
8 **access-based toll products, combined with the routing capability in the**
9 **customer's PBX can be used to override the "dialing barrier" to direct traffic**
10 **to a chosen interexchange carrier. In addition, some carriers have installed**
11 **"automatic dialers" which translate the customers' "1+" command to the**
12 **alternative dialing sequence (i.e., 10XXX) needed to avoid Southern Bell.**

13

14 **Importantly, these forms of competition make sense only if there is sufficient**
15 **intraLATA traffic to justify the investment necessary to overcome the**
16 **customer's inconvenience with using nonconventional dialing patterns.⁸ Any**
17 **action which substantially reduces a customer's intraLATA toll traffic, also**
18 **reduces the economic justification for this investment and, indirectly,**
19 **challenges the entire basis for intraLATA competition.**

20 ⁸ It should be noted that dialers, in particular, are an inferior substitute to 1+
21 access due to additional dialing delay and operating failures. Nevertheless,
22 in the absence of dialing pattern reform, this investment has proven necessary
23 for many customers that are not large enough to justify special access-based
24 products.

1 This point bears repeating. The foundation for meaningful intraLATA
2 competition (in the absence of 1+) is sufficient traffic volumes to justify the
3 investment needed (either physical or educational) to overcome customer
4 inconvenience. Reductions in traffic volumes carry the direct effect of
5 reduced revenues and the indirect effect of reducing the viability of
6 intraLATA competition altogether.

7
8 **Q. What other impacts could follow from allowing Southern Bell to eliminate**
9 **competition in this portion of the market?**

10
11 **A. There would be a direct financial impact on carriers that are presently**
12 **meeting customer's calling needs inside of 40 miles. Depending upon the**
13 **severity of the revenue reduction from losing this traffic, reduced financial**
14 **performance could negatively impact the ability of these carriers to attract**
15 **capital and make the improvements in their operations necessary to compete.**
16 **This lost revenue could be particularly critical since evidence suggests that the**
17 **smaller the interexchange carrier, the more dependent upon intraLATA traffic**
18 **it becomes.**

19
20 **Exhibit ____ (JPG-2) summarizes data previously released by Southern Bell**
21 **concerning the distribution of intraEAEA traffic among interexchange**
22 **carriers. Assuming that "intraEAEA" is a reasonable proxy for short-haul toll**

1 traffic, this exhibit clearly shows a pronounced market reliance by carriers
2 other than the big-three national companies (i.e., AT&T, MCI and Sprint) on
3 the short-haul intraLATA market.

4
5 **Q. What do you recommend?**

6
7 **A. First, I believe that it is important for the Commission's toll and local policies**
8 **to remain separate. The Commission should reject Southern Bell's effort to**
9 **use discounted interexchange prices (below access charges) as an inducement**
10 **for consumers to subscribe to local measured service.**

11
12 **Second, rather than addressing the toll/local pricing transition in isolation, I**
13 **recommend that the Commission address its interexchange pricing policies in**
14 **a manner that will encourage broader rate reductions without the sacrifice of**
15 **competitive choice. Customers can have low rates, carrier diversity and**
16 **competitive protection so long as these objectives are consistently pursued.**

17
18 **III. A "Consumer Sovereignty" Approach to Interexchange Policy**

19
20 **Q. What policies should the Commission apply to Southern Bell's participation**
21 **in the interexchange market?**

1 A. There are two fundamental policies that the Commission should adopt with
2 respect to Southern Bell's participation in the interexchange market. First,
3 the Commission should use the 1+ dialing feature as a tool to provide
4 consumers maximum control over their telecommunications choices. Second,
5 the Commission should rely exclusively on access charges to determine the
6 level of contribution from interexchange service that it intends to maintain.
7 In this way the Commission can become indifferent to the choices that
8 individual consumers make.

9
10 Q. Why is 1+ dialing important?

11
12 A. The convenience of 1+ dialing is a scarce and valuable resource. No other
13 dialing relationship has achieved the same degree of market recognition and
14 acceptance. Instead of being devoted to the exclusive use of Southern Bell,
15 it should be applied in a way that provides the greatest benefit to the
16 customer.

17
18 The doctrine of customer sovereignty provides that the individual customer
19 is the single best judge of how 1+ dialing should be used. The customer
20 should have the freedom and flexibility to decide if its 1+ traffic should be
21 routed to an IXC, Southern Bell, or to both.

22

1 **The principal dialing feature of consumer sovereignty is that Southern Bell**
2 **must honor a customer's request to have its 1+ intraLATA traffic delivered**
3 **to the carrier of its choice. By establishing this basic right, consumer**
4 **sovereignty places the disposition of the 1+ resource squarely in the hands of**
5 **the consumer.**

6
7 **Q. What class of customer can be expected to benefit most from intraLATA**
8 **dialing pattern reform?**

9
10 **A. Smaller business subscribers and residential customers will benefit most.**
11 **MTS-type products -- which are the base products for the residential and**
12 **small business markets -- are designed for the broadest appeal. Notably, these**
13 **services are also the most dependent upon 1+ dialing and switched access to**
14 **be successful.**

15
16 **The largest users can rely on a dedicated special access circuit to connect to**
17 **the interexchange carrier's network. Other large users may have a PBX which**
18 **can be programmed to "automate" the additional dialing requirements needed**
19 **to reach a competing interexchange carrier.**

20
21 **The smallest users, however, don't have these options and, as a result, these**
22 **users may not have a meaningful opportunity to obtain competitive**

1 intraLATA services without sacrificing the convenience of 1+ dialing.

2

3 **Q. Have you previously suggested this policy to the Commission?**

4

5 **A. Yes. The issue of eliminating the local telephone companies' lock on all 1+**
6 **intraLATA calls was one of several issues discussed Docket 880812-TP when**
7 **the Commission addressed its Toll Transmission Monopoly Area (TTMA)**
8 **policies.**

9

10 **In that decision, the Commission declined to open the 1+ market and**
11 **articulated three concerns:⁹**

12

13 1. **"[T]he presubscription balloting process is expensive, complex,**
14 **disruptive to the LECs and confusing to customers".**

15

16 2. **There was inadequate information concerning the cost of**
17 **implementation.**

18

19 3. **The potential revenue impact on local telephone companies as**
20 **customers obtained interexchange services from other carriers.**

21

22 ⁹ Order 23540, Docket 880812-TP, Issued 10/1/90, page 23.

1 Two years have passed since the Commission's TTMA decision. Intervening
2 developments favor the adoption of this policy now. And, this comprehensive
3 review of Southern Bell's revenues and regulatory structure is the perfect
4 place to begin.

5
6 **Q. As to the Commission's first concern, are you recommending that the**
7 **Commission require that intraLATA balloting occur?**

8
9 **A. No. I agree with the Commission that affirmatively balloting customers could**
10 **be disruptive and confusing. However, balloting is not a requirement of the**
11 **concept I am proposing: If a customer initiates a request to have its 1+ traffic**
12 **delivered to a carrier other than Southern Bell, then that customer's request**
13 **should be honored.**

14
15 **Q. With respect to the Commission's second concern, is there better information**
16 **regarding the cost of implementation?**

17
18 **A. Yes, but this information can only be developed by Southern Bell working**
19 **with its switch manufactures to determine the specific cost of the software**
20 **modification which allows customers to identify separate recipients of their**
21 **interLATA and intraLATA traffic. Within the industry this feature is known**
22 **as the "2-PIC" option. The "2-PIC" option refers to the customer's ability to**

1 designate two Primary Interexchange Carriers (PICs) who then receive the
2 customer's 1+ inter- and intraLATA traffic.

3
4 Southern Bell acknowledges that Northern Telecom has announced the
5 availability of this feature for the 4th quarter of this year for its DMS-100
6 switch¹⁰, and both AT&T and Siemens have announced 1994 availability
7 dates. Further, in the time since the Commission's TMA decision, intraLATA
8 presubscription has been implemented in Alaska¹¹ and ordered by the North
9 Dakota Commission.¹²

10
11 **Q. Must the Commission have final cost information before it adopts a policy**
12 **of consumer sovereignty?**

13
14 **A. No. Detailed cost information is only necessary as a final check on**
15 **implementation. The Commission should recognize that providing customers**
16 **with control over their use of the 1+ dialing pattern is a useful and beneficial**
17 **improvement in the telecommunications infrastructure and should be adopted**

18 ¹⁰ The feature is already available for the DMS-10 switch.

19 ¹¹ The State of Alaska is not served by any Bell Operating Companies and is not
20 governed by the MFJ's "equal access" obligations. As a practical matter,
21 however, the 2-PIC software that permits the separate designation of inter-
22 and intrastate carriers is identical to the software needed in the lower 48
23 states to implement the 2-PIC designation of inter- and intraLATA carriers.

24 ¹² Case N. PU-2320-90-183.

1 as a policy objective.

2
3 Of course, Southern Bell will only develop detailed cost information if it is
4 ordered to do so. There is no way to avoid uncertainty regarding the cost to
5 install 2-PIC software. The Commission has previously implemented policies,
6 however, where there was an uncertain impact by adopting a revenue "set
7 aside" for future application. This same policy could be followed for the
8 implementation of this feature. Or, the Commission could announce its
9 intention to recover intraLATA presubscription costs as an equal access
10 expenditure from all intraLATA minutes through an access charge surcharge.

11
12 In any event, the Commission should adopt consumer sovereignty as a policy
13 objective in this proceeding and require that Southern Bell present its cost
14 estimate and suggested recovery mechanism within 3 months. The process
15 cannot end, however, unless it first begins.

16
17 **Q. What about the Commission's concerns regarding the potential impact of**
18 **competition on local telephone company revenues?**

19
20 **A. The Commission can address this concern by adopting a policy which frees its**
21 **contribution objectives from Southern Bell's retail performance in the**
22 **interexchange market. Under a policy of financial indifference, the**

1 Commission isolates its contribution policy to the single transaction that is
2 common to virtually all toll services, the purchase of carrier access service.

3
4 Achieving the Commission's polices should not require that Florida consumers
5 prefer the intraLATA services of the local telephone company. If the
6 Commission collects its desired contribution through access charges -- and
7 continues to require Southern Bell to impute access charges to *its*
8 interexchange services -- then the Commission's contribution objectives can
9 be realized no matter what choices customers make.¹³ This is because the
10 same contribution is collected whether the customer chooses the local
11 telephone company or its competitor.

12
13 **Q. Can customers be given control over their long distance choices without**
14 **substantially impacting Southern Bell's financial performance?**

15
16 **A. Yes. The keys are growth and an understanding that the objective is not the**
17 **continued domination of the intraLATA toll market by a single firm, but a**
18 **transition to competition which allows the incumbent time to adjust to**

19 ¹³ The term "subsidy" is used here interchangeably with the term "contribution".
20 While standard economics literature would consider a service subsidized only
21 if priced below its marginal cost, its common usage in the industry
22 characterizes the more prevalent situation where other services are
23 deliberately priced far in excess of their marginal costs to allow some prices
24 (typically, local service) to remain low.

1 market-share losses. In a growing market, Southern Bell can lose market
2 share without experiencing either declining traffic volumes or revenues. If
3 competitive entry erodes the LEC's market at a rate lower than the market's
4 growth, then the LEC will continue to see its revenues and traffic volumes
5 increase -- even without attempting to reduce its costs in response to
6 competition. While *Southern Bell* would like to maintain its market
7 dominance in the retail toll market, the *Commission's* objective need only be
8 stable contribution.

9
10 Q. Have you estimated what market shares are consistent with stable
11 contribution?

12
13 A. Yes. Whenever competition is introduced, the incumbent monopoly can be
14 expected to experience declining market share. As consumers shift from
15 Southern Bell's toll services to other carriers, Southern Bell's revenue-source
16 will shift to access service. While Southern Bell's percentage of the retail
17 market will decline, its combined (toll and access) revenue can grow to keep
18 pace with the growth in residential access lines.

19
20 These relationships are graphically illustrated in Exhibit ____ (JPG-3). The
21 shaded area represents the portion of the market that can be supplied by
22 other interexchange carriers without eroding Southern Bell's revenue per

1 residential access line.

2
3 These stable contribution levels are possible because the toll market is
4 growing more rapidly than residential access lines. For instance, from 1987-
5 1991, it is estimated that the retail MTS market grew by an average of
6 11%/year. Over this same period, residential access lines grew by only 3.9%.
7 The divergence in the growth rates for these services, combined with the
8 transfer of revenue the retail (MTS) market to the wholesale (access)
9 categories, establishes the rate of market erosion that is possible while
10 maintaining stable (but not growing) contribution per residential access line.

11
12 **Q. Have you estimated the Southern Bell market shares that are consistent with**
13 **maintaining stable contribution levels?**

14
15 **A. Yes. Exhibit ___ (JPG-4) presents the retail market shares that correspond**
16 **to Southern Bell achieving combined access and toll revenue growth that**
17 **parallels its growth in residential access lines. This graph was developed by**
18 **extrapolating the historic growth rate in MTS minutes and residential access**
19 **lines identified above. Market shares consistent with constant contribution**
20 **were calculated assuming that the MTS market continues to grow at its**
21 **historic 11% rate and, for comparison, assuming more modest growth rates**
22 **of 7% and 9%.**

1 This exhibit indicates that contribution levels can be maintained even if
2 Southern Bell is transformed to the role of access provider only by the free
3 exercise of consumer choice. In addition, this exhibit presents the minimum
4 market share that Southern Bell must retain in any given year to experience
5 stable contribution/residential line. For all market shares above these levels,
6 Southern Bell would see its revenues and contribution increase.¹⁴

7
8 **Q.** Southern Bell's witness Lombardo claims that Southern Bell is currently
9 experiencing a dramatic reduction in its MTS market share. Do you agree?

10
11 **A.** No. The empirical foundation for Southern Bell's claim is the observation
12 that access minutes have grown more quickly than toll growth.¹⁵ Further,
13 Mr. Lombardo fears that this increase will accelerate now that (presumably)
14 the TTMA transmission restriction has been lifted.

15
16 A simple comparison of Southern Bell's intrastate access and MTS minutes
17 (properly adjusted), however, shows that this is not the case. Exhibit ____
18 (JPG-5) shows the relative growth¹⁶ of MTS and Access traffic. As the

19 ¹⁴ FIXCA is presently reviewing proprietary Southern Bell studies which
20 apparently estimate Southern Bell's financial exposure from 1+
21 presubscription and anticipates additional discovery. FIXCA reserves the
22 opportunity to file supplemental testimony once this discovery is complete.

23 ¹⁵ Lombardo direct testimony, Page 7.

24 ¹⁶ Calculated using 1987 as a base (1987 = 100).

1 graph shows, Southern Bell did see slower growth in 1990 and 1991. This is
2 because, however, Southern Bell began separately reporting optional calling
3 plan minutes in 1990. Prior to 1990, these discounted interexchange minutes
4 were reported as MTS service. When these minutes are included to more
5 accurately portray the MTS-toll market, the figure clearly shows that MTS
6 growth is exceeding access growth.

7
8 **Q. How does your approach propose to address the transition between toll and**
9 **local pricing policies discussed earlier in your testimony?**

10
11 **A. My recommendation is that the Commission should adjust access rate levels**
12 **to achieve the contribution levels that it desires from various markets, but**
13 **then allow customers to choose the products and suppliers they prefer.**

14
15 Southern Bell argues that access charges are not enough compensation when
16 discussing the possibility of MTS market share loss slipping to rivals.
17 However, Southern Bell implicitly argues that access charges are too much
18 compensation when pricing its own interexchange service to customers which
19 subscribe to LMS. This inconsistency can only be explained by Southern
20 Bell's consistent efforts to limit or delay competition.

21
22 If the Commission concludes that it would like to see substantial reductions

1 in interexchange prices to smooth the transition between (free) local calling
2 and higher standard toll rates, then it should adopt an access zone (such as
3 a 20 mile radius¹⁷) that allows the price of all calls within the zone to be
4 reduced.

6 IV. Regulatory Structure

7
8 **Q. Please describe Southern Bell's deregulation proposal.**

9
10 **A. The Southern Bell proposal is loosely based on the federal system of price cap**
11 **regulation. As under the federal system, prices would be regulated via an**
12 **index which measures the weighted-average level of prices. Southern Bell**
13 **would be free to restructure its prices, introduce variants and discontinue**
14 **products virtually at will, so long as the relative index value stays below the**
15 **cap.**

16
17 Two tools used to partially limit pricing freedom in the federal price cap
18 environment are "baskets" and "bands." Baskets are used to calculate a sub-
19 index of the prices for a group of services facing similar competitive
20 circumstances. This protects services in one basket from experiencing rate

21 ¹⁷ If the Commission created a reduced-access zone of 20 miles, approximately
22 1/3 of the toll market would be affected.

1 increases used to offset decreases in the price of services in another basket.
2 In theory, this protects services that face less competition from subsidizing
3 services that face more competition. Band limits are used to limit the
4 absolute increase/decrease in price that a service may experience in any given
5 year.

6
7 Q. Is the federal system adaptable to Florida?

8
9 A. No. Leaving aside the threshold question as to whether price caps are a
10 useful tool in *any* environment, the state and federal regulatory problems are
11 quite different. The scope of FCC regulation is generally limited to a single
12 service category – access. Even though the FCC needed only to develop a
13 plan with this narrow application, the FCC was still concerned with the
14 strategic manipulation of prices among access services. To prevent these
15 pricing adjustments, the FCC imposed a number of baskets designed to limit
16 the LEC's ability to shift revenues among categories in addition to its price
17 cap limits on aggregate rate levels.

18
19 Contrast this approach with the regulatory task confronting a state
20 commission. Here, the menu of services is far greater than at the FCC. It
21 includes private line, ESSEX, local, custom calling services, intraLATA toll
22 products in addition to access. Southern Bell lists seventy-six (76) separate

1 service categories.¹⁸ Even though the menu of services is far greater than
2 in the interstate arena, Southern Bell's price cap proposal groups these
3 services into just two categories.

4
5 **Q. What problem is created by grouping all of its services into just two baskets?**

6
7 **A. Southern Bell's proposal would provide almost unlimited pricing flexibility due**
8 **to the level of aggregation at which it proposes to apply index limits.**

9
10 First, under Southern Bell's proposal there would be no protection from rate
11 adjustments among the different rate elements and sub-categories which
12 constitute a single "service". For instance, Southern Bell lists "switched access"
13 as a single service which would be subject, in total, to the limitation that
14 prices for "switched access" could not be raised by more than 5% per year.

15
16 "Switched Access", however, is a term which encompasses a variety of sub-
17 services whose major components include transport over the intraLATA
18 network (local transport), use of the local switch (local switching), use of the
19 subscriber line (carrier common line service), and the forwarding of billing
20 information (automatic numbering information). Different interexchange
21 services rely on different combinations of these activities and Southern Bell

22 ¹⁸ Exhibit 2 to Lombardo direct testimony.

1 is proposing total freedom to adjust the relationship among these prices
2 without regulatory review.

3
4 Further, by aggregating all of its services into just two baskets, Southern Bell
5 would be able to offset price increases in some services with decreases in
6 others. This manipulation would be limited only by the plan's restriction that
7 "basic" service prices cannot increase more than 5% per year, and "non-basic"
8 prices by more than 20% per year.

9
10 Overall, there would simply be no effective check on Southern Bell's ability
11 to raise and lower prices within these categories so long as the average index
12 value did not exceed its cap.

13
14 **Q. Why should the Commission reject a price-cap approach?**

15
16 **A.** The Commission should reject this approach because it would provide
17 Southern Bell with the discretion to manipulate its prices to maximize
18 earnings and disadvantage competitors. Southern Bell has unparalleled
19 market power; it controls the cost structure for many of its rivals (particularly
20 interexchange carriers) through its control of the local network, and has the
21 ability to fundamentally alter competitive and market conditions through
22 unilateral pricing decisions.

1 For example, the price cap index is calculated as the weighted average of
2 price times demand. Significantly, Southern Bell proposes to control not only
3 the prices used to calculate this index, but also the ability to move traffic
4 volumes between categories to effect different weightings. For instance,
5 traffic that would be considered "non-basic" interexchange service could be
6 reclassified as "basic" local service under its proposed ELS plan.

7
8 **Q. Are there other examples which emphasize the extent to which Southern Bell**
9 **could adjust its prices without review?**

10
11 **A. Yes. There is no dispute that switched access service, obtained from the local**
12 **telephone company, is absolutely necessary for interexchange carriers to**
13 **provide long-distance service.¹⁹ Under the FCC's recent ONA policies,**
14 **some of the features of the LEC's switch are being separately priced as "basic**
15 **service elements" (BSEs). Importantly, the BSE designation does not imply**
16 **that the feature is an unnecessary or discretionary element of switched access.**

17
18 **The principal BSE being separately priced is "automatic number information"**
19 **or ANI. This feature provides the interexchange carrier with the billing**
20 **number of the line originating the call. Long distance service (at least,**

21 ¹⁹ In some circumstances it is possible to avoid switched access at the customer's
22 end of the call. Examples include Megacom and Prism service. There is no
23 useful mechanism, however, to avoid its purchase on both ends.

1 profitable long distance service) is not possible without ANI because it
2 provides the interexchange carrier with information necessary to bill the call.

3
4 **Q. How does Southern Bell's plan propose to regulate the prices of access service
5 and their constituent BSEs?**

6
7 **A. The plan categorizes switched access service as a "basic" service while it
8 considers ANI -- an unavoidable element of switched access -- as a "non-basic"
9 feature. While Southern Bell would only be able to increase the price(s) of
10 switched access by 5%, it could increase the price of this necessary element
11 of switched access by 20% in any given year. As a result, Southern Bell would
12 have extensive freedom to manipulate the overall price for switched access
13 within its plan.²⁰**

14
15 **Q. Can Southern Bell's plan be corrected through additional refinements?**

16
17 **A. No, I don't believe that it can. The principal flaw with the plan is that it
18 eliminates cost as a criterion for judging individual prices, and eliminates
19 profits as a standard to evaluate overall rate levels. If Southern Bell faced
20 broad competitive pressures which limited its pricing choices and prevented**

21 ²⁰ The concern noted here doesn't even reach the more fundamental problem
22 that Southern Bell could effect almost any restructuring (such as the
23 unbundling of ANI) without oversight and review.

1 it from recovering competitive investments from monopoly ratepayers, then
2 the Commission might be justified in walking away from its regulatory
3 oversight. But, this simply isn't the case.
4

5 **Q. What should be the basic approach to regulating Southern Bell?**

6
7 **A. For the basic regulatory framework, I recommend that the Commission**
8 **continue its existing incentive structure with three modifications:**
9

- 10 1. Southern Bell's rates should be recalibrated to a
11 new target return reflecting current capital
12 market conditions.
13
- 14 2. The Commission should explicitly incorporate a
15 provision which indicates that prices can be
16 recalibrated if capital market conditions change
17 beyond some predetermined range.
18
- 19 3. A new "sharing" mechanism should be adopted so
20 that access customers also have the opportunity
21 to benefit from growth.
22

1 In addition, I believe that the Commission should consider granting Southern
2 Bell significantly greater earnings and pricing freedom for its interexchange
3 services once consumer sovereignty has been implemented.
4

5 **Q. Why should the Commission recalibrate Southern Bell's rates?**

6
7 **A. The essence of the Commission's existing incentive approach is that Southern**
8 **Bell is permitted to share in additional profits when its performance exceeds**
9 **expectations. Such a system requires, however, that baseline performance be**
10 **established against which exceptional performance can be measured. The**
11 **Commission has refrained from recalibrating Southern Bell's rates during the**
12 **course of the experiment, but it cannot continue to do so indefinitely.**

13
14 **Q. Why should the Commission explicitly address how the plan will adjust to**
15 **changing capital market conditions?**

16
17 **A. The most contentious period of the Southern Bell incentive period occurred**
18 **when capital conditions changed unexpectedly. The sharing approach is based**
19 **on the premise that there is an earnings level which, if exceeded, profits**
20 **should (at least, partially) be returned to consumers. Changing capital**
21 **conditions, however, can also cause "average" performance to yield "excessive"**
22 **returns when judged against market conditions considerably different than**

1 those at the time rates are initially calibrated. The Commission should
2 consider adjusting the incentive plan to explicitly anticipate rate recalibration
3 when market conditions (measured, perhaps, by the bond yields or some other
4 index) change beyond a predetermined range.
5

6 **Q. What type of "sharing" mechanism are you suggesting for access customers?**
7

8 **A.** The third problem evident in the Commission's experience with the previous
9 incentive plan was that access customers -- i.e., interexchange carriers -- could
10 contribute to excess revenues, but were unlikely to receive a portion of any
11 refund amount targeted for ratepayers. I recommend that the Commission
12 modify the incentive plan so that access customers are also able to benefit
13 from the positive impact of growth on revenues. Specifically, I recommend
14 that increased revenue from growth in Carrier Common Line Charges
15 (CCLC) be split between (1) growth attributable to increases in the number
16 of access lines, and (2) growth attributable to increases in the average usage
17 per line. Southern Bell should be allowed to retain increased revenues from
18 the addition of access lines, but the additional revenue caused by an increase
19 in access minutes per line -- which reflects increasing usage of interexchange
20 carrier toll products -- should be used to reduce access charges.
21

22 **Q. What additional earnings and pricing flexibility would be appropriate?**

1 A. I recommend that the Commission more carefully balance Southern Bell's
2 regulatory freedom to areas where there are meaningful competitive options.
3 In this regard, it is useful to consider the two underlying elements of
4 regulatory flexibility -- pricing and earnings -- separately. When evaluating
5 this additional regulatory flexibility it is important to recognize that
6 competitive circumstances differ substantially across submarkets. Constraining
7 pricing freedom to a relevant submarket is relatively easy; targeting earnings
8 relief in a manner which provides both the opportunity to succeed and to *fail*
9 is more difficult unless a method to define profits by submarket is established,
10 monitored and enforced.

11
12 Q. For which submarket are you recommending that the Commission consider
13 granting additional regulatory flexibility?

14
15 A. The market for intraLATA interexchange toll service. Earlier in my
16 testimony, I recommended that the Commission implement a policy of
17 consumer sovereignty for intraLATA toll services. With the competitive
18 discipline that this policy would introduce, I believe that additional pricing
19 flexibility could be appropriate.

20
21 Q. What pricing flexibility would you support?

22

1 A. I believe that it would be acceptable to allow Southern Bell pricing flexibility
2 similar to other interexchange carriers once three conditions are satisfied.
3 First, the Commission must require that Southern Bell honor customer
4 requests for intraLATA presubscription. Second, Southern Bell must obtain
5 access at tariffed access rates identical to all other interexchange providers.
6 Third, an aggregate revenue obligation from toll service (i.e., a "toll revenue
7 requirement") must be established from which "toll profits" and "toll losses"
8 could be calculated. Under these conditions, I do not believe that additional
9 limitations on Southern Bell's prices would be necessary.

10

11 Q. **How would the Commission isolate earnings flexibility to this submarket?**

12

13 A. To isolate Southern Bell's earnings freedom to this market (and thus protect
14 the ratepayers in other markets from facing potentially higher prices) the
15 Commission must establish a market-specific "revenue requirement".

16

17 Prior to granting Southern Bell additional flexibility, Southern Bell should be
18 required to propose an estimate of its cost to provide competitive toll services.
19 If Southern Bell's interexchange earnings exceed this "service cost", Southern
20 Bell should be allowed to retain 100% of the profits. If Southern Bell's
21 "service cost" exceeds its revenues, however, then Southern Bell shareholders
22 would be responsible for all losses.

V. Southern Bell's Private Toll Network

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Q. Is there evidence of cross-subsidy in today's rate levels?

A. Yes. There is substantial evidence that Southern Bell is subsidizing its potential reentry to the long distance market with an extensive and excessive interLATA fiber optic network that existing monopoly ratepayers are financing.

Q. Please describe Southern Bell's private toll network.

A. Although Southern Bell is (presently) prohibited from providing interLATA services under the MFJ, it was given permission to construct and operate an interLATA network for its own internal needs. Southern Bell exploited this opportunity by constructing a fiber-optics network with enormous excess capacity that is clearly unnecessary when compared to Southern Bell's needs. This excess capacity exists as dark (unused) fiber that lies dormant in the ground, as well as optical transmission systems that derive capacity on its active fiber pairs greatly exceeding Southern Bell's demand requirements.

Q. Please explain the basic components of a fiber-optic transmission system.

1 A. The two principal components of a fiber-optic transmission systems are the
2 fiber transmission cable and the optronics systems that send and receive the
3 light signals. Generally, two-way communications requires a pair of fibers,
4 each operating in one direction. Typically, a spare fiber pair is also activated
5 as a "protect" system to guard against an outage in the operating system.

6
7 The number of equivalent voice circuits that can be derived on a fiber pair
8 is determined by the operating speed of the optronics. The faster that the
9 optronics can send and receive light signals, the greater the volume of data
10 that can be transmitted, thus increasing the number of information "packages"
11 available to transmit an encoded (digital) voice conversation.

12
13 Fiber optics capacity can be measured by these two components: (1) the
14 number of fiber pairs that are installed, and (2) the operating speeds of those
15 pairs that have been activated.

16
17 Q. How many fiber pairs did Southern Bell install for use in its private internal
18 network?

19
20 A. Exhibit ____ (JPG-6) details the number of active, protect, and dark fiber
21 pairs in each interLATA link. The active and protect fiber pairs are those
22 actually in service. The "dark" fiber pairs represent potential transmission

1 capacity that requires the addition of optronics systems to become activated.

2
3 As this exhibit demonstrates, Southern Bell has constructed an extensive
4 interLATA interexchange fiber optic network that lies fallow in the ground.
5 The cost of this network, as part of Southern Bell's rate base, is being
6 recovered from ratepayers through depreciation. All that is required for this
7 network to become a competitive interLATA network is the addition of
8 optronic electronic systems to activate this raw (dark) capacity.

9
10 In addition to its investment in dark interLATA fiber optic capacity, Southern
11 Bell has also installed more expensive optronic systems on those fiber pairs
12 that are operating than are needed for the amount of traffic currently on the
13 network.

14
15 **Q. How do the operating speeds that Southern Bell installed on its active fiber**
16 **pairs compare to its traffic volumes?**

17
18 **A. Exhibit ____ (JPG-7) compares the operating speed of the optronics on each**
19 **link with the capacity that Southern Bell is actually using to carry traffic. The**
20 **unit of comparison is the number of DS-3s needed to derive the amount of**
21 **active circuits that Southern Bell has reported for each link. A DS-3 is a**
22 **"package" of capacity which provides 672 voice grade circuits.**

1 Exhibit ____ (JPG-7) shows, for each interLATA link, the operating speed
2 used on the active fiber. The number of "lit" DS-3's created at that speed is
3 compared to the number of DS-3s that Southern Bell appears to be using to
4 actually carry traffic.

5
6 This comparison clearly shows that Southern Bell has installed operating
7 systems which create substantial amounts of "active" excess capacity -- that is,
8 these circuits are available today for interLATA traffic without Southern Bell
9 having to invest in any additional optronic systems.²¹ Between 55% and
10 90% of the *active* capacity is idle.

11
12 Again, the cost of the more expensive optronic systems which provide this
13 excess capacity are being funded by ratepayers.

14
15 **Q. What is the potential capacity of Southern Bell's interLATA network?**

16
17 **A. As stated above, the potential capacity of this interLATA network depends**
18 **on the operating speed used to activate the dark fibers. Exhibit ____ (JPG-8)**
19 **shows the capacity potential assuming that the same optronics are placed on**

20 ²¹ Even this measure underestimates the excess capacity on the Southern Bell
21 private network. Traffic data indicates that Southern Bell is only averaging
22 approximately 2500 minutes per circuit which is about 1/2 the industry
23 standard for individual large users.

1 the dark fiber that were used on the active pair.

2

3 The potential capacity estimated in this exhibit is conservative, however, since
4 operating system speeds continue to increase with improvements in
5 technology. For instance, with SONET technology it is likely that future
6 optronics will derive several times the capacity levels shown in the exhibit.

7

8 Estimating the limit of fiber's capacity to further emphasize the extent of
9 Southern Bell's excess capacity, however, is equivalent to beating a "glass
10 horse". The point remains the same -- this is an interLATA network with
11 competitive ambition.

12

13 **Q. How does the size of this "private internal communications" network compare**
14 **to a competitive interexchange carrier's network?**

15

16 **A. My understanding is that the second largest interexchange carrier in Florida**
17 **is ATC Corporation. The standard size of its Florida network is 5 fiber pairs.**
18 **Southern Bell's "private" toll network is 2 to 3 times this size. Even AT&T**
19 **was only averaging 12 fiber pairs nationally in 1987²² (the last year that**
20 **Southern Bell initially installed its private network).**

21

22 ²² Source: FCC Fiber Deployment Update, March 1992.

1 Q. What remedy do you suggest?

2

3 A. The Commission should immediately remove the undepreciated value of the
4 dark fiber from Southern Bell's rate base so that ratepayers cease paying for
5 this strategic investment. Unfortunately, the potential competitive damage has
6 largely already been done. Southern Bell has put in place a subsidized
7 network investment that, if allowed to compete in the interexchange market,
8 would diminish the value of competing networks (funded by private investors).
9 The Commission may wish to consider additional remedies (such as reducing
10 the rate base by original cost plus interest) to assure that ratepayers have
11 been fully reimbursed for the cost of this network should it ever be put to
12 competitive use.

13

14 VI. Summary

15

16 Q. Please summarize your recommendations.

17

18 A. This proceeding will establish Southern Bell's rate levels, regulatory structure
19 and its competitive position for the next several years. I believe that a
20 reasonable starting point is the existing incentive plan. This plan should be
21 modified, however, to correct several limitations. Southern Bell's market
22 position has not changed appreciably to justify the sweeping deregulatory

1 structure that it has proposed.

2

3 The Commission should also take this opportunity to expand the options
4 enjoyed by Florida's consumers by empowering them with control over their
5 1+ dialing. This step would justify granting Southern Bell additional
6 regulatory freedom in the market of interexchange services. Such freedom,
7 however, must be balanced by a continuing obligation to impute the same access
8 charge rate levels that it imposes on its rivals. In addition, to protect other
9 ratepayers, the Commission should establish a mechanism to define Southern
10 Bell's "toll profits" which Southern Bell should be permitted to increase,
11 retain, or lose, as market conditions determine.

12

13 If the Commission concludes that sharply reduced toll prices are appropriate
14 for the lower mileage bands, then it should adjust access charges accordingly.

15 The Commission should reject Southern Bell's proposal to tie below-access
16 toll service to local measured service. This proposal grants Southern Bell an
17 exclusive exemption from the contribution burden that it imposes on the
18 customers of its rivals.

19

20 Finally, as the Commission recalibrates Southern Bell's rates, it should adjust
21 Southern Bell's rate base to disallow the excess investment in Southern Bell's
22 interLATA "corporate" network. This adjustment is necessary to protect

1 ratepayers from continuing to subsidize a network that could be used to effect
2 Southern Bell's reentry into the interexchange market.

3

4 **Q. Does this conclude your direct testimony?**

5

6 **A. Yes.**

**QUALIFICATIONS, PUBLICATIONS AND TESTIMONY
JOSEPH PAUL GILLAN**

EDUCATION

B.A. Economics, University of Wyoming, 1978.

M.A. Economics, University of Wyoming, 1979.

Concentration in the economics of public utilities and regulated industries with an emphasis on price theory and statistics.

EMPLOYMENT HISTORY

1986 - Present Gillan Associates

Private consulting practice specializing in the economic evaluation of regulatory policies and related business opportunities in the telecommunications industry. Economic and market analysis, product development, expert testimony, and regulatory planning services.

1985 - 1986 U.S. Switch; Vice President, Strategic Planning/Marketing

Responsibilities included project management, marketing and regulatory objectives for *Centralized Equal Access*, a networking concept design to provide equal access to rural areas while positioning independent telephone companies for competition.

1980 - 1985 Illinois Commerce Commission; Director, Market Structure Program

Primary staff responsibility for Commission policy concerning the level and structure of competition in the telecommunications and energy industries. Designed regulatory framework for IX competition, intralata market structure and developed intrastate access charge plan. Responsible for Commission representation in the Sunset process and all filings before federal agencies.

1979 Mountain States Telephone Company; Demand Analyst

Performed statistical analysis of the demand for access by residential subscribers.

EXPERT TESTIMONY

- Mississippi Re: Order of the Mississippi Public Service Commission to South Central Bell to (1) Expand ACP Calling Area, and (2) Include Calls to the County Seat in Capped Local Calling, 92-UA-100, on behalf of LDDS and ATC Corporation.
- Florida Re: Application for a Rate Increase by GTE Florida Incorporated 1992, Docket 920188-TL, on behalf of MCI and FIXCA
- Wisconsin Re: Investigation Into the Extent of Competition in the IntraLATA Toll Telecommunications Market and of the Level of Regulation for IntraLATA Toll Telecommunications Service, O5-TI-119, on behalf of MCI and Schneider Communications.
- Florida Re: Investigation Regarding the Appropriateness of Payment for Dial Around Compensation from Interexchange Telephone Companies to Pay Telephone Providers, Docket 920399-TP, on behalf of MCI and FIXCA.
- California Re: The Matter of Alternative Regulatory Frameworks for Local Exchange Carriers and Related Matters, I.87-11-033, on behalf of Intellical, Inc.
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Office of Public Counsel and the Florida AdHoc Telecommunications Users Group.
- New York Re: Proceeding as to the Impact of the Modification of Final Judgment and FCC Docket 78-72 on the Provision of Toll Service in New York, Case 28425 - Phase III, on behalf of Empire/Altel.
- Wisconsin Re: Investigation of Intrastate Access Costs and Intrastate Access Charges, Docket 05-TR-103, on behalf of Wisconsin CompTel and MCI.
- Mississippi Re: Order of the Mississippi Public Service Commission Initiating Hearings Concerning (1) IntraLATA Competition and (2) Payment of Compensation by Interexchange Carriers and Resellers to Local Exchange Companies, Docket 90-UA-0280, on behalf of Intellicall, Inc.
- Louisiana Re: Investigation of the Revenue Requirement, Rate Structure, Charges, Services, Rate of Return, and Construction Program of Central Bell Telephone Company, Docket No. U-17949, Sub-Docket B (IntraLATA Competition), on behalf of Cable & Wireless Communications and ATC Corporation.

EXPERT TESTIMONY (continued)

- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Investigation of Intrastate Access Costs and Intrastate Access Charges, Docket 05-TR-103, on behalf of Wisconsin CompTel.
- Florida Re: Generic Investigation into the Operations of Alternate Access Vendors, Docket No. 890813-TP, on behalf of Intermedia Communications Inc.
- Alaska Re: In the Matter of Consideration of Regulations Governing the Market Structure for Intrastate Telecommunications Service, Docket R-90-1, on behalf of Telephone Utilities of Alaska.
- Minnesota Re: In the Matter of the Minnesota Independent Equal Access Corporation's Application for a Certificate of Public Convenience and Necessity, Docket P-3007/NA-89-76, on behalf of MCI and Telecom*USA.
- Florida Re: Investigation into Equal Access Exchange Areas, Toll Monopoly Areas, 1+ Restriction to the Local Exchange Carriers, and Elimination of the Access Discount, Docket 880812-TP, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Investigation of Intrastate Access Costs, Settlements and Intralata Access Charges, Docket 05-TR-102, on behalf of Wisconsin CompTel.
- Wisconsin Re: Investigation of Application of Wisconsin Independent Telecommunications Systems, Inc. (WITS) for Certificate of Public Convenience and Necessity to Offer Centralized Equal Access, etc..., Docket 6655-NC-100, on behalf of Wisconsin CompTel
- Florida Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization and Implementation Orders and Other Relief, Docket 880069-TL, on behalf of the Florida Interexchange Carriers Association.
- Wisconsin Re: Application of Various Interexchange Carriers for Authority to Provide Certain IntraLATA Toll Telecommunications Services (Not Including WATS and MTS), Docket 05-NC-100, on behalf of Wisconsin CompTel.
- Florida Re: Forbearance from Earnings Regulation of AT&T and Waiver of Rules, Docket 870347-TI, on behalf of FIXCA.

EXPERT TESTIMONY (continued)

- Illinois Re: Investigation Concerning the Appropriate Methodology for the Calculation of Intrastate Access Charges for all Illinois Telephone Utilities, Docket 83-0142, on behalf of Illinois Consolidated Telephone Company.
- Texas Re: Inquiry of the General Counsel into the WATS Prorate Credit, Docket 8218, on behalf of TEXALTEL
- Iowa Re: Iowa Network Access Division, Docket RPU 88-2, on behalf of MCI and Teleconnect
- Florida Re: Investigation into Regulatory Flexibility for Local Exchange Carriers, Docket 871254-TL, on behalf of Microtel.
- Wisconsin Re: Investigation of Intrastate Interexchange Access Charges and Related Intralata and Interlata Compensation Matters, Docket 05-TR-5 Part B, on behalf of the Wisconsin State Telephone Association.
- Florida Re: Investigation into NTS Cost Recovery - Phase II, Docket 860984, on behalf of the Florida Association of Concerned Telephone Companies.

Legislative testimony before the legislatures of Illinois, Wisconsin and Indiana. Additional testimony in various proceedings before the Illinois Commerce Commission while a staff member.

SELECTED PUBLICATIONS

"Consumer Sovereignty: An Proposed Approach to IntraLATA Competition", Public Utilities Fortnightly, August 16, 1990.

"Reforming State Regulation of Exchange Carriers: An Economic Framework", Third Place, University of Georgia Annual Awards Competition, 1988, Telematics: The National Journal of Communications, Business and Regulation, May, 1989.

"Regulating the Small Telephone Business: Lessons from a Paradox", Telematics: The National Journal of Communications, Business and Regulation, October, 1987.

"Market Structure Consequences of IntraLATA Compensation Plans", Telematics: The National Journal of Communications, Business and Regulation, June, 1986.

SELECTED PUBLICATIONS (continued)

"Universal Telephone Service and Competition on the Rural Scene", Public Utilities Fortnightly, May 15, 1986.

"Strategies for Deregulation: Federal and State Policies", with Sanford Levin, Proceedings, Rutgers University Advanced Workshop in Public Utility Economics, May 1985.

"Regulatory Considerations in the Introduction of Competition into the Telecommunications Industry", with Sanford Levin, Proceedings of the Thirteenth Annual Telecommunications Research Conference, April, 1985.

"Charting the Course to Competition: A Blueprint for State Telecommunications Policy", Telematics: The National Journal of Communications Business, and Regulation, with David Rudd, March, 1985.

"Detariffing and Competition: Options for State Commissions", Proceedings of the Sixteenth Annual Conference of Institute of Public Utilities, Williamsburg, Virginia, December 1984.

"Externalities, Competition and Telecommunications Pricing: Access and You Shall Receive", Proceedings, NARUC/NRRI Biennial Regulatory Information Conference, September 1982.

"Analyzing the Allocative Efficiency of Lifeline Electricity Rates", Proceedings of ISSUE 82, SPSS Users Conference, August, 1982.

PROFESSIONAL APPOINTMENTS

Advisory Council: New Mexico State University, Center for Regulation

Faculty: Summer Program, Public Utility Research and Training Institute, University of Wyoming

Contributing Editor: Telematics: The National Journal of Communications Business and Regulation, 1985 - 1989

Chairman: Policy Subcommittee, NARUC Staff Subcommittee on Communications, 1984-1985

Advisory Committee: National Regulatory Research Institute, 1985

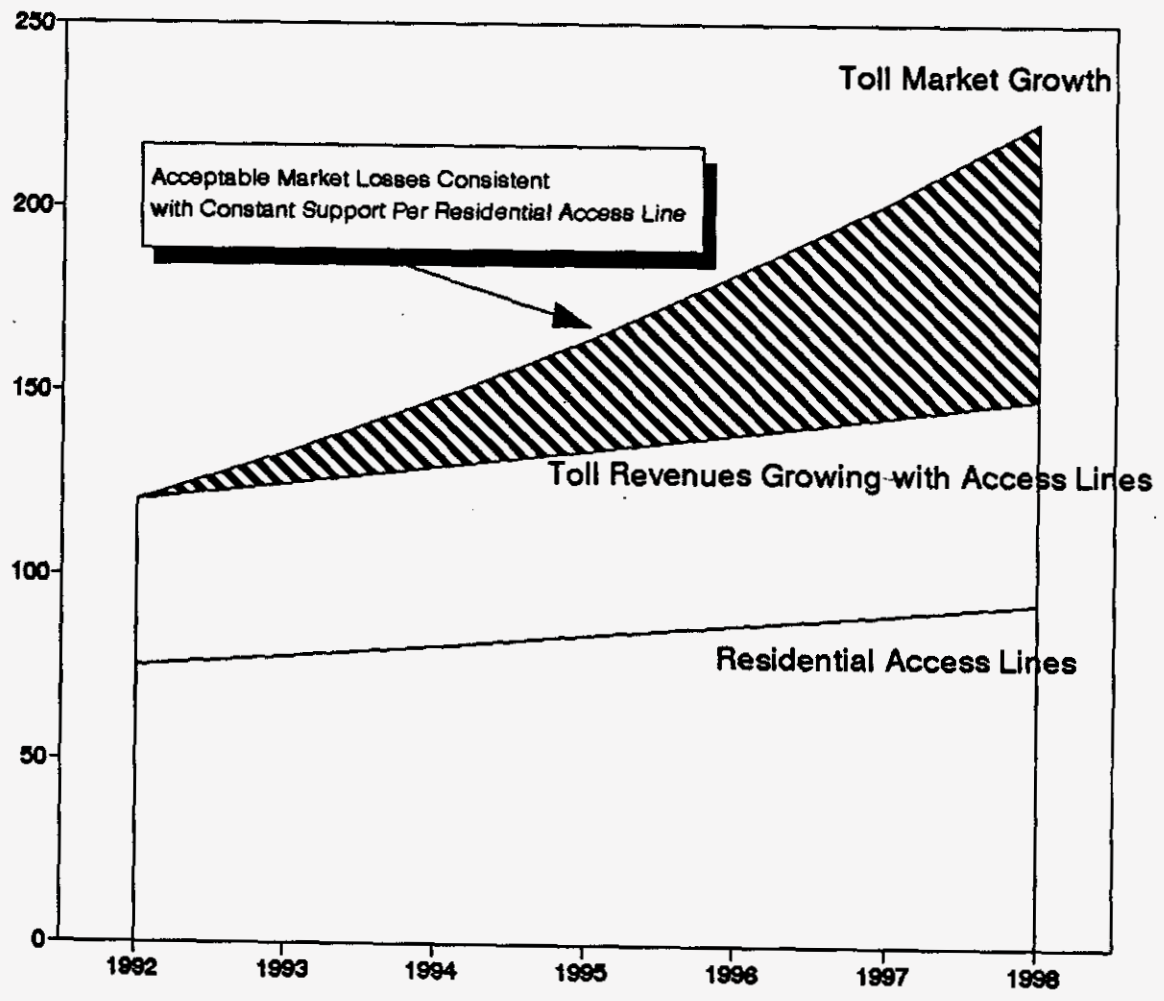
Exhibit (JPG-2)
Docket 920290-TL
Competitive Impact Distribution

Carrier Rank	Total FG D Minutes	IntraEAEA Minutes	Percent IntraEAEA	Average for Tier
1	84140499	21184	0.0%	0.0%
2	1077359	203008	1.9%	2.8%
3	761262	307890	4.0%	
4	6591652	1673030	25.4%	
5	1544732	131606	8.5%	
6	1421539	337108	23.7%	
7	985044	330324	33.5%	
8	549704	13880	2.5%	21.6%
9	517712	204210	39.4%	
10	474653	5878	1.2%	
11	414286	652	0.2%	
12	161503	3954	2.4%	
13	131322	24156	18.4%	
14	127014	350	0.3%	
15	104274	806	0.8%	
16	81761	1240	1.5%	5.8%
17	69376	1764	2.5%	
18	31862	2	0.0%	
19	14594	9338	64.0%	
20	9285	686	7.4%	

Source: Southern Bell Reported Minutes Used to Calculate IntraEAEA Surrogate Penalty Rate. 1988 Data.

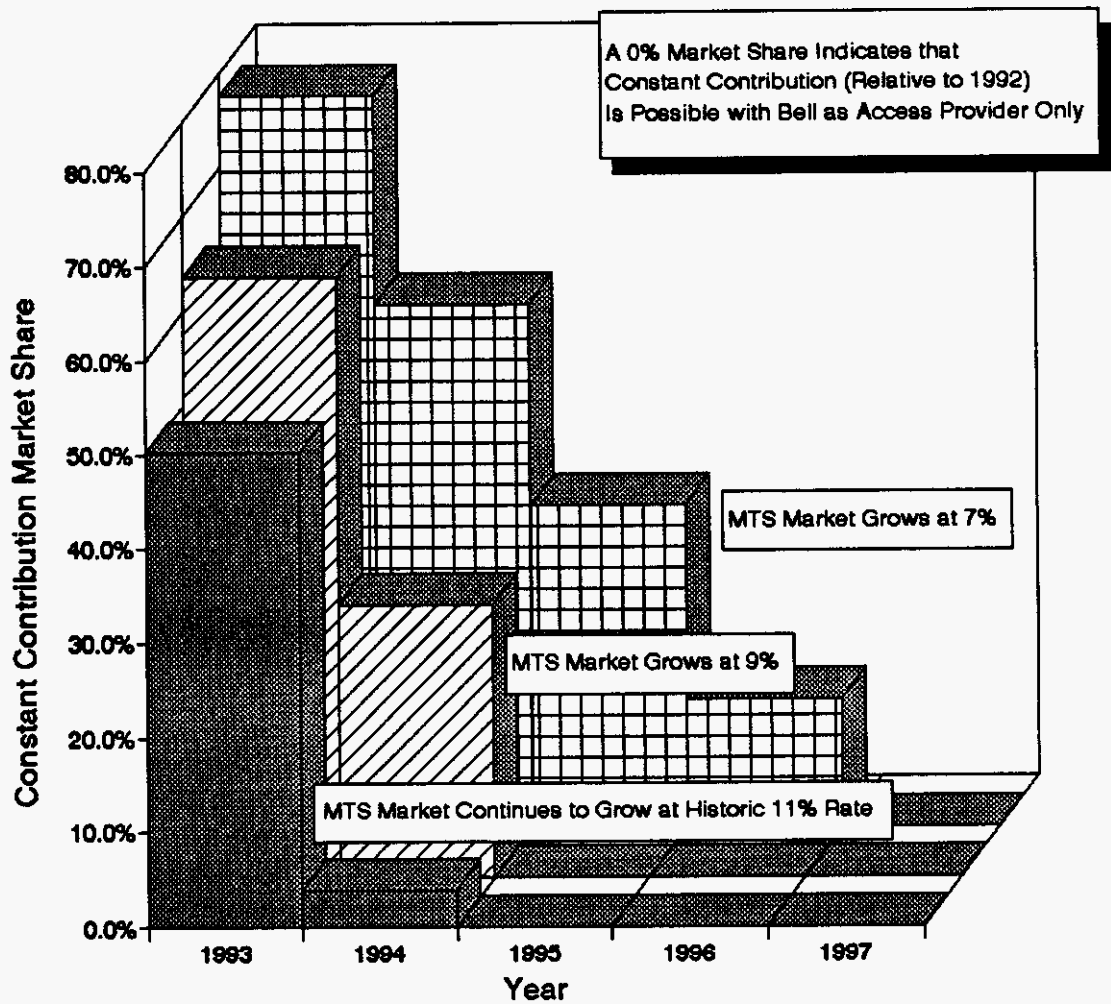
Exhibit ____ (JPG-3)
Docket 920290-TL
Market Growth Needed for Constant Contribution

Market Share for Constant Contribution
(illustrative)



Southern Bell's Constant Contribution Market Shares

Market Shares Consistent with
Constant Contribution/Residential Line



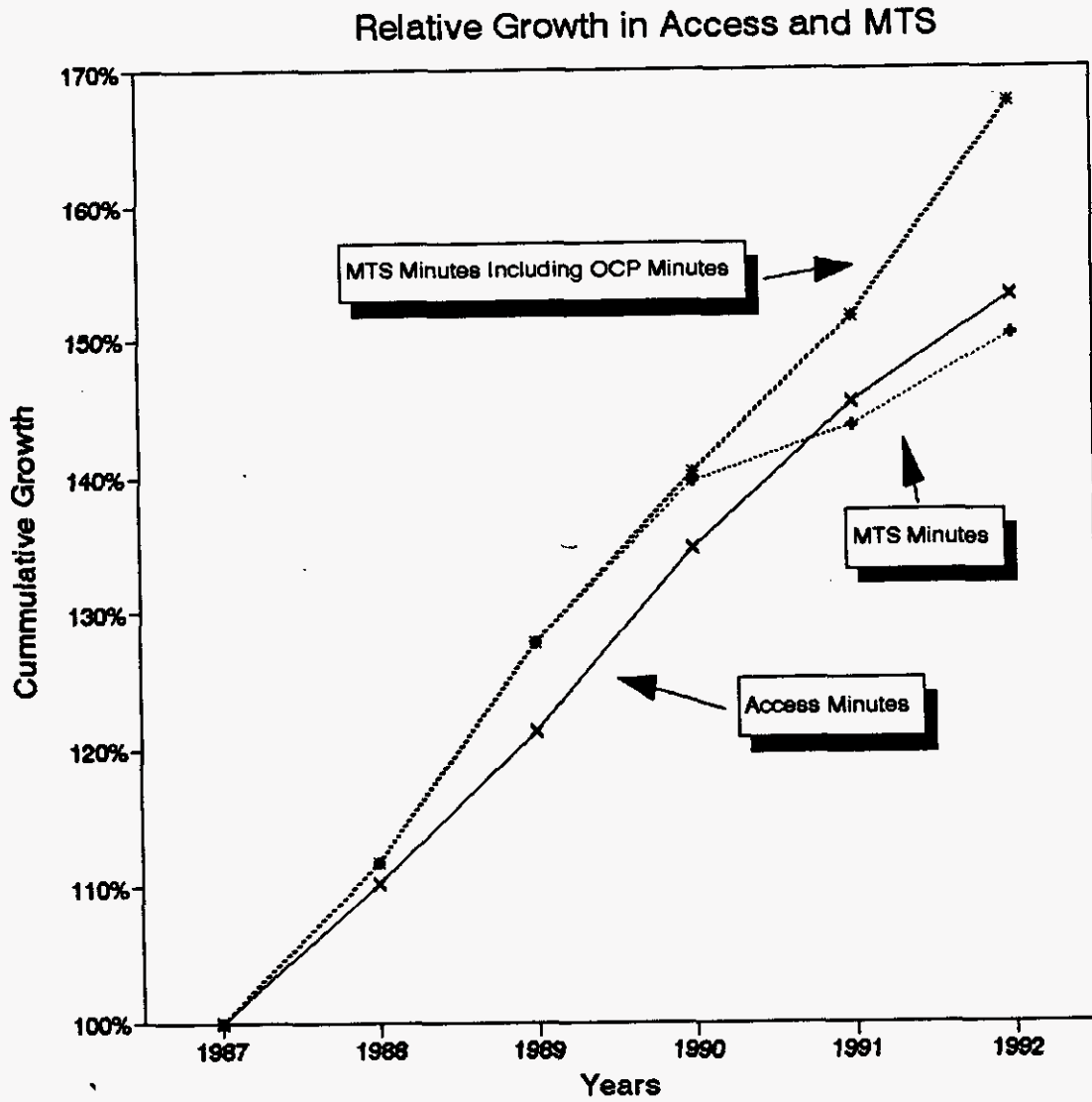


Exhibit ____ (JPG-6)
Docket 920290-TL
Southern Bell Private Network
Excess Fiber Capacity

		Fiber Pairs Deployed		
LATA	PAIR	Active	Protect	Dark
Southeast	Orlando	1	1	16
Orlando	Daytona	1	1	10
Daytona	Jacksonville	1	1	16
Gainesville	Jacksonville	1	1	13
Jacksonville	Thomasville	1	1	10
Jacksonville	Macon	1	1	4
Panama City	Thomasville	1	1	1
Panama City	Pensacola	1	1	1

Exhibit ____ (JPG-7)
Docket 920290-TL
Southern Bell Private Network
Excess Active Capacity

			Lit	Active	Excess
LATA	PAIR	Speed	DS-3s	DS-3s	Capacity
Southeast	Orlando	1.2 Gbps	24	8	66.7%
Orlando	Daytona	1.2 Gbps	24	11	54.2%
Daytona	Jacksonville	1.2 Gbps	24	10	58.3%
Gainesville	Jacksonville	1.2 Gbps	24	3	87.5%
Jacksonville	Thomasville	565 Mbs	12	3	75.0%
Jacksonville	Macon	565 Mbs	12	4	66.7%
Panama City	Thomasville	565 Mbs	12	3	75.0%
Panama City	Pensacola	565 Mbs	12	3	75.0%

Exhibit ____ (JPG-8)
Docket 920290-TL
Southern Bell Private Network
Excess Potential Capacity

		Active	Potential	Excess
LATA	PAIR	DS-3s	DS-3s	Capacity
Southeast	Orlando	8	408	98.0%
Orlando	Daytona	11	264	95.8%
Daytona	Jacksonville	10	408	97.5%
Gainesville	Jacksonville	3	336	99.1%
Jacksonville	Thomasville	3	132	97.7%
Jacksonville	Macon	4	60	93.3%
Panama City	Thomasville	3	24	87.5%
Panama City	Pensacola	3	24	87.5%
		Potential capacity retains Nx1 Protection		

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Florida Interexchange Carriers Association's Direct Testimony has been furnished by hand delivery* or by U.S. Mail to the following parties of record, this 16th day of November, 1992:

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