

1                   BELLSOUTH TELECOMMUNICATIONS, INC.  
2                   REBUTTAL TESTIMONY OF MARGARET K. THOMPSON  
3                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4                   DOCKET NO. 920260-TL  
5                   DECEMBER 18, 1992

CONFIDENTIAL  
FILE COPY

6  
7  
8 Q. PLEASE STATE YOUR NAME, EMPLOYER, POSITION AND  
9 BUSINESS ADDRESS.

10

11 A. MY NAME IS MARGARET K. THOMPSON. I AM EMPLOYED BY  
12 BELLSOUTH TELECOMMUNICATIONS INC. D/B/A SOUTHERN  
13 BELL TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN  
14 BELL" OR "THE COMPANY") AS AN OPERATIONS  
15 MANAGER-COMPETITIVE ANALYSIS IN THE ECONOMIC  
16 ANALYSIS DEPARTMENT. MY BUSINESS ADDRESS IS 3535  
17 COLONNADE PARKWAY, BIRMINGHAM, ALABAMA.

18

19 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND  
20 AND EXPERIENCE.

21

22 A. I GRADUATED FROM EASTERN KENTUCKY UNIVERSITY IN  
23 RICHMOND, KENTUCKY WITH A BACHELOR OF SCIENCE  
24 DEGREE IN MATHEMATICS AND A BACHELOR OF ARTS DEGREE  
25 IN RUSSIAN IN 1973. I BEGAN MY CAREER WITH SOUTH

1 CENTRAL BELL IN 1973 IN OUTSIDE PLANT ENGINEERING  
2 IN FRANKFORT, KENTUCKY. I TRANSFERRED TO SOUTH  
3 CENTRAL BELL HEADQUARTERS IN 1984 AND WAS  
4 RESPONSIBLE FOR RATE AND TARIFF ADMINISTRATION FOR  
5 INTRALATA TOLL AND ACCESS SERVICES FOR THE FIVE  
6 SOUTH CENTRAL BELL STATES UNTIL ASSUMING MY CURRENT  
7 POSITION IN 1991. I CURRENTLY HAVE COMPETITIVE  
8 ANALYSIS RESPONSIBILITY FOR THE COMPANY'S REGULATED  
9 SERVICES FOR THE NINE STATE BELLSOUTH REGION.

10

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12

13 A. DR. CHESSLER MAKES A NUMBER OF UNSUBSTANTIATED AND  
14 INCORRECT REMARKS AND ASSUMPTIONS IN HIS TESTIMONY  
15 ON BEHALF OF THE AMERICAN ASSOCIATION OF RETIRED  
16 PERSONS (AARP). THE PURPOSE OF MY TESTIMONY IS TO  
17 CORRECT THOSE STATEMENTS AS WELL AS SOME OF THE  
18 POINTS MADE IN OTHER INTERVENORS' TESTIMONY WITH  
19 REGARD TO THE COMPETITION SOUTHERN BELL FACES IN  
20 FLORIDA.

21

22 Q. DR. CHESSLER MAINTAINS THAT SOUTHERN BELL PRESENTS  
23 NO EVIDENCE AS TO THE AMOUNT OF INCREASE IN  
24 COMPETITION IN FLORIDA OR TO ITS CLAIMS THAT  
25 COMPETITION WILL INCREASE. ON WHAT DOES SOUTHERN

1 BELL BASE ITS STATEMENTS?  
2  
3 A. IT IS CLEAR THAT ONE MERELY NEEDS TO CONSIDER THE  
4 RECENT HISTORY OF REGULATORY DECISIONS AND THEIR  
5 IMPACTS AS WELL AS COMPETITOR ACTIVITY TO RECOGNIZE  
6 THE GROWTH OF COMPETITION. SINCE DIVESTITURE AND  
7 THE SUBSEQUENT CREATION OF EQUAL ACCESS EXCHANGE  
8 AREAS (EAEAS) IN FLORIDA, NUMEROUS CARRIERS AND  
9 RESELLERS HAVE ENTERED THE INTRALATA TOLL MARKET.  
10  
11  
12 CARRIERS AND RESELLERS HAVE INTRODUCED MANY  
13 SERVICES WITH INTRALATA CAPABILITY, EITHER USING  
14 VARIOUS MEANS TO BYPASS SOUTHERN BELL CENTRAL  
15 OFFICE SCREENING CAPABILITY SUCH AS SPECIAL ACCESS,  
16 700/800/900 ACCESS OR FEATURE GROUPS A AND B  
17 ORIGINATION, OR THROUGH REGULATORY DECISIONS SUCH  
18 AS INTRAEAEA 10XXX AUTHORITY. OVER TIME, THESE  
19 SERVICES HAVE BEEN DESIGNED AND TARGETED TO LARGER  
20 SEGMENTS OF THE CUSTOMER BODY. THIS HISTORY OF  
21 INCREASING COMPETITION IN THE INTRALATA TOLL MARKET  
22 HAS LED TO JUST A PORTION OF THE CURRENT LEVEL OF  
23 COMPETITIVE LOSS IDENTIFIED IN MR. LOMBARDO'S  
24 TESTIMONY.  
25

1 OTHER AREAS OF COMPETITIVE LOSS SUCH AS THE PUBLIC  
2 TELEPHONE MARKET HAVE INCREASED FROM ZERO AT THE  
3 AUTHORIZATION OF NON-LEC PAY TELEPHONE SERVICE  
4 (NPATS) IN 1985 TO THE 1991 LEVEL OF \$11 MILLION.  
5 THE DEVELOPMENT OF ALTERNATE ACCESS VENDOR (AAV)  
6 COMPETITION FOR SPECIAL ACCESS AND PRIVATE LINE  
7 SERVICES IN FLORIDA IS A NEW DEVELOPMENT, BEGINNING  
8 IN 1988. IN JANUARY 1992, AAVS WERE AUTHORIZED TO  
9 PROVIDE INTRAEXCHANGE PRIVATE LINE AND INTRASTATE  
10 SPECIAL ACCESS SERVICES. BYPASS LOSSES HAVE ALSO  
11 INCREASED AS NEW TECHNOLOGIES SUCH AS VSAT AND  
12 FIBER OPTICS HAVE COME INTO USE AND NEW WAYS TO  
13 BYPASS THE SOUTHERN BELL NETWORK HAVE BEEN  
14 EMPLOYED.

15  
16 FURTHERMORE, IT IS CLEAR FROM REGULATORY  
17 DEVELOPMENTS IN OTHER JURISDICTIONS, SUCH AS THE  
18 FCC'S RECENT ACTIONS ON ACCESS INTERCONNECTION AND  
19 COLLOCATION, OTHER PROCEEDINGS BEFORE THIS  
20 COMMISSION SUCH AS INTERMEDIA'S REQUEST FOR  
21 INTRASTATE SPECIAL ACCESS COLLOCATION, AND  
22 TECHNOLOGICAL AND STRATEGIC DEVELOPMENTS THROUGHOUT  
23 THE TELECOMMUNICATIONS INDUSTRY THAT THE RATE OF  
24 GROWTH OF THE COMPETITION THAT SOUTHERN BELL FACES  
25 WILL INCREASE DRAMATICALLY IN THE NEAR FUTURE.

1

2 Q. IN HIS DIRECT TESTIMONY, MR. LOMBARDO CITED THE  
3 DIFFERENCE IN GROWTH RATES--5% FOR INTRALATA TOLL  
4 AND BETWEEN 9% AND 11% FOR SWITCHED ACCESS--AS  
5 EVIDENCE OF THE PRESENCE OF INTRALATA TOLL  
6 COMPETITION. DR. CHESSLER DEVOTES A SUBSTANTIAL  
7 PORTION OF HIS TESTIMONY TO DISCUSSING THE ALLEGED  
8 ERROR INVOLVED WITH THIS COMPARISON. IS THIS A  
9 VALID POINT?

10

11 A. WHILE DR. CHESSLER MAY BE CONFUSED AS TO WHETHER  
12 MR. LOMBARDO IS TALKING ABOUT REVENUES OR MINUTES  
13 OF USE (MOU), EVERYONE SHOULD KNOW THAT IT WOULD BE  
14 TOTALLY INAPPROPRIATE TO COMPARE TOLL AND ACCESS  
15 REVENUE GROWTH RATES AND MR. LOMBARDO HAS NOT DONE  
16 SO. SUCH DATA WOULD BE GREATLY IMPACTED BY  
17 SOUTHERN BELL RATE CHANGES AND WOULD NOT  
18 DEMONSTRATE ANY VALID POINT. THE ONLY REASONABLE  
19 CRITERION TO MEASURE WOULD BE MOU AS SOUTHERN BELL  
20 INDICATED IN THE RESPONSES TO ITEMS 26 AND 29 OF  
21 MCI'S FIRST INTERROGATORIES DATED AUGUST 27, 1992.  
22 IT IS THEREFORE DIFFICULT TO UNDERSTAND DR.  
23 CHESSLER'S CONFUSION.

24

25 Q. IN THE ABSENCE OF THE COMPETITION TO WHICH MR.

1 LOMBARDO REFERS, ARE THERE REASONS THAT IT MIGHT  
2 NORMALLY BE EXPECTED THAT TOLL MOU WOULD GROW  
3 FASTER THAN ACCESS MOU?

4  
5 A. YES. SOME OF THE REASONS THAT TOLL MOU MIGHT BE  
6 EXPECTED TO GROW FASTER THAN SWITCHED ACCESS MOU  
7 WOULD INCLUDE 1) THE DRAMATIC GROWTH OF SPECIAL  
8 ACCESS BASED SERVICES AT THE EXPENSE OF SWITCHED  
9 ACCESS, SUCH AS MEGACOM AND MEGACOM 800 THAT  
10 UTILIZE ONLY ONE END OF SWITCHED ACCESS, RATHER  
11 THAN THE TWO (ORIGINATING PLUS TERMINATING) THAT A  
12 CARRIER MTS-TYPE MINUTE WOULD GENERATE, 2) END USER  
13 TO POP FACILITY BYPASS, 3) AAV END USER TO POP  
14 FACILITY BYPASS, AND 4) OTHER SERVICE BYPASS  
15 BESIDES MEGACOM AND MEGACOM-LIKE SERVICES. IN EACH  
16 EXAMPLE, THE NUMBER OF SWITCHED ACCESS MINUTES ARE  
17 AFFECTED, WHICH SHOULD SLOW THE GROWTH RATE OF  
18 SWITCHED ACCESS AS COMPARED TO TOLL. THIS HASN'T  
19 HAPPENED.

20  
21 Q. ON PAGES 9 AND 10 OF HIS TESTIMONY, DR. CHESSLER  
22 CITES REASONS FOR THE LOWER GROWTH RATE OF SOUTHERN  
23 BELL TOLL COMPARED TO ACCESS. WOULD YOU COMMENT?

24  
25 A. FIRST, THE REASONS CITED BY DR. CHESSLER ARE

1 INCORRECT. HE CONTINUES TO INCORRECTLY ASSUME THAT  
2 MR. LOMBARDO REFERS TO REVENUE GROWTH RATHER THAN  
3 GROWTH IN MINUTES OF USE. HE ALSO INCORRECTLY  
4 ASSUMES THAT TOLL MEANS MTS.

5  
6 MR. GILLAN MAKES A SIMILAR ERROR IN HIS TESTIMONY,  
7 WHEN HE DISCUSSES THE INAPPROPRIATENESS OF  
8 COMPARING MTS AND ACCESS GROWTH RATES. HE PRESENTS  
9 AN EXHIBIT, JPG-5, INTENDED TO COMPARE, MORE  
10 APPROPRIATELY ACCORDING TO MR. GILLAN, MTS PLUS  
11 OPTIONAL CALLING PLANS (OCP) WITH ACCESS GROWTH.  
12 WHAT MR. GILLAN OVERLOOKS IS THAT SOUTHERN BELL  
13 COMPARED TOLL (INCLUDING MTS, OCP, WATS, AND 800  
14 SERVICE) AND ACCESS GROWTH RATES. MR. GILLAN  
15 SELECTIVELY INCLUDES ONLY MTS AND OCP WHICH ARE NOT  
16 THE TOTAL SOUTHERN BELL INTRALATA TOLL. MR.  
17 LOMBARDO CORRECTLY INCLUDED MTS, OCP, WATS, AND 800  
18 SERVICE IN HIS DISCUSSION OF THE DIFFERENCE BETWEEN  
19 TOLL GROWTH (5%) AND SWITCHED ACCESS GROWTH  
20 (9-11%). EXHIBIT MKT-1 TO MY TESTIMONY SHOWS THE  
21 COMPARISON OF TOLL TO ACCESS MOU GROWTH IN ADDITION  
22 TO THE INAPPROPRIATE COMPARISON OF MTS PLUS OCP TO  
23 ACCESS GROWTH THAT MR. GILLAN MADE.

24  
25 Q. DR. CHESSLER STATES ON PAGE 15 LINES 9-19 OF HIS

1 TESTIMONY THAT SOME EMBEDDED DIRECT COST STUDIES  
2 SHOW LOCAL PRIVATE LINE SERVICE RETURNING A HIGHER  
3 "CONTRIBUTION" AS A PERCENTAGE OF DIRECT COSTS THAN  
4 BUSINESS LINES OR PBX TRUNKS. HE GOES ON TO STATE  
5 THAT COST/REVENUE RELATIONSHIPS SHOULD BE ANALYZED  
6 USING CURRENT COST STUDIES, AND THAT IT CAN  
7 CERTAINLY NOT BE INFERRED THAT PRIVATE LINE  
8 SERVICES ARE NOW LESS PROFITABLE THAN SWITCHED  
9 SERVICES. DO FLORIDA EMBEDDED DIRECT ANALYSES  
10 (EDAS) PROVE DR. CHESSLER'S POINT?

11

12 A. NO. FLORIDA EDA SUMMARY RESULTS FOR 1985, 1986,  
13 1987, 1989, AND 1990 WERE PROVIDED IN RESPONSE TO  
14 ITEM NO. 319 OF THE FPSC STAFF'S TENTH SET OF  
15 INTERROGATORIES DATED OCTOBER 23, 1992. THEY SHOW  
16 THAT THE REVENUE TO COST RATIO OF PRIVATE LINE  
17 SERVICES IS SUBSTANTIALLY LOWER THAN THAT OF  
18 INTRALATA TOLL OR SWITCHED ACCESS SERVICES.  
19 THEREFORE, DR. CHESSLER IS WRONG.

20

21 Q. ON PAGE 17 LINES 13-21 OF HIS TESTIMONY, DR.  
22 CHESSLER CITES THE FLORIDA PUBLIC SERVICE  
23 COMMISSION BIENNIUM REPORT ON THE STATUS OF  
24 COMPETITION IN THE TELECOMMUNICATIONS INDUSTRY,  
25 DECEMBER 1991, AS PROOF THAT SOUTHERN BELL HAS NOT



1 EXPERIENCED COMPETITIVE LOSSES. IS HE CORRECT IN  
2 HIS INTERPRETATION OF THAT REPORT?  
3  
4 A. NO. DR. CHESSLER CLAIMS THAT THE COMMISSION REPORT  
5 SHOWS THAT LOCAL EXCHANGE COMPANIES HAVE THE SAME  
6 98.8 PERCENT OF INTRASTATE INTRALATA REVENUES IN  
7 1991 AS THEY DID IN 1989 COMPARED TO "OTHER"  
8 COMPANIES. HE SAYS THAT THESE "OTHER" COMPANIES  
9 ARE PRIMARILY THE INTEREXCHANGE CARRIERS AND THAT  
10 THEY HAVE NOT GAINED IN MARKET SHARE. HOWEVER, THE  
11 CHART ON PAGE 21 OF THE COMMISSION REPORT SHOWS  
12 THAT THE "OTHER" CATEGORY IS COMPOSED OF SHARED  
13 TENANT SERVICES (STS) AND NPATS PROVIDERS AND NOT  
14 IXCS AS DR. CHESSLER STATES. FURTHER, PAGE 18 OF  
15 THE COMMISSION REPORT STATES "ALTHOUGH IXCS HAVE  
16 THE ABILITY TO PROVIDE INTRALATA SERVICE THROUGH  
17 THE CUSTOMER DIALING THE IXC'S 10XXX ACCESS CODE,  
18 THE REVENUE STATISTICS ARE NOT AVAILABLE. THE IXCS  
19 DO NOT PROVIDE TO THE COMMISSION THEIR INTRASTATE  
20 REVENUES BROKEN DOWN TO THIS DEGREE." DR. CHESSLER  
21 HAS COMPLETELY MISCHARACTERIZED THE COMMISSION'S  
22 REPORT.  
23  
24 Q. ON PAGES 18-20 OF HIS TESTIMONY, DR. CHESSLER  
25 DISCUSSES AT GREAT LENGTH HIS EXHIBITS THAT UTILIZE

1 SOUTHERN BELL REVENUE DATA REPORTED TO THE FCC. IS  
2 THIS APPROPRIATE TO A DISCUSSION OF THE PRESENCE OF  
3 COMPETITION IN FLORIDA?

4  
5 A. NO. AS DR. CHESSLER POINTS OUT SO OFTEN IN HIS  
6 TESTIMONY, REVENUE COMPARISONS OVER TIME ARE NOT  
7 APPROPRIATE TO DEMONSTRATE THE IMPACT OF  
8 COMPETITION ON SOUTHERN BELL BECAUSE OF THE EFFECTS  
9 OF RATE CHANGES. FURTHER, BECAUSE OF THE VARYING  
10 CIRCUMSTANCES FROM STATE TO STATE IN SOUTHERN BELL,  
11 IT IS NOT APPROPRIATE TO USE REVENUE DATA FROM THE  
12 OTHER SOUTHERN BELL STATES TO DRAW CONCLUSIONS  
13 ABOUT FLORIDA.

14  
15 Q. ON PAGE 22 LINES 20-24 IN HIS DISCUSSION OF  
16 FACILITY BYPASS, DR. CHESSLER COMMENTS ON A DIRECT  
17 CONNECTION TO THE LOCAL EXCHANGE CARRIER'S CENTRAL  
18 OFFICE USING CUSTOMER- OR CARRIER-OWNED FACILITIES  
19 AS BEING VERY RARE, IF THEY EXIST AT ALL. IS THAT  
20 THE CASE?

21  
22 A. THEY ARE NOT JUST RARE; THEY DON'T EXIST IN  
23 SOUTHERN BELL. SPECIAL ACCESS COLLOCATION AND  
24 INTERCONNECTION ARE NOT PERMITTED IN THE FLORIDA  
25 INTRASTATE JURISDICTION AND, BASED ON THE FCC'S

1 CURRENT SCHEDULE, WILL NOT BE PERMITTED IN THE  
2 INTERSTATE JURISDICTION UNTIL MID-1993.  
3  
4 DR. CHESSLER'S OTHER COMMENTS ON FACILITY BYPASS  
5 APPEAR TO BE EVEN FURTHER OFF BASE. HE STATES THAT  
6 SINCE SPECIAL ACCESS IS THE SERVICE MOST  
7 SUSCEPTIBLE TO FACILITY BYPASS, THE GROWTH OF  
8 SPECIAL ACCESS INDICATES THAT FACILITY BYPASS HAS  
9 NOT BEEN A SOURCE OF COMPETITIVE LOSS. HE IS  
10 APPARENTLY UNAWARE OF SUBSTANTIAL PRICE REDUCTIONS  
11 IN INTERSTATE SPECIAL ACCESS (APPROXIMATELY 60%  
12 SINCE JANUARY 1988) THAT HAVE STIMULATED DEMAND.  
13 MOREOVER, GROWTH IN THIS SERVICE DOES NOT  
14 NECESSARILY INDICATE THAT BYPASS HAS NOT INCREASED  
15 OR THAT IT WILL NOT CONTINUE TO INCREASE. AAVS  
16 SUCH AS INTERMEDIA ARE INCREASING THEIR CUSTOMER  
17 BASE AND DEPLOYING NEW FACILITIES. NEW AAVS ARE  
18 SEEKING COMMISSION CERTIFICATION TO OPERATE IN  
19 FLORIDA. OTHER PROVIDERS HAVE ANNOUNCED INTENTIONS  
20 TO BUILD FACILITIES TO PROVIDE SERVICES IN VARIOUS  
21 LOCATIONS.

22

23 Q. DO YOU FIND UNUSUAL THE COMMENT MADE BY DR.  
24 CHESSLER ON PAGE 26 LINES 10-11 OF HIS TESTIMONY  
25 THAT "IT IS SURPRISING THAT SOUTHERN BELL DOES NOT

1 CHOOSE TO CHARGE A PREMIUM FOR BASIC TOLL SERVICE"?

2

3 A. YES. IT IS DIFFICULT TO BELIEVE THAT HE IS  
4 ACTUALLY SUGGESTING THAT SOUTHERN BELL RAISE ITS  
5 MTS RATES FOR RESIDENTIAL AND SMALL BUSINESS  
6 INTRALATA TOLL USERS SIMPLY BECAUSE THEY MAY NOT  
7 HAVE AS MANY ALTERNATIVES AS LARGE BUSINESS  
8 CUSTOMERS. I'M SURE THAT MANY OF US FIND THAT A  
9 SURPRISING COMMENT FROM A WITNESS APPEARING ON  
10 BEHALF OF AARP.

11

12 Q. ON PAGES 27 AND 28 OF HIS TESTIMONY, DR. CHESSLER  
13 DISCUSSES PRIVATE LINE COMPETITION. ARE HIS  
14 COMMENTS VALID?

15

16 A. NO. SINCE HE STATES THAT "PERHAPS EVENTUALLY THERE  
17 WILL BE SUCH COMPETITION" (PAGE 27 LINES 21-22), WE  
18 CAN ONLY ASSUME THAT HE IS UNAWARE OF AAV  
19 CERTIFICATION AND OPERATION IN FLORIDA. HOWEVER,  
20 HE STATES THAT SUCH COMPETITION WILL EXIST ONLY FOR  
21 VERY LARGE CUSTOMERS. EVEN AT THE PRESENT TIME,  
22 THAT IS ONLY A PARTIALLY TRUE STATEMENT. TO THE  
23 EXTENT THAT SMALLER CUSTOMERS ARE LOCATED IN THE  
24 AREAS WHERE AAVS HAVE BUILT FACILITIES, THEY MAY  
25 UTILIZE ALTERNATIVE SERVICES AS EASILY AS LARGE

1 CUSTOMERS.  
2  
3 HIS CHARACTERIZATION OF THE FCC'S RECENT ACTIONS ON  
4 ACCESS COLLOCATION AND INTERCONNECTION IS PROBABLY  
5 NOT CORRECT. COLLOCATION AND INTERCONNECTION WILL  
6 PERMIT COMPETITORS TO UTILIZE LOCAL EXCHANGE  
7 COMPANY FACILITIES RATHER THAN HAVING TO BUILD  
8 THEIR OWN TO SERVE THEIR CUSTOMERS, EXPANDING THE  
9 SCOPE OF THE TARGET MARKET FOR SUCH COMPETITORS.  
10 WHILE THE FCC'S DECISIONS OSTENSIBLY AFFECT ONLY  
11 INTERSTATE SERVICES, EXPECTATIONS ARE THAT THERE  
12 WILL BE INTRASTATE LEAKAGE. IT IS SIGNIFICANT TO  
13 NOTE THAT THE PREPONDERANCE OF SPECIAL ACCESS IS  
14 INTERSTATE, AND THIS FCC ACTION COULD PROVIDE  
15 INCENTIVES FOR CUSTOMERS TO RECLASSIFY (OR  
16 CONTAMINATE) THEIR INTRASTATE SPECIAL ACCESS AS  
17 INTERSTATE.  
18  
19 Q. IN ADDITIONAL COMMENTS ON REPORTS TO THE FCC, ON  
20 PAGE 31 LINES 6-9 OF HIS TESTIMONY, DR. CHESSLER  
21 STATES THAT SINCE THESE REPORTS ARE ON A TOTAL  
22 COMPANY BASIS, SOME OF THE IDENTIFIED COMPETITIVE  
23 LOSSES OF \$201 MILLION MAY BE ATTRIBUTABLE TO  
24 SOUTHERN BELL STATES OTHER THAN FLORIDA. IS THIS  
25 CORRECT?

1

2 A. NO. WHILE REPORTS TO THE FCC ARE MADE ON A TOTAL  
3 COMPANY BASIS, STATE-SPECIFIC DATA ARE ALSO  
4 REPORTED. ALL OF THE REVENUE LOSS IN MR.  
5 LOMBARDO'S TESTIMONY IS ATTRIBUTABLE TO FLORIDA.

6

7 Q. DR. CHESSLER STATES ON PAGE 32 LINES 2-3 OF HIS  
8 TESTIMONY THAT THE IDENTIFIED COMPETITIVE LOSSES OF  
9 \$201 MILLION ARE ONLY 2.9 PER CENT OF TOTAL  
10 SOUTHERN BELL OPERATING REVENUES REPORTED TO THE  
11 FCC IN 1991. IS THIS A MEANINGFUL CALCULATION?

12

13 A. NO. IT MAKES NO SENSE TO DIVIDE A FLORIDA-ONLY  
14 COMPETITIVE LOSS BY TOTAL SOUTHERN BELL OPERATING  
15 REVENUE FOR FLORIDA, GEORGIA, NORTH CAROLINA, AND  
16 SOUTH CAROLINA. HE GOES ON TO PERFORM THE  
17 CALCULATION FOR TOTAL FLORIDA OPERATING REVENUE,  
18 PRODUCING 6.7 PERCENT (PAGE 32 LINES 9-10).  
19 HOWEVER, IF WE SEPARATE OUT THE INTERSTATE  
20 COMPETITIVE LOSSES AND REVENUES, THE RESULT IS \$151  
21 MILLION IN INTRASTATE COMPETITIVE LOSSES. MORE  
22 SIGNIFICANTLY, WHEN COMPARED TO THE REVENUES THAT  
23 EXPERIENCED THESE COMPETITIVE LOSSES, I.E.  
24 INTRASTATE SWITCHED AND SPECIAL ACCESS, INTRALATA  
25 TOLL, PRIVATE LINE, AND PUBLIC TELEPHONE SERVICE,

1 THE COMPETITIVE LOSS IS 21 PER CENT OF OPERATING  
2 REVENUES. SEE EXHIBIT MKT-2 FOR THE CALCULATION OF  
3 THESE FIGURES.

4

5 Q. ON PAGES 35 AND 36 OF HIS TESTIMONY, DR. CHESSLER  
6 DISCUSSES THE LACK OF PROFITABILITY OF SHORT HAUL  
7 TOLL FOR SOUTHERN BELL'S COMPETITORS. IS HIS  
8 ANALYSIS CORRECT?

9

10 A. NO. WHILE I WILL NOT COMMENT ON THE PROFITABILITY  
11 OF MCI'S TOLL SERVICES ON A SPECIFIC MILEAGE BAND  
12 BASIS, A REVIEW OF MCI'S OPTION A (EXECUNET) TARIFF  
13 (EFFECTIVE DATE 10/3/92) SHOWS AN INITIAL MINUTE  
14 RATE OF \$0.18 AND AN ADDITIONAL MINUTE RATE OF  
15 \$0.0891 FOR THE 0-10 MILE BAND. ON A FOUR MINUTE  
16 CALL THIS AVERAGES \$0.1118 PER MINUTE SO MCI MAY  
17 NOT BE FOREGOING AS MUCH PROFITABILITY AS DR.  
18 CHESSLER SUGGESTS.

19

20 Q. ON PAGE 36-37 (LINES 21-25 AND LINES 1-5), DR.  
21 CHESSLER QUOTES MR. LOMBARDO'S TESTIMONY REGARDING  
22 THE MELDING OF INTERSTATE AND INTRASTATE ACCESS  
23 CHARGES BY COMPETITORS AND THE IMPACT ON SOUTHERN  
24 BELL'S ABILITY TO COMPETE. DOES HE MISS THE POINT  
25 OF THAT DISCUSSION?

1  
2 A. YES, AS DO WITNESSES KAHN AND CORNELL. COMPETITORS  
3 ARE ABLE TO PROVIDE ALL OF A CUSTOMER'S LONG  
4 DISTANCE SERVICE, I.E. INTRALATA, INTERLATA  
5 INTRASTATE, AND INTERLATA INTERSTATE. IN CASES  
6 WHERE THE JURISDICTIONAL MIX OF THE CUSTOMER'S  
7 TRAFFIC IS KNOWN, COMPETITORS ARE ABLE TO AVERAGE  
8 THE COST OF PROVIDING SERVICE IN ALL THE  
9 JURISDICTIONS TO ARRIVE AT A WEIGHTED AVERAGE COST  
10 TO QUOTE A SINGLE PRICE FOR ALL LONG DISTANCE  
11 SERVICE TO THE CUSTOMER. IN SOME CASES,  
12 COMPETITORS ARE ABLE TO USE THE PRICE DIFFERENTIAL  
13 BETWEEN INTRASTATE AND INTERSTATE ACCESS TO GIVE  
14 VOLUME DISCOUNTS TO THE CUSTOMER ON TOTAL USAGE.  
15 IN OTHER CASES, COMPETITORS UTILIZE THE ACCESS  
16 PRICE DIFFERENTIAL TO PROVIDE ADDITIONAL DISCOUNTS  
17 AGAINST THE INTERSTATE PORTION OF THE LONG DISTANCE  
18 SERVICE. SINCE SOUTHERN BELL CAN ONLY PROVIDE  
19 INTRALATA TOLL SERVICE AND MUST IMPUTE THE HIGHER  
20 INTRASTATE ACCESS RATES TO ITSELF, THIS AVERAGING  
21 OR MELDING OF ACCESS CHARGES (SHOWN IN EXHIBIT  
22 MKT-3) ALWAYS WORKS TO SOUTHERN BELL'S  
23 DISADVANTAGE.  
24  
25 Q. DR. CHESSLER STATES ON PAGE 39 LINES 17-19 THAT "IT



1 IS UNPROFITABLE FOR COMPETITORS TO COMPETE WITH  
2 SOUTHERN BELL FOR MOST OF THE TRAFFIC VOLUME IN THE  
3 INTRA-LATA TOLL MARKET." IS THIS A REASONABLE  
4 STATEMENT FOR HIM TO MAKE?

5

6 A. NO. HE MAKES A HUGE LEAP GOING FROM HIS "ANALYSIS"  
7 OF MCI'S 0-10 MILE ADDITIONAL MINUTE RATE TO HIS  
8 CONCLUSIONS. MTS TRAFFIC IN THAT BAND REPRESENTS  
9 LESS THAN ONE PER CENT OF SOUTHERN BELL'S INTRALATA  
10 TRAFFIC.

11

12 COMMON SENSE INDICATES THAT IF MOST OF THIS TRAFFIC  
13 IS TRULY UNPROFITABLE FOR COMPETITORS, THEY  
14 WOULDN'T HAVE BEEN SO EAGER IN PREVIOUS DOCKETS  
15 BEFORE THIS COMMISSION TO OBTAIN INTRALATA  
16 AUTHORITY. THEIR TESTIMONY IN THIS CASE INDICATES  
17 THE DESIRABILITY OF INTRALATA TOLL TO THEM BASED ON  
18 THEIR ARGUMENTS REGARDING INTRALATA 1+  
19 PRESUBSCRIPTION.

20

21 Q. ON PAGES 41 (LINES 24-25) AND 42 (LINE 1), DR.  
22 CHESSLER STATES "IT APPEARS THAT SOUTHERN BELL WILL  
23 BENEFIT FINANCIALLY FROM ANY INTRA-LATA TOLL  
24 TRAFFIC IT LOSES TO ITS INTEREXCHANGE COMPETITORS."  
25 IS THIS CORRECT?

1  
2 A. NO. THE CONTRIBUTION (REVENUE LESS COST) OBTAINED  
3 FROM SOUTHERN BELL INTRALATA TOLL MUST BE COMPARED  
4 TO THE CONTRIBUTION FROM SWITCHED ACCESS SERVICES  
5 IN ORDER TO MAKE THIS DETERMINATION. COMPARE  
6 SOUTHERN BELL'S AVERAGE TOLL REVENUE OF \$0.17 PER  
7 MINUTE TO AVERAGE ACCESS REVENUE PER MINUTE  
8 (ORIGINATING PLUS TERMINATING PLUS CALL SETUP) OF  
9 \$0.12. INTRALATA TOLL SERVICES USE ESSENTIALLY THE  
10 SAME COMPONENTS OF SOUTHERN BELL'S NETWORK AS  
11 SWITCHED ACCESS SERVICES, WITH THE EXCEPTION OF  
12 TRANSPORT. SINCE THE TRANSPORT ELEMENT OF SWITCHED  
13 ACCESS IS RATED AT \$0.0160, THE COST IS OBVIOUSLY  
14 LESS THAN THAT LEVEL. AS A RESULT, THE DIFFERENCE  
15 BETWEEN THE CONTRIBUTION FROM TOLL AND THE  
16 CONTRIBUTION FROM ACCESS (\$0.17 LESS \$0.12 LESS THE  
17 COST OF TRANSPORT) DEMONSTRATES THE FALLACY OF DR.  
18 CHESSLER'S CONCLUSION.

19  
20 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

21  
22 A. DR. CHESSLER AND OTHER INTERVENOR WITNESSES, IN  
23 ATTEMPTS TO DOWNPLAY THE SIGNIFICANCE OF THE  
24 COMPETITION THAT SOUTHERN BELL FACES IN FLORIDA,  
25 HAVE MADE A NUMBER OF INCORRECT ASSUMPTIONS AND

1           STATEMENTS AND USED THEM TO DRAW CONCLUSIONS. AS A  
2           RESULT, THOSE CONCLUSIONS ARE INCORRECT AND SHOULD  
3           BE DISREGARDED BY THE COMMISSION.

4  
5           RECENT DOCKETS BOTH BEFORE THIS COMMISSION AND THE  
6           FCC, SOUTHERN BELL'S TESTIMONY, RESPONSES TO  
7           INTERROGATORIES AS WELL AS THE INTERVENORS' OWN  
8           TESTIMONIES, DEMONSTRATE THE CURRENT LEVEL OF  
9           COMPETITIVE ACTIVITY AND INTEREST. COMPETITION HAS  
10          HAD, AND WILL CONTINUE TO HAVE AN INCREASING IMPACT  
11          BOTH ON THE MARKET AND ON SOUTHERN BELL'S FILINGS  
12          BEFORE THIS COMMISSION.

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14 Q.   DOES THIS CONCLUDE YOUR TESTIMONY?

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16 A.   YES, IT DOES.

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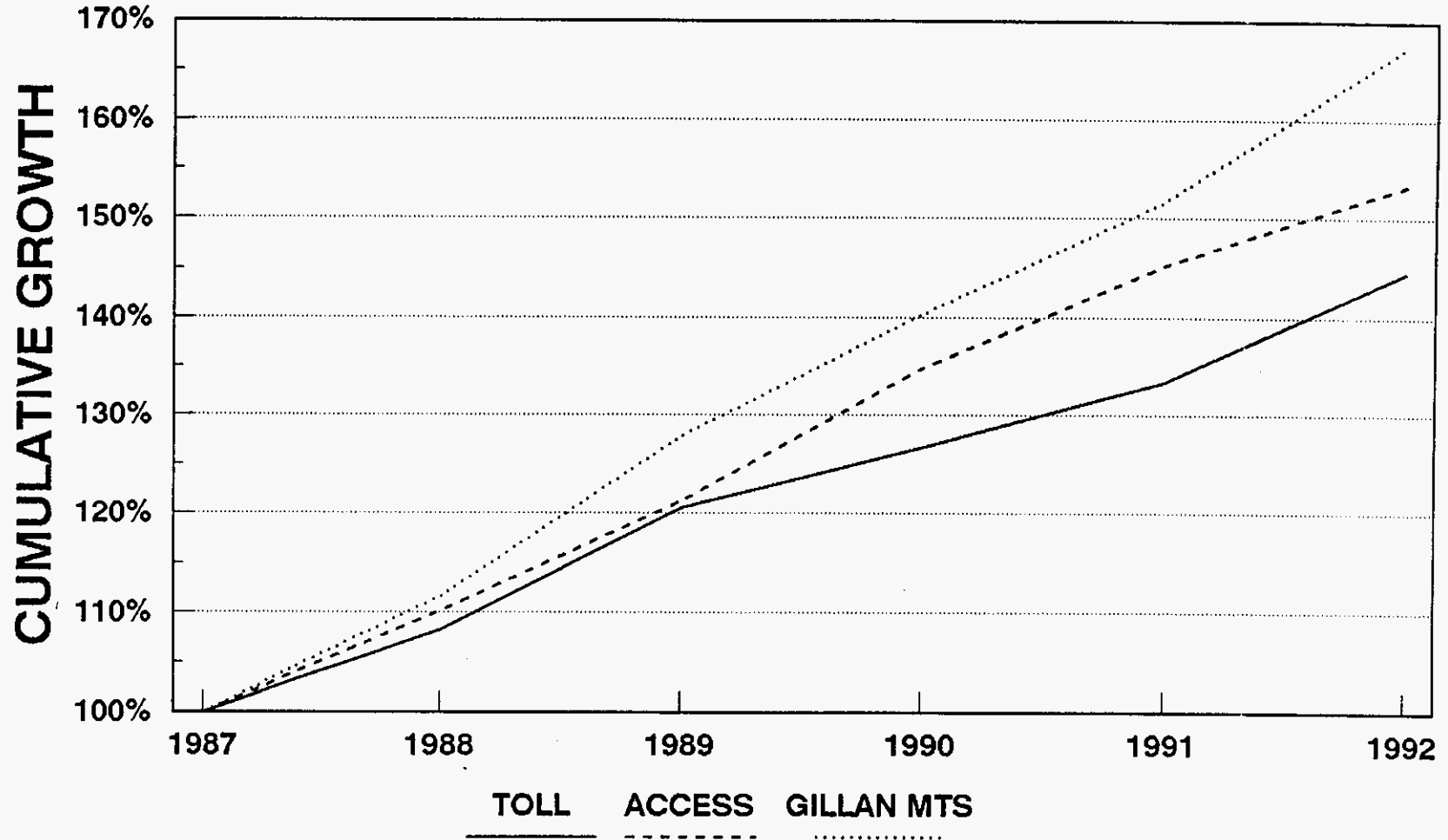
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# FLORIDA

## GROWTH IN INTRA ACCESS AND TOLL MINUTES



RESTATEMENT OF JPG-5  
 TOLL = MTS, WATS, 800 SVC & OCP

1991

FLORIDA COMPETITIVE REVENUES

(\$ MILLIONS)

|                                  | COMPETITIVE LOSS<br>LOMBARDO DIRECT<br>EXHIBIT NO. 1<br>----- |              |                  |                |
|----------------------------------|---|--------------|------------------|----------------|
|                                  | TOTAL   | IAS<br>ONLY  | TOTAL<br>REVENUE | IAS<br>REVENUE |
| ACCESS                           | 85  | 36           | 1023             | 271            |
| INTRALATA TOLL                   | 32  | 31           | 332              | 331            |
| PRIVATE LINE                     | 73  | 73           | 42               | 42             |
| PUBLIC TELEPHONE                 | 11  | 11           | 76               | 76             |
| SUBTOTAL                         | -----<br>201  | -----<br>151 | -----<br>1473    | -----<br>720   |
| ALL OTHER REVENUES               |   |              | 1535             | 1506           |
| TOTAL FLORIDA OPERATING REVENUES |   |              | =====<br>3008    | =====<br>2226  |

\$151M / \$720M = 21%

**ILLUSTRATIVE EXAMPLE**

ASSUME THE CARRIER'S COST (OVER AND ABOVE ACCESS CHARGES) IS \$.01 PER MINUTE. ALSO ASSUME 50% OF THE TRAFFIC IN THIS EXAMPLE IS INTERSTATE AND 50% IS INTRASTATE. THE CARRIER'S AVERAGE MELED COST PER MINUTE IS CALCULATED AS FOLLOWS:

|                                  |                |          |
|----------------------------------|----------------|----------|
| INTRASTATE ORIG. FGD/MIN.        |                | \$ .0461 |
| X ACCESS TO CONVERSATION FACTOR  | .0461 X 1.07 = | .0493    |
| INTRASTATE TERM. FGD/MIN.        |                | .0703    |
| CARRIER'S COST ABOVE ACCESS/MIN. |                | .0100    |
| TOTAL INTRASTATE COST/MIN.       |                | \$ .1296 |
|                                  |                |          |
| INTERSTATE ORIG. FGD/MIN.        |                | \$ .0255 |
| X ACCESS TO CONVERSATION FACTOR  | .0255 X 1.07 = | .0273    |
| INTERSTATE TERM. FGD/MIN.        |                | .0275    |
| CARRIER'S COST ABOVE ACCESS/MIN. |                | .0100    |
| TOTAL INTERSTATE COST/MIN.       |                | \$ .0648 |

$$\text{AVERAGE RATE PER MINUTE} = (\$.1296 + \$.0648) / 2 = \$.0972$$

SOUTHERN BELL'S TOLL RATES MUST COVER \$.1196 PER MINUTE (INTRASTATE ORIG. + INTRASTATE TERM.) IN SWITCHED ACCESS CHARGES WHILE THE CARRIER'S TOTAL COST FOR ALL OF HIS TRAFFIC IS ONLY \$.0972 PER MINUTE, A DIFFERENCE OF \$.0224 PER MINUTE.

IF INSTEAD THE ASSUMPTION IS THAT THE CARRIER USES INTERSTATE SPECIAL ACCESS (DS-1), AT AN ASSUMED USAGE OF 7,500 MINUTES OF USE PER VGE PER MONTH AND 83% FILL, ON THE ORIGINATING END, THE CALCULATION OF AVERAGED MELED COST PER MINUTE BECOMES:

|                                  |           |
|----------------------------------|-----------|
| DS-1 COST                        | \$ 546    |
| MINUTES OF USE                   | 7500      |
| # OF VGEs                        | 20        |
| COST/MINUTE SPECIAL ACCESS       | \$ 0.0036 |
| INTRASTATE TERM. FGD/MIN.        | 0.0703    |
| CARRIER'S COST ABOVE ACCESS/MIN. | 0.0100    |
| TOTAL INTRASTATE COST/MIN.       | \$ 0.0839 |
|                                  |           |
| DS-1 COST                        | \$ 546    |
| MINUTES OF USE                   | 7500      |
| # OF VGEs                        | 20        |
| COST/MINUTE SPECIAL ACCESS       | \$ 0.0036 |
| INTERSTATE TERM. FGD/MIN.        | 0.0275    |
| CARRIER'S COST ABOVE ACCESS/MIN. | 0.0100    |
| TOTAL INTERSTATE COST/MIN.       | \$ 0.0411 |

$$\text{AVERAGE RATE PER MINUTE} = (\$.0839 + \$.0411) / 2 = \$.0625$$

THE DIFFERENCE BECOMES \$.0571 PER MINUTE.