

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

IN RE:   COMPREHENSIVE REVIEW OF )  
          THE REVENUE REQUIREMENTS) )  
          AND RATE STABILIZATION ) )  
          PLAN OF SOUTHERN BELL    ) DOCKET NO. 920260-TL  
          TELEPHONE & TELEGRAPH   ) )  
          COMPANY                    ) )  
          \_\_\_\_\_ )

DIRECT TESTIMONY OF

MIKE GUEDEL

ON BEHALF OF AT&T

NOVEMBER 8, 1993

DOCUMENT NUMBER-DATE

12018 NOV-8 8

FLORIDA RECORDS/REPORTING

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

3 A. My name is Mike Guedel and my business address is AT&T,  
4 1200 Peachtree Street, NE, Atlanta, Georgia 30309. I  
5 am employed by AT&T as Manager-Network Services  
6 Division.

7

8

9 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK  
10 EXPERIENCE.

11

12 A. I received a Bachelor of Science degree in Business  
13 Administration from Miami University, Oxford, Ohio.  
14 Over the past years, I have attended numerous Industry  
15 schools and seminars covering a variety of technical  
16 and regulatory issues. I joined the Rates and  
17 Economics department of South Central Bell in February  
18 of 1980. My initial assignments included cost analysis  
19 of terminal equipment and special assembly offerings.  
20 In 1982, I worked on access charge design and  
21 development. From May of 1983 through September of  
22 1983, as part of an AT&T task force, I developed local  
23 transport rates for the initial NECA interstate access  
24 filing. Post divestiture, I remained with South  
25 Central Bell with specific responsibility for cost

1 analysis, design, and development relating to switched  
2 access services and intralATA toll. In June of 1985, I  
3 joined AT&T, assuming responsibility for cost analysis  
4 of network services including access charge impacts for  
5 the five South Central States (Alabama, Kentucky,  
6 Louisiana, Mississippi, and Tennessee).

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9 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

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11 A. My current responsibilities include directing  
12 analytical support activities necessary for intrastate  
13 communications services in Florida and other southern  
14 states. This includes detailed analysis of access  
15 charges and other LEC filings to assess their impact on  
16 AT&T and its customers. In this capacity, I have  
17 represented AT&T through formal testimony before the  
18 Florida Public Service Commission as well as the  
19 regulatory commissions in the states of South Carolina  
20 and Georgia.

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23 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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25 A. The purpose of my testimony is to recommend and provide

1 the rationale for BellSouth Telecommunications being  
2 ordered to immediately reduce intrastate access charges  
3 at least to the level of its interstate rates, a  
4 reduction of approximately \$110M annually, effective  
5 retroactively to the date previously agreed upon,  
6 January 1, 1993, in exchange for delaying this rate  
7 case.

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9 I will also show that it is in the public interest for  
10 BellSouth Telecommunications to reduce access rates  
11 below interstate levels toward costs plus a reasonable  
12 return. If additional funds are available for rate  
13 reductions, Florida access rates should be further  
14 reduced toward costs by eliminating the Originating  
15 Carrier Common Line Charge ("CCLC"), then reducing or  
16 eliminating the Terminating CCLC.

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18 Finally, I will demonstrate that the approval of the  
19 proposed ELS plan would not be in the best interest of  
20 the Florida consumers, and recommend that the  
21 Commission reject this proposal.

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24 Q. HOW WILL FLORIDA CONSUMERS BENEFIT DUE TO ACCESS  
25 REDUCTIONS ORDERED IN THIS CASE?

1 A. As Mr. Spooner indicates in his testimony and as the  
2 Commission found in Order No. PSC 92-0578-FOF-TI, the  
3 competitive interexchange markets will ensure that  
4 Florida consumers will get the benefit of access  
5 reductions through lower rates. In addition, again as  
6 Mr. Spooner discusses in his testimony, AT&T will pass  
7 on benefits to consumers due to the access rate  
8 reduction becoming retroactively effective on January  
9 1, 1993 in the form of special promotions. Most  
10 importantly, AT&T's bold rate action will encourage  
11 other competitors to take similar actions, providing  
12 the maximum possible economic stimulus to the Florida  
13 economy.

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16 Q. HOW SHOULD THE RECOMMENDED ACCESS REDUCTIONS BE FUNDED?

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18 A. Funds available for rate reductions in this case will  
19 depend upon the authorized return which the Florida  
20 Commission finds to be in the Public interest in  
21 today's economy. Because the competitive interexchange  
22 market will ensure that access reductions will be used  
23 to stimulate the economy to the direct benefit of  
24 Florida consumers, the greater the amount that is  
25 directed to access reductions the more will be returned

1 to Florida consumers to the benefit of the people of  
2 Florida.

3  
4

5 Q. CAN YOU DEMONSTRATE THE DEGREE OF DISPARITY BETWEEN  
6 ACCESS PRICES AND LOCAL PRICES TODAY?

7

8 A. Yes. The following table demonstrates the disparity:

9

10

<u>SERVICE</u>	<u>COST</u>	<u>RATES</u>	<u>MARK-UP</u>
Local Dial Tone Line	\$15.53/month	\$ 7.30 to \$10.65	NEGATIVE
Local Usage	\$ **	\$ .00	NEGATIVE
Interstate Access	\$.01/minute	\$.06	500%
Intrastate Access	\$.01/minute	\$.11	1000%

11

12

13 NOTE: - The cost of the dial tone line was supplied by  
14 BellSouth Telecommunications in its response  
15 to Item Number 6 of AT&T's First Set of  
16 Requests for Production of Documents.

17

18 NOTE: - The cost of local usage is deemed proprietary  
19 by BellSouth Telecommunications.

20

21

1 NOTE: - The cost of switched access was based on  
2 BellSouth Telecommunications Answer to  
3 Interrogatory Number 3 of AT&T's First Set of  
4 Interrogatories.

5  
6 NOTE: - In addition to the local rates (7.30-10.65),  
7 BellSouth Telecommunications also charges  
8 residential customers a \$3.50 per month  
9 Federal subscriber line charge toward recovery  
10 of the local loop cost.

11  
12

13 Q. DOES THE PRICING STRUCTURE IN THE ABOVE TABLE SERVE THE  
14 PUBLIC INTEREST?

15

16 A. No. The competitive market place, common sense and  
17 practical experience demonstrate that the welfare of  
18 consumers is increased as the price of access and other  
19 services move toward costs. If access were offered in  
20 a competitive environment (which it is not), the forces  
21 of competition would tend to drive the price of access  
22 toward this price floor. This would eliminate both  
23 Originating and Terminating CCLCs and would move  
24 traffic sensitive access rates toward about \$.01 per  
25 conversation minute. In the current monopoly

1 environment, where competitive forces are not  
2 effective, regulation should continue to act as a  
3 surrogate for competition, and move prices toward what  
4 would be the case if competition did exist. Thus,  
5 access charges should be set as close as possible to  
6 the established price floor, consistent with the  
7 survival of the firm.

8

9 As an initial minimum step in this process, intrastate  
10 access charges should be set and capped at interstate  
11 levels, with further reductions to the CCLCs as  
12 available revenues permit. This should be accomplished  
13 such that premium and transition rates are equal (no  
14 discounts).

15

16

17 Q. WOULD ACCESS CHARGE REDUCTIONS NECESSARILY IMPACT THE  
18 CHARGES FOR BASIC LOCAL SERVICE?

19

20 A. No. But, restructuring local rates to further impact  
21 access charges would be a positive effort for this  
22 Commission to consider. To the extent that some form  
23 of "social pricing" is deemed necessary, it should be  
24 implemented in the least economically disruptive  
25 fashion. It is incongruous to actually charge only



1       \$7.30 to \$10.65 for a local dial tone line and give  
2       away local usage for free to the same customers who  
3       willingly pay \$25 to \$50 monthly fees for cable TV.  
4       Clearly, existing subsidies do not address basic  
5       communications needs but are paid indiscriminately to  
6       the rich and poor, alike. No one can truthfully  
7       support existing telephone subsidies as being targeted  
8       to real needs.

9

10

11    **Q.    IF ANY FORM OF SUBSIDIES ARE TO CONTINUE, HOW SHOULD**  
12       **THEY BE STRUCTURED?**

13

14    **A.**    Telephone subsidies should be targeted to poverty level  
15       income families with legitimate social need. The  
16       sources for funding such a subsidy should be spread  
17       across the largest possible base, preferably a general  
18       tax. In today's environment, neither LECs nor IXC  
19       actually ever pay such a tax, but collect that tax from  
20       specific classes of rate payers, i.e., the Florida end-  
21       users who make toll calls. A general tax on the  
22       general public would be most efficient method to  
23       finance any necessary subsidies, which could be  
24       controlled and kept low if the subsidy were targeted  
25       only to those in genuine need of help. If politics

1 mandate that the subsidy be funded by telephone  
2 services, that base should include all LEC services and  
3 not be specifically targeted to access, toll or other  
4 unique offerings.

5

6

7 Q. ARE THERE ANY PRECEDENTS WITHIN THE BELLSOUTH  
8 TELECOMMUNICATIONS' TERRITORIES FOR REDUCING INTRASTATE  
9 ACCESS CHARGES TO INTERSTATE RATES?

10

11 A. Yes. Both Georgia and Mississippi have ordered  
12 BellSouth Telecommunications' intrastate access rates  
13 lowered to interstate levels and certain commissions in  
14 other Southern states are on record that such action is  
15 in the public interest and are working toward that  
16 goal.

17

18

19 Q. ARE THERE ANY PRECEDENTS FOR ELIMINATING THE CARRIER  
20 COMMON LINE CHARGES?

21

22 A. Yes. Jurisdictions which have eliminated or ordered  
23 the elimination of these uneconomic taxes which repress  
24 consumer usage and the freedom to introduce new  
25 applications which could contribute to consumer welfare

1 include: Nevada and Illinois. California is also  
2 considering such a change.

3  
4  
5 Q. WHY IS IT APPROPRIATE TO ELIMINATE THE CARRIER COMMON  
6 LINE CHARGE?

7  
8 A. The intrastate carrier common line charge is a pure  
9 subsidy element, i.e., it is a rate element with no  
10 underlying costs. The charge was originally conceived  
11 by the Federal Communications Commission (FCC) as a  
12 tool to recover a portion of the non traffic sensitive  
13 costs (revenue requirements) that had been assigned to  
14 the interstate jurisdictions through the separations  
15 process. The charge was generally "mirrored" in the  
16 intrastate jurisdictions as a "keep whole" unit  
17 allowing the LECs to transition into the post  
18 divestiture access world on an immediately revenue  
19 neutral basis.

20  
21 The revenue generated by the charge is generally  
22 considered to be a partial recovery of the costs  
23 associated with the provisioning of the local loop.  
24 The difficulty with this arrangement, however, is that  
25 the costs of providing the local loop are not incurred

1 in the provision of switched access service. Rather,  
2 these costs are incurred in merely keeping the local  
3 subscriber connected to the network. Further, the  
4 costs of providing the loop do not vary with usage,  
5 i.e., additional calling does not increase the cost of  
6 providing the loop. A customer can make one call or  
7 one million calls - local calls, intraLATA calls,  
8 interLATA calls, interstate calls - or a customer can  
9 choose to make no calls and the cost of providing that  
10 local loop remains the same.

11  
12 Recognizing these cost characteristics, it is clearly  
13 inappropriate to recover these costs through usage  
14 sensitive switched access charges. Costs associated  
15 with the provision of the local loop are more  
16 appropriately recovered directly from the end user who  
17 causes the company to incur them.

18  
19  
20 **Q. WILL ACCESS CHARGE REDUCTIONS ADVERSELY IMPACT**  
21 **UNIVERSAL SERVICE?**

22  
23 **A.** No. If support mechanisms are structured in a manner  
24 to target actual needs rather than being broadly  
25 distributed to parties which have no need, Universal

1 Service will be assured. It is important to note that  
2 Universal Service does not equal Universal Subsidy.

3  
4

5 Q. WHY SHOULD THE COMMISSION REJECT BELLSOUTH  
6 TELECOMMUNICATIONS' PROPOSED EXPANDED LOCAL SERVICE  
7 (ELS) PLAN?

8

9 A. The BellSouth Telecommunications' ELS plan is simply an  
10 ill-disguised attempt to "re-monopolize" the provision  
11 of toll service throughout a significant portion of  
12 BellSouth operating territory. BellSouth  
13 Telecommunications' proposal would effectively preclude  
14 competition over existing toll routes (up to 40 miles)  
15 by pricing the service below the level of access  
16 charges that BellSouth Telecommunications is currently  
17 charging interexchange carriers for completing  
18 comparable calls. The BellSouth Telecommunications'  
19 ELS proposal would deny BellSouth Telecommunications'  
20 rate payers the benefits of competition - benefits that  
21 this Commission has previously found to be in the  
22 public interest.

23  
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25

1 Q. DOES THE 40-MILE CALLING PROPOSAL EFFECTIVELY ADDRESS  
2 THIS EAS PRESSURE?

3  
4 A. No. The proposed plan does not adequately address the  
5 pressure for EAS. First, the proposed plan offers toll  
6 price reductions only on specific intraLATA routes.  
7 This assumes that EAS pressure somehow ends at the LATA  
8 boundary or is confined to the proposed calling areas  
9 (i.e., 0-40 miles). Such is not the case. As noted  
10 above, EAS pressures develop around or within growing  
11 economic or social communities of interest. These  
12 communities of interest do not necessarily develop  
13 within LATA boundaries or 0-40 mile boundaries or even  
14 state boundaries. They can develop within or across  
15 any of these boundaries and anywhere in the state. The  
16 ELS proposal does not address these broader aspects of  
17 EAS pressure and, in fact, it ignores all aspects of  
18 EAS pressure except those that are coincidentally met.  
19 Second, BellSouth Telecommunications has not provided  
20 any data that would demonstrate the existence of  
21 particular communities of interest within the targeted  
22 territory. The proposal may provide too little relief  
23 to particular customers within developing communities  
24 of interest, disproportionate relief to customers  
25 outside of such communities of interest, and no relief

1 to the large number of Florida interLATA toll  
2 customers. A more balanced plan would better suit the  
3 public interest.

4

5

6 Q. HOW COULD THE COMMISSION MORE APPROPRIATELY ADDRESS THE  
7 CURRENT PRESSURE FOR EAS?

8

9 A. The Commission should address the EAS concerns of the  
10 greater number of Florida customers by using the  
11 available revenues (estimated \$25M - \$30M) to lower  
12 switched access charges. These high access charges  
13 underlie the relatively high toll prices within the  
14 state and are the prime contributor to the current  
15 pressure for EAS. By reducing the prices for switched  
16 access services, competition will begin to bid down the  
17 price for all intrastate toll services, and the  
18 Commission will have begun to narrow the disparity  
19 between local and toll charges, thereby reducing the  
20 general pressure for EAS. This approach would fairly  
21 distribute the benefits of lower toll rates to all  
22 Florida customers while simultaneously preserving the  
23 benefits of statewide toll competition.

24

25

1 Q. HOW WOULD THE ADOPTION OF THIS PLAN DENY CUSTOMERS THE  
2 BENEFITS OF COMPETITION?

3

4 A. The ELS plan offers customers a discounted toll service  
5 at rates significantly below current toll service rates  
6 and below the underlying switched access charges that  
7 competing carriers must pay. BellSouth  
8 Telecommunications has proposed offering ELS service at  
9 about 8 cents per conversation minute (for the expanded  
10 service area, i.e., discounted toll service) while it  
11 charges interexchange carriers approximately 11 cents  
12 for the underlying switched access. Because potential  
13 competitors can offer competing services only after  
14 purchasing switched access from BellSouth  
15 Telecommunications, these potential competitors are  
16 effectively foreclosed from this portion of the toll  
17 market. Unless access prices are reduced, BellSouth  
18 Telecommunications' Area Plus proposal renders  
19 competition impossible. Thus, customers are denied the  
20 very choices just granted by this Commission through  
21 Order No. 23540, TMA Docket No. 880812-TP. With this  
22 denial of choice, the benefits of competition, i.e.,  
23 more desirable products/services at more favorable  
24 prices, are simply lost.

25



1 Q. IS IT APPROPRIATE FOR BELLSOUTH TELECOMMUNICATIONS TO  
2 OFFER USAGE SERVICES AT THE PROPOSED RATES?

3

4 A. To the extent that the proposed rates for the ELS plan  
5 are more representative of the underlying cost than the  
6 current toll rates or current switched access charges,  
7 the proposed rate levels may well be appropriate.  
8 However, if the proposed rates are appropriate for the  
9 ELS toll service, then the level of access charges  
10 (charges that cover only a portion of the same end to  
11 end service) must be significantly less than the rates  
12 proposed for ELS. BellSouth Telecommunications should  
13 not be allowed to clothe this pricing action in the  
14 robes of the public interest when, in fact, it is  
15 leveraging its monopoly position with respect to the  
16 provision of access service, to foreclose competition  
17 within a potentially competitive market - competition  
18 that this Commission has previously found to be in the  
19 public interest.

20

21

22 Q. WILL YOU PLEASE SUMMARIZE YOUR RECOMMENDATION?

23

24 A. Yes. I recommend that the Commission order BellSouth  
25 Telecommunications to take the following actions:

1 1. Reduce ongoing intrastate access rates to no higher  
2 than the level of interstate charges, and further  
3 reduce or eliminate the CCLCs as funds for such  
4 reductions are made available. The competitive market  
5 will ensure that these reductions benefit Florida rate  
6 payers in the form of ongoing IXC rate reductions.

7  
8 2. Refund access overcharges to IXCs back to January  
9 1, 1993, the effective date for financial changes,  
10 agreed upon as part of the order to delay the Bell rate  
11 case. AT&T commits to flow through these reductions to  
12 Florida rate payers in the form of special promotions.

13  
14 3. The proposed 40-mile calling plan (ELS) should be  
15 rejected. This proposal represents the monopolist's  
16 response to a previous Commission finding that  
17 competition within the LATA (or EAEA) is in the public  
18 interest. The Commission should affirm the findings of  
19 its previous order (Order No. 23540), preserve the  
20 benefits of toll competition, and reject the instant  
21 BellSouth Telecommunications proposal. The available  
22 revenues proposed to support the ELS plan should  
23 instead be utilized to further reduce switched access  
24 charges.

25

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2

3 A. Yes.

CERTIFICATE OF SERVICE

Dockets Nos. 920260-TL, 910163-TL, 910727-TL, 900960-TL

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties on this 8<sup>th</sup> day of November, 1993.

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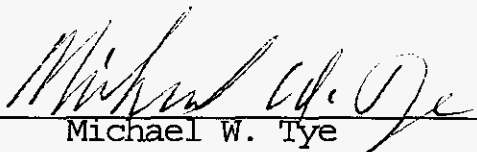
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9

10

<u>SERVICE</u>	<u>COST</u>	<u>RATES</u>	<u>MARK-UP</u>
Local Dial Tone Line	\$15.53/month	\$ 7.30 to \$10.65	NEGATIVE
Local Usage	\$ **	\$ .00	NEGATIVE
Interstate Access	\$.01/minute	\$.06	500%
Intrastate Access	\$.01/minute	\$.11	1000%

11

12

13 NOTE: - The cost of the dial tone line was supplied by  
14 BellSouth Telecommunications in its response  
15 to Item Number 6 of AT&T's First Set of  
16 Requests for Production of Documents.

17

18 NOTE: - The cost of local usage is deemed proprietary  
19 by BellSouth Telecommunications.

20

21

1 NOTE: - The cost of switched access was based on  
2 BellSouth Telecommunications Answer to  
3 Interrogatory Number 3 of AT&T's First Set of  
4 Interrogatories.

5  
6 NOTE: - In addition to the local rates (7.30-10.65),  
7 BellSouth Telecommunications also charges  
8 residential customers a \$3.50 per month  
9 Federal subscriber line charge toward recovery  
10 of the local loop cost.

11  
12

13 Q. DOES THE PRICING STRUCTURE IN THE ABOVE TABLE SERVE THE  
14 PUBLIC INTEREST?

15

16 A. No. The competitive market place, common sense and  
17 practical experience demonstrate that the welfare of  
18 consumers is increased as the price of access and other  
19 services move toward costs. If access were offered in  
20 a competitive environment (which it is not), the forces  
21 of competition would tend to drive the price of access  
22 toward this price floor. This would eliminate both  
23 Originating and Terminating CCLCs and would move  
24 traffic sensitive access rates toward about \$.01 per  
25 conversation minute. In the current monopoly

1 environment, where competitive forces are not  
2 effective, regulation should continue to act as a  
3 surrogate for competition, and move prices toward what  
4 would be the case if competition did exist. Thus,  
5 access charges should be set as close as possible to  
6 the established price floor, consistent with the  
7 survival of the firm.

8  
9 As an initial minimum step in this process, intrastate  
10 access charges should be set and capped at interstate  
11 levels, with further reductions to the CCLCs as  
12 available revenues permit. This should be accomplished  
13 such that premium and transition rates are equal (no  
14 discounts).

15  
16  
17 **Q. WOULD ACCESS CHARGE REDUCTIONS NECESSARILY IMPACT THE**  
18 **CHARGES FOR BASIC LOCAL SERVICE?**

19  
20 **A.** No. But, restructuring local rates to further impact  
21 access charges would be a positive effort for this  
22 Commission to consider. To the extent that some form  
23 of "social pricing" is deemed necessary, it should be  
24 implemented in the least economically disruptive  
25 fashion. It is incongruous to actually charge only

1       \$7.30 to \$10.65 for a local dial tone line and give  
2       away local usage for free to the same customers who  
3       willingly pay \$25 to \$50 monthly fees for cable TV.  
4       Clearly, existing subsidies do not address basic  
5       communications needs but are paid indiscriminately to  
6       the rich and poor, alike. No one can truthfully  
7       support existing telephone subsidies as being targeted  
8       to real needs.

9

10

11    **Q.    IF ANY FORM OF SUBSIDIES ARE TO CONTINUE, HOW SHOULD**  
12       **THEY BE STRUCTURED?**

13

14    **A.**    Telephone subsidies should be targeted to poverty level  
15       income families with legitimate social need. The  
16       sources for funding such a subsidy should be spread  
17       across the largest possible base, preferably a general  
18       tax. In today's environment, neither LECs nor IXC  
19       actually ever pay such a tax, but collect that tax from  
20       specific classes of rate payers, i.e., the Florida end-  
21       users who make toll calls. A general tax on the  
22       general public would be most efficient method to  
23       finance any necessary subsidies, which could be  
24       controlled and kept low if the subsidy were targeted  
25       only to those in genuine need of help. If politics

1 mandate that the subsidy be funded by telephone  
2 services, that base should include all LEC services and  
3 not be specifically targeted to access, toll or other  
4 unique offerings.

5  
6

7 Q. ARE THERE ANY PRECEDENTS WITHIN THE BELLSOUTH  
8 TELECOMMUNICATIONS' TERRITORIES FOR REDUCING INTRASTATE  
9 ACCESS CHARGES TO INTERSTATE RATES?

10

11 A. Yes. Both Georgia and Mississippi have ordered  
12 BellSouth Telecommunications' intrastate access rates  
13 lowered to interstate levels and certain commissions in  
14 other Southern states are on record that such action is  
15 in the public interest and are working toward that  
16 goal.

17  
18

19 Q. ARE THERE ANY PRECEDENTS FOR ELIMINATING THE CARRIER  
20 COMMON LINE CHARGES?

21

22 A. Yes. Jurisdictions which have eliminated or ordered  
23 the elimination of these uneconomic taxes which repress  
24 consumer usage and the freedom to introduce new  
25 applications which could contribute to consumer welfare

1 include: Nevada and Illinois. California is also  
2 considering such a change.

3

4

5 Q. WHY IS IT APPROPRIATE TO ELIMINATE THE CARRIER COMMON  
6 LINE CHARGE?

7

8 A. The intrastate carrier common line charge is a pure  
9 subsidy element, i.e., it is a rate element with no  
10 underlying costs. The charge was originally conceived  
11 by the Federal Communications Commission (FCC) as a  
12 tool to recover a portion of the non traffic sensitive  
13 costs (revenue requirements) that had been assigned to  
14 the interstate jurisdictions through the separations  
15 process. The charge was generally "mirrored" in the  
16 intrastate jurisdictions as a "keep whole" unit  
17 allowing the LECs to transition into the post  
18 divestiture access world on an immediately revenue  
19 neutral basis.

20

21 The revenue generated by the charge is generally  
22 considered to be a partial recovery of the costs  
23 associated with the provisioning of the local loop.  
24 The difficulty with this arrangement, however, is that  
25 the costs of providing the local loop are not incurred



1 in the provision of switched access service. Rather,  
2 these costs are incurred in merely keeping the local  
3 subscriber connected to the network. Further, the  
4 costs of providing the loop do not vary with usage,  
5 i.e., additional calling does not increase the cost of  
6 providing the loop. A customer can make one call or  
7 one million calls - local calls, intraLATA calls,  
8 interLATA calls, interstate calls - or a customer can  
9 choose to make no calls and the cost of providing that  
10 local loop remains the same.

11

12 Recognizing these cost characteristics, it is clearly  
13 inappropriate to recover these costs through usage  
14 sensitive switched access charges. Costs associated  
15 with the provision of the local loop are more  
16 appropriately recovered directly from the end user who  
17 causes the company to incur them.

18

19

20 **Q. WILL ACCESS CHARGE REDUCTIONS ADVERSELY IMPACT**  
21 **UNIVERSAL SERVICE?**

22

23 **A.** No. If support mechanisms are structured in a manner  
24 to target actual needs rather than being broadly  
25 distributed to parties which have no need, Universal

1 Service will be assured. It is important to note that  
2 Universal Service does not equal Universal Subsidy.

3  
4  
5 Q. WHY SHOULD THE COMMISSION REJECT BELLSOUTH  
6 TELECOMMUNICATIONS' PROPOSED EXPANDED LOCAL SERVICE  
7 (ELS) PLAN?

8  
9 A. The BellSouth Telecommunications' ELS plan is simply an  
10 ill-disguised attempt to "re-monopolize" the provision  
11 of toll service throughout a significant portion of  
12 BellSouth operating territory. BellSouth  
13 Telecommunications' proposal would effectively preclude  
14 competition over existing toll routes (up to 40 miles)  
15 by pricing the service below the level of access  
16 charges that BellSouth Telecommunications is currently  
17 charging interexchange carriers for completing  
18 comparable calls. The BellSouth Telecommunications'  
19 ELS proposal would deny BellSouth Telecommunications'  
20 rate payers the benefits of competition - benefits that  
21 this Commission has previously found to be in the  
22 public interest.

1 Q. DOES THE 40-MILE CALLING PROPOSAL EFFECTIVELY ADDRESS  
2 THIS EAS PRESSURE?

3

4 A. No. The proposed plan does not adequately address the  
5 pressure for EAS. First, the proposed plan offers toll  
6 price reductions only on specific intraLATA routes.  
7 This assumes that EAS pressure somehow ends at the LATA  
8 boundary or is confined to the proposed calling areas  
9 (i.e., 0-40 miles). Such is not the case. As noted  
10 above, EAS pressures develop around or within growing  
11 economic or social communities of interest. These  
12 communities of interest do not necessarily develop  
13 within LATA boundaries or 0-40 mile boundaries or even  
14 state boundaries. They can develop within or across  
15 any of these boundaries and anywhere in the state. The  
16 ELS proposal does not address these broader aspects of  
17 EAS pressure and, in fact, it ignores all aspects of  
18 EAS pressure except those that are coincidentally met.  
19 Second, BellSouth Telecommunications has not provided  
20 any data that would demonstrate the existence of  
21 particular communities of interest within the targeted  
22 territory. The proposal may provide too little relief  
23 to particular customers within developing communities  
24 of interest, disproportionate relief to customers  
25 outside of such communities of interest, and no relief

1 to the large number of Florida interLATA toll  
2 customers. A more balanced plan would better suit the  
3 public interest.

4

5

6 Q. HOW COULD THE COMMISSION MORE APPROPRIATELY ADDRESS THE  
7 CURRENT PRESSURE FOR EAS?

8

9 A. The Commission should address the EAS concerns of the  
10 greater number of Florida customers by using the  
11 available revenues (estimated \$25M - \$30M) to lower  
12 switched access charges. These high access charges  
13 underlie the relatively high toll prices within the  
14 state and are the prime contributor to the current  
15 pressure for EAS. By reducing the prices for switched  
16 access services, competition will begin to bid down the  
17 price for all intrastate toll services, and the  
18 Commission will have begun to narrow the disparity  
19 between local and toll charges, thereby reducing the  
20 general pressure for EAS. This approach would fairly  
21 distribute the benefits of lower toll rates to all  
22 Florida customers while simultaneously preserving the  
23 benefits of statewide toll competition.

24

25

1 Q. HOW WOULD THE ADOPTION OF THIS PLAN DENY CUSTOMERS THE  
2 BENEFITS OF COMPETITION?

3

4 A. The ELS plan offers customers a discounted toll service  
5 at rates significantly below current toll service rates  
6 and below the underlying switched access charges that  
7 competing carriers must pay. BellSouth  
8 Telecommunications has proposed offering ELS service at  
9 about 8 cents per conversation minute (for the expanded  
10 service area, i.e., discounted toll service) while it  
11 charges interexchange carriers approximately 11 cents  
12 for the underlying switched access. Because potential  
13 competitors can offer competing services only after  
14 purchasing switched access from BellSouth  
15 Telecommunications, these potential competitors are  
16 effectively foreclosed from this portion of the toll  
17 market. Unless access prices are reduced, BellSouth  
18 Telecommunications' Area Plus proposal renders  
19 competition impossible. Thus, customers are denied the  
20 very choices just granted by this Commission through  
21 Order No. 23540, TMA Docket No. 880812-TP. With this  
22 denial of choice, the benefits of competition, i.e.,  
23 more desirable products/services at more favorable  
24 prices, are simply lost.

25

1 Q. IS IT APPROPRIATE FOR BELLSOUTH TELECOMMUNICATIONS TO  
2 OFFER USAGE SERVICES AT THE PROPOSED RATES?

3

4 A. To the extent that the proposed rates for the ELS plan  
5 are more representative of the underlying cost than the  
6 current toll rates or current switched access charges,  
7 the proposed rate levels may well be appropriate.  
8 However, if the proposed rates are appropriate for the  
9 ELS toll service, then the level of access charges  
10 (charges that cover only a portion of the same end to  
11 end service) must be significantly less than the rates  
12 proposed for ELS. BellSouth Telecommunications should  
13 not be allowed to clothe this pricing action in the  
14 robes of the public interest when, in fact, it is  
15 leveraging its monopoly position with respect to the  
16 provision of access service, to foreclose competition  
17 within a potentially competitive market - competition  
18 that this Commission has previously found to be in the  
19 public interest.

20

21

22 Q. WILL YOU PLEASE SUMMARIZE YOUR RECOMMENDATION?

23

24 A. Yes. I recommend that the Commission order BellSouth  
25 Telecommunications to take the following actions:

1           1. Reduce ongoing intrastate access rates to no higher  
2           than the level of interstate charges, and further  
3           reduce or eliminate the CCLCs as funds for such  
4           reductions are made available. The competitive market  
5           will ensure that these reductions benefit Florida rate  
6           payers in the form of ongoing IXC rate reductions.

7

8           2. Refund access overcharges to IXCs back to January  
9           1, 1993, the effective date for financial changes,  
10          agreed upon as part of the order to delay the Bell rate  
11          case. AT&T commits to flow through these reductions to  
12          Florida rate payers in the form of special promotions.

13

14          3. The proposed 40-mile calling plan (ELS) should be  
15          rejected. This proposal represents the monopolist's  
16          response to a previous Commission finding that  
17          competition within the LATA (or EAEA) is in the public  
18          interest. The Commission should affirm the findings of  
19          its previous order (Order No. 23540), preserve the  
20          benefits of toll competition, and reject the instant  
21          BellSouth Telecommunications proposal. The available  
22          revenues proposed to support the ELS plan should  
23          instead be utilized to further reduce switched access  
24          charges.

25

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2

3 A. Yes.



CERTIFICATE OF SERVICE

Dockets Nos. 920260-TL, 910163-TL, 910727-TL, 900960-TL

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties on this 8<sup>th</sup> day of November, 1993.

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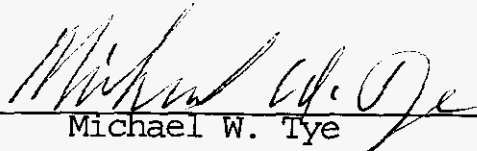
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