

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BELLSOUTH TELECOMMUNICATIONS, INC.
REVISED DIRECT TESTIMONY OF JOHN A. RUSCILLI
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 030869-TL
SEPTEMBER 30, 2003

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS ADDRESS.

A. My name is John A. Ruscilli. I am employed by BellSouth as Senior Director – Policy Implementation and Regulatory Compliance for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I attended the University of Alabama in Birmingham where I earned a Bachelor of Science Degree in 1979 and a Master of Business Administration in 1982. After graduation I began employment with South Central Bell as an Account Executive in Marketing, transferring to AT&T in 1983. I joined BellSouth in late 1984 as an analyst in Market Research, and in late 1985 moved into the Pricing and Economics organization with various responsibilities for business case analysis, tariffing, demand analysis and price

1 regulation. In July 1997, I became Director of Regulatory and Legislative
2 Affairs for BellSouth Long Distance, Inc., with responsibilities that included
3 obtaining the necessary certificates of public convenience and necessity,
4 testifying, Federal Communications Commission (“FCC”) and state regulatory
5 support, federal and state compliance reporting and tariffing for all 50 states
6 and the FCC. I assumed my current position in July 2000.

7

8 Q. WHAT IS THE PURPOSE OF YOUR REVISED TESTIMONY?

9

10 A. The purpose of my revised testimony is to introduce BellSouth’s proposal for
11 implementing Section 364.164 of Florida’s Tele-Competition Innovation and
12 Infrastructure Enhancement Act, which was signed into law on May 23, 2003.
13 BellSouth proposes to rebalance rates in a revenue neutral manner through
14 decreases in intrastate switched access charges with corresponding rate
15 increases for basic services.

16

17 Q. PLEASE IDENTIFY THE OTHER BELLSOUTH WITNESSES FILING
18 DIRECT TESTIMONY AND THE TOPICS EACH WILL ADDRESS.

19

20 A. In addition to my revised testimony, BellSouth presents the testimony of four
21 other witnesses. Mr. Jerry Hendrix discusses, among other things, the timing
22 and process by which BellSouth will achieve parity between its intrastate and
23 interstate switched network access rates. Mr. Steve Bigelow presents the new
24 revenue category and pricing units used by BellSouth in this filing. Ms.
25 Daonne Caldwell sponsors cost studies that demonstrate that basic local

1 service rates are receiving an economic subsidy from other services. Dr.
2 William Taylor comments on economic issues arising from Section 364.164.
3 In addition to these four witnesses, BellSouth, along with Verizon and Sprint,
4 are sponsoring the testimony of Dr. Kenneth Gordon. Dr. Gordon provides an
5 economic and policy analysis of the proposed rate plans as they relate to the
6 considerations laid out in Section 364.164. At the conclusion of this
7 proceeding, BellSouth believes the Commission will find that BellSouth's
8 proposal creates a more attractive local exchange market, is beneficial to
9 residential consumers, and enhances the opportunity for market entry by
10 Competitive Local Exchange Carriers ("CLECs") in Florida.

11

12 Q. CAN YOU GENERALLY DESCRIBE SECTION 364.164?

13

14 A. Certainly. Section 364.164 establishes a process by which incumbent local
15 exchange carriers ("ILECs"), such as BellSouth, are able to reduce intrastate
16 switched access charges and recover any revenue losses resulting from such
17 reductions by "rebalancing" other rates. This will be accomplished by
18 implementing "a revenue category mechanism consisting of basic local
19 telecommunications service revenues and intrastate switched network access
20 revenues to achieve revenue neutrality." Essentially, Section 364.164 provides
21 that each local exchange telecommunications company may petition the
22 Commission to remove implicit support to basic local service rates by reducing
23 its intrastate switched network access rates.

24

25 Q. PLEASE DEFINE RATE REBALANCING.

1

2 A. Rate rebalancing refers to the process of lowering rates for one class of
3 customers that are paying rates in excess of the cost of serving that class of
4 customers, while, at the same time, raising the rates charged to another class of
5 customers so that the rates paid by such customers more closely reflect the cost
6 of serving such customers. The net effect of these decreases/increases is
7 required, in this particular case, to be revenue neutral for the carrier.

8

9 Q. WHAT SHOULD THE COMMISSION CONSIDER IN GRANTING A
10 PETITION UNDER SECTION 364.164?

11

12 A. In reaching its decision to grant any petition filed pursuant to Section 364.164,
13 the Commission should consider whether the petition will:

14 a) Remove current support for basic local telecommunications
15 services that prevents the creation of a more attractive competitive
16 local exchange market for the benefit of residential consumers.

17 b) Induce enhanced market entry.

18 c) Require intrastate switched network access rate reductions to
19 parity over a period of not less than 2 years or more than 4 years.

20 d) Be revenue neutral within the defined revenue category.

21

22 Q. PLEASE DESCRIBE GENERALLY BELLSOUTH'S PROPOSAL TO
23 ATTAIN INTRASTATE SWITCHED ACCESS RATE PARITY WITH
24 INTERSTATE SWITCHED ACCESS RATES IN EFFECT JANUARY 1,
25 2003.

1

2 A. As discussed in greater detail by BellSouth witness Mr. Jerry Hendrix,
3 BellSouth proposes to lower its intrastate switched network access rates to the
4 interstate switched network access rates in effect as of January 1, 2003 in not
5 less than a twenty-four (24) month period. The proposal includes reducing the
6 intrastate switched network access rate in three increments effective first
7 quarter 2004 (1Q04), first quarter 2005 (1Q05), and first quarter 2006 (1Q06)¹.
8 The switched access revenue reductions will be offset by increases in certain
9 basic local exchange service rates.

10

11 Q. BEFORE DISCUSSING THE DETAILS OF BELLSOUTH'S PROPOSAL,
12 PLEASE EXPLAIN THE VARIABLES THAT UNDERLIE THE
13 PROPOSAL.

14

15 A. There are two significant variables that underlie BellSouth's proposal: 1) the
16 methodology by which switched access reductions are calculated; and 2) the
17 level of demand that will be used to calculate switched access reductions and
18 basic local increases for each increment of the plan. As described by Mr.
19 Hendrix, the Commission is being presented with two methodologies from
20 which to choose for determining the level of switched access reductions: 1)
21 mirroring of all recurring intrastate switched access rate elements with
22 interstate rate elements; and 2) applying a composite rate calculated in the
23 same manner as the typical network composite reported to the Commission on

24

25 ¹ Pursuant to § 364.164(2), Florida Statutes, the effective date of proposed rate changes will be 45 days
after filing applicable tariffs.

1 an annual basis in the Florida Access and Toll Report. The two methodologies
2 yield different results as explained by Mr. Hendrix. Should the Commission
3 choose the mirroring methodology, the total amount of switched access
4 reductions that will be offset by local service increases in three increments will
5 be \$136.4 million. Should the Commission choose to use the typical network
6 composite methodology, the total amount of switched access reductions that
7 will be offset by local service increases in three increments will be \$125.2
8 million. Under both methodologies, the first increment will equal 40% of the
9 total switched access reduction, the second increment will equal 35% of the
10 total reduction and the third increment will equal the remaining 25% of the
11 total reduction. Shortly, I will describe the specific services that will be
12 increased and their associated revenues under each of the two methodologies.

13

14 The second variable involves the level of demand to be used in calculating
15 revenues to be offset. Because BellSouth's proposal to offset switched access
16 revenue reductions with local service revenue increases is based on the best
17 available information of current demand, rate adjustments are subject to
18 change over the life of the plan. BellSouth's proposal today is based upon the
19 past twelve (12) months of demand as of June 2003. However, before the first
20 increment of the proposal is implemented, updated demand figures will be
21 used to determine the actual rate element changes that will become effective
22 1Q04. Similarly, prior to implementing rate changes to be effective 1Q05 and
23 1Q06, the most current 12 months of demand will be used to determine the
24 actual rate change amounts.

25

1 Q. PLEASE DESCRIBE BELLSOUTH'S PROPOSAL TO OFFSET THE
2 REVENUE REDUCTIONS ASSOCIATED WITH THE SWITCHED
3 ACCESS RATE REDUCTIONS UNDER THE MIRRORING
4 METHODOLOGY.

5
6 A. Should the Commission elect to implement switched access reductions using
7 the mirroring methodology, switched access revenues in the amount of \$136.4
8 million will be offset by the following local service increases. BellSouth
9 proposes to increase single-line basic residential local service rates (1FRs),
10 adjust single-line business basic local service rates (1FBs) and increase certain
11 non-recurring charges. Specifically, BellSouth proposes an average single-line
12 residential basic local service line rate increase of \$1.39 across all rate groups
13 effective 1Q04, a second increase of \$1.38 across all rate groups, effective
14 1Q05 and a third increase of \$1.09 across all rate groups, effective 1Q06. In
15 addition, BellSouth proposes to adjust single-line business rates as follows:
16 Rate Groups 1-3 will increase to \$25.00 over two equal increments; Rate
17 Groups 4-6 and Rate Code X1 will increase to \$28.00 over two equal
18 increments; and Rate Groups 7-11 and Rate Codes X2-X4 will be adjusted to
19 the current Rate Group 12 rate of \$30.20, also in two equal increments. For
20 Rate Codes X2 and X3 this adjustment will result in a lower rate. The first
21 increment will become effective 1Q04, and the second increment will become
22 effective 1Q05. BellSouth's proposal also includes increases in nonrecurring
23 service ordering charges over three increments. Increases in nonrecurring
24 charges are consistent with Section 364.164(2) requiring that "[a]n adjustment
25 in rates may not be offset entirely by the company's basic monthly recurring

1 rate.” The following chart reflects the rate and revenue adjustments associated
 2 with the mirroring methodology.

MIRRORING METHODOLOGY					
Rate or Revenue Adjustments				Basic Service Revenue	Switched Access Revenue
Service	1Q04	1Q05	1Q06		
IFR	\$1.39	\$1.38	\$1.09	\$118.85M	
IFB	Rate & RG Changes	Rate & RG Changes		\$1.16M	
Non-Rec.	Multiple Elements	Multiple Elements	Multiple Elements	\$16.29M	
Sw. Ac.	(\$54.58M)	(\$47.75M)	(\$34.11M)		(\$136.4 M)
Total				\$136.3 M	(\$136.4 M)

11
 12 See Exhibit SB-2 attached to the revised testimony of BellSouth witness Mr.
 13 Steve Bigelow to view more specifically the priccut associated with the
 14 mirroring methodology and see the revised testimony of Mr. Jerry Hendrix for
 15 specifics regarding switched access rate reductions. See also Revised Exhibit
 16 JAR-1 attached to my testimony to view the impact of BellSouth’s proposal on
 17 basic service rates.

18
 19 Q. PLEASE DESCRIBE BELLSOUTH’S PROPOSAL TO OFFSET THE
 20 REVENUE REDUCTIONS ASSOCIATED WITH THE SWITCHED
 21 ACCESS RATE REDUCTIONS UNDER THE TYPICAL NETWORK
 22 COMPOSITE METHODOLOGY.

23
 24
 25

1 A. Should the Commission elect to implement switched access reductions using
 2 the typical network composite methodology, switched access revenues in the
 3 amount of \$125.2 million will be offset by the following local service
 4 increases. Similar to the mirroring methodology, BellSouth also proposes to
 5 increase single-line residential local service rates, adjust single-line business
 6 basic local service rates and increase certain non-recurring charges.
 7 Specifically, BellSouth proposes an average single-line residential basic local
 8 service line increase of \$1.25 across all rate groups effective 1Q04, a second
 9 increase of \$1.25 across all rate groups, effective 1Q05 and a third increase of
 10 \$1.00 across all rate groups effective 1Q06. Further, BellSouth proposes to
 11 adjust single-line business rates in the same manner described under the
 12 mirroring methodology. BellSouth's proposal also includes increases in
 13 nonrecurring service ordering charges in three increments. The following chart
 14 reflects the rate and revenue adjustments associated with the typical network
 15 composite methodology.

TYPICAL NETWORK COMPOSITE METHODOLOGY					
Rate or Revenue Adjustments				Basic Service Revenue	Switched Access Revenue
Service	1Q04	1Q05	1Q06		
IFR	\$1.25	\$1.25	\$1.00	\$107.77M	
IFB	Rate & RG Changes	Rate & RG Changes		\$1.16M	
Non-Rec.	Multiple Elements	Multiple Elements	Multiple Elements	\$16.29M	
Sw. Ac.	(\$50.09M)	(\$43.83M)	(\$31.31M)		(\$125.2 M)
Total				\$125.2 M	(\$125.2 M)

1 See Exhibit SB-1 attached to the revised testimony of BellSouth witness Mr.
2 Steve Bigelow to view more specifically the priceout associated with the
3 typical network composite methodology and see the revised testimony of Mr.
4 Jerry Hendrix for the specifics regarding switched access rate reductions. See
5 also Revised Exhibit JAR-1 attached to my testimony to view the impact of
6 BellSouth's proposal on basic service rates.

7

8 Q. ALTHOUGH BELLSOUTH PROPOSES INCREASING CERTAIN LOCAL
9 EXCHANGE SERVICE RATES, SHOULD CUSTOMERS EXPECT
10 BENEFITS IN THE WAY OF REDUCED LONG DISTANCE RATES?

11

12 A. Yes. Although BellSouth's proposal includes increases in certain local
13 exchange service rates, Section 364.163(2) provides that these same customers
14 can be the recipients of lower long distance rates. Section 364.163(2) requires
15 that telecommunications companies whose rates are reduced due to
16 adjustments in intrastate switched access must decrease their long distance
17 revenues by passing along such reductions to both residential and business
18 customers. Therefore, to the extent that customers are using long distance
19 services provided by telecommunications companies that pay BellSouth
20 switched access charges, BellSouth's proposal will result in lower long
21 distance rates for these customers.

22

23 Q. WILL BELLSOUTH'S PROPOSED INCREASES IN RESIDENTIAL
24 SERVICE RATES IMPACT CURRENT LIFELINE RATES?

25

1 A. No. BellSouth's proposed increases will not impact Lifeline service rates. The
2 recent Florida legislation establishes additional requirements to protect and
3 promote Lifeline participation. Subsection (3) of Section 364.10, Florida
4 Statutes, requires that LECs authorized by the Commission to rebalance rates
5 pursuant to Section 364.164 must provide Lifeline service to any otherwise
6 eligible customer or potential customer who meets an income eligibility test at
7 125 percent or less of the federal poverty income guidelines for Lifeline
8 customers. In addition, LECs must provide each state and federal agency
9 providing Lifeline benefits with brochures, pamphlets, or other material that
10 inform consumers of their eligibility for Lifeline. Further, as clearly stated in
11 Section 364.10(3)(c) "[a]ny local exchange telecommunications company
12 customer receiving Lifeline benefits shall not be subject to any residential
13 basic local telecommunications service rate increases authorized by s. 364.164
14 until the local exchange telecommunications company reaches parity as
15 defined in s. 364.164(5) or until the customer no longer qualifies for the
16 Lifeline benefits established by this section or s. 364.105, or unless otherwise
17 determined by the commission upon petition by a local exchange
18 telecommunications company." As an added element of security for current
19 Lifeline rates, BellSouth voluntarily agrees that customers receiving Lifeline
20 service will not be subject to any residential basic local service rate increases
21 for a period of four years effective September 1, 2003, which is the effective
22 date established for Section 364.10.

23
24
25

1 Q. REGARDING THE SPECIFICS OF BELLSOUTH'S PROPOSAL, WHY
2 DOES BELLSOUTH PROPOSE TO RAISE ONLY RESIDENTIAL AND
3 SINGLE-LINE BUSINESS RECURRING RATES?

4
5 A. First, Section 364.164 was explicitly designed to remove support for basic
6 telecommunications services (residential and single-line business services) by
7 offsetting basic services increases with reductions in intrastate switched access.
8 Specifically, upon the Commission granting a local exchange
9 telecommunications company's petition, Section 364.164(2) of Florida Statutes
10 authorizes the local exchange telecommunications company "to immediately
11 implement a revenue category mechanism consisting of basic local
12 telecommunications service revenues and intrastate switched network access
13 revenues to achieve revenue neutrality." Therefore, this section envisions
14 increases in basic local exchange rates as an offset to reductions in intrastate
15 switched access rates. Second, many of BellSouth's basic local service rates in
16 the state of Florida are being subsidized by other services, including intrastate
17 switched access rates. In a competitive local service environment, it is
18 especially imperative that services cover their own costs and subsidies be
19 removed to the extent possible. It is only through this process that Florida
20 consumers will see the competitive choices envisioned by the
21 Telecommunications Act of 1996 (the "1996 Act").

22
23 Q. WHY IS BELLSOUTH RAISING RATES IN ALL OF ITS RESIDENTIAL
24 LOCAL EXCHANGE RATE GROUPS?

25

1 A. BellSouth is proposing to raise, by the same amount, the rates in all residential
2 rate groups because the rates in all residential rate groups currently fail to
3 cover their underlying cost. The testimony of BellSouth witness Ms. Caldwell
4 explains in detail the current cost characteristics of basic exchange service.
5 Naturally, because it costs more to provide service in rural areas versus urban
6 areas, it will take longer for rates in the rural rate groups to reach the level of
7 their underlying costs than rates in urban rate groups. However, BellSouth is
8 attempting to minimize the rate impact to these more rural customers by
9 proposing to increase their rates at the same level as urban rate groups.
10 Although this process will not reverse the current situation where the least-cost
11 urban customers pay the highest rates and the highest-cost rural customers pay
12 the lowest rates, it moves rates in a direction that will create greater
13 competitive choice for all residential customers.

14

15 Q. COULDN'T BELL SOUTH SIMPLY RAISE BUSINESS RATES AND
16 LEAVE RESIDENTIAL RATES AT CURRENT LEVELS?

17

18 A. No. Business rates, in the majority of cases, already cover their underlying
19 costs as demonstrated in the testimony and exhibits of Ms. Caldwell. Because
20 business rates already cover their costs, there is a significant level of business
21 competition in Florida. In his testimony, Dr. Taylor cites statistics from the
22 FCC's most recent Local Competition Report to demonstrate the level of local
23 exchange competition in the state of Florida for all local exchange companies.
24 Dr. Taylor also describes unevenness in the progress of business versus
25 residential competition. In addition, BellSouth specific data shows that

1 business competition is moving briskly compared to residential competition.
2 For instance, employing the same methodology that was used to demonstrate
3 the level of local competition in BellSouth's FCC long distance application,
4 and updated as of June 2003, data shows that CLECs are serving 13.3% of
5 total residence lines and 34.3% of total business lines in BellSouth's territory
6 in Florida. Importantly, increased competition for residential services will
7 only occur by adjusting residential rates to more closely align with their
8 underlying costs. By making residential rates less dependent on artificial
9 subsidies and more closely aligned with their underlying costs, competitors
10 will find the residential market a more attractive market in which to compete,
11 just as they have found the business market attractive.

12

13 Q. WHY DOESN'T BELLSOUTH SIMPLY PROPOSE TO INCREASE THE
14 RATES IN LARGER URBAN AREAS AND LEAVE RURAL
15 CUSTOMERS' RATES AT CURRENT LEVELS?

16

17 A. Raising urban rates without also raising rural rates would only exacerbate the
18 current situation where the lowest cost customers are charged the highest rates,
19 and the highest cost customers are charged the lowest rates. Maintaining such
20 an imbalance only ensures that rural customers will not receive the full benefits
21 of a competitive marketplace. In order to achieve the goal of Section 364.164
22 and remove current support for basic local telecommunications services, it is
23 necessary to adjust rates in such a way as to remove the most subsidy possible,
24 but in a reasonable manner. Although the greatest subsidy exists in rural rates,

25

1 in order to minimize the impact on rural customers, BellSouth proposes to raise
2 all residential rates by the same amount.

3

4 Q. DOES BELLSOUTH'S PROPOSAL ADDRESS THE FOUR POINTS THE
5 COMMISSION SHOULD CONSIDER UNDER SECTION 364.164?

6

7 A. Yes, definitely. BellSouth's proposal is designed to be consistent with the four
8 considerations outlined in Section 364.164. BellSouth's proposal makes a
9 major stride toward "remov[ing] current support for basic local
10 telecommunications services that prevents the creation of a more attractive
11 competitive local exchange market for the benefit of residential consumers."
12 As evidenced in the testimony and exhibits sponsored by Ms. Caldwell,
13 BellSouth's proposed rate adjustments will more closely align these rates with
14 their underlying costs. As Dr. Taylor and Dr. Gordon describe, more closely
15 aligning residential rates with their relevant costs should "induce enhanced
16 market entry." Further, BellSouth's proposal to reduce its intrastate switched
17 access rates to parity with interstate switched access rates in three increments
18 in not less than twenty-four (24) months is consistent with Section 364.164's
19 requirement that parity be reached "over a period of not less than 2 years or
20 more than 4 years." Finally, BellSouth's proposal is designed to be "revenue
21 neutral within the defined revenue category." Decreases in intrastate switched
22 access rates will be offset by rate adjustments in basic local exchange rates.
23 Clearly, BellSouth's proposal is consistent with the considerations outlined in
24 Section 364.164.

25

1 Q. WHY IS REMOVAL OF SUPPORT FOR BASIC LOCAL
2 TELECOMMUNICATIONS SERVICES GOOD POLICY?

3

4 A. Removal of the current support is good policy for several reasons. First,
5 Section 364.164 reflects the approach taken by Congress in the 1996 Act and
6 the subsequent orders of the FCC in making implicit subsidies explicit.
7 Second, the current system of subsidies cannot be sustained in a competitive
8 environment. New entrants target the subsidy-paying market (business, urban)
9 in order to achieve the higher margins inherent in subsidy-paying services, and
10 are declining to enter the subsidy-receiving markets (residential, rural). Since
11 the CLECs have been successful in attacking these subsidy-paying markets, the
12 support used to benefit residential and higher-cost rural areas is being siphoned
13 out of the system. This creates pressure toward higher rates for the intended
14 beneficiaries of the subsidy. Third, maintaining a system of implicit subsidies
15 deprives residential and rural customers of potential competitive choices. For
16 these reasons, the current system of subsidies is inconsistent with the pro-
17 competitive policies inherent in the current telecommunications law, and,
18 absent political considerations, impels the adoption of rate rebalancing and rate
19 rationalization policies.

20

21 Q. HAS CONGRESS AND THE FCC ADDRESSED REMOVAL OF IMPLICIT
22 SUPPORT FROM LOCAL EXCHANGE SERVICE RATES?

23

24 A. Yes. As a key goal of the 1996 Act, Congress was clear in its intention and
25 desire that implicit subsidies be eliminated in the competitive local exchange

1 market. In addressing universal service under Section 254 of the 1996 Act,
2 Congress requires the FCC and the States to ensure that universal service is
3 available at rates that are just, reasonable and affordable and that any Federal
4 universal service support should be explicit and sufficient to meet universal
5 service goals. Further, a state may adopt regulations to preserve and enhance
6 universal service only to the extent that such regulations adopt specific,
7 predictable and sufficient mechanisms.

8
9 The FCC also addresses the issue of explicit versus implicit universal service
10 support in its rules and regulations implementing the 1996 Act. More recently,
11 as a key factor in its CALLS Order, the FCC addressed head-on the problem of
12 maintaining subsidies in local rates in a competitive environment.

13
14 This “patchwork quilt” of implicit support helped keep rates largely
15 affordable in a monopoly environment where incumbent LECs could be
16 guaranteed an opportunity to earn returns from certain services and
17 customers that are sufficient to support the high cost of providing other
18 services to other customers. The new competitive environment
19 envisioned by the 1996 Act, however, threatens to undermine this
20 implicit support structure over the long run. The 1996 Act removed
21 barriers to entry in the local market, generating competitive pressures
22 that may make it difficult for incumbent LECs to maintain access
23 charges above economic cost. Thus, where existing rules require an
24 incumbent LEC to set access charges above cost for a high-volume
25 user, a competing provider of local service can lease unbundled
network elements at cost, or construct new facilities, thereby
undercutting the incumbent’s access charges. As competition develops,
incumbent LECs may be forced to lower their access charges or lose
market share, in either case jeopardizing the source of revenue that, in
the past, has permitted the incumbent LEC to offer service to other
customers, particularly those in high-cost areas, at below-cost prices.
Incumbent LECs have been claiming that this process has already made

1 more than trivial inroads on their high-volume customer base.²
[footnotes deleted]

2
3 In adopting the CALLS Proposal the FCC noted that “[t]he CALLS Proposal is
4 a reasonable approach for moving toward the Commission’s goals of using
5 competition to bring about cost-based rates, and removing implicit subsidies
6 without jeopardizing universal service.”³ The Florida Legislature, the United
7 States Congress and the FCC have all recognized the necessity to remove
8 implicit subsidies. BellSouth’s proposal for implementing Section 364.164,
9 Florida Statutes is consistent with this goal.

10
11 Q. HOW WILL REMOVAL OF LOCAL SERVICE SUPPORT ENHANCE
12 MARKET ENTRY?

13
14 A. It is clearly true that there will never be competitive alternatives for customers
15 who are receiving service at a price below the relevant cost of providing that
16 service. However, as the price of service to these customers is raised to, and
17 eventually above its relevant costs, such customers become more attractive to
18 competitors. A cynic might observe that a customer receiving service at a
19 below cost rate might be more than willing to keep that rate and have no
20 competitors vying for the customer’s service, rather than having an increased
21 rate and competitive alternative. Unfortunately, that is no longer an option for
22 customers. We now have federal and state policies that advocate competition

23
24 ² *In the Matter of Access Charge Reform, et al.*, CC Docket No. 96-262, et al., *Sixth Report and Order*
in CC Docket No. 96-262 and 94-1, Report and Order in CC Docket No. 99-249 and Eleventh Report
and Order in CC Docket No. 96-45, 15 FCC Red 12962, 12972, ¶ 24 (2000) (“CALLS Order”).

25 ³ *CALLS Order*, 15 FCC Red at 12977, ¶ 36.

1 in every aspect of our business, and conditions have been created by the
2 federal and state governments that make it impossible, in the long run, to
3 continue the social policy of subsidizing residential customers. Given that, the
4 steps that BellSouth proposes, which will ultimately serve to make residential
5 customers more attractive to competitors, will obviously and inevitably induce
6 other competitors to more broadly enter the local exchange markets in Florida.
7 Dr. Taylor and Dr. Gordon discuss this in more detail in their testimony, but
8 the simple truth of the matter is that the situation is as simple as I have stated.
9 Raising local exchange prices to end users makes those end users more
10 attractive to competitors. As long as competition in telecommunications is the
11 national and state policy, such changes are inevitable, and should be
12 approached rationally and with the objective of doing this as efficiently and
13 quickly as possible.

14

15 Q. PLEASE SUMMARIZE YOUR TESTIMONY?

16

17 A. The Florida Legislature has recently enacted new legislation. Section 364.164,
18 when implemented, will help accomplish the national and state goal of
19 removing implicit subsidies that support basic local exchange service, and
20 thereby create a more competitive local exchange market. BellSouth proposes
21 two methodologies for calculating the intrastate switched access revenues to be
22 reduced; the mirroring methodology and the typical network composite
23 methodology. BellSouth proposes a set of basic local exchange rate
24 adjustments that will occur under each of the two methodologies. Importantly,
25 both methodologies accomplish the goal of moving toward removal of implicit

1 subsidies. BellSouth's proposal is entirely consistent with Section 364.164,
2 Florida Statutes. Upon the Commission's selection of one of the two methods
3 for calculating switched access revenue reductions, BellSouth will implement
4 the first increment of revenue neutral reductions and increases effective 1Q04,
5 the second increment effective 1Q05 and the third increment effective 1Q06.

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8

9 A. Yes.

10

11 (#506984)

12

13

14

15

16

17

18

19

20

21

22

23

24

25

Basic Local Service Recurring Rate Changes Using Mirroring Methodology

Rate Group	Current Res. Rate	Res. Rate Effective 1Q04	Res. Rate Effective 1Q05	Res. Rate Effective 1Q06	Current Single Line Bus. Rate	SL Bus. Rate Effective 1Q04	SL Bus. Rate Effective 1Q05
1	\$7.57	\$8.96	\$10.34	\$11.43	\$20.55	\$22.78	\$25.00
2	\$7.98	\$9.37	\$10.75	\$11.84	\$21.58	\$23.29	\$25.00
3	\$8.39	\$9.78	\$11.16	\$12.25	\$22.72	\$23.86	\$25.00
4	\$8.71	\$10.10	\$11.48	\$12.57	\$23.76	\$25.88	\$28.00
5	\$9.12	\$10.51	\$11.89	\$12.98	\$24.75	\$26.38	\$28.00
6	\$9.49	\$10.88	\$12.26	\$13.35	\$25.84	\$26.92	\$28.00
7	\$9.85	\$11.24	\$12.62	\$13.71	\$26.72	\$28.46	\$30.20
8	\$10.16	\$11.55	\$12.93	\$14.02	\$27.61	\$28.91	\$30.20
9	\$10.42	\$11.81	\$13.19	\$14.28	\$28.43	\$29.32	\$30.20
10	\$10.68	\$12.07	\$13.45	\$14.54	\$29.05	\$29.63	\$30.20
11	\$10.83	\$12.22	\$13.60	\$14.69	\$29.68	\$29.94	\$30.20
12	\$11.04	\$12.43	\$13.81	\$14.90	\$30.20	\$30.20	\$30.20
X1	\$8.83	\$10.22	\$11.60	\$12.69	\$23.86	\$25.93	\$28.00
X2	\$11.41	\$12.80	\$14.18	\$15.27	\$30.93	\$30.57	\$30.20
X3	\$11.86	\$13.25	\$14.63	\$15.72	\$32.31	\$31.26	\$30.20
X4	\$10.83	\$12.22	\$13.60	\$14.69	\$29.68	\$29.94	\$30.20

Basic Local Service Recurring Rate Changes Using Typical Network Composite Methodology

Rate Group	Current Res. Rate	Res. Rate Effective 1Q04	Res. Rate Effective 1Q05	Res. Rate Effective 1Q06	Current Single Line Bus. Rate	SL Bus. Rate Effective 1Q04	SL Bus. Rate Effective 1Q05
1	\$7.57	\$8.82	\$10.07	\$11.07	\$20.55	\$22.78	\$25.00
2	\$7.98	\$9.23	\$10.48	\$11.48	\$21.58	\$23.29	\$25.00
3	\$8.39	\$9.64	\$10.89	\$11.89	\$22.72	\$23.86	\$25.00
4	\$8.71	\$9.96	\$11.21	\$12.21	\$23.76	\$25.88	\$28.00
5	\$9.12	\$10.37	\$11.62	\$12.62	\$24.75	\$26.38	\$28.00
6	\$9.49	\$10.74	\$11.99	\$12.99	\$25.84	\$26.92	\$28.00
7	\$9.85	\$11.10	\$12.35	\$13.35	\$26.72	\$28.46	\$30.20
8	\$10.16	\$11.41	\$12.66	\$13.66	\$27.61	\$28.91	\$30.20
9	\$10.42	\$11.67	\$12.92	\$13.92	\$28.43	\$29.32	\$30.20
10	\$10.68	\$11.93	\$13.18	\$14.18	\$29.05	\$29.63	\$30.20
11	\$10.83	\$12.08	\$13.33	\$14.33	\$29.68	\$29.94	\$30.20
12	\$11.04	\$12.29	\$13.54	\$14.54	\$30.20	\$30.20	\$30.20
X1	\$8.83	\$10.08	\$11.33	\$12.33	\$23.86	\$25.93	\$28.00
X2	\$11.41	\$12.66	\$13.91	\$14.91	\$30.93	\$30.57	\$30.20
X3	\$11.86	\$13.11	\$14.36	\$15.36	\$32.31	\$31.26	\$30.20
X4	\$10.83	\$12.08	\$13.33	\$14.33	\$29.68	\$29.94	\$30.20

Nonrecurring Rate Changes

Service Description	Present Rate	Effective 1Q04	Effective 1Q05	Effective1Q06
Line Connection Charge				
Res - 1st Line	\$40.88	\$44.81	\$46.51	\$46.69
Res - Addl Line	\$12.05	\$13.37	\$13.94	\$14.00
Bus SL - 1st	\$56.24	\$62.17	\$64.73	\$65.00
Line Change Charge				
Res - 1st Line	\$23.50	\$26.92	\$28.39	\$28.55
Res - Addl Line	\$11.00	\$13.67	\$14.83	\$14.95
Bus SL - 1st	\$38.16	\$42.08	\$43.77	\$43.95
Secondary Service Charge				
Res - Per Customer Request	\$10.00	\$10.00	\$10.00	\$10.00
Bus SL - Per Customer Request	\$19.00	\$19.00	\$19.00	\$19.00
Premises Work Charge				
Res. - 1st 15 Min	\$25.00	\$25.00	\$25.00	\$25.00
Res - Addl 15 Min.	\$9.00	\$9.00	\$9.00	\$9.00
Bus SL - 1st 15 Min.	\$28.00	\$28.00	\$28.00	\$28.00
Bus SL - Addl 15 Min.	\$9.00	\$9.00	\$9.00	\$9.00