

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2   **REBUTTAL TESTIMONY**

3   **OF**

4   **F. BEN POAG**

5  
6   **Q.    Please state your name and business address.**

7   **A.    My name is F. Ben Poag. I am employed as Director-Regulatory Affairs for Sprint-**  
8           **Florida, Inc. My business mailing address is Post Office Box 2214, Tallahassee,**  
9           **Florida, 32301.**

10  
11   **Q.    What is your business experience and education?**

12   **A.    I have over 35 years experience in the telecommunications industry. I started my**  
13           **career with Southern Bell, where I held positions in Marketing, Engineering, Training,**  
14           **Rates and Tariffs, Public Relations and Regulatory. In May, 1985, I assumed a**  
15           **position with Sprint (United Telephone Company of Florida at the time) as Director-**  
16           **Revenue Planning and Services Pricing. I have held various positions since then, all**  
17           **with regulatory, tariffs, costing and pricing responsibilities. In my current position I**  
18           **am responsible for regulatory matters. I am a graduate of Georgia State University.**

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20   **Q.    Have you previously testified in State Regulatory Proceedings?**

21   **A.    Yes, in various proceedings before this Commission.**

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23   **Q.    What is the purpose of your testimony?**

24   **A.    The purpose of my testimony is to rebut allegations by Messrs. Gabel and Cooper that**  
25           **Sprint's residential consumers will not benefit from creating a more competitive**

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1 market. I do so by reviewing the testimonies of the Sprint customers appearing at the  
2 public hearings held in this proceeding. I have attended two of the hearings in person  
3 and reviewed the transcripts of all of the Sprint customer witnesses. In addition, I am  
4 responding to some of the allegations and contentions made by persons at the public  
5 hearings.

6

7 **Q. Please summarize the results of your review and your observations?**

8 **A.** Based on my review of the transcripts, in total there were only 53 total Sprint  
9 customers providing comments at the Ocala, Orlando, Ft. Myers, Ft. Walton Beach  
10 and Daytona Beach public hearings. To put this in quantitative perspective, we serve  
11 approximately 1.67 million basic service customers. Thus, only a very small  
12 percentage of the total basic service customers attended the hearings and presented  
13 testimony.

14

15 Virtually all of the customers, with only a few exceptions, stated that they did not want  
16 to see their local phone service rates increased. Many stated that they would not  
17 benefit from the toll rate reductions as they use prepaid calling cards or their cell  
18 phones to place their long distance calls. Others indicated they would subscribe to cell  
19 phone service if their local service rates were increased and several customers  
20 indicated that they use the internet rather than place long distance calls. Even though  
21 many indicated that they did not have landline local service competitive alternatives  
22 available, it is significant to note that these customers were knowledgeable of and are  
23 embracing the competitive alternatives that are available to them, i.e., internet, cell  
24 phones and prepaid calling cards.

25

1 **Q. Did any of the customers indicate a desire for landline local service competition?**

2 **A.** Several customers did express a desire for an alternative provider. In fact, one Ft.  
3 Walton Beach area customer actually attempted to get service from a competitive local  
4 provider using the list of competitive companies in the Sprint directory. However,  
5 none of the companies he contacted provided residential local service and one  
6 company indicated they only served business customers with at least six lines.

7  
8 **Q. Well aren't companies such as AT&T and MCI offering competitive services to**  
9 **residential customers?**

10 **A.** Currently, because Sprint's residential basic local service prices are heavily subsidized,  
11 in order for AT&T and MCI to make a profit in the residential market, their offerings  
12 are mainly targeted to the high volume customers that make a lot of toll calls and/or  
13 subscribe to bundles of optional features and take calling plans. The prices for these  
14 bundled local and toll competitive offerings generally are in the \$45.00 plus range.  
15 The targeted customers likely cover their costs and make some contribution to the cost  
16 of other customers. However, as the ILECs lose this more profitable customer base, a  
17 greater share of the cost burden of the carrier-of-last-resort will need to be recovered  
18 from the remaining customers that are being subsidized. It is a mistake to believe that  
19 the current prices and price structures that evolved in a monopoly environment can be  
20 sustained in a competitive market where, logically, competition flourishes in areas  
21 where prices/cost distortion are prevalent. However, consumers will benefit in the long  
22 run when competition is there for the greatest number of customers, not just the high  
23 volume low cost customers. And, it will be a more sustainable competitive market as  
24 competitors will not base investment decisions on transitional pricing signals which  
25 cannot be sustained in the long run.

1 **Q. Since many of the witnesses at the public hearings indicated they would not**  
2 **benefit from intrastate toll reductions because they use their cell phones or**  
3 **calling cards, how will they benefit?**

4 **A.** First, there is a basic misunderstanding that using cell phones to make long distance  
5 calls results in free long distance. Although the cell phone end user does not have to  
6 pay a "toll" charge, the cell phone user is using minutes charged against a package of  
7 minutes or on a per-minute basis. If we accept the economic premise that prices will  
8 move toward costs in a competitive market, then all access purchasers will see their  
9 expenses reduced. As this occurs, these expense reductions will flow through to end  
10 users of toll services, including calling cards and cell phone users. Additionally, when  
11 toll rates are reduced for landline customers, customers using their cell phones to place  
12 long distance calls may, depending on the type plan they have, modify their usage and  
13 place their long distance calls on their land line phones as opposed to paying for  
14 additional cell phone usage.

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16 **Q. Will customers using the prepaid long distance calling cards benefit if the**  
17 **companies petitions are granted?**

18 **A.** Yes. The retail calling cards have a margin built in to cover the cost of the access  
19 charges interexchange long distance carriers (IXCs) incur to originate and terminate  
20 the calls made by the card users. Obviously, as the IXCs access costs are reduced  
21 these cost reductions will flow through to calling card retailers as the IXCs reduce the  
22 price of the wholesale product to compete for the retailer business. The retailers, in  
23 order to compete with the lower priced long distance flow-through rates of the IXCs,  
24 will be forced by the market to reduce the rates for the prepaid cards. Otherwise, with  
25 the decreased long distance rates customers may determine it is not worth the trouble

1 to purchase prepaid cards in lieu of using their land line telephone to originate their  
2 toll calls. Thus, end user customers can benefit if they continue to use the prepaid  
3 calling cards or if they elect to stay home and take advantage of reduced long distance  
4 rates. The margin is very slim in the calling card market and the rates reflect both  
5 interstate and multiple intrastate calling patterns and associated access costs.  
6 Therefore, the level of the access reductions flow through will not be at the same level  
7 as for retail end user rate reductions and will likely not be reflected in the retail prices  
8 until the cost reductions work their way through the competitive bidding process.  
9

10 **Q. Were there any other issues addressed in Sprint-Florida's Petition which**  
11 **customers testified about at the hearings?**

12 **A.** Yes. Multiple customers testified about ECS calling rates/routes in their area and their  
13 desire to see those charges eliminated. Customers can benefit in one of two ways from  
14 granting Sprint's Petition. First, as part of Sprint's proposal, the company will provide  
15 each customer with five free ECS calls each month. Second, Sprint has previously  
16 opened up the dialing plan on all ECS routes within Sprint's local territory and  
17 allowed customers to place ECS calls as toll calls if the customer desires. If the  
18 customer chooses to place the call as an ECS call, then they dial seven or ten digits  
19 and the call is carried and billed by Sprint-Florida as an ECS call. If the customer  
20 dials the call with 1+10 digits, then the call is carried, rated and billed by their  
21 presubscribed toll carrier. Therefore, as IXCs flow through their access reductions to  
22 their toll customers, those customers dialing 1+ over ECS routes will likely see a  
23 reduced toll rate.  
24

25 Several customers also testified that the telecommunications industry is a declining

1 cost industry and therefore, the companies should be providing rate decreases not rate  
2 increases. Given the magnitude of the current differential between cost and price for  
3 residential basic local service, declining cost does not seem to be a relevant issue.  
4 Further, prices for Sprint's basic local services have increased by only a .6% annual  
5 average over the last 10 years. In this same period, the consumer price index has  
6 increased more than four times the average rate of increase for basic local service  
7 prices.

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9 **Q. Does that conclude your testimony?**

10 **A. Yes.**

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