

ORIGINAL



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November 19, 2003

Ms. Blanca S. Bayó, Director  
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& Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
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FPSC

Re: Docket No. 030867-TL, 030868-TL, 030869-TL, & 030961-TI

Dear Ms. Bayó:

Enclosed for filing on behalf of Sprint LP are the original and 15 copies of the redacted version of Emeric W. Kapka's Direct Testimony and 15 copies of Sprint Communications Company, Limited Partnership's Request for Confidential Classification and Protective Order Pursuant to Section 364.1863(1), Florida Statutes.

Copies are being served on the parties in this docket via Electronic and U.S. mail pursuant to the attached certificate of service.

Please acknowledge receipt of this filing by stamping and initialing a copy of this letter and returning same to my assistant. If you have any questions, please do not hesitate to call me at 850/599-1560.

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Sincerely,

*Charles J. Rehwinkel /ssm*

Charles J. Rehwinkel

Enclosure

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CAF \_\_\_\_\_  
CMP \_\_\_\_\_  
SOM *5 + org*  
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**CERTIFICATE OF SERVICE**  
**DOCKET NO. 030867-TL, 030868-TL, 030869-TL, & 030961-TI**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served by electronic and U.S. Mail this 19<sup>th</sup> day of November to the following:

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1                                   **BEFORE THE PUBLIC SERVICE COMMISSION**

2                                   **DIRECT TESTIMONY**

3                                   **OF**

4                                   **EMERIC W. KAPKA**

5   **I.       INTRODUCTION**

6  
7   **Q.       Please state your name, occupation and business address.**

8   **A.**    My name is Emeric W. Kapka. I am employed as Director – Access Development for  
9           Sprint Corporation. My business address is 6360 Sprint Parkway, Overland Park,  
10          Kansas 66251.

11  
12   **Q.       Please describe your educational background and business experience.**

13   **A.**    I received a Master of Arts degree in Economics from Cleveland State University in  
14           1982 and a Bachelor of Arts degree from the same university in 1980. I have been in  
15           my present position since May, 2003. My current responsibilities include identifying  
16           and developing tactical implementation plans to lower Sprint's access expense,  
17           especially in states such as Florida, with high access charge rates. Additionally, I am  
18           responsible for developing access management processes for securing low cost, high  
19           value access connections in Sprint's offshore markets, including Europe and Asia.  
20           Previously, I was the director of special pricing for Sprint Business, the Sprint  
21           business unit charged with meeting the service needs of Sprint's larger customers. In  
22           that position I was responsible for developing pricing and negotiation of special  
23           contracts with some of Sprint's largest retail and wholesale customers. I have held  
24           numerous management positions within Sprint's local and long distance companies  
25           during my 19 year career. I began my regulatory career with the Indiana Public

1 Service Commission in 1983 where I worked as a financial analyst, testifying on  
2 financial, economic and policy issues in rate proceedings. Previously, I worked at the  
3 Indiana Department of Commerce as an economic analyst. I have testified and been  
4 involved in regulatory proceedings at the FCC and in numerous states.

5

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

7 **A.** The purpose of my testimony is to respond to the Commission's list of issues  
8 associated with long distance pricing and "flow-through." I provide information on  
9 the practical functioning of the very competitive long distance market and on how the  
10 Commission should measure flow-through. In my testimony, I explain why the  
11 Commission should rest assured that the competitive marketplace will ensure that the  
12 benefits of lower access charges will flow to Florida residential and business  
13 customers. In my testimony, I also address several specific issues raised by the  
14 Florida Commission in its November 10th Order.

15

16 **Q. How would you characterize the long distance market in Florida?**

17 **A.** There are hundreds of competitive providers of long distance services in Florida.  
18 Many of these competitors are small, niche providers but many others are well  
19 established with well known brands, including AT&T, MCI, Qwest, Sprint, BellSouth  
20 and Verizon. Additionally, wireless carriers such as Cingular, AT&T Wireless,  
21 Verizon Wireless, Sprint PCS and NexTel bundle long distance in their business and  
22 consumer calling plans. Residential and business users can easily switch among long  
23 distance providers.

24 During the past several years, long distance prices in the United States have declined  
25 far in excess of access charge reductions as a result of a very competitive industry.

1 Florida consumers of intrastate long distance calling have also benefited from the  
2 competitive situation in long distance. In Sprint's last flow-through filing associated  
3 with the 1998 access charge reductions, Sprint was able to demonstrate a considerable  
4 reduction in residential rates. Based on data filed at that time, Sprint reduced prices on  
5 consumer minutes by approximately twice the access charge reduction. Those prices  
6 have continued to trend down, even absent a further reduction in access rates. In  
7 comparison to national average prices, however, Florida prices have not declined by as  
8 much as national prices because access charges are so much higher in Florida  
9 compared to nationally.

10  
11 There are numerous differentiated providers of long distance service in Florida but all  
12 of them must recover their costs (at least in the long run) and the single largest cost  
13 component for a long distance minute in Florida remains access charges. The large  
14 number of suppliers of long distance service in Florida tends to ensure that no one  
15 supplier has sufficient market power to control price. And as long distance providers  
16 actually experience access cost reductions, the competitive process and the existence  
17 of the large number of strong, well established providers ensures that the access cost  
18 reductions are flowed through to users of long distance service.

19  
20 **Q. Do other states have a flow-through requirement?**

21 **A.** The situation varies from state to state. Sprint's experience is that it does not matter  
22 whether a state mandates flow-through. The long distance market, because it is so  
23 competitive, assures that cost reductions in the form of access reductions are reflected  
24 in the prices users actually pay for service.

25

1    **Q.    In the context of this proceeding, has Sprint quantified the reductions in access**  
2       **expense it would receive if the ILECs petitions are granted?**

3    **A.**    Calculating an exact impact of access expense reductions that any interexchange  
4       carrier would receive from the proposed access reductions is not possible at this time.  
5       Such an analysis would require application of individual access rate elements for each  
6       of the three ILECs to current units for each interexchange carrier.  Furthermore, it is  
7       my understanding that the ILECs' access rate reductions are subject to updates upon  
8       Commission approval of their petitions to reflect the latest 12 months unit information.  
9       However, Sprint has developed a preliminary estimate of the access expense savings it  
10      would receive if the intrastate access rates of BellSouth, Verizon and Sprint-Florida  
11      were reduced to parity with their interstate access rates.

12  
13   **Q.    Could you briefly review Sprint's calculation of the estimated access expense**  
14       **savings it would receive if the ILEC's petitions are approved?**

15   **A.**    I have attached Exhibit EWK-1 to my testimony which provides Sprint's estimated  
16       access savings from the proposed access reductions of the ILECs.  Sprint developed  
17       this estimate utilizing its own access minute information in each of the three ILEC  
18       territories and applying the per minute access rate reduction for each of the ILECs.  
19       Sprint's preliminary estimate of its access expense savings is \$XXX.  This represents  
20       Sprint's best estimate of the potential impact at this time, knowing that the estimate  
21       will be refined based on a more complete analysis of the final access rate changes by  
22       the ILECs and based on most recent access usage information for Sprint.  Sprint's  
23       eventual access expense savings realized over the three-phase implementation period  
24       will most certainly be different from this preliminary estimate.

25

1    **Q.    Can you describe how this amount will be flowed through to Sprint's residential**  
2           **and business customers?**

3    **A.**    A flow-through plan requires a detailed analysis of many factors including the access  
4           reductions and specific information about the company's entire portfolio of services  
5           across all of its customer segments. The timeframes associated with this proceeding  
6           preclude Sprint from developed a detailed plan of the price changes to accomplish its  
7           flow-through requirement at this time. Development of Sprint's plan would begin  
8           with the access reduction amount. Sprint will then convert the revenue reduction  
9           needed to achieve the flow-through requirement to a per minute of use basis. Sprint  
10          will then identify the specific pricing changes needed to reflect the lower average  
11          revenue per minute target across its customer segments. Generally, the flow-through  
12          will be proportional to the access savings associated with each segment.

13  
14   **Q.    Turning now to the Commission's issues. Issue 6. Which IXCs should be**  
15           **required to file tariffs to flow-through Bellsouth's, Verizon's, and Sprint-**  
16           **Florida's switched access reductions, if approved, and what should be included in**  
17           **these tariff filings?**

18   **A.**    In the intensely competitive long distance market, it is somewhat anachronistic to  
19           mandate that IXCs make tariff support filings indicating how they reduce long  
20           distance prices. Nevertheless, Sprint recommends that any IXC with over \$1 M in  
21           annual switched access expense be required to file tariffs in support of the flow-  
22           through obligation. As far as what information to include in the filing, Sprint  
23           recommends that each carrier required to file a flow-through tariff meet with the  
24           Commission Staff and explain the particular approach that carrier plans to take. The  
25           Commission should not attempt to mandate some sort of cookie cutter approach but



1           rather leave it up to the competitive market to determine what particular approach  
2           makes sense to each provider, and in turn to each provider's customer base.

3  
4           The flow-through showing required of AT&T, MCI and Sprint during the 1998 access  
5           rate reductions would be the basis for the instant showing. In that flow-through  
6           proceeding, each of the flow-through participants met with Staff and shared specific  
7           price reductions, including financial analysis of the impact of those price reductions.  
8           In this way, the regulatory process did not attempt to mandate specific price reductions  
9           to specific individual customers but rather permitted the market process, which has  
10          shown that it is the most capable mechanism for establishing prices in a competitive  
11          environment, to largely determine what shape the price reductions took. This flow-  
12          through process also ensured that IXC confidentiality was maintained while affording  
13          the Staff the opportunity to ascertain and review the projected flow-through benefits  
14          prior to any actual price changes being filed.

15  
16   **Q.    Commission Issue 7. If the ILEC access rate reductions are approved, should the**  
17   **IXCs be required to flow-through the benefits of such reductions, via the tariffs,**  
18   **simultaneously with the approved ILEC access rate reductions?**

19   **A.**    As a practical matter, those providers required to file flow-through tariffs, will need to  
20          determine the impact of the access rate reductions on their particular access demand  
21          prior to filing the price changes. Providers should have the benefit of determining the  
22          exact access rates by ILEC to determine the precise unit cost reduction associated with  
23          the access charge changes. As already noted, long distance is a highly competitive  
24          industry, with many calling plans designed to meet the needs of specific customer  
25          segments. The Commission should not attempt to curtail the ability of providers to

1 respond to their individual customer segments with some kind of across the board  
2 reduction which is what the providers would be forced to offer if sufficient time is not  
3 allotted to them. Sprint recommends that each provider required to file a flow-through  
4 showing, have 60 days from the tariff effective date of the ILEC access rate changes to  
5 make its showing and for rates to be implemented afterwards. This 60 day period will  
6 enable all of those providers required to make a filing to meet with Staff and for Staff  
7 to review the proposed price changes. Anything less than 60 days will likely result in  
8 insufficient review of access reductions and could result in carriers filing price  
9 reductions which they are then forced to retract and adjust, which will cause more  
10 consumer confusion.

11

12 **Q. Issue 8. For each access rate reduction that an IXC receives, how long should the**  
13 **associated revenue reduction last?**

14 **A.** Sprint recommends each provider required to make a flow-through filing reduce  
15 average prices by an amount at least equivalent to the access reduction on a per minute  
16 basis and maintain those average price reductions for all three years of the access  
17 reductions plus at least one additional year. I describe the mechanics of determining  
18 average prices in response to Issue 9 below. During the period of access reductions,  
19 carriers must however continue to have the ability to change prices for individual  
20 products and/or introduce new products. The competitive forces in the long distance  
21 market are simply too dynamic for any carrier to be expected to “freeze” their entire  
22 portfolio of prices and plans for an entire twelve months or longer. Monitoring of the  
23 average revenue per minute annually through the period of the access reductions, and  
24 for one additional twelve month period, coupled with the competitive aspects of the  
25 market, will ensure that long distance customers receive the benefits of the access

1 reductions.

2

3 **Q. Issue 9. How should the IXC flow-through of the benefits from the ILEC access**  
4 **rate reductions be allocated between residential and business customers?**

5 **A.** Sprint first notes that the terms residential and business are increasingly losing their  
6 relevance. For example, is a consultant who works out of her home a business or  
7 residential customer for purposes of this issue? Is a consumer who makes a toll-free  
8 call to a state agency a residential or business customer? If Sprint provides a  
9 wholesale customer a minute of long distance and that customer then resells to a  
10 residential customer, should that minute be categorized as a residential or business  
11 minute? Increasingly the notion of a residential or business customer is being replaced  
12 with the more precise term of "customer." For purposes of the flow-through,  
13 attempting to disaggregate and categorize numerous calling plans and products which  
14 are used by both business and residential customers in such a competitive market will  
15 prove difficult at best and impossible at worst. Therefore, Sprint recommends the  
16 following approach. For services which are substantially used by residential  
17 subscribed customers, Sprint would determine the average revenue per minute for  
18 these services in the aggregate. With each reduction in access charges, Sprint would  
19 adjust the average revenue per minute for this base of customers such that the average  
20 revenue per minute would be reduced by an amount at least equal to the reduction in  
21 access charges per minute. As an example, assume that the average revenue per  
22 minute associated with these services is 15 cents per minute and that the access costs  
23 associated with these services is presently 8 cents per minute. If access costs per  
24 minute decline from 8 cents per minute to 4 cents per minute (on a billed revenue  
25 basis), then Sprint would reduce prices for this base of customers by the delta, 4 cents

1 per minute, to at least 11 cents per minute. This general approach will ensure that the  
2 residential subscriber base will experience a reduction in long distance prices at a level  
3 at least as much as the reduction in access costs associated with the long distance  
4 minutes that customer segment consumes.

5

6 **Q. Can you provide an estimate of the expected flow-through to Sprint's residential**  
7 **customers?**

8 **A.** With consideration of the increasing difficulty in segmenting customers, Sprint  
9 estimates that approximately XX percent of its intrastate long distance services are  
10 provided to subscribed residential customers. Of course residential customers utilize  
11 other non-subscribed Sprint services, including Sprint business services such as toll-  
12 free, wireless services of Sprint and other wireless providers and wholesale services  
13 which Sprint sells to resellers and others. All of these other services would experience  
14 a flow-through price reduction in rough proportion to the switched access reduction  
15 associated with each service category. Sprint's intention in its flow-through plan  
16 would be to target price changes and product introductions to provide an equitable  
17 portion of its flow-through obligation to residential customers.

18

19 **Q. Issue 10. Will all residential and business customers experience a reduction in**  
20 **their long distance bills? If not, which residential and business customers will**  
21 **and will not experience a reduction in their long distance bills?**

22 **A.** The short answer is that there will be some residential and business customers in any  
23 month who will not experience a price reduction, for the obvious reason that a  
24 customer would have to make long distance calls to experience a price reduction. But  
25 generally, customers making long distance calls will experience a price reduction.

1           Furthermore, customers who are being charged an in-state access connection fee by  
2           Sprint will see a monthly reduction (and therefore a benefit) of \$1.99. Some  
3           customers who do not make billed long distance calls will experience benefits. For  
4           example, the reductions in access costs will flow-through to commercial and  
5           government providers of toll free service. Government agencies who provide toll free  
6           service to consumers will experience a reduction in the cost of providing toll free  
7           service, enabling these agencies to increase the number of toll-free lines established  
8           for consumer calls, which will increase the quality and level of toll free service. So  
9           even for a consumer not incurring any billed charges, the indirect benefit of the access  
10          reduction can be experienced via the improvement in quality and level of service.

11

12   **Q.    Does this conclude your testimony?**

13   **A.    Yes.**

14

15

**SPRINT COMMUNICATIONS COMPANY L.P.  
ESTIMATED ACCESS SAVINGS**

A	B	C	D	E	F
	Current Intrastate Cost per Minute	Estimated Intrastate Access Rate *	Rate Difference	Annual Intrastate Access Minutes	Estimated Intrastate Access Savings
1	BellSouth	\$0.022910	\$0.008419	\$ 0.014491	
2	Verizon	\$0.048850	\$0.011704	\$ 0.037146	
3	Sprint-Florida	\$0.048880	\$0.012852	\$ 0.036028	
4					

\* Based on ILEC filings