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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Flow-through of LEC switched access reductions by IXCs, pursuant to Section 364.163(2), Florida Statutes.

DOCKET NO. 030961-TI

In re: Petition by Verizon Florida Inc. to reform intrastate network access and basic local telecommunications rates in accordance with Section 364.164, Florida Statutes.

DOCKET NO. 030867-TL

In re: Petition by Sprint-Florida, Incorporated to reduce intrastate switched network access rates to interstate parity in revenue-neutral manner pursuant to Section 364.164(1), Florida Statutes.

DOCKET NO. 030868-TL

In re: Petition for implementation of Section 364.164, Florida Statutes, by rebalancing rates in a revenue-neutral manner through decreases in intrastate switched access charges with offsetting rate adjustments for basic services, by BellSouth Telecommunications, Inc.

DOCKET NO. 030869-TL

Filed: November 19, 2003

DECLASSIFIED

dm
9/4/05

**DIRECT TESTIMONY OF
RICHARD T. GUEPE**

PROPRIETARY VERSION

**ON BEHALF OF
AT&T COMMUNICATIONS OF THE SOUTHERN STATES, LLC**

November 19, 2003

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dedas 9-4-05 appeal

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1 in outside plant engineering, buildings, and real estate, investment separations
2 and division of revenues. At divestiture (1/1/84), I transferred to AT&T where I
3 have held numerous management positions in Atlanta, Georgia, and Basking
4 Ridge, New Jersey, with responsibilities for investment separations, analysis of
5 access charges and tariffs, training development, financial analysis and
6 budgeting, strategic planning, regulatory issue management, product
7 implementation, strategic pricing, docket management activities and unbundled
8 network element cost case support.

9
10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE PUBLIC**
11 **SERVICE COMMISSION?**

12 A. Yes, I have testified on behalf of AT&T in Florida, Georgia, Alabama,
13 Tennessee, North Carolina, Mississippi, and South Carolina on product
14 implementation issues, access and pricing issues, and policy issues.

15
16 **Q. WHAT ISSUES DOES YOUR TESTIMONY ADDRESS?**

17 A. My testimony addresses Issues 6, 7, 8, 9 & 10.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. The purpose of my testimony is to provide AT&T's position on the access flow
21 through requirements of the Tele-Competition Act of 2003 ("the 2003 Act"), and
22 provide an overview of how AT&T will flow through the benefits it receives
23 from the ILEC access reductions, should they be approved, to Florida

1 consumers.

2
3 **REQUIREMENTS OF THE 2003 ACT**

4 **Q. HOW DOES THE LEGISLATION ADDRESS THE FLOW THROUGH OF**
5 **ACCESS CHARGES?**

6 A. Section 364.163(2), Florida Statutes, states:

7 Any interexchange telecommunications company whose intrastate
8 switched network access rate is reduced as a result of the rate
9 adjustments made by a local exchange telecommunications company in
10 accordance with Section 364.164, Florida Statutes, shall decrease its
11 intrastate long distance revenues by the amount necessary to return the
12 benefits of such reduction to both its residential and business customers.
13 The interexchange telecommunications company may determine the
14 specific intrastate rates to be decreased, provided that residential and
15 business customers benefit from the rate decreases.

16
17 **Q. ARE ALL INTEREXCHANGE COMPANIES (IXCs) REQUIRED TO FLOW**
18 **THROUGH ACCESS CHARGE REDUCTIONS?**

19 A. Yes. Each IXC that receives a reduction in access charges is required to reduce
20 its revenues to flow the benefits of the access reductions to its customers; the
21 legislation does not identify any exceptions to the flow through requirement. All
22 IXCs should be required to flow through the switched access reductions they
23 receive in order to keep long distance carriers on a level playing field. The long
24 distance market is highly competitive and to allow some companies an
25 exemption to the flow through requirements would be discriminatory. For
26 competitive neutrality, any flow through conditions imposed must be applied to

1 all IXCs. However, AT&T would not oppose a de minimis threshold established
2 by the Commission for those IXCs for which the flow through would have no
3 meaningful impact. This threshold should be set sufficiently low to allow only
4 those IXCs with very low volume of access use to qualify.

5
6 **Q. DOES THE 2003 ACT GIVE DIRECTIONS AS TO HOW THE FLOW**
7 **THROUGH SHOULD BE ACCOMPLISHED?**

8 A. Yes. The 2003 Act requires that the benefits of the access reductions be flowed
9 through to both residential and business customers, and requires the elimination
10 of any in-state connection or similar fee by July 1, 2006. However, consistent
11 with the deregulatory framework established for IXCs, the 2003 Act does not
12 mandate any specific allocation of flow through benefits between business and
13 residential customers. By taking this path, the legislature has recognized the
14 highly competitive nature of the long distance market and has allowed
15 competitive market forces to determine how and when the benefits are passed to
16 consumers. Doing anything more than what the statute provides would be
17 micromanaging the long distance industry and would be inconsistent with the
18 Telecompetition Act's deregulatory objectives.

19
20 **Q. CAN YOU GIVE EXAMPLES OF HOW THE REQUIREMENTS OF THE**
21 **STATUTE CAN BE MET BY IXCs?**

22 A. Yes. The Act allows IXCs to flow through the benefits of the ILEC access
23 reductions via reductions to existing tariffed services, offering lower priced

1 promotions to customers, introducing new services, and moving existing
2 customers to lower priced plans.

3
4 **Q. WHEN IXCs IMPLEMENT SUCH CHANGES, WHAT INFORMATION**
5 **SHOULD ACCOMPANY THE FILING?**

6 A. At most, an IXC should have to provide the estimated financial impact of the
7 filing to the company. The statute does not create added regulatory burdens on
8 IXCs nor should it be used to impose additional regulatory requirements. The
9 Commission has ample means to verify the IXCs' compliance with the statute
10 without requiring burdensome, upfront filings with detailed information..

11
12 **Q. IS IT NECESSARY FOR IXCs TO FILE TARIFFS TO BE EFFECTIVE**
13 **SIMULTANEOUSLY WITH THE ILEC ACCESS REDUCTIONS?**

14 A. It is unnecessary to set the exact same filing dates for both the ILECs and IXCs.
15 The statute clearly requires the IXC's revenues to be reduced by the amount of
16 access reductions it receives. The statute does not specify a timeframe.

17 IXCs need a sufficient amount of time to both calculate the savings they
18 will receive and to prepare tariffs for filing. AT&T suggests IXCs be allowed 60
19 days from the ILEC filing date of access tariff revisions to file any tariff
20 revisions for flow through. If the Commission chooses to mandate the ILEC and
21 IXC tariffs be effective simultaneously, AT&T requests that the ILEC access
22 tariff revisions be filed 60 days in advance of the effective date so that IXCs have
23 the time necessary to conduct their analysis and file their tariffs.

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Q. IS IT NECESSARY TO RESTRICT IXC PRICES FOR THE SERVICES THAT RECEIVE PRICE REDUCTIONS TO IMPLEMENT THE FLOW THROUGH?

A. No. The Florida Legislature and this Commission recognize that the interexchange long distance market is highly competitive. In such a market individual companies face a great risk of losing customers should they attempt to increase prices. IXC customers have multiple choices of providers with each trying to win customers and maintain customer loyalty. This is what real competition does, and does better than artificial market control through regulation when none is required. As the commission staff noted in its October 22, 2003 recommendation in Docket No. 030961 regarding its proposals for flow through, such restrictions have been unnecessary in the past and could have negative consequences:

As the long distance market is highly competitive, imposing any restriction on the length of time a revenue reduction is in place could place the IXCs at a disadvantage. Imposing a time mandate could prevent an IXC from implementing a pricing strategy that maximizes its competitive position.

Should the Commission mandate a period of time over which the IXC reductions are to be maintained, this would be the first time such a mandate has been imposed. In prior IXC access reduction flow throughs identified earlier in this recommendation, the Commission did not impose a period of time that the rate reductions must be in place.

1 Over the past years, long distance competition has continually driven
2 down IXC prices and there is no reason to think this trend would not continue¹,
3 given the access reductions proposed by the ILECs.
4

5 **Q. DOES THE 2003 ACT GIVE ANY DIRECTION TO HOW THE BENEFITS**
6 **OF THE ILEC ACCESS REDUCTIONS ARE TO BE ALLOCATED TO**
7 **RESIDENTIAL AND BUSINESS CUSTOMERS?**

8 A. Yes. The 2003 Act simply requires the benefits of access reductions be returned
9 to both residential and business customers. However, it does not micromanage
10 the IXC market by mandating a methodology or specific allocation. In doing so,
11 the Act recognizes the competitive market is the best determinant of the specifics
12 of the access flow through. The 2003 Act has given IXCs the maximum
13 flexibility to make reductions that meet the needs of the market place. A
14 company should be able to reduce rates based on its particular customer base. If
15 a company provides primarily business services, it should be able to reduce rates
16 primarily to its business customers. Likewise if a company primarily provides
17 residential service, it should be able to reduce residential rates with the vast
18 majority of the access reductions it receives. In order to gain larger market
19 share in a particular market segment, a company should have the flexibility to
20 reduce either residential or business rates in order to execute its own business
21 plans. However, as I previously mentioned, the Act does provide that “any in-
22 state connection fee or similar named fee should be eliminated by July 1,

¹ If the long distance market were to be remonopolized this would jeopardize this trend.

1 2006...". These fees are generally applied to residential customers, thus
2 guaranteeing a reduction for residential customers of this amount, regardless of
3 the actual relative benefits of the access reduction between business and
4 residence customers.

5

1 **AT&T METHODOLOGY**

2
3 **Q. HOW DOES AT&T DETERMINE IT'S ACCESS FLOW THROUGH**
4 **OBLIGATION?**

5 A. AT&T generally determines the total amount of any access flow through based
6 on the following process:

7 ➤ AT&T calculates its change in its access unit cost by service segment. This is
8 based on the existing access tariff rates and the filed and approved "new"
9 access rates of all local exchange carriers. This unit cost change is
10 determined by AT&T's access management organization at the time the new
11 rates are approved.

12 ➤ Next the change in unit costs is provided to the AT&T Consumer Services
13 business unit and the AT&T Business Services business unit. The pricing
14 organizations within each of these business units take the unit cost changes
15 and demand data (minutes of use) to determine the impact of the cost
16 changes on the various services they offer.

17 ➤ The total access reduction for AT&T is the sum of the cost savings calculated
18 for each segment of the business at the time the reduction is made.

19
20 **Q. USING THE ILLUSTRATIVE TARIFF CHANGES PROPOSED BY**
21 **BELLSOUTH, SPRINT AND VERIZON, WHAT ARE THE RESULTS OF**
22 **THE ABOVE DESCRIBED METHODOLOGY?**

23 A. First, in order to make calculations based on the methodology described above,

1 AT&T must make certain assumptions regarding the outcome of the petitions
2 pending before the Commission. Assuming the “mirroring” methodology
3 proposed by BellSouth, and the Sprint and Verizon proposals were approved as
4 filed, the total access cost reductions to AT&T that result from the first year
5 access reductions proposed by these ILECs is approximately *****BEGIN**
6 **PROPRIETARY*** \$40.29M ***END PROPRIETARY***.**

7 I should add that AT&T, as pointed out in AT&T witness Fontiex’s
8 testimony, does not believe Verizon has met the parity requirements of the Act
9 and, therefore, the total reduction will be different from the above numbers
10 when they are in compliance.

11
12 **Q. HOW WILL AT&T ALLOCATE THE ACCESS FLOW THROUGH TO**
13 **RESIDENCE AND BUSINESS CUSTOMERS?**

14 A. In the event the ILEC’s receive permission to reduce their intrastate switched
15 access to parity with interstate switched access over the time period proposed in
16 their filings, AT&T proposes the following illustrative initial reductions.

17 AT&T Consumer Services will reduce *****BEGIN PROPRIETARY*** its in-**
18 **state connection fee by 33% (\$.63) ***END PROPRIETARY***.** This amounts
19 to a *****BEGIN PROPRIETARY*** \$11.9M ***END PROPRIETARY*****
20 revenue reduction.

21 AT&T Business Services will reduce its rates by *****BEGIN PROPRIETARY*****
22 **\$28.45M ***END PROPRIETARY***.** This reduction will be allocated to its
23 market segments – Signature Client Group, Enterprise segment, Mid-Markets

1 segment, and Small Business segment – based on the relative volumes in each of
2 these segments.

3
4 **Q. WILL ALL RESIDENTIAL AND BUSINESS CUSTOMERS EXPERIENCE A**
5 **REDUCTION IN THEIR LONG DISTANCE BILLS?**

6 A. All AT&T residential customers paying the instate connection fee will experience
7 a reduction in their long distance bills immediately upon the effective date of the
8 IXC tariff revisions through the reduction of the in-state connection fee.
9 Residential customers will continue to receive reductions until the instate
10 connection fee is eliminated by July 2006. As I indicated previously, a significant
11 part of that reduction will take place in year one. This will result in an
12 immediate long distance benefit to the *****BEGIN PROPRIETARY*** 1.5**
13 **million ***END PROPRIETARY***** AT&T long distance residential customers
14 in the state of Florida.

15 All classes of AT&T's business customers will receive reductions. This
16 includes the Signature Client Group, the Enterprise segment, the Mid-Markets
17 segment, and the Small Business segment . It is possible that a business
18 customer may be on a service that does not receive a reduction. This customer
19 may choose to switch AT&T plans or even switch to another carrier that offers a
20 competitive service. The nature of the long distance market provides the
21 customer the opportunity to vote with his or her feet, an opportunity that is not
22 currently available to many local customers in the state of Florida. Importantly,
23 the statute does not require that every customer receive a long distance benefit.

1 It requires that IXCs reduce their revenues in an amount equal to the access
2 reductions they receive. Most long distance users will see lower long distance
3 rates, but not every customer will see a long distance reduction. As discussed in
4 more detail in Dr. John Mayo's testimony, customers will see other important
5 benefits if the petitions are approved.

6
7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A. Yes.**