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November 19, 2003

BY HAND DELIVERY
Ms. Blanca Bayó, Director
Division of Records and Reporting
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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

Dear Ms. Bayó:

Enclosed for filing on behalf of AT&T Communications of the Southern States, LLC and MCI WorldCom Communications, Inc. are an original and one copy of John W. Mayo's Direct Testimony in the above referenced dockets.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,

Floyd R. Self

FRS/amb
Enclosures
cc: Parties of Record

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SEC 1
OTH ___

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served on the following parties by U. S. Mail this 19th day of November, 2003.

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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

REBUTTAL TESTIMONY OF

DR. JOHN W. MAYO

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, LLC

AND

MCI WORLDCOM COMMUNICATIONS, INC.

NOVEMBER 19, 2003

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John W. Mayo. My business address is Georgetown University, McDonough School of Business, 37^{th} and O Streets, N.W., Washington, D.C. 20057.

Q. ARE YOU THE SAME JOHN MAYO THAT PROVIDED TESTIMONY EARLIER IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to offer comments and clarification on the testimony offered by Dr. David Gabel (testifying on behalf of the Office of Public Counsel) and Dr. Mark Cooper (testifying on behalf of AARP).

Q. AVOIDING FOR THE MOMENT THE NUANCES OF THEIR TESTIMONIES, ARE THERE GENERAL DIFFERENCES IN THE APPROACHES ADOPTED BY DR. GABEL, DR. COOPER AND YOURSELF?

A. Yes. I believe that we all are interested in the goal of furthering competition in the residential telecommunications markets in Florida. The big question is what is the best way to proceed to accomplish that goal while either enhancing – or at least not sacrificing – other goals. My approach toward this issue is that the matter of residential rates for long distance and local exchange services must be considered as part of a larger effort, necessitated by both the federal Telecommunications Act of 1996 ("1996 Act") and the Florida Tele-Competition Innovation and Infrastructure Enhancement Act ("2003 Act"), to enable competition through policies that will ensure full, open, efficiently priced and nondiscriminatory access to inputs and compensatory retail prices. Although a bit of a caricature, the spirit behind the testimony of Drs. Gabel and Cooper seems to be "business as usual" which, as I explained in my initial testimony is contrary to the competition-enabling mandate of the 1996 Telecommunications Act.

Q. TURNING SPECIFICALLY TO DR. GABEL'S TESTIMONY, WHAT ARE HIS PRINCIPAL POINTS?

A. He argues that: (1) the ILECs use the wrong cost standard for satisfying the statutory test laid out in the Tele-Competition Act and that by application of the correct cost standard the ILECs' demonstration of the statutory test fails; and (2) that there is little or no evidence that rebalancing will stimulate entry.

Q. TURNING TO THE FIRST OF DR. GABEL'S ARGUMENTS, HOW DOES HE PURPORT TO SHOW THAT THE ILECS HAVE FAILED TO SATISFY THE STATUTORY REQUIREMENT FOR REBALANCING?

A. Dr. Gabel provides an extended discussion of the ILECs' cost methodologies, which are based upon estimates of the Total Element Long Run Incremental Costs (TELRIC) in Florida, and why, he believes, reliance on this cost methodology is inappropriate. Specifically, he argues that the Commission should, instead, rely upon an alternative methodology, Total Service Long Run Incremental Costs (TSLRIC), in determining whether the statutory test is satisfied.

Q. ARE YOU PERSUADED BY DR. GABEL'S DISCUSSION ON THIS POINT?

A. No. It suffers on several grounds. Most fundamentally, the debate about "this" versus "that" cost methodology almost certainly misses a more significant point. Specifically, Dr. Gabel wishes to show that today's retail prices in Florida, while less than TELRIC, lie above a measure of TSLRIC. The conclusion that Dr. Gabel draws from this is that there is no subsidy going to local exchange service and, consequently, the petitions necessarily fail to demonstrate that the rebalancing will remove "current support."

Q. WHY IS THERE A PROBLEM WITH DR. GABEL'S APPROACH?

A. Dr. Gabel's detailed analysis of the costing methodology is incongruous with the way in which prices in this industry have been set. Specifically, as described in my initial testimony, local exchange telephone rates have not, except in the most surreal sense, been predicated on the cost of providing such service. Rather, mark-ups on non-basic services, on switched access and long-distance services have traditionally been set at rates to generate high contributions and then local residential rates have been set residually. Thus, regardless of the relationship of current rates to a cost benchmark, the fact remains that the method of residential pricing has historically been residually determined and not based on costs. Thus, reductions in switched access charges, with a commensurate rebalancing of local exchange rates do – unequivocally – "remove current support for basic local telecommunications services" as required by the 2003 statute.

Q. ACCEPTING FOR THE MOMENT THE VALIDITY OF HIS ALTERNATIVE COST APPROACH, WHAT SHOULD WE THEN MAKE OF THE CONCLUSION BY DR. GABEL THAT BASIC LOCAL TELECOMMUNICATIONS SERVICE RATES ARE NOT SUBSIDIZED?

A. Unfortunately, Dr. Gabel's conclusion, even if it were based on the correct costing methodology, does not effectively rebut the reality that access charge reductions and commensurate rebalancing of local exchange rates will act "to remove current support for basic local telephone services." Specifically, regardless of a finding of "subsidy" or "no subsidy" – the apparent linchpin in Dr. Gabel's testimony – the reality is that access charge reductions and local exchange rates are intrinsically linked. Reducing access charges removes the source of current support for those low local exchange rates.

This removal of support exists independent of whether current local exchange rates are the beneficiary of a classic economic subsidy.

Q. **HOW THEN DO YOU RESPOND TO DR. GABEL'S ASSESSMENT THAT ILECS ARE EITHER BREAKING EVEN OR EARNING A SURPLUS FROM RESIDENTIAL RATES?**

A. I think Dr. Gabel's conclusion overreaches the analysis. It is predicated on a cost discussion that creates more confusion than insights in this particular case and is at odds with marketplace evidence.

Q. **HOW DOES DR. GABEL'S COST ANALYSIS CREATE MORE CONFUSION THAN INSIGHTS FOR THIS CASE?**

A. Dr. Gabel argues that TSLRIC should form the basis for assessing the cost of providing basic local exchange service and that the relevant incremental cost is very low. This approach, however, is wrought with the potential for creating poor public policy. To see this, consider the foundation of Dr. Gabel's argument. Specifically, akin to the multiproduct nature of the telecommunications industry, imagine a situation where it is possible to supply three services called X, Y and Z. The incremental cost of X might be represented as $C(X,Y,Z) - C(0,Y,Z)$. Similarly, the cost of Y and Z can be represented as $C(X,Y,Z) - C(X,0,Z)$ and $C(X,Y,Z) - C(X,Y,0)$, respectively. If one assumes absolutely no knowledge that this is a network industry with customer access as the *sine qua non* service, then the incremental cost of supplying only the last service may be seen as quite low. This appears to be where Dr. Gabel's analysis stops.

This is, however, not any industry; it is telecommunications, and one service – customer access – is primary. We know that this is a network industry with a bona fide demand for access to the network and that there are identifiable and incremental costs – including the cost of loops – that are caused by the provision of that service. That is, the incremental cost of access in a network industry should be calculated first.[1] In this case, and unlike the conclusion of Dr. Gabel, the incremental cost of access is properly identified on a cost-causative basis and is not shared among the other services.

Q. WHAT THEN SHOULD THE COMMISSION MAKE OF DR. GABEL'S CLAIM THAT THE COST OF THE LOOP SHOULD BE SHARED ACROSS MULTIPLE SERVICES RATHER THAN IMPOSED IN BASIC RESIDENTIAL RATES?

A. The Commission should give it little or no weight in the policy determination in this case for it is based on a mistaken economic perspective. In particular, it violates fundamental tenets of efficient costing and pricing. For instance, it is well established in both economic theory and regulatory parlance that costs should be determined consistent with principles of cost causation to the

[1] Thus, the incremental cost of putting access in place is C(Acesss,0,0) – C(0,0,0).

maximum – not minimal – extent possible. In the case of telecommunications, this requires examining the bona fide demand and bona fide supply characteristics of services provided. In the specific situation under consideration, consumers demand, and suppliers supply, access to the network, local usage, and long-distance usage. The fact that loops are used in the provision of a variety of telecommunications services does not alter the fact that these loops provide access – the *sine qua non* of wireline telecommunication.

In this regard, Dr. Gabel has previously acknowledged that, "The defining characteristic of a service is that it is or would be demanded in its own right."[2] Residential dial tone access is certainly "demanded in its own right" and the costs of providing that access, including the costs of the local loop, can readily be identified with the provision of such access.[3] Thus, the incremental cost associated with the provision of access, including the costs of loops that enable that access should be recovered in the residential monthly fixed charge.

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[2] See Rebuttal Testimony of David Gabel, footnote 17, p. 9 filed before the Massachusetts Department of Telecommunications and Energy, In the Matter of Phase II Alternative Regulation, Docket No. 01-31, September 18, 2002.

[3] This conclusion is widely recognized. For example, in a symposium issue on "Telecommunications in Transition" in the Yale Journal on Regulation it was noted that "subscriber access is a service in its own right. ...A customer who demands subscriber access with no intention of ever placing a call...causes the same loop costs as other customers that use the network infrequently." See Steve G. Parsons, "Seven Years After Kahn and Shew: Lingering Myths on Costs and Pricing Telephone Service," Yale Journal on Regulation, Winter 1994, p. 153. See also, Alfred E. Kahn and William B. Shew "Current Issues in Telecommunications Regulation: Pricing," Yale Journal on Regulation, Vol. 4, 1987.

Q. **TURNING TO DR. GABEL'S SECOND PRINCIPAL ARGUMENT, IS THERE EVIDENCE REGARDING MARKET ENTRY BY NEW ENTRANTS INTO RESIDENTIAL MARKETS IN FLORIDA?**

A. Yes. Quite apart from the mixed picture painted by the ILECs and Dr. Gabel on the issue of the price-cost relationship in local exchange service in Florida, the marketplace itself seems to offer some (albeit imperfect) information that residential service is under-priced in Florida. Specifically, in competitive markets firms are attracted to "surpluses" and repelled by "deficits". In this regard, it is certainly incontrovertible that the level of competitive interest (entry, marketing, and growth of competitors) in residential markets has been anemic to this point. This would seem to provide some amount of *prima facie* evidence that residential prices are too low.

Q. **BUT WHAT ABOUT DR. GABELS'S ARGUMENT THAT IT IS THE HIGHER GROSS MARGINS IN OTHER STATES – NOT LOW LOCAL RATES – THAT ARE DRIVING THE DEARTH OF COMPETITIVE ENTRY INTO RESIDENTIAL MARKETS IN FLORIDA?**

A. Dr. Gabel creates a false dichotomy in his challenge to the ILECs' presentation of data on low local exchange prices in Florida. (Gabel Direct, p. 42) Specifically, he argues that "the ILECs focus on the price of BLTS as the primary determinant of entry when elsewhere they contend that entry is based on the relationship between total revenue and total cost." The fact is that price levels *are part of the total revenue-total cost relationship* so that the focus by the ILECs in this case on the level of local rates is not inconsistent with the perspective that entry decisions are determined by anticipated revenues from market entry relative to the anticipated costs. While attempting to create the dichotomy, and suggest to the Commission its importance for this proceeding, Dr. Gabel actually, albeit perhaps inadvertently, seems to acknowledge the point that pricing and costs are both important when he states that "these factors work together to explain why the pattern of entry is different" (Gabel Direct, p. 41).

Q. BUT DOESN'T DR. GABEL'S ANALYSIS DEMONSTRATING HIGHER "GROSS MARGINS" ON LOCAL EXCHANGE SERVICES IN OTHER STATES ALTER THE VALUE OF THE ILECS' CLAIMS THAT LOW LOCAL RATES ACT TO INHIBIT ENTRY IN THE CURRENT ENVIRONMENT? (GABEL DIRECT, PP. 39-40)

A. No. I agree with Dr. Gabel's basic point, that prospective entrants are likely to consider the relationship between expected revenues and expected costs in making a determination of the merits of entry. Moreover, marketplace evidence of higher gross margins between retail rates and the price of UNEs in Illinois and Michigan compared to Florida is suggestive of a greater incentive in these states for entry than in Florida. This higher gross margin is determined by *both* retail rates and the price of UNEs. The fact that both retail rates and the costs made to be paid by the CLECs for UNES affect the entry decision in no way invalidates the argument, necessarily made on a *ceteris paribus* (i.e. "holding all other factors constant") basis, that lower retail rates have a depressing effect on entry. Thus, while Dr. Gabel wishes to argue that it is gross margins *rather* than retail rates that affect the entry decision, the correct perspective is that gross margins, *which are in part determined by retail rates*, affect entry. Thus, the ILECs' point regarding the impact of low local rates remains valid.

Interestingly, while Dr. Gabel's analysis is in one respect misleading, it is also useful in making a different, but powerful point. Specifically, Dr. Gabel's analysis quite effectively points out that <u>beyond</u> rebalancing, there are other policy levers that are available to help enable competition and that UNE rates are likely to be relevant also. That is, over and above the entry-enhancing impact that the rebalancing will have, the Commission can, through aggressively pursuing efficient UNE pricing further enhance the prospects for competitive entry.

Q. DR. GABEL ARGUES THAT RATE REBALANCING – BECAUSE IT IS REVENUE NEUTRAL – WILL NOT LEAD TO INCREASED ATTRACTIVENESS OF ENTERING THE LOCAL EXCHANGE MARKET. DO YOU AGREE? (GABEL DIRECT, P. 48)

A. No. It is incontrovertible that higher rates – which make more favorable the existing margins in BLTS (regardless of whether they are positive or negative) will positively dispose firms to consider entry into the service whose margin is positively affected. The question raised by Dr. Gabel is whether the offsetting reduction in long distance rates that will occur in Florida will act as an equal, offsetting drag on the entry process. Based on the fundamental economics of long distance and local markets, the answer is likely to be "no." Specifically, while local rate increases are likely to lead to higher margins, the lower access charges will not affect margins (long distance is already competitive) but will affect the volumes. Thus, the impact on entry is quite likely to be positive from both the long distance and local sides. Indeed, switched access reductions will help enable traditional long-distance firms and new entrants to compete on more equal footing with extraordinarily aggressive long distance offerings such as the 1-cent per minute promotion currently being featured by BellSouth. As discussed in my Direct Testimony, pp. 12-14, by creating opportunities for firms to enter the near-monopoly portion of the industry, the prospect for new entrants to meaningfully offer a bundled service packages is enhanced.

Q. DR. GABEL ARGUES THAT EVEN IF ENTRY BECOMES MORE PROFTABLE ENTRY WILL NOT NECESSARILY FOLLOW. (GABEL DIRECT, P. 58) CAN YOU COMMENT?

A. Yes. As I noted in my initial testimony, the entry decision is, indeed, manifold and some other conditions in this marketplace impose formidable challenges for new entrants. In this regard, I agree with Dr. Gabel when he states that "a rise in total revenues ...may not be sufficient to allow new entrants to overcome existing entry barriers." The fact is, however, that the rebalancing unequivocally enhances the likelihood that whatever existing barriers are in place will be overcome. Thus, it seems a poor justification for not moving forward with a policy that enhances the prospects for entry based on the fear that it might not create as much new entry as might be ideally desired.

Q. DR. GABEL ARGUES THAT NEW TECHNOLOGIES FACE CHALLENGES IN CREATING COMPETITION FOR LOCAL TELEPHONE CUSTOMERS, AND THAT CONSEQUENTLY THE COMMISSION SHOULD NOT ORDER RATE REBALANCING ON THE "UNSUPORTED PROPOSITION" THAT THE DEPLOYMENT OF NEW TECHNOLOGIES WILL BE ENHANCED IF RATES ARE REBALANCED. (GABEL DIRECT, PP. 59-61) DO YOU AGREE?

A. No. Once again, I agree with Dr. Gabel's premise: it seems that alternative technologies ranging from cellular to provision of telephony over power lines currently face a number of technological challenges to make them effective substitutes for traditional wireline telephony. The agreement on this premise, however, in no way invalidates the economic reality that rate rebalancing creates, ceteris paribus, an economic attraction to entry.

Q. DR. GABEL ARGUES THAT THE WELFARE GAINS FROM LONG DISTANCE RATE REDUCTIONS THAT ACCOMPANY ACCESS CHARGE REDUCTIONS ARE LIKELY TO BE SMALL BECAUSE THE ELASTICITIES OF DEMAND FOR INTRASTATE LONG DISTANCE CALLING ARE LOW. (GABEL DIRECT, PP. 69-72) DO YOU AGREE?

A. No. Dr. Gabel's reference to studies of low price elasticities for toll services misses a fundamental lesson from the empirical literature on telecommunications price elasticities. Specifically, the empirical literature on price elasticities of demand unequivocally reveals that the price elasticities for long distance services are many times higher than those for local exchange service. Specifically, there is a large and robust econometric literature that indicates that the price elasticity of demand for residential customer access is very low, indeed, very near zero, while estimates of the price elasticity of demand for toll services range from those cited by Dr. Cooper on the low end to -1.5 on the high end.[4] Thus, price increases in local exchange service will lead to relatively smaller consumer welfare losses (even before any public policy measures such as Lifeline to insulate low income consumers) than the welfare gain that results from reductions in the prices of long distance services.

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[4] See footnote 7 from my direct testimony for the econometric literature related to local telephone price elasticities. Toll elasticities as high as -1.5 are reported in C. Martins-Filho and J.W. Mayo "Demand and Pricing of Telephone Services: Evidence and Welfare Implications," <u>RAND Journal of Economics</u>, Vol. 24, Autumn 1993, pp. 439-454. For a general review of the toll price elasticity literature, see L.D. Taylor <u>Telecommunications Demand in Theory and Practice</u> (Kluwer Acadmic Publishers, 1994).

Q. TURNING TO THE DIRECT TESTIMONY OF DR. COOPER, WHAT ARE HIS PRINCIPAL ARGUMENTS?

A. While making a variety of claims, the essence of Dr. Cooper's testimony is that the petitions fail the statutory test because: (1) there is no "subsidy" from local exchange telephone service to other services; (2) that rate rebalancing will not stimulate competition; and (3) that consumers will not benefit from the proposed rebalancing.

Q. DO YOU FIND DR. COOPER'S ARGUMENTS COMPELLING?

A. No.

Q. CAN YOU PLEASE COMMENT ON DR. COOPER'S FIRST POINT?

A. Yes. Much like Dr. Gabel, Dr. Cooper sets about the task of rejecting the petitions for rebalancing on the grounds that unless the ILECs demonstrate that a "subsidy" exists the statutory test fails. The language of the statutory test, however, indicates that the rebalancing proposal is keyed to whether the rebalancing acts to "remove current support" -- not that it be done to "eliminate a subsidy".[5] And, as I explained in my initial testimony the method of rate setting in the local telephone monopoly era has been to establish local rates residually. It is clear that, but for the presence of higher

[5] From an economic perspective, if the rebalancing were shown to "eliminate a subsidy" then the public policy merits of the rebalancing petitions are strengthened as such cross-subsidies are incompatible with the competitive market standard that should guide policy. See my Direct Testimony, pp. 14-15.

rates imposed on business customers, interstate and intrastate long distance switched and special access, and vertical features the local telephone rates necessary for the ILECs to earn their "fair rate of return" would have had to have been higher. In this sense, then, there can be no doubt that the proposal to reduce switched carrier access charges in Florida certainly "removes current support for basic local telephone service" as required by the statutory test. Thus, while considerable debate certainly exists about whether a classically defined economic subsidy is presently going to local exchange services in Florida, there is no question that the switched access charge reductions being proposed will remove current support for basic local telecommunications services.

Q. WHAT SHOULD WE MAKE OF DR. COOPER'S SECOND MAJOR POINT?

A. Dr. Cooper's second principal argument is that a requirement of the statutory test is that "<u>actual</u> local competition will result in specific geographic areas (meaning individual urban rate zones) before ... [the Commission]... can consider raising basic local residential rates". (Cooper Direct, p. 12). As I have pointed out in my initial testimony, however, it is clear that the rate rebalancing will, ceteris paribus, make entry into local exchange markets more attractive. Economic theory unequivocally indicates that reductions in switched access rates (which will expand output of long distance calling) will "make room" for more long distance competitors.

Additionally, the rebalancing of local exchange rates will unequivocally increase the attractiveness of entering the local exchange arena in Florida. Finally, in a world of the emerging "all-distance" bundle, the reduction in access charges that will occur with approval of the petitions will enhance the ability of the ILECs' most potent potential competitors, such as AT&T and MCI, to compete more effectively in the residential arena.

It is also worth noting that Dr. Cooper's requirement that the Commission know, presumably with certainty, the exact nature of the "actual" competition that will result "in specific geographic areas (meaning individual urban rate zones)" before approving a rebalancing petition asks considerably more than is possible using modern economic analysis. While this Commission can (and should) aggressively pursue competition-enabling policies, it cannot be expected to perfectly know or engineer the precise nature of how and where competition will arise.[6]

Q. BUT WHAT ABOUT THE CLAIM BY DR. COOPER THAT COMPETITION IN FLORIDA IS NOT LAGGING THE COUNTRY, BUT RATHER IS "MIXED"? (COOPER DIRECT, P. 26)

[6] In a similar vein, while the Commission may wish to satisfy itself that switched access charge reductions are passed along to customers, it can be comforted that this will happen without heavy-handed micromanagement of such flow-throughs. The reason is that long distance markets are effectively competitive so traditional long distance firms will see switched access rate reductions as a means to compete for increased consumer patronage, to the maximum benefit of consumers. See, e.g., David L. Kaserman and John W. Mayo "Competition in the Long Distance Market," in Handbook of Telecommunications Economics, Volume 1, Martin E. Cave, Sumit Majumdar and Ingo Vogelsang, Eds. North Holland, 2002.

A. While Dr. Cooper finds the empirical evidence on competition "mixed," I am unconvinced that the status of local exchange competition in Florida is at anywhere near acceptable levels relative to the goals of the Federal Telecommunications Act or the state Tele-Competition Act. Indeed, Dr. Cooper's own evidence (Exhibit MNC-3 at p. 40) indicates that ILECs in Florida retain a market share of roughly 92 percent of the residential customer base in the state. I cannot envision any serious economist who would conclude that the local exchange market for residential local telephony is effectively competitive. Clearly, the state needs to pursue policies to more affirmatively open residential markets to competition and the rebalancing of rates is a positive step in this regard.

Q. FINALLY, HOW DO YOU RESPOND TO DR. COOPER'S LATENT, IF NOT EXPLICIT, PROPOSITION THAT RAISING RATES IS NOT AN APPROPRIATE METHOD FOR INCREASING COMPETITION AND CREATING CONSUMER BENEFITS?

A. I agree that raising rates is not in all circumstances a way for "increasing competition." For example, the deregulation of local cable rates in 1984 and the subsequent increases in rates did not lead to any meaningful increase in competition. The reason, at least in part, however, for this failure of rate increases to lead to increased competitiveness was the result of the failure by policymakers at the time to establish a broader set of competition-enabling policies. In that case, while rates were deregulated monopoly franchise authority continued. As such, it should certainly not be a surprise that rates rose and competition did not. Similarly, I must emphasize that absent the full development and implementation of a set of competition-enabling policies in Florida, rate increases alone will not achieve Florida's goal of promoting competition. If, however, the Commission does seek to enable competition in all of its dimensions, then it must be recognized that retaining retail residential rates that have been set based on residual pricing principles has the prospect itself of restraining the emergence of competition. Thus, as part of a larger strategy of enabling competition, allowing for the prospect of switched access rate reductions (and the retail rate reductions that ensue) balanced with local rate rebalancing will promote the goal of increasing competition in residential telecommunications in Florida.

Finally, it is important to bear in mind that, to the extent that competition for local exchange telephony is enhanced in Florida as a consequence of the intrastate switched access charge reductions and the BLTS rebalancing, a dynamic is put in place that will enhance consumers' choice, put downward pressure on costs and rates, provide incentives for new competitors to create innovative service offerings and for incumbents to match this innovative stimuli with new services of their own. These are known and historically demonstrated benefits of competition. Thus, while Dr. Cooper prefers to narrowly focus on the aspect of the petition that involves BLTS increases, there are, in fact, likely to be a variety of competitively-generated beneficial consequences from the approval of the petitions.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.