

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.

CONFIDENTIAL

DOCKET NO. 030961-TI

DECLASSIFIED

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9/4/05*

CONFIDENTIAL REBUTTAL TESTIMONY OF
BION C. OSTRANDER

ON BEHALF OF
THE OFFICE OF PUBLIC COUNSEL (OPC)

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1 **Q. WOULD YOU STATE YOUR NAME, TITLE AND BUSINESS**
2 **ADDRESS?**

3 A. My name is Bion C. Ostrander. I am the President of Ostrander
4 Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka,
5 Kansas.

6
7 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**
8 **PROCEEDING ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL?**

9 A. Yes, I filed direct testimony on November 19, 2003.

10

11 **Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR REBUTTAL**
12 **TESTIMONY?**

13 A. I will rebut certain issues raised by various parties regarding issue
14 numbers six to ten as set forth in the Florida Public Service Commission's
15 ("FPSC" or "Commission") November 10th order. I will rebut the direct
16 testimony of Mr. Kapka, on behalf of Sprint Communications Company
17 L.P., which will be referred to as Sprint Long Distance Company ("Sprint
18 LD"), Mr. Broten, for Bell Atlantic Communications, Inc. d/b/a Verizon Long
19 Distance, NYNEX Long Distance Company d/b/a Verizon Enterprise
20 Solutions ("VES"), and Verizon Select Services, Inc ("VSSI"), (hereinafter,
21 collectively referred to as "Verizon LD"), Mr. Henson, for BellSouth Long
22 Distance ("BellSouth LD"), Mr. Guepe, for AT&T Communications of the

1 Southern States, LLC ("AT&T"), and Mr. Dunbar, on behalf of MCI
2 WorldCom Communications, Inc. ("MCI").

3

4 **Q. WOULD YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?**

5 A. I will summarize these matters by "issue":

6

7 **Issue 6** - The carriers appear to favor a more informal approach of
8 discussing potential long distance rate reductions and impacts with Staff
9 and avoiding an audit trail and the specific filing requirements that I
10 propose (which are consistent with Staff's recommendation). The
11 Commission should adopt my specific filing requirements for IXCs, so that
12 actual rate reductions can be monitored and compared to expected
13 amounts to ensure that all long distance rate reductions are properly and
14 timely implemented.

15 **Issue 7** - Certain IXCs propose to file tariffs up to 60 days after the
16 effective date of ILEC tariffs. Other IXCs propose advance notice of up to
17 60 days in order to try and coordinate simultaneous filings with ILECs.
18 Any lag between IXC and ILEC filings would result in a permanent loss of
19 long distance rate reductions for customers and should be avoided. If
20 there is some lag, it should be no more than 15 days. In the alternative,
21 IXCs and ILECs should be given at least 60 to 90 days notice of when
22 both IXC and ILEC tariffs will be effective on a simultaneous basis. This

1 advance notice will allow all carriers adequate time to provide tariffs to
2 Staff for review, change their billing, and carry out other planning.

3 **Issue 8** - Certain IXC's do not believe that rate reductions should be
4 mandated for any specific time period. Sprint LD believes that IXC's
5 should be required to maintain long distance rate reductions for all three
6 years of the access reductions, plus one additional year. Section
7 364.163(1) requires that after ILEC access rates are reduced to or below
8 parity, then intrastate switched access rates will remain capped for 3
9 years. Consistent with Section 364.163(1), the IXC's should be
10 encouraged to cap and maintain their long distance rate reductions for a
11 period of three years after parity is achieved. Parity is not achieved until
12 the final phase-in of all intrastate switched access reductions are flowed-
13 through from ILECs to IXC's.

14 **Issue 9** – The percentage split between long distance rate reductions for
15 residential and business customers is set forth at Rebuttal Exhibit BCO-1,
16 for those carriers that provided information. Most carriers either do not
17 provide information, or they propose to allocate a small percentage of long
18 distance reductions to residential customers. I am aware that Section
19 364.163 of the statute does not specify how IXC's should allocate long
20 distance rate reductions between residential and business customers.
21 However, I believe that IXC's should be encouraged to reduce residential
22 and business rates in a reasonable and equitable manner. Since
23 residential local rates are receiving most of the proposed increases by

1 ILECs, these residential customers should receive a proportionate amount
2 of the long distance rate reductions. None of the IXCs (which provided
3 information) proposed to reduce long distance rates in this manner,
4 although Verizon LD is much closer than the other IXCs.

5 **Issue 10** - I am extremely disappointed in the proposals of the carriers.
6 They make very few, if any, solid commitments to rate reductions for
7 residential customers (except for the mandated reduction in the PICC by
8 year 2006). AT&T, MCI, and Sprint LD provide no specific commitment for
9 reductions in rates of residential calling plans, except for some reductions
10 in the statutory mandated PICC. About 93% of the Verizon revenue
11 increase will be placed on residential local service customers, yet a
12 significant portion of long distance customers will not realize any long
13 distance rate reductions (besides some amount for the PICC). This
14 appears to be far from a favorable outcome of so-called benefits of
15 "competition", produced by the ILECs and IXCs in this proceeding.

16 I continue to believe that most residential customers should experience
17 some sort of long distance rate reduction unless: a) the customer
18 subscribes to one of the small IXCs that pays less than \$100 per month in
19 access expense and is not required to flow-through access reductions; or
20 b) the customer does not make much, or any, long distance calls for the
21 period that long distance rate reductions will be in effect.

22

23

1 over \$1 million in annual switched access expense should be required to
2 file tariffs, and this is consistent with my position.

3

4 **Q. CAN YOU EXPLAIN THE ISSUE OF "RESELLERS" RAISED BY MR.**
5 **BROTEN OF VERIZON LD?**

6 A. Yes. Mr. Broten indicates that IXC resellers should not be required to
7 reduce prices to its customers, unless it receives a reduction in the prices
8 it is charged by its facilities-based supplier. He indicates that many IXCs
9 resell service and the access charges flow directly to the facility-based
10 carrier, and not the reseller. This is because resellers of long distance
11 service typically contract with facilities-based providers for service, and
12 these agreements may not obligate the facilities-based carrier to pass
13 through access reductions that it receives. Mr. Broten indicates that when
14 Verizon LD, VES or VSSI resell long distance services of an affiliate, that
15 these resellers will pass through these reductions to their customers.
16 (page 3, lines 3 to 23).

17

18 **Q. DO YOU AGREE WITH MR. BROTEN'S POSITION ON TREATMENT**
19 **OF RESELLERS?**

20 A. Yes, generally I agree, subject to some confirmation on this issue.
21 However, I wish to emphasize certain conditions which should apply to
22 resellers. All resellers that are reselling the long distance of an affiliate
23 (such as a facilities-based affiliate, or others) should be required to flow-

1 through all long distance reductions to their customers (unless they meet
2 the de minimis threshold set out in my direct testimony). This condition
3 should be required between all affiliates, to make sure that affiliates have
4 not established an arbitrary (or sham) agreement between them with the
5 intent of avoiding the flow-through of access charges to customers.

6
7 The only condition where a reseller should not be required to flow-through
8 access reductions to its customers is when a facilities-based carrier has a
9 specific agreement with a non-affiliated reseller which prevents the flow-
10 through of access reductions (i.e., prevents the reduction in prices
11 charged by the facilities-based supplier to the reseller) to the reseller.

12

13 **Q. DO YOU HAVE CONCERNS WITH SPRINT'S POSITION REGARDING**
14 **THE INFORMATION THAT SHOULD BE INCLUDED IN THE TARIFF**
15 **FILINGS OF THOSE CARRIERS THAT WILL BE REDUCING THEIR**
16 **LONG DISTANCE RATES?**

17 **A.** Yes. Mr. Kapka, on behalf of Sprint LD, states that the Commission
18 should not attempt to set some uniform requirement for all carriers, but
19 that each carrier should meet with Staff and explain the particular
20 approach that carrier intends to take considering that carrier's competitive
21 market. Mr. Kapka indicates that this approach was taken in the 1998
22 access reductions, and it was beneficial because it did not mandate
23 specific price reductions to specific individual customers and it also

1 ensured that IXC confidentiality was maintained (since Staff was the only
2 other party involved in these discussions). (page 5, lines 22 to 25, and
3 page 6, lines 1 to 14).

4

5 **Q. WHAT ARE YOUR CONCERNS WITH MR. KAPKA'S PROPOSAL?**

6 A. Mr. Kapka's proposal to eliminate uniform filing requirements would make
7 it difficult to monitor rate reductions, so it would not be possible to
8 determine when, and if, the proper amount of reductions were
9 implemented by the carrier. Mr. Kapka's approach would not leave an
10 audit or paper trail, and the IXCs, Staff, and other parties would not be
11 able to test compliance after-the-fact.

12

13 Consistent with Staff's position, I believe that the IXCs should be required
14 to provide specific information so that Staff and other parties will be in a
15 better position to:

- 16 1) test and review the calculations and proposals of IXCs;
- 17 2) monitor and compare proposed reductions to final reductions to
18 make sure that the entire amount of the flow-through takes place;
- 19 3) ensure that all IXCs submit the same type of information for review
20 to make sure that all calculations and assumptions are consistent
21 and do not vary among the carriers (although the specific proposals
22 between the IXCs may vary); and

1 4) implement rate reductions as soon as possible and save
2 implementation time by letting the IXCs know up-front what type of
3 information is expected to be provided.

4

5 I am not opposed to each IXC having some flexibility regarding the
6 specific rate structure to implement, and the specific filing requirements
7 are not intended to impede this flexibility. My direct testimony provides
8 additional clarity to Staff's proposal regarding the type of information that
9 should be provided by IXCs.¹ After this specific information has been
10 made available for review by the IXCs, then I am not opposed to the IXCs
11 having further discussions with Staff or other parties regarding specific
12 pricing and competitive needs or concerns.

13

14 **Q. DO YOU HAVE THE SAME CONCERNS WITH OTHER CARRIERS**
15 **THAT PROPOSE DIFFERENT FILING REQUIREMENTS THAN THOSE**
16 **SUPPORTED BY YOU AND STAFF?**

17 **A.** Yes. Other carriers may support less detail in their tariff filings, but I
18 believe the integrity of the tariff filings are supported by the filing
19 requirements that I recommend.

20

¹ Direct testimony of Bion Ostrander, in this proceeding, page 8 through page 12.

1 **II. ISSUE SEVEN OF THE FPSC ORDER – SHOULD IXCS BE**
2 **REQUIRED TO FLOW-THROUGH RATE REDUCTIONS**
3 **SIMULTANEOUS WITH ILEC ACCESS RATE REDUCTIONS?**
4

5 **Q. WHAT POSITIONS DO THE CARRIERS TAKE ON THIS ISSUE OF**
6 **COORDINATING TARIFF FILINGS BETWEEN ILECS AND IXCS?**

7 A. Mr. Henson, on behalf of BellSouth LD, believes that IXCs should be
8 required to file tariffs within a reasonable time after the effective date of
9 ILEC filings, not to exceed fifteen (15) days. (p. 4, lines 15 to 17).

10
11 Mr. Guepe, for AT&T, indicates that IXCs need sufficient time to calculate
12 their savings and to prepare tariff filings, so he suggests that IXCs be
13 allowed to implement tariffs within 60 days from the ILEC's filing date. In
14 the alternative, if the Commission requires a simultaneous effective date
15 between IXC and ILEC tariffs, then Mr. Guepe proposes that ILEC access
16 tariff revisions be filed 60 days in advance of the effective date for IXCs to
17 allow adequate time for analysis and tariff completion by IXCs (p. 5,
18 lines 14 to 20).

19
20 Mr. Kapka, for Sprint LD, recommends that IXCs have 60 days after the
21 effective date of ILEC tariffs, in order to meet with Staff and for Staff to
22 review the proposed changes of IXCs. (p. 7, lines 3 to 10).

23

1 Mr. Broten, for Verizon LD, indicates that IXCs should implement their
2 tariffs "as soon as possible" after the approved ILEC access rate
3 reductions. (p. 4, lines 5 to 8).

4

5 Mr. Dunbar, for MCI, indicates he would support simultaneous filings with
6 ILECs if they are given at least 60 days to implement the rate changes.
7 (p. 5, lines 4 to 5).

8

9 **Q. WHAT COMMENTS DO YOU HAVE ON THE CARRIERS' POSITIONS**
10 **REGARDING IMPLEMENTATION OF TARIFFS?**

11 A. There should not be any lag in time between increases in ILEC local rates
12 and IXC long distance rate reductions, to ensure that the negative impacts
13 of local rate increases are at least offset by some reductions in long
14 distance rates (assuming that increases in basic local rates are
15 implemented, which the OPC does not support). However, if some lag is
16 necessary between IXC tariffs and ILEC tariffs, this should be no more
17 than the 15 day lag addressed by Mr. Henson of BellSouth LD.

18

19 If possible, IXCs and ILECs should be given at least 60 to 90 days notice
20 of when both the ILEC and IXC tariffs will be implemented at the same
21 time - - which is similar to the proposal of Mr. Dunbar and the alternative
22 proposal of Mr. Guepe. This notice of time should allow sufficient time for
23 the IXCs to submit tariff information and calculations for review by Staff

1 and other parties, and it should allow these Staff and other parties at least
2 30 days review time of the IXC tariffs (assuming there are no problems
3 with the IXC tariff filings).

4
5 If IXCs delay their long distance rate reductions, this means that ILEC
6 customers that are receiving increases in local rates will have permanently
7 lost any incremental benefit from long distance rate reductions. If the
8 IXCs implement their tariffs more than 15 days after ILEC tariffs are
9 implemented, then IXCs should be required to calculate additional one-
10 time refunds or additional rate reductions to account for long distance rate
11 reductions that were delayed to customers during this intervening time
12 period.

13

14 ***III. ISSUE EIGHT OF THE FPSC ORDER – HOW LONG SHOULD***
15 ***THE IXC LONG DISTANCE RATE REDUCTIONS LAST?***

16

17 **Q. WHAT POSITIONS DO THE CARRIERS TAKE ON THE ISSUE OF THE**
18 **TIME PERIOD FOR LONG DISTANCE RATE REDUCTIONS?**

19

20 **A.** Mr. Kapka, on behalf of Sprint LD, believes that IXCs should be required
21 to flow-through and maintain long distance price reductions for all three
22 years of the access reductions, plus one additional year. During this
23 period, he indicates that IXCs should have the flexibility to change prices

1 for individual products and/or introduce new products. He believes that
2 monitoring of the average revenue per minute annually through the period
3 of access reductions, and for one additional year, will ensure that
4 customers receive the benefits of access reductions. (p. 7, lines 1 to 25).

5

6 Mr. Broten, on behalf of Verizon LD, states that the Verizon long distance
7 affiliates will flow through the access reductions year over year for three
8 years, and then Verizon should be free to change its long distance rates
9 as it desires. (p. 5, lines 1 to 6).

10

11 Mr. Guepe, for AT&T, does not believe that any requirements for a length
12 of time should be imposed for long distance price reductions, since this
13 could place IXCs at a disadvantage from a competitive standpoint. He
14 indicates that if the Commission imposes a period of time, this will be the
15 first time such a mandate has been imposed. Mr. Guepe indicates that
16 over the past years long distance competition has continually driven down
17 IXC prices and there is no reason to believe this trend would not continue.
18 (p. 6, lines 11 to 24).

19

20 Mr. Henson, for BellSouth LD, states that because of the highly
21 competitive long distance market in Florida, it is not necessary to impose a
22 minimum time period for price reductions related to access flow-through.
23 He indicates that once access charges are flowed through to both

1 residential and business customers, the intense level of competition will
2 ensure that carriers do not rate their rates thereafter in an effort to absorb
3 the access charge savings. Mr. Henson states that carriers need to retain
4 flexibility to change their prices on individual services in order to respond
5 to going-in rates of other IXC's, and to respond to other changes in the
6 market. (p. 5, lines 10 to 13, and page 6, lines 5 to 20).

7

8 Mr. Dunbar, for MCI, states that the marketplace should and will decide
9 this issue. (p. 5, lines 12 to 13).

10

11 **Q. WHAT IS YOUR RESPONSE TO THE CARRIER'S POSITION ON THE**
12 **TIME PERIOD FOR LONG DISTANCE RATE REDUCTIONS?**

13 A. Section 364.163(1) requires that after ILEC access rates are reduced to or
14 below parity, then intrastate switched access rates will remain capped for
15 3 years. Consistent with Section 364.163(1), the IXC's should be
16 encouraged to cap and maintain their long distance rate reductions for a
17 period of three years after parity is achieved. Parity is not achieved until
18 the final phase-in of all intrastate switched access reductions are flowed-
19 through from ILECs to IXC's. This means that after the final flow-through
20 of phased-in access reductions to IXC's is achieved, the long distance rate
21 reductions would be in place for three more years. It makes sense to
22 synchronize the same time frames for ILEC access reductions and IXC
23 long distance rate reductions.

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The Sprint LD proposal comes the closest to my recommendation. Mr. Kapka only proposes that long distance rate reductions be in place “one” year after parity is reached in the third increment of the two year phase-in. Sprint LD, and all other carriers, should maintain long distance rate reductions for three years after parity is achieved, and parity is not achieved until the third increment of the two-year flow-through. This means that Sprint’s proposal is still two years shy of my recommendation that requires long distance rate reductions to be in place for three years after parity is achieved. Of course, if the Commission extends the flow-through for a period longer than that proposed by the ILECs (the three increments over a two-year period), then the three-year period for long distance rate reductions still begins at the time of the final access flow-through.

Mr. Guepe and Mr. Henson propose that no required time frame be imposed for long distance rate reductions, so these proposals are the most opposite of my recommendation. I believe it is reasonable to construe that the statute was intended to achieve some level of trade-off between various issues such as increases in basic local rates and reductions in long distance rates for similar periods. The one-sided arrangement proposed by IXCs would result in increases in basic local rates without commitments by IXCs to reduce long distance rates. This

1 serves as a potential windfall benefit to IXC's, and a detriment to
2 residential consumers faced with permanent increases in basic local rates
3 and the prospect of short-term long distance rate reductions.

4

5 **Q. DO YOU AGREE WITH MR. HENSON, THAT A MINIMUM TIME FRAME**
6 **FOR RATE REDUCTIONS IS NOT REASONABLE, SINCE IXCS MAY**
7 **NEED TO RESPOND TO GOING-IN RATES OF OTHER IXCS?**

8 A. No. I believe that long distance rate reductions should be required for a
9 certain timeframe as I propose. However, if an IXC needs to respond to a
10 going-in rate proposal of another IXC, then I am not opposed to some
11 flexibility to deal with these issues on a case-by-case basis. However,
12 these situations should be coordinated with Staff and other parties which
13 are providing oversight.

14

15 **IV. ISSUE NINE OF THE FPSC ORDER – HOW SHOULD IXC LONG**
16 **DISTANCE RATE REDUCTIONS BE ALLOCATED BETWEEN**
17 **RESIDENTIAL AND BUSINESS CUSTOMERS?**

18

19 **Q. WHAT POSITIONS DO CARRIERS TAKE ON THE ISSUE OF**
20 **ALLOCATION OF LONG DISTANCE RATE REDUCTIONS BETWEEN**
21 **RESIDENTIAL AND BUSINESS CUSTOMERS?**

22

1 A. Mr. Broten for Verizon LD (p. 5, lines 12 to 20), Mr. Kapka of Sprint LD (p.
2 9, lines 1 to 17), Mr. Dunbar of MCI (p. 5, lines 21 to 23), and Mr. Henson
3 of BellSouth LD (p. 7, lines 20 to 22, and p. 8, lines 1 to 5), all appear to
4 propose the same or similar method to pass through a pro rata share long
5 distance rate reductions to both residential and business customers. This
6 method is based on the relative proportion of access minutes associated
7 with these customers.

8
9 Mr. Broten, Mr. Kapka, and Mr. Dunbar, provide the estimated percentage
10 of the amount of long distance rate reductions that will be applicable to
11 residential and business customers. However, a significant portion of the
12 proposed residential split may be related to reductions in the in-state
13 connection fee/PICC, so this might not leave much residential rate
14 reductions related to other calling plans. This estimated pro rate split of
15 long distance rate reductions between residential and business customers
16 is shown at Confidential Rebuttal Exhibit BCO-1, and compared to the
17 percentage of basic local increases for residential and business customers
18 of the ILECs.

19
20 Mr. Guepe of AT&T, provides only a percentage reduction for the in-state
21 connection fee/PICC of residential customers in the first year, but does not
22 provide a total split between residential and business rate reductions. (p.
23 9, line 17). Mr. Guepe appears to be less committed to the same pro rata

1 split of long distance rate reductions between residential and business
2 customers that is proposed by the other IXC's. Mr. Guepe indicates that
3 an IXC should be able to reduce rates based on the make-up of its
4 particular customer base, which appears to be consistent with the method
5 of the other IXC's. However, he qualifies this statement by indicating that
6 an IXC should be able to reduce residential or business rates at its
7 discretion in order to increase its market share in a particular market. (p.
8 7, lines 9 to 16).

9
10 Mr. Henson, of BellSouth LD, does not provide the estimated split of long
11 distance reductions applicable to residential or business customers.

12
13 **Q. WHAT IS YOUR RESPONSE TO THE CARRIERS' POSITION ON THE**
14 **METHOD FOR ALLOCATING LONG DISTANCE RATE REDUCTIONS**
15 **BETWEEN RESIDENCE AND BUSINESS CUSTOMERS?**

16 **A.** I am aware that Section 364.163 of the statute does not specify how IXC's
17 should allocate long distance rate reductions between residential and
18 business customers. However, I believe that IXC's should be encouraged
19 to reduce residential and business rates in a reasonable and equitable
20 manner. Since residential local rates are receiving most of the proposed
21 increases by ILECs, these residential customers should receive a
22 proportionate amount of the long distance rate reductions. None of the

1 IXC (which provided information) proposed to reduce long distance rates
2 in this manner, although Verizon LD is much closer than the other IXCs.

3
4 Confidential Rebuttal Exhibit BCO-1 provides a comparison of the
5 proposed ILEC split between residential and business local rate increases,
6 compared to the proposed IXC split between residential and business long
7 distance rate reductions (for those three IXCs which provided information).
8 The proposed ILEC split of local rate increases is public information, but
9 the proposed IXC split of long distance rate reductions is considered
10 confidential. No detailed calculations were generally available regarding
11 the residential/business split for long distance rate reductions.

12
13 The information at Rebuttal Exhibit BCO-1 shows the following:

- 14 1) Verizon LD proposes that residential long distance rates receive
15 87% of the long distance rate reduction, and that business long
16 distance rates receive 13% of the reduction. In comparison, the
17 ILECs of Verizon, Sprint and BellSouth propose that residential
18 local rates receive 86% to 93% (Verizon is 93%) of the proposed
19 local rate increase, and that business local rates recover the
20 remaining percentage. At first blush, the residential split for long
21 distance reductions appears to be reasonable in relation to the split
22 for residential local rate increases. However, the residential split for
23 long distance rate reductions may consist mostly of a reduction in

1 the in-state connection fee/PICC, so Verizon LD may not be
2 proposing much reductions for other residential calling plans.
3 Verizon LD did not provide calculations or detailed information
4 regarding the determination of the residential/business split for long
5 distance rates.

6
7 Verizon comes the closest of all IXCs to reducing residential long
8 distance rates in proportion to the related increases in residential
9 local rates of Verizon, Sprint and BellSouth.

10
11 2) Sprint LD proposes that residential long distance rates receive 27%
12 of the long distance rate reduction, and that business long distance
13 rates be reduced by the remaining percentage. In comparison, the
14 ILECs of Verizon, Sprint and BellSouth propose that residential
15 local rates receive 86% to 93% (Sprint is 86%) of the proposed
16 local rate increase, and that business local rates recover the
17 remaining percentage. Sprint LD proposes that residential long
18 distance customers receive a significantly lower split of long
19 distance rate reductions in comparison to the proposed increases in
20 residential local rates of Sprint, Verizon and BellSouth. OPC
21 believes that the percentage of long distance rate reductions
22 allocated to Sprint LD residential customers should be increased

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significantly, to bring this amount more in line with the proposed increases in local rates of the ILECs.

3) MCI proposes that residential long distance rates receive 30% of the long distance rate reduction, and that business long distance rates be reduced by the remaining percentage. In comparison, the ILECs of Verizon, Sprint and BellSouth propose that residential local rates receive 86% to 93% of the proposed local rate increase. The MCI residential long distance rate reduction split may consist primarily of the elimination of the in-state connection fee/PICC, but MCI does not specifically address this. Therefore, MCI may not be proposing many other reductions in residential calling plans. MCI proposes that residential long distance customers receive a significantly lower split of long distance rate reductions in comparison to the proposed increases in residential local rates of Verizon, Sprint and BellSouth. OPC believes that the percentage of long distance rate reductions allocated to MCI residential customers should be increased significantly, to bring this amount more in line with the proposed increases in local rates of the ILECs.

AT&T stated that in the first year it would reduce the residential in-state connection fee/PICC by \$11.9 million, or 29% of the total rate decrease, and it would reduce business long distance rates by

1 \$28.45 million, or 71% of the total rate decrease. AT&T states it
2 will reduce the residential in-state connection fee/PICC (assumed
3 to be about \$1.90/line) by 33%, or \$.63) in the first year, and it does
4 not appear AT&T will propose any rate reductions for residential
5 calling plans. (p. 9, lines 16 to 21). AT&T's long distance rate
6 reductions are heavily biased towards business rate reductions,
7 and AT&T residential customers may receive nothing other than
8 mandatory statute reductions in the in-state connection fee/PICC
9 over the multi-year term. AT&T should be encouraged to allocate
10 86% to 93% of the long distance rate reduction to residential
11 customers. This would bring them in line with the proposed split
12 between residential and business local rate increases of Verizon,
13 Sprint and BellSouth.

14
15 BellSouth LD did not provide any estimates for the proposed split
16 between residential and business long distance rate reductions..
17 BellSouth LD should be encouraged to allocate 86% to 93% of the
18 long distance rate reduction to residential customers. This would
19 bring them in line with the proposed split between residential and
20 business local rate increases of Verizon, Sprint and BellSouth.

21

22 **Q. IF RESIDENTIAL LOCAL RATE CUSTOMERS RECEIVE A**
23 **SIGNIFICANT PORTION OF THE LOCAL RATE INCREASE, IN**

1 **COMPARISON TO THE PROPOSED LONG DISTANCE RATE**
2 **REDUCTIONS, DOES THIS ACHIEVE REVENUE NEUTRALITY FOR**
3 **THESE CUSTOMERS?**

4 A. No. If residential local customers receive most of the local rate increases,
5 and receive very little of the long distance rate reductions, then this tends
6 to reinforce my position that residential customers will not benefit from rate
7 rebalancing and basic local rate increases will exceed long distance rate
8 reductions. This would support my conclusion at Exhibit BCO-2 included
9 with my direct testimony in the rate rebalancing case, which indicates that
10 residential local rate increases will exceed long distance rate reductions.
11 In fact, with the IXCs now providing their proposed split for residential long
12 distance rate reductions, it appears that my original analysis at Exhibit
13 BCO-2 in the rate rebalancing case may have been too conservative
14 (especially for Sprint, and perhaps for BellSouth).

15
16 My analysis at Exhibit BCO-2 may have understated the amount of the net
17 increase in rates which residential customers will face as a result of rate
18 rebalancing (the “net increase” is the amount by which residential local
19 rate increases will exceed long distance rate reductions). This is due to
20 the relatively small split for residential long distance rate reductions
21 proposed by Sprint, and perhaps for BellSouth.

22

1 will reduce the PICC in year one by 33% or \$.63). (p. 9, line 17). Mr.
2 Guepe indicates that all classes of business customers will receive
3 reductions, but he does not indicate rate reductions for any residential
4 customer other than the PICC reduction.

5
6 Mr. Dunbar, for MCI, indicates that all residential customers currently
7 paying the in-state recovery fee/PICC (which is presumed to be about
8 \$1.90) will receive a rate reduction. MCI will phase-out the PICC, and
9 eliminate it by July 1, 2006, and MCI will reduce the PICC by at least one-
10 third in each year. Also, MCI will reduce rates for other residential
11 customers, but has not determined how it will do so at this time. (p. 6,
12 lines 22 and 23, page 7, lines 1 to 6).

13
14 Mr. Kapka, for Sprint LD, indicates that all customers paying an in-state
15 connection fee/PICC of \$1.99 will see a rate reduction. He does not
16 address any other specific residential rate reductions.

17

18 **Q. WHAT IS YOUR RESPONSE TO THE CARRIER'S POSITION ON**
19 **WHETHER ALL RESIDENCE AND BUSINESS CUSTOMERS WILL**
20 **EXPERIENCE A LONG DISTANCE RATE REDUCTION?**

21 A. I am extremely disappointed in the proposals of the carriers. They make
22 very few, if any, solid commitments to rate reductions for residential
23 customers (except for the mandated reduction in the PICC by year 2006).

1 The carriers cite to extensive competition in long distance, but the access
2 reductions may produce nothing more than the statutory mandated
3 reduction in the PICC rate for most residential customers.

4
5 AT&T, MCI, and Sprint LD provide no specific commitment for reductions
6 in rates of residential calling plans, except for some reductions in the
7 statutory mandated PICC. The percentage of residential customers
8 subscribing to calling plans for which Verizon will reduce rates is
9 unimpressive. AT&T indicates that all classes of business customers will
10 receive rate reductions, but AT&T makes no commitment to residential
11 customers (other than the PICC phase-out). The position of BellSouth LD
12 can be interpreted to mean that residential customers may have to move
13 to another carrier to realize rate reductions, or they may have to switch to
14 other residential plans which may have reduced rates (although switching
15 to other plans could mean a net increase in long distance costs,
16 depending upon recurring charges, etc.).

17
18 Mr. Broten, for Verizon LD, indicates that the company will reduce rates on
19 some, but not all residential plans. He indicates that 60% of residential
20 customers subscribe to "several plans" that will experience long distance
21 rate reductions. (p. 6, lines 1 to 11). It is difficult to fathom that almost
22 50%, or one-half) of Verizon's residential customers will not realize any
23 rate reductions from calling plans while experiencing local rate increases

1 of about \$57 annually. This appears to be far from a favorable outcome of
2 so-called benefits of "competition", produced by the ILECs and IXCs in this
3 proceeding.

4
5 About 93% of the Verizon revenue increase will be placed on residential
6 local service customers, yet a significant portion of long distance
7 customers will not realize any long distance rate reductions (besides some
8 amount for the PICC). This type of information indicates that my analysis
9 at Exhibit BCO-2 in the rate rebalancing proceeding was too conservative,
10 and that net increases in rates will be more prevalent than I originally
11 anticipated.

12
13 I continue to believe that most residential customers should experience
14 some sort of long distance rate reduction unless: a) the customer
15 subscribes to one of the small IXCs that pays less than \$100 per month in
16 access expense and is not required to flow-through access reductions; or
17 b) the customer does not make much, or any, long distance calls for the
18 period that long distance rate reductions will be in effect. Because of the
19 size of the access reductions, residential customers should receive an
20 equitable amount of long distance rate reductions beyond that currently
21 proposed by the carriers.

22

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes.

2

CONFIDENTIAL - Rebuttal Exhibit BCO-1

CONFIDENTIAL - COMPARISON OF ILEC RESIDENTIAL AND BUSINESS LOCAL RATE INCREASES COMPARED TO IXC PROPOSED SPLIT FOR RESIDENTIAL AND BUSINESS LONG DISTANCE RATE REDUCTIONS

Line	Company	PUBLIC ILEC Proposed		CONFIDENTIAL IXC Proposed				IXC Source
		Local Rate Increase Split		Long Distance Rate Reduction Split				
		Res. %	Bus. %	Res. %	Res. \$	Bus. %	Bus. \$	
1	Verizon (1)	93%	7%	87%		13%		Brotten - p. 5, lines 16, 17 Kapka - p. 9, line 9
2	Sprint (2)	86%	14%	27%		73%		
3	BellSouth (3)	87%	13%	Not provided		Not provided		
4	MCI			30%	First Year	70%	First Year	Dunbar - p. 6, line 1 Guepe - p. 9, line 18, 21
5	AT&T			29%	\$11.9 m	71%	\$28.45 m	

ILEC Source:	Rate Increase	% Resid. Increase
(1) - Verizon local rate increase: Direct testimony of Mr. Fulp, page 16, lines 12 & 9.		
Residential local rate increase	\$70.9 m	93%
Business local rate increase	\$5.3 m	
Total residential & business	\$76.2 m	
(2) - Sprint local rate increase: Direct testimony of Mr. Felz, Exhibit JMF-12.		
Residential local rate increase	\$122.9 m	86%
Business local rate increase	\$19.2 m	
Total residential & business	\$142.1 m	
(3) - BellSouth local rate increase: Direct testimony of Mr. Ruscilli, p. 8 & 9.		
Mirroring method:		
Res. local recurring increase	\$118.9 m	87% (a)
Bus. local + misc. resid.	\$17.4 m	
Total residential and business	\$136.3 m	
Typical method:		
Res. local recurring increase	\$107.8 m	86% (a)
Bus. local + misc. resid.	\$17.4 m	
Total residential & business	\$125.2 m	
(a) - Percentage residential increase is conservative since it does not include increase in nonrecurring residential rates, so 87% is used.		

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