

ORIGINAL

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November 26, 2003

Via Federal Express
Mrs. Blanca S. Bayó
Director, Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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03 DEC -1 AM 11:29
COMMISSION
CLERK

Re: Docket No. 030869-TP: Petition by BellSouth Telecommunications, Inc. to Reduce its Network Access Charges Applicable to Intrastate Long Distance in a Revenue-Neutral manner

Docket No. 030867-TP: 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. 030868-TP: 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. 030961-TI: Flow-through of LEC Switched Access Reductions by IXC's, Pursuant to Section 364.163(2), Florida Statutes

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Long Distance, Inc.'s Rebuttal Testimony of Dirk S. Henson, which we ask that you file in the captioned dockets.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

Sincerely,

Harris R. Anthony

cc: All Parties of Record

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DOCUMENT NUMBER-DATE

12139 DEC-1 03

FPSC-COMMISSION CLERK

RECEIVED: FPSC
03 DEC -1 PM 9:50
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN THE MATTER OF
THE PETITIONS OF VERIZON FLORIDA, INC.,
BELLSOUTH TELECOMMUNICATIONS, INC. AND SPRINT FLORIDA, INC.
TO REFORM THEIR INTRASTATE NETWORK ACCESS
AND BASIC LOCAL TELECOMMUNICATIONS RATES
IN ACCORDANCE WITH FLORIDA STATUTES, SECTION 364.164, AND
FLOW-THROUGH OF LEC SWITCHED ACCESS REDUCTIONS BY IXC_s,
PURSUANT TO SECTION 364.163(2), FLORIDA STATUTES**

DOCKET NOS. 030867-TL, 030868-TL, 030869-TL, 030961-TI

REBUTTAL TESTIMONY OF

DIRK S. HENSON

ON BEHALF OF

BELLSOUTH LONG DISTANCE, INC.

NOVEMBER 26, 2003

DOCUMENT NUMBER-DATE

12139 DEC-18

FPSC-COMMISSION CLERK

1 BELL SOUTH LONG DISTANCE, INC.

2 REBUTTAL TESTIMONY OF DIRK S. HENSON

3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

4 DOCKET NOS. 030867-TL, 030868-TL, 030869-TL, AND 030961-TI

5 NOVEMBER 26, 2003

6
7 **Q. WOULD YOU STATE YOUR NAME AND BUSINESS ADDRESS?**

8 A. My name is Dirk S. Henson – Senior Director of Marketing and Product Development
9 for BellSouth Long Distance, Inc., 400 Perimeter Center Terrace, Suite 350, Atlanta, GA
10 30346.

11
12 **Q. ARE YOU THE SAME DIRK S. HENSON WHO CAUSED TO BE FILED**
13 **DIRECT TESTIMONY ON BEHALF OF BELL SOUTH LONG DISTANCE IN**
14 **THESE DOCKETS ON NOVEMBER 19, 2003?**

15 A. Yes.

16
17 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

18 A. In my rebuttal testimony, I address a number of positions taken by Mr. Bion C.
19 Ostrander, who filed testimony in these dockets on behalf of the Office of Public
20 Counsel.

21

1 In particular, I explain why the Commission should look at access minutes of use
2 (“AMOU”), rather than revenues, when determining what information intrastate
3 interexchange telecommunications carriers (“IXCs”) should file with the Commission;
4 why the rates of IXCs do not need to be capped for any period of time; why the mix of
5 local exchange company (“LEC”) local rate increases for residential and business
6 customers should have no bearing on the particular rates IXCs reduce when they pass
7 through access reductions; and why the IXCs should be allowed to follow the dictates of
8 the long distance market when they reduce rates to reflect the access reductions.

9
10 **Q. CAN YOU PLEASE ADDRESS MR. OSTRANDER’S ASSERTION THAT IXCs**
11 **SHOULD PROVIDE TO THIS COMMISSION INFORMATION RELATED TO**
12 **THE AMOUNT AND PERCENT OF REVENUES RECEIVED FROM**
13 **RESIDENTIAL VERSUS BUSINESS CUSTOMER?**

14 **A.** Yes. When determining whether an IXC has distributed revenue reductions resulting
15 from access charge reductions in a roughly proportionate manner between residential and
16 business customers, the relevant criterion is the number of AMOUs for each group of
17 customers, not the long distance revenues attributable to each group.

18
19 The magnitude of access rate reductions that an IXC will receive will be determined by
20 the number of AMOUs it originates and terminates on each LEC’s network. This
21 number, in turn, is related to the number and duration of calls made by its customers.

1 As a consequence, the appropriate measure of how much of an IXC's access reduction is
2 attributable to residential versus business customers and thus how much corresponding
3 benefit each group should receive in the form of lower rates is the number of AMOUs
4 generated by each group. Using the revenues derived from each group would be
5 inappropriate since such revenues do not correspond to access usage. Revenue numbers
6 can be skewed based on such factors as residential and business plans having different
7 monthly recurring charges and rates per minute, the plan mix of an IXC's residential
8 customers versus its plan mix of business customers, and similar matters.

9
10 **Q. MR. OSTANDER ALSO SUGGESTS THAT IXCS SHOULD BE REQUIRED TO**
11 **CAP AND MAINTAIN THEIR LONG DISTANCE RATE REDUCTIONS FOR A**
12 **PERIOD OF THREE YEARS AFTER PARITY IS ACHIEVED. DO YOU**
13 **AGREE?**

14 **A.** No, and for a number of reasons. As I explain in my November 19, 2003 Direct
15 Testimony, the Florida long distance market is completely and irrevocably competitive.
16 This intense level of competition drives prices toward cost and, so long as other costs do
17 not increase, carriers will be unable to raise rates after having lowered them to pass
18 through the access reductions. Any effort by an IXC to keep the benefits of the access
19 reductions is bound for failure.

20
21 Moreover, Mr. Olander's suggestion that IXC rates be capped for three years after parity
22 is reached totally ignores the dynamics of a competitive market place. As I explained in

1 my Direct Testimony, as long as, in the aggregate, IXCs reduce their revenues in an
2 amount equal to their access reductions, IXCs must have the flexibility to raise and lower
3 rates as the market demands. Mr. Olander's proposal also totally ignores the fact that,
4 while access charges are an important part of a carrier's cost structure, they are not the
5 entirety of that structure. If some other aspect of a carrier's costs, such as postage,
6 billing and collection expenses, or wages and salaries increases, the carrier should be
7 permitted to raise its rates in a corresponding amount. To prevent this would be an
8 improper prohibition against allowing a carrier to recover its legitimately incurred
9 expenses.

10
11 **Q. WOULD YOU PLEASE COMMENT ON MR. OLANDER'S POSITION THAT**
12 **IF RESIDENTIAL CUSTOMERS BEAR A SIGNIFICANT PORTION OF ANY**
13 **INCREASES IN LOCAL RATES, THEY SHOULD RECEIVE A**
14 **PROPORTIONATE OFFSETTING BENEFIT IN LONG DISTANCE RATES?**

15 **A.** Mr. Olander's assertion is neither supported by the law nor would it be good policy.

16 Florida Statutes, Section 364.163(2), states:

17 Any intrastate interexchange telecommunications company...
18 shall decrease its intrastate long distance revenues by the amount
19 necessary to return the benefits of such reduction to both its
20 residential and business customers. The intrastate interexchange
21 telecommunications company may determine the specific intrastate
22 rates to be decreased, provided that residential and business customers
23 benefit from the rate decreases. [emphasis added]

24
25 A plain reading of this language makes it clear that the legislature left it to the IXCs, not
26 this Commission, to determine what rates they would reduce to pass through the access

1 reductions they receive. BellSouth Long Distance has already gone on record as stating
2 that it will pass through the benefits of the access reductions it receives in an
3 approximately pro rata basis between its residential and business customers. As
4 explained above and in my Direct Testimony, BellSouth Long Distance will determine
5 this pro ration based on the number of AMOUs generated by each customer group. It
6 will then decide which specific rates to reduce based upon the amount of access
7 reductions it will receive and the dictates of the market. This, unlike Mr. Olander's
8 position, is entirely consistent with the requirements of Section 364.163(2).

9
10 It would also be bad policy for the Commission to adopt Mr. Olander's suggestion. The
11 manner in which the LECs choose to implement Section 364.164 is completely beyond
12 the control of IXCs like BellSouth Long Distance. To require BellSouth Long Distance
13 to reduce a specific set of rates based on the particular rates that are increased by the
14 LECs creates a linkage that is both unreasonable and likely to create market distortions.
15 As an initial matter, there is no evidence whatsoever that any particular IXC's revenue
16 mix generated from its residential and business customers bears any relationship to the
17 corresponding revenue mix of any LEC. Furthermore, a particular LEC may
18 hypothetically decide to place 75% of its rate increases on its residential customers, while
19 an IXC's customer base may, for example, be 90% business and 10% residence
20 customers. It would be patently unreasonable to require such an IXC to flow through
21 75% of its rate reductions to 10% of its customer base. This problem is exacerbated for a
22 carrier like BellSouth Long Distance, that serves only a de minimus number of customers

1 who are not local customers of BellSouth Telecommunications, Inc. While BellSouth
2 Long Distance may terminate calls to customers of Verizon and Sprint, it should not be
3 required to base its rate reduction design on how those carriers decide to implement local
4 rate increases. There is simply no linkage between what the LECs do with their rates and
5 what the IXC's should do with theirs.

6
7 **Q. SHOULD ALL RESIDENTIAL AND BUSINESS CUSTOMERS EXPERIENCE A**
8 **REDUCTION IN LONG DISTANCE RATES, AS ASSERTED BY MR.**
9 **OSTANDER?**

10 A. No. Essentially, Mr. Olander's proposal in this regard would require an IXC to have an
11 across the board rate reduction. As noted above, Section 364.163(2) gives IXCs the
12 discretion as to how to reduce their revenues, so long as both their residential and
13 business customers benefit from the rate reduction. While a given carrier may choose to
14 spread reductions across all its services, there are many reasons why it may decide to
15 focus on a smaller number of plans. For example, a certain plan may be an important
16 part of a given IXC's marketing strategy. Similarly, market forces, such as the relative
17 prices of analogous plan offered by competitors, may dictate a need to reduce the rates of
18 particular plans.

19
20 In any event, as I explain in my Direct Testimony, customers will have the opportunity to
21 benefit from rate reductions by switching plans or carriers.

1 | **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?** |

2 | A. Yes.

CERTIFICATE OF SERVICE

Docket Nos. 030867-TL, 030868-TL, 030869-TL and 030961-TI

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via

Electronic Mail and Federal Express this 26th day of November 2003 to the following:

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