

ORIGINAL

ATTACHMENT B

**BellSouth Telecommunications, Inc.
Request for Confidential Classification**

**Page 1
12/9/03**

**REQUEST FOR CONFIDENTIAL CLASSIFICATION OF THE REBUTTAL
TESTIMONY OF STEVE BIGELOW, JOHN A. RUSCILLI, AND FOR EXHIBIT WBS-
1 OF W. BERNARD SHELL'S REBUTTAL TESTIMONY FILED IN FPSC DOCKETS
030867-TL, 030868-TL, 030869-TL, AND 030961-TI ON NOVEMBER 19, 2003.**

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Residential Basic Exchange Line

	A	B	C=A+B	D	E=D*(1+9.59%)	F=C-E
		* SLC		TSLRIC	TSLRIC w/ Allocated Retail Costs (9.59%)	Total Rate - TSLRIC w/Allocated Retail
Rate Group	Rate	Charge	Total Rate	TSLRIC		
1	\$7.57	\$6.59	\$14.16			
2	\$7.98	\$6.59	\$14.57			
3	\$8.39	\$6.59	\$14.98			
4	\$8.71	\$6.59	\$15.30			
5	\$9.12	\$6.59	\$15.71			
6	\$9.49	\$6.59	\$16.08			
7	\$9.85	\$6.59	\$16.44			
8	\$10.16	\$6.59	\$16.75			
9	\$10.42	\$6.59	\$17.01			
10	\$10.68	\$6.59	\$17.27			
11	\$10.83	\$6.59	\$17.42			
12	\$11.04	\$6.59	\$17.63			
Statewide						

* Reflects penetration of second lines.

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BELLSOUTH TELECOMMUNICATIONS, INC.
REBUTTAL TESTIMONY OF E. STEVEN BIGELOW
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NOS. 030867-TL, 030868-TL, 030869-TL & 030961-TL
NOVEMBER 19, 2003

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

A. My name is E. Steven Bigelow. My business address is 3535 Colonnade Parkway, Birmingham, Alabama. I am a Director in the Pricing Strategy Department of BellSouth Telecommunications, Inc. ("BellSouth"). My area of responsibility is the provision of demand and revenue analysis in support of regulatory filings.

Q. ARE YOU THE SAME STEVE BIGELOW WHO FILED DIRECT TESTIMONY?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut witness Dr. David J. Gabel's calculation of BellSouth's average business rate in Florida and witness Bion C.

1 Ostrander's estimate of the average toll minutes of use for a BellSouth
2 customer in Florida.

3

4 **Q. ON PAGE 29, LINE 1 OF HIS TESTIMONY, DR. GABEL PROVIDES A**
5 **CALCULATION OF THE AVERAGE REVENUE FOR A BUSINESS**
6 **LINE IN FLORIDA USING DATA FROM EXHIBIT SB-1. IS THERE A**
7 **PROBLEM WITH THIS AVERAGE?**

8

9 A. Yes. Dr Gabel's calculation is based on the data contained in the original
10 exhibit SB-1. Prior to re-filing the petition, BellSouth discovered that single
11 line business demand in Exhibit SB-1 was overstated due to a database error.
12 This error was corrected in the re-filed Exhibit SB-1. Had Dr. Gabel used the
13 correct data when he developed his testimony, he would have shown an
14 average of **begin proprietary** [REDACTED] **end proprietary**. This is composed of
15 \$6.50 for the SLC and **begin proprietary** [REDACTED] **end proprietary** for the
16 line.

17

18 **Q. BEGINNING ON PAGE 24, LINE 18 OF HIS TESTIMONY, BION**
19 **OSTRANDER EXPLAINS HOW HE DETERMINED THE AVERAGE**
20 **MINUTES OF INTRASTATE TOLL USE PER MONTH FOR A**
21 **FLORIDA RESIDENTIAL CUSTOMER. IS HIS ESTIMATE OF 44**
22 **MINUTES REASONABLE TO USE IN CALCULATING THE**
23 **BENEFITS OF BELL SOUTH'S REBALANCING PROPOSAL?**

24

25

1 A. No. The data provided to the Office of Public Counsel in response to its
2 Request for Production number 3, included a detailed study on customer
3 calling patterns in Florida. The April 2003 data BellSouth collected shows that
4 an average of **begin proprietary** [REDACTED] **end proprietary** minutes of use per
5 residence account would be a more reasonable estimate. This is composed of
6 approximately **begin proprietary** [REDACTED] **end proprietary** minutes of BellSouth
7 intraLATA toll minutes of use and approximately **begin proprietary** [REDACTED] **end**
8 **proprietary** minutes of intrastate access minutes of use.

9

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

11

12 A. Yes.

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1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY OF JOHN A. RUSCILLI
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 030867-TL, 030868-TL, 030869-TL, & 030961-TI
5 NOVEMBER 19, 2003

6
7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH
8 TELECOMMUNICATIONS, INC. (“BELLSOUTH”) AND YOUR
9 BUSINESS ADDRESS.

10
11 A. My name is John A. Ruscilli. I am employed by BellSouth as Senior Director
12 – Policy Implementation and Regulatory Compliance for the nine-state
13 BellSouth region. My business address is 675 West Peachtree Street, Atlanta,
14 Georgia 30375.

15
16 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

17
18 A. Yes. I filed revised direct testimony in this docket on September 30, 2003.

19
20 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

21
22 A. The purpose of my rebuttal testimony is to respond to portions of the testimony
23 filed by witnesses on October 31, 2003. First, I respond briefly to the
24 testimony of Dr. John W. Mayo on behalf of AT&T of the Southern States,
25 LLC (“AT&T”) and MCI WorldCom Communications, Inc. (“MCI”), Mr.

1 Wayne Fonteix on behalf of AT&T and Mr. Felix L. Boccucci, Jr. on behalf of
2 Knology of Florida, Inc. I respond in more detail to the testimony of witnesses
3 Dr. David J. Gabel and Mr. Bion C. Ostrander on behalf of the Office of Public
4 Counsel (OPC) and Dr. Mark N. Cooper on behalf of AARP. In addition, I
5 briefly discuss the testimony of Staff witness Mr. Gregory L. Shafer.

6

7 Q. DO YOU HAVE ANY COMMENTS REGARDING THE TESTIMONY OF
8 THE WITNESSES SPONSORED BY AT&T, MCI AND KNOLOGY?

9

10 A. Yes. Generally speaking, BellSouth supports the testimony of these witnesses
11 and encourages the Florida Public Service Commission (“Commission”) to
12 give particular weight to those comments that describe the increased incentive
13 Section 364.164 of Florida’s Tele-Competition Innovation and Infrastructure
14 Enhancement Act (“Act”), which became law on May 23, 2003, provides to
15 companies to compete for residential customers in Florida. AT&T’s witness
16 Mr. Fonteix, at page 7, states that since passage of the Act, AT&T has entered
17 the local residential service market in Florida and attributes this entry to the
18 legislative provisions that allow for the support in basic service rates to be
19 reduced. This is significant considering AT&T could have entered the market
20 as early as 1996, but has chosen at this time to do so.

21

22 Similarly, Mr. Boccucci, at page 3 of his testimony, states that the new law
23 “will enhance the competitive choices available to Florida citizens.” As an
24 example, Mr. Boccucci states that shortly after passage of the law, Knology
25 entered into an agreement with Verizon Media Ventures, Inc. that will provide

1 opportunity to market voice, video and data services to approximately 275,000
2 homes and businesses. These local service competitors provide positive
3 evidence that elimination of the support to basic service rates as well as
4 reduction of switched access charges will induce additional entry and
5 competition into Florida's local service markets.

6

7 Q. DO YOU AGREE WITH ALL ASPECTS OF THESE WITNESSES
8 TESTIMONY?

9

10 A. Not entirely. Although BellSouth generally agrees with AT&T's, MCI's and
11 Knology's testimony, BellSouth takes exception to certain statements made by
12 Dr. Mayo and Mr. Fonteix. First, BellSouth takes exception to the
13 unsupported and speculative allegations of non-price discriminatory conduct
14 mentioned in Dr. Mayo's testimony at pages 18-19. His allegations lack any
15 evidence whatsoever and are not the subject of this case. Second, I refer to
16 pages 2-3 of Mr. Fonteix's testimony. Although Mr. Fonteix clearly
17 acknowledges that local exchange service rates are subsidized, he suggests that
18 the "subsidy allows incumbent providers to subject their competitors to an anti-
19 competitive price squeeze." In reality, the subsidy in basic service rates is a
20 result of social pricing, which BellSouth has advocated for many years must
21 end. Mr. Fonteix seems to suggest that several decades ago ILECs established
22 this support just so they could leverage an anti-competitive price squeeze to
23 thwart competition in 2003.

24

25

1 Q. DO YOU HAVE ANY COMMENTS REGARDING THE TESTIMONY OF
2 DR. GABEL AND MR. OSTRANDER SPONSORED BY OPC?

3

4 A. Yes, I have several comments. Although Dr. Banerjee, Dr. Gordon and Mr.
5 Shell rebut the majority of Dr. Gabel's testimony, I wish to respond to certain
6 of his statements. After addressing Dr. Gabel's testimony, I will respond to
7 numerous points contained in Mr. Ostrander's testimony.

8

9 Q. AT PAGE 7, DR. GABEL ATTEMPTS TO ARGUE THAT THE
10 LEGISLATURE SOMEHOW EXPECTS THAT TOTAL REVENUES
11 SHOULD BE USED IN DETERMINING WHETHER OR NOT A SUBSIDY
12 EXISTS IN BASIC LOCAL SERVICE. IS HIS ARGUMENT CONSISTENT
13 WITH THE WORDING OF SECTION 364.164?

14

15 A. No. Dr. Gabel's statement that any rate rebalancing "implicitly acknowledges
16 that ILECs look at the entire revenue package" is totally unsupported. Section
17 364.164 describes rebalancing of intrastate switched access revenues with
18 basic local telecommunications service revenues on a revenue neutral basis.
19 Basic local telecommunications service as defined by Section 364.02(1) means
20 voice-grade, flat-rate residential, and flat-rate single-line business local
21 exchange services. The Statute is clear; revenue neutral rate rebalancing is to
22 occur between switched access revenues and basic local service revenues.
23 Nowhere in Section 364.164 or elsewhere in the Statute is there reference to
24 other services being considered.

25

1 Q. IN DISCUSSING COMPLEMENTARY SERVICES AT PAGES 64-65, DR.
2 GABEL ATTEMPTS TO COMPARE THE PROVISION OF BASIC LOCAL
3 SERVICE TO RAZORS AND COMPUTER PRINTERS. IS THIS A
4 REASONABLE COMPARISON?

5
6 A. Absolutely not. Dr. Gabel describes how Gillette sells its razors at a low price
7 but makes substantial profit on replacement blades. He further explains that
8 printer manufacturers market their printers at low up front prices in order to
9 lock in customers who must purchase expensive ink cartridges that only fit the
10 specific printer purchased. Dr. Gabel's comparison simply doesn't wash.
11 First, and most importantly, basic local service is a standalone product.
12 Although there are complementary services a customer could purchase, there is
13 no requirement that they do so. To the extent that any customer in BellSouth's
14 territory wants only basic local service, BellSouth provides that service at a
15 below cost rate that has been controlled by government regulation. Unlike dull
16 razor blades and empty ink cartridges, our customers never run out of dial tone.

17
18 Second, unlike Gillette and the printer manufacturer, BellSouth cannot enter
19 and exit markets at will based on profitability or any other criteria. BellSouth
20 must respond to any reasonable request for service, even if the customer only
21 requests below cost basic local service. Gillette and the printer manufacturer
22 are guaranteed complementary service revenues, but BellSouth has no such
23 guarantee. And this is no small issue in Florida. In fact, if you look just at the
24 line and complementary vertical features, a full 39% of BellSouth's non-
25 packaged residence lines in Florida are just basic local service with no features.

1 Particularly given the low rates for basic residence service in Florida, the
2 opportunity to sell complementary features or bundles to this group of
3 customers is small.

4
5 Q. MUCH OF MR. OSTRANDER'S TESTIMONY RELIES ON THE PREMISE
6 THAT SECTION 364.164 REQUIRES THAT BELLSOUTH'S PROPOSAL
7 RESULT IN TANGIBLE NET BENEFITS TO RESIDENTIAL
8 CUSTOMERS. IS HIS PREMISE CORRECT?

9
10 A. No. Mr. Ostrander relies on an erroneous premise, and as such, much of Mr.
11 Ostrander's testimony is irrelevant. There is nothing in Section 364.164 that
12 requires such an outcome. For all of Mr. Ostrander's protests about legislative
13 intent, the Legislature could easily have included language requiring net
14 tangible benefits to residential customers if they believed it was appropriate.
15 However, the Statute contains no such language. The requirement of Section
16 364.164 is that support for basic service rates be removed. The Statute
17 presumes, and rightfully so, that removal of support will create a more
18 competitive local market which will be to the benefit of residential customers.
19 Section 364.164 establishes a process by which ILECs are able to reduce
20 switched access revenues and recover any revenue losses by increasing basic
21 local rates. In other words, the reductions and increases are to be revenue
22 neutral. The type of net tangible benefits that Mr. Ostrander describes can
23 hardly be the outcome when the goal is revenue neutrality. The benefits
24 accruing to residential customers as envisioned by the Statute are clearly in the
25 new choices of providers and services that additional competition will bring as

1 well as in the pass-through of access reductions in the form of reduced toll
2 rates.

3

4 Q. AT PAGES 5-6 MR. OSTRANDER LISTS FIVE AREAS WHERE HE SAYS
5 THAT THE ILEC PROPOSALS CANNOT PROVE A NET BENEFIT TO
6 RESIDENTIAL CUSTOMERS. FOR THE FIRST AREA, AT PAGES 9-10,
7 MR. OSTRANDER COMPLAINS THAT BELLSOUTH'S PROPOSAL
8 WILL NOT ENHANCE COMPETITION. PLEASE RESPOND.

9

10 A. As explained above, net benefits are not a requirement of the statute.
11 However, a natural outcome of removing support from basic local service will
12 be to move prices closer to market-based levels. As discussed in Dr.
13 Banerjee's testimony, by moving prices closer to market-based levels,
14 competitors will be induced to market to those customers formerly protected
15 by below cost pricing. Further, Mr. Ostrander's testimony is belied by the
16 testimony of AT&T, MCI and Knology. These competitors state without
17 reservation that the prospect of removing the support in local service rates has
18 clearly caused them to be more aggressive in the residential market in Florida.

19

20 Q. IN HIS SECOND AREA, MR. OSTRANDER ARGUES THAT LOCAL
21 RATE INCREASES EXCEED TOLL RATE REDUCTIONS FOR THE
22 AVERAGE CUSTOMER. PLEASE COMMENT.

23

24 A. Shortly I will address certain of Mr. Ostrander's assumptions regarding his
25 analysis. However, here I wish to point out that Section 364.164 does not

1 require revenue neutrality between basic service revenues and toll revenues.
2 Instead, it requires revenue neutrality between basic service revenues and
3 switched access revenues. BellSouth can only ensure that switched access
4 revenue reductions are revenue neutral with increased local service revenues.
5 BellSouth does not control the interexchange carriers' ("IXC") toll prices in
6 the state of Florida. As provided for in the Statute, the Commission will
7 ensure that switched access reductions will be passed through to toll customers
8 in the form of reduced toll prices.

9

10 Q. IN THE THIRD AREA DESCRIBED IN PAGES 40-41, MR. OSTRANDER
11 DEMANDS THAT ILECS PROVE THAT THEIR PROPOSALS WILL
12 RESULT IN NEW OR UNIQUE SERVICE INTRODUCTIONS. IS THERE
13 SUCH A REQUIREMENT?

14

15 A. No. Although the natural result of additional competition will be the
16 introduction of new services and service bundles to the benefit of residential
17 customers, there is no specific requirement contained in the Statute. Mr.
18 Ostrander also suggests that these new services should be "unique to Florida
19 and not available in other states." There is no such requirement contained in
20 the Statute.

21

22 Q. IN HIS FOURTH AREA, COVERED IN PAGES 38-40, MR. OSTRANDER
23 ARGUES THAT BELL SOUTH'S PROPOSAL WILL PRODUCE NO
24 UNIQUELY ASSOCIATED BENEFITS OF CAPITAL INVESTMENT.
25 PLEASE COMMENT.

1

2 A. The Statute contains no reference to increased capital investment. However,
3 the testimony of Mr. Boccucci does support the contention that the ILEC
4 proposals will enhance competitive choices for Florida customers. Naturally,
5 increased competition will mean new capital investment will be attracted to
6 Florida. Mr. Boccucci states at page 2 of his testimony that Knology believes
7 that "364.164 creates the framework to promote facility-based local exchange
8 competition." Facilities-based competition requires capital investment.

9

10 Q. FIFTH, AND FINALLY, MR. OSTRANDER, INVENTS A CRITERIA OF
11 THE LEGISLATION THAT PROPOSALS MUST INSURE SERVICE
12 QUALITY IMPROVEMENT. PLEASE COMMENT?

13

14 A. Not only is there no such requirement in the Statute, the entire idea is
15 completely inconsistent with a competitive local service market. In a
16 competitive market, service quality does not need to be regulated or mandated.
17 The market itself will dictate good service quality. If a customer is not
18 satisfied with the service provided by their current service provider, they will
19 choose another service provider. Any carrier that provides poor service cannot
20 expect to retain and certainly cannot expect to increase its market share. Good
21 service quality is another positive outcome of a highly competitive market.

22

23 Q. EARLIER YOU MENTIONED YOU HAD COMMENTS REGARDING MR.
24 OSTRANDER'S TESTIMONY WHERE HE PURPORTS TO CONDUCT A

25

1 TOLL ANALYSIS TO SHOW THAT TOLL REDUCTIONS DO NOT
2 OFFSET LOCAL SERVICE INCREASES. PLEASE ELABORATE.

3

4 A. As I noted earlier, there is no requirement that local service increases be offset.
5 by toll reductions. There is only a requirement that decreases in switched
6 access revenues be offset by increases in local service revenues. Beyond this
7 fundamental problem with Mr. Ostrander's argument, there are other problems
8 with his analysis. First, Mr. Ostrander uses the FCC's Trends in Telephone
9 Service Report dated August 2003 to come up with 44 minutes¹ of nationwide
10 average intrastate toll minutes by residential customers in a month. However,
11 Mr. Ostrander has in his possession an EXCEL spreadsheet provided by
12 BellSouth in response to Production of Documents ("POD") # 3 in OPC's First
13 Set of Interrogatories and PODs, showing the actual intrastate toll usage for
14 residential customers in Florida of **begin proprietary** [REDACTED] **end proprietary**
15 minutes per month. Even after Mr. Ostrander doubles the 44 minutes to 88
16 minutes, the intrastate toll usage in his analysis is still **begin proprietary** [REDACTED]
17 **end proprietary** below the actual usage in Florida.

18

19 Although he correctly excludes interstate minutes from his calculation, he fails
20 to do so in another area of his analysis. Interestingly, he cites to the same FCC
21 report at page 30 to show that the nationwide average toll rate is 8 cents per
22 minute. Mr. Ostrander attempts to argue that with a low average toll rate of 8

23

24 ¹ Although Table 14.2 of the FCC's August 2003 *Trends in Telephone Service Report* is titled "Average
25 Residential Monthly Toll Calls", Mr. Ostrander has apparently recognized that previous versions of the
report, i.e. May 2002 indicate that Table 14.2 is actually the average residential monthly toll minutes,
not toll calls.

1 cents per minute, it would be very difficult for IXCs to lower this rate to make
2 toll rate reductions cover increases in local rates. However, the 8 cents used in
3 Mr. Ostrander's analysis (found in Table 13.4 of the FCC's Report), represents
4 interstate revenues, not intrastate revenues. With intrastate access charges
5 considerably higher than interstate charges, it is reasonable to assume that
6 intrastate per minute revenues would be higher than interstate revenues. The
7 point is Mr. Ostrander excludes interstate minutes where it helps his case and
8 includes interstate revenues when it helps his case, which casts doubt on the
9 credibility of his analysis.

10

11 Q. AT PAGES 33-34, MR. OSTRANDER ARGUES THAT ANY TOLL
12 REDUCTIONS THAT RESULT FROM THE ILECS' PROPOSALS CAN
13 EASILY BE TAKEN AWAY AT A LATER TIME. PLEASE COMMENT.

14

15 A. While it is true that, theoretically, IXC toll reductions occurring due to the
16 ILECs' proposals could be reversed at a later date, such an event is unlikely to
17 occur. Mr. Ostrander completely ignores the dynamics of a competitive
18 marketplace. In a highly competitive market such as the toll market,
19 competitors are constantly attempting to reduce their cost in order to be more
20 competitive. The higher priced competitor would quickly lose market share
21 to the lower priced competitors. Long distance, like gasoline, is of similar
22 quality no matter who provides the product. The public will quickly find the
23 lowest gas prices just as they will quickly find the lowest long distance prices
24 or lowest package deal.

25

1 Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING THE
2 TESTIMONY OF DR. MARK COOPER, WITNESS FOR AARP?

3

4 A. Yes. Dr. Cooper, like Mr. Ostrander, supports the faulty premise that Section
5 364.164 requires that residence customers receive net tangible benefits from
6 implementation of the ILECs' proposals. For example, at page 14, Dr. Cooper
7 states that residence customers should receive "actual net financial benefits in
8 the form of lower overall monthly bills through offsetting reductions in
9 intrastate toll rates required by the new law." He, like Mr. Ostrander, is
10 incorrect and totally misses the point of Section 364.164. This section is all
11 about the ability of ILECs to remove the support from basic service through
12 offsets in switched access revenues.

13

14 Dr. Cooper also relies heavily on another faulty premise; that competition must
15 be proven to result from increases in residence and single-line business rates.
16 Beginning at page 12, Dr. Cooper bases his premise on what he perceives as
17 legislative intent. However, once again, had the Legislature intended that
18 competition must be proven to result from the ILECs proposals, language to
19 that effect would have been included in Section 364.164. Instead, the
20 Legislature concluded that pricing subsidies inhibit competition while pricing
21 based on market conditions induces entry and stimulates competition. The
22 Legislature reasonably concluded that, as evidenced by the language of the
23 Statute, supporting a service prevents the creation of a more attractive local
24 market. Removal of that support, therefore, eliminates an artificial barrier to
25 competition and the resulting increase in competitive choices will be beneficial

1 to residence customers. The fact remains, as Mr. Shell demonstrates, that
2 residential service is priced below its relevant cost, a condition that cannot be
3 allowed to continue if a truly competitive local service market is the goal. Dr.
4 Cooper and the AARP cannot simply wish away the cost evidence presented in
5 this case.

6

7 Q. BEGINNING AT PAGE 28, DR. COOPER ARGUES THAT BECAUSE
8 COMPETITORS OFFER BUNDLES OF SERVICES, IT IS IRRELEVANT
9 THAT BASIC SERVICE IS PRICED BELOW COST. DO YOU AGREE?

10

11 A. No. While it is true that most competitors offer bundles of services versus
12 basic service only, Dr. Cooper fails to recognize the importance of pricing
13 basic service above cost. By increasing the price of basic service to a more
14 market-based level, the bundles that competitors offer will become more
15 attractive. As noted earlier, currently 39% of non-packaged residence lines in
16 Florida are receiving basic local service only with no features. Raising the
17 price of basic service to cover its cost will induce competitors to more
18 aggressively market their services to these customers and a customer that is
19 paying a market rate for basic service is more likely to consider other service
20 options.

21

22 Q. DR. COOPER COMPLAINS AT PAGES 30-31 THAT THE MAJORITY OF
23 REVENUE INCREASES IN THE ILECS' PROPOSALS ARE ON
24 RESIDENCE SERVICE; THAT MULTI-LINE BUSINESS AND BIG

25

1 BUSINESS CUSTOMERS WILL EXPERIENCE NO RATE INCREASES
2 AT ALL. PLEASE COMMENT.

3

4 A. Dr. Cooper is correct that the majority of revenue increases will apply to
5 residential customers, and for good reason. The Statute calls for the removal
6 of the support in basic service and, with the one exception of single-line
7 business rates in Rate Group 2, it is only residence service where the support
8 resides. Historically it has been primarily switched access service and business
9 services that have contributed to the support in basic service rates; therefore, it
10 would be nonsensical to raise business rates in order to eliminate the support in
11 residence service rates.

12

13 As explained in my revised direct testimony, the support resides in basic
14 service rates and is more pronounced in the more rural rate groups. However,
15 to be sensitive to the potential rate increases that could affect the most rural
16 customers, BellSouth proposes that all residential rate groups be increased by
17 the same amount. Although this proposal does not move rural rates to cover
18 their cost, it does move in the right direction without creating rate shock. Dr.
19 Cooper's proposal would only exacerbate the current situation where residence
20 rates, particularly in rural areas, are already far from covering their costs. Such
21 a philosophy only shifts the support rather than removing it as required by the
22 Statute.

23

24 Q. IN A SIMILAR VEIN, AT PAGE 32, DR. COOPER SUGGESTS THAT
25 "THE COMMISSION SHOULD REQUIRE THAT THE INCREASE IN

1 BASIC RATES BE ALLOCATED IN PROPORTION TO ACCESS
2 MINUTES OF USE BETWEEN THE CLASSES.” SHOULD THE
3 COMMISSION CONSIDER HIS SUGGESTION?

4
5 A. No. The support in basic local service rates did not evolve based on the
6 allocation of access minutes of use between the classes and should not be
7 removed on that basis. Dr. Cooper’s proposals to apply rate increases to
8 business and to allocate increases based on access minutes of use would simply
9 result in shifting the support around and not removing it as called for by
10 Section 364.164. Dr. Banerjee also addresses Dr. Cooper on this point from an
11 economic perspective.

12
13 Q. DR. COOPER, CONTINUES ON PAGE 32 BY EXPRESSING CONCERN
14 THAT HIS CLIENTS, OLDER FLORIDIANS, ARE LIKELY TO BE
15 HARDEST HIT BY RATE REBALANCING BECAUSE THEY MAKE
16 FEWER LONG DISTANCE CALLS. PLEASE COMMENT.

17
18 A. First, as noted previously, there is no direct relationship in Section 364.164
19 between basic rate increases and toll reductions, particularly for purposes of
20 the ILECs’ rebalancing proposals. The Commission, however, as noted in its
21 Order # PSC-03-1240-PCO-TL, dated November 4, 2003, will be addressing
22 the issues surrounding toll reductions by consolidating this proceeding with
23 Docket No. 030961-TI (Flow-through of LEC Switched Access Reductions by
24 IXC’s, Pursuant to Section 364.163(2), Florida Statutes).

25

1 Next, BellSouth is sensitive to the needs of older Floridians as well as that
 2 segment of the population that can least afford increases in services such as
 3 telephone, gas, electric, etc. The Lifeline and Link Up programs are designed
 4 to provide assistance to those in need. However, being an older Floridian does
 5 not automatically mean that raising basic service rates to market levels will
 6 cause a hardship. To demonstrate this point, following is Figure 1 that
 7 compares Florida's citizens, aged 65 and older, to other states in BellSouth's
 8 region. Not surprisingly, Florida has the largest percentage of persons 65 years
 9 and older of any BellSouth state, representing 17.6% of the general Florida
 10 population. However, of that 17.6%, only 8.4% are considered to be below the
 11 poverty level compared to the other states that range between 10.3% and
 12 17.7% in poverty.

13

14 **Figure 1**

State	% 65 + of Population	% 65 + In Poverty	RG 1 Res. Rate	RG 12 Res. Rate
FL	17.6	8.4	\$7.57	\$11.04
AL	13.0	15.3	\$14.60	\$16.30
GA	9.6	10.3	\$12.50	\$17.45
KY	12.5	13.3	\$15.20	\$18.40
LA	11.6	16.8	\$10.97	\$12.64
MS	12.1	17.7	\$14.79	\$19.01
NC	12.0	12.7	\$10.96	\$13.91
SC	12.1	12.6	\$12.70	\$15.40
TN	12.4	15.2	\$7.55	\$12.15

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19
20 Source of Age 65 + Data: US Census Bureau, Census 2000 Sample Data File. Extracted from Table compiled by the US Administration on Aging. Service rates are from BellSouth's GSST.

21 This data is far more significant when viewed in the context of the basic
 22 residence service rates compared across the nine BellSouth states. The data is
 23 clear; Florida's older citizens not only pay less for residence telephone service
 24 than their age group in other states, but they are also more financially capable
 25 of paying those rates than their counterparts in other states. Even with the

1 \$3.89 monthly increases proposed in three annual increments under
2 BellSouth's mirroring methodology, Florida's local residence service rates will
3 be \$11.46 in the lowest rate group and \$14.93 in the highest rate group.
4 Florida's rates will still be the 4th lowest in the region, and this assumes no
5 increases in rates in the other states.

6

7 Q. IS THERE COMMISSION DATA AVAILABLE THAT SUPPORTS THE
8 AFFORDABILITY OF THE BASIC SERVICE INCREASES CONTAINED
9 IN BELLSOUTH'S PROPOSAL?

10

11 A. Yes. This Commission has published data that indicates that the increases in
12 basic service rates contained in BellSouth's proposal are fair and reasonable
13 and would not "compromise the affordability of residential basic local service
14 for the vast majority of customers."² More specifically, the Commission
15 concluded that "Price regulated companies should be allowed to increase
16 residential and single line business basic local rates by an amount not to exceed
17 \$5 per month, as part of a Commission-verified revenue-neutral rate
18 rebalancing plan. Any such monthly rate increase should be phased in over a
19 three to five year period at not more than \$2 per year."³ BellSouth's proposal
20 to increase basic service rates in a revenue neutral manner with switched
21 access reductions is consistent with the Commission's conclusions.

22

23 ² See, *Report of the Florida Public Service Commission on the Relationships Among the Costs and*
24 *Charges Associated with Providing Basic Local Service, Intrastate Access, and other Services Provided*
25 *by Local Exchange Companies, in Compliance with Chapter 98-277, Section 2(1), Laws of Florida*
AND The Conclusions of the Florida Public Service Commission as to the Fair and Reasonable Florida
Residential Basic Local Telecommunications Service Rate, in Compliance with Chapter 98-277, Section
2(2)(A), Laws of Florida; dated February 15, 1999, page 125.

³ *Id*

1

2 Q. DR. COOPER EXPRESSES CONCERN THAT LIFELINE RATES ARE
3 ONLY "TEMPORARILY" PROTECTED FROM INCREASES UNDER THE
4 ILECS' PROPOSALS. PLEASE COMMENT.

5

6 A. First, Section 364.164 expanded Lifeline support to eligible customers who
7 meet an income eligibility test of 125% or less of federal poverty income
8 guidelines. Second, Section 364.10(3)(c) specifies that an ILEC cannot
9 increase Lifeline rates until the ILEC reaches parity with interstate switched
10 access rates, or until the customer no longer qualifies or unless otherwise
11 determined by the Commission. Beyond that requirement, BellSouth's
12 proposal contains a voluntary provision that would protect against Lifeline
13 increases for four years. However, at page 33, in an unbelievable statement,
14 Dr. Cooper states that, "it is questionable whether the law will allow such
15 expansion." The question I would pose to Dr. Cooper is: "Exactly who would
16 oppose such a provision; who would question the law?" BellSouth would
17 certainly not oppose it, not the OPC or the Commission, or I assume, not
18 AARP. In fact, it is highly unlikely that "any" party would question the law on
19 this point.

20

21 Q. WITH RESPECT TO THE 125% LIFELINE INCOME ELIGIBILITY TEST,
22 DURING THE RECENT SERVICE HEARINGS, MR. TWOMEY'S
23 QUESTIONING OF SOME WITNESSES INDICATES THAT AARP
24 BELIEVES THAT EXPANSION OF LIFELINE ELIGIBILITY WOULD

25

1 OCCUR INDEPENDENT OF THE APPROVAL AND IMPLEMENTATION
2 OF BELLSOUTH'S PROPOSAL. IS HE CORRECT?

3

4 A. No, Mr. Twomey is incorrect. Section 364.10(3)(a) of the Statute specifically
5 associates the income eligibility test of 125% or less of the federal poverty
6 income guidelines with implementation of Section 364.164 as follows:

7 "Effective September 1, 2003, any local exchange telecommunications
8 company authorized by the commission to reduce its switched network
9 access rate pursuant to s. 364.164 shall have tariffed and shall provide
10 Lifeline service to any otherwise eligible customer or potential
11 customer who meets an income eligibility test at 125 percent or less of
12 the federal poverty income guidelines for Lifeline customers. Such a
13 test for eligibility must augment, rather than replace, the eligibility
14 standards established by federal law and based on participation in
15 certain low-income assistance programs."

16 It is clear from the language of the Statute, that the 125% income eligibility
17 test is tied explicitly to the terms of Section 364.164. Although this is not an
18 issue with BellSouth, because BellSouth's Lifeline tariff has supported the
19 125% income eligibility test since March 2002, it is important to clarify this
20 point. The citizens of Florida should not be misled by AARP as to the specific
21 Language of the Statute and the clear association the Legislature made between
22 reduction in switched access rates pursuant to Section 364.164 and the Lifeline
23 income eligibility increase to 125%.

24

25

1 Q. AT PAGE 35, DR. COOPER SUGGESTS THAT IF THE COMMISSION
2 GRANTS THE ILECS' PROPOSALS THE COMPANIES "MAY
3 UNILATERALLY DEPRIVE THE COMMISSION OF ITS QUALITY OF
4 SERVICE JURISDICTION ONCE PARITY IS REACHED." DO YOU
5 AGREE?

6

7 A. No, I do not agree. Quality of service standards do not automatically go away
8 when the ILECs' switched access rates reach parity with interstate rates.
9 Section 364.051(6) discusses this situation in detail as follows:

10

11 The company's retail service quality requirements that are not already
12 equal to the service quality requirements imposed upon the competitive
13 local exchange telecommunications companies shall thereafter be no
14 greater than those imposed upon competitive local exchange
15 telecommunications companies unless the commission, within 120 days
16 after the company's election, determines otherwise. In such event, the
17 commission may grant some reductions in service quality requirements in
18 some or all of the company's local calling areas. The commission may
19 not impose retail service quality requirements on competitive local
20 exchange telecommunications companies greater than those existing on
21 January 1, 2003.

22

23 The Statute is clear that service quality standards remain under the control of
24 the Commission. However, the Statute also recognizes that in a fully

25

1 competitive market, service quality standards must be the same for all
2 competitors.

3

4 Q. AT PAGE 30 OF HIS TESTIMONY, DR. COOPER STATES THAT
5 LOWERING UNE PRICES IS ONE OF THE KEYS TO STIMULATING
6 COMPETITION. DO YOU AGREE?

7

8 A. No, I do not agree with Dr. Cooper or with Dr. Gabel who makes a similar
9 point in his testimony at page 40. UNE rates are sufficiently low to attract
10 competitors assuming retail rates are not set at artificially low levels making
11 further entry unattractive. The Commission appears to agree as evidenced by
12 the Annual Report on Competition dated December 2002. At page 33, in
13 discussing UNE-P margins for CLECs, the report states, "It should be
14 emphasized that low margins may be more the result of low local rates than
15 high UNE-P rates. The residential rates in Florida are lower than most other
16 states. Thus, even though UNE rates in Florida may be comparable to other
17 states, ALECS may find the residential market less attractive because of the
18 low local rates."

19

20 Q. DO YOU WISH TO COMMENT ON THE TESTIMONY OF STAFF
21 WITNESS, MR. SHAFER?

22

23 A. Yes, I do. First, the Staff has appropriately confined its analysis of the ILECs'
24 proposals to the provisions set forth in Florida Statutes. Unlike witnesses for
25 OPC and AARP, the Staff relies on the language contained in Section 364.164

1 and other provisions of the Statute without speculating on what individual
2 Legislators might have been thinking or without inventing requirements not
3 contained in the Statute. As such, the Staff's analysis of the ILEC proposals is
4 considerably different from those of OPC and AARP. Following are a few
5 statements contained in Mr. Shafer's testimony that are directly opposed to the
6 views and the testimony of OPC and AARP.

7 Page 7, Lines 5-7: "To the degree that basic local service rates are below cost,
8 that is a significant deterrent to market entry for that particular service."

9 Page 7, Lines 11-13: "There are strong theoretical reasons to believe that the
10 proposed changes to intrastate access charges and basic local service rates will
11 improve the level of competition in many markets."

12 Page 8, Lines 9-15: "Thus, the price of local exchange service is a critical
13 element for competitors to consider when choosing whether to enter a
14 particular market but is not the only factor. The profitability of these other
15 services also plays a role in the market entry decision. This phenomenon also
16 explains why some residential competition persists even in light of the
17 evidence that basic local exchange service on its own is priced below cost on
18 average."

19 Page 8, Lines 20-23: "As a result of the proposed changes, one can reasonably
20 expect that there will be additional market entry, particularly in markets that
21 may have previously been only marginally profitable or slightly unprofitable."

22 Page 10, Line 22 – Page 11, Line 4: "I should note that the petitions are
23 limited to what the incumbent local exchange companies are permitted to do
24 by the statute in terms of the tools at their disposal. I would not view the
25 petitions as deficient on the basis that they do not address factors other than the

1 cost/price relationships of intrastate access charges and basic local exchange
2 service. These issues and factors lie outside the statutory framework and
3 petitioners are not required by the statute to address them.”

4 Page 12, Lines 5-8: “In my opinion achieving parity between intrastate access
5 charges and interstate access charges will lead to more competitively priced
6 bundled service offerings for residential consumers, which will provide
7 benefits to those consumers whose calling patterns match those offerings.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10

11 A. Yes.

12

13 # 512310

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