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SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
TESTIMONY OF ANTHONY M. LOMBARDO
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 920260-TL
JULY 15, 1992

ORIGINAL
FILE COPY

7 Q. PLEASE STATE YOUR NAME, EMPLOYER, POSITION AND
8 BUSINESS ADDRESS.
9
10 A. MY NAME IS TONY LOMBARDO. I AM EMPLOYED BY
11 BELLSOUTH TELECOMMUNICATIONS INC. D/B/A/ SOUTHERN
12 BELL TELEPHONE AND TELEGRAPH COMPANY ("SOUTHERN
13 BELL" OR "THE COMPANY") AS ASSISTANT VICE PRESIDENT
14 OF REGULATORY RELATIONS IN FLORIDA. MY BUSINESS
15 ADDRESS IS 150 SOUTH MONROE STREET, TALLAHASSEE,
16 FLORIDA.
17
18 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND
19 AND EXPERIENCE.
20
21 A. I GRADUATED FROM JACKSONVILLE UNIVERSITY WITH A
22 BACHELOR OF SCIENCE DEGREE IN 1970, RECEIVED AN MBA
23 DEGREE FROM THE UNIVERSITY OF MIAMI IN 1982 AND IN
24 1990 WAS A GRADUATE OF HARVARD UNIVERSITY'S
25 ADVANCED MANAGEMENT PROGRAM. I BEGAN MY CAREER

1 WITH SOUTHERN BELL IN MIAMI BEACH, FLORIDA IN 1959
2 AND HAVE SINCE HELD VARIOUS POSITIONS OF INCREASING
3 RESPONSIBILITY WITH THE COMPANY IN MIAMI, COCOA,
4 JACKSONVILLE AND PENSACOLA. ON APRIL 1, 1985, I
5 WAS PROMOTED TO MY PRESENT POSITION AS ASSISTANT
6 VICE PRESIDENT FOR REGULATORY RELATIONS.

7

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

9

10 A. THE PURPOSE OF MY TESTIMONY IS TO DESCRIBE THE
11 EVOLUTION OF COMPETITION IN SOUTHERN BELL'S
12 MARKETS, AND THE BENEFITS RATEPAYERS HAVE RECEIVED
13 UNDER SOUTHERN BELL'S EXISTING INCENTIVE REGULATION
14 PLAN. I WILL ALSO INTRODUCE A REVISED INCENTIVE
15 REGULATION PLAN, WHICH WILL PROVIDE ADDITIONAL
16 BENEFITS TO THE RATEPAYERS. THIS REVISED PLAN,
17 WHICH I WILL REFER TO AS THE "PRICE REGULATION
18 PLAN", IS THE LOGICAL AND NECESSARY NEXT STEP IN
19 THE REGULATORY PROCESS. THIS PLAN WILL ALLOW
20 SOUTHERN BELL TO MOVE FORWARD TO MEET THE
21 CHALLENGES OF BOTH THE CURRENT AND FUTURE
22 COMPETITIVE ENVIRONMENTS IT FACES. IT WILL ALSO
23 HAVE THE BENEFIT OF ENHANCING THE POSITIVE
24 INCENTIVES CREATED BY THE EXISTING INCENTIVE
25 REGULATION PLAN.

1 Q. HOW IS YOUR TESTIMONY ORGANIZED?

2

3 A. MY TESTIMONY IS ORGANIZED IN FIVE SECTIONS:

4 1. COMPETITION PAGES 5-17

5 I WILL DESCRIBE HOW THE TELECOMMUNICATIONS
6 ENVIRONMENT HAS CONTINUED TO DEVELOP AND BECOME
7 MORE COMPETITIVE IN THE YEARS SINCE OUR
8 INCENTIVE REGULATION PLAN WAS FIRST ADOPTED.

9

10 2. 1988 INCENTIVE REGULATION PLAN PAGES 18-26

11 I WILL PRESENT HOW THE 1988 INCENTIVE
12 REGULATION PLAN ASSISTED SOUTHERN BELL IN
13 ADAPTING TO A NEW COMPETITIVE ENVIRONMENT AND
14 HOW IT CONCURRENTLY PROVIDED CUSTOMER BENEFITS.

15

16 3. SOUTHERN BELL'S PROPOSED PRICE REGULATION PLAN

17 PAGES 27-51

18 I WILL INTRODUCE SOUTHERN BELL'S PROPOSED
19 PRICE REGULATION PLAN AND ITS SPECIFIC
20 PARAMETERS.

21

22 4. SOUTHERN BELL'S PROPOSED SERVICE AND RATE

23 CHANGES PAGES 52-56

24 I WILL BRIEFLY PRESENT SOUTHERN BELL'S PROPOSED
25 RATE CHANGES AND THE RATIONALE FOR EACH.

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5. SUMMARY OF TESTIMONY

PAGES 57-59

I WILL BRIEFLY SUMMARIZE MY TESTIMONY.

1 SECTION 1: COMPETITION

2

3 Q. WHAT PROMPTED THE FLORIDA PUBLIC SERVICE
4 COMMISSION'S ("FPSC" OR "COMMISSION") DECISION TO
5 ADOPT INCENTIVE REGULATION IN 1988?

6

7 A. AS THE COMMISSION RECOGNIZED IN ITS ORDER NUMBER
8 20162, WHICH AUTHORIZED SOUTHERN BELL'S INCENTIVE
9 REGULATION PLAN:

10

11 THE TELECOMMUNICATIONS INDUSTRY HAS BEEN AND
12 CONTINUES TO BE IN A STATE OF CHANGE. MORE
13 AND MORE ASPECTS OF THE RELEVANT MARKETS ARE
14 BECOMING COMPETITIVE. A LOCAL EXCHANGE
15 COMPANY, SUCH AS SOUTHERN BELL, MUST ADAPT TO
16 THE NEW COMPETITIVE WORLD IN WHICH IT FINDS
17 ITSELF. THIS COMMISSION MUST ALSO RECOGNIZE
18 THESE FUNDAMENTAL CHANGES IN THE INDUSTRY AND
19 ALLOW SOUTHERN BELL TO TRANSITION ITSELF FOR
20 THESE CHANGES. WE THUS BELIEVE THAT THE
21 INCENTIVE ASPECTS OF THIS PLAN WILL ASSIST IN
22 THIS TRANSITION PROCESS.

23

24 Q. HAS THE TELECOMMUNICATIONS INDUSTRY BECOME MORE
25 COMPETITIVE SINCE INCENTIVE REGULATION WAS FIRST

1 IMPLEMENTED IN 1988?

2

3 A. YES. COMPETITION AND ITS IMPACT ON SOUTHERN BELL
4 CAN ONLY BE DESCRIBED AS SUBSTANTIAL AND GROWING.
5 THE VARIETY AND VIABILITY OF COMPETITORS, THEIR
6 MARKET EXPANSIONS, AS WELL AS STRATEGIC ALLIANCES
7 AMONG COMPETITORS HAVE ALL INCREASED THE LEVEL OF
8 COMPETITION. TECHNOLOGY DEVELOPMENTS AND
9 REGULATORY TRENDS HAVE ALSO INCREASED THE SCOPE AND
10 DEPTH OF COMPETITION.

11

12 Q. WHAT ARE SOME AREAS IN WHICH SOUTHERN BELL HAS SEEN
13 A GROWTH IN COMPETITION?

14

15 A. SOUTHERN BELL HAS SEEN COMPETITION GROW IN THE
16 FOLLOWING AREAS: FACILITY BYPASS (INCLUDING
17 PRIVATE MICROWAVE SYSTEMS, PRIVATE FIBER NETWORKS
18 AND VERY SMALL APERTURE TERMINALS [VSATS]), SERVICE
19 BYPASS, PAY TELEPHONE SERVICE, INTRALATA TOLL,
20 OPERATOR SERVICES, AND BUSINESS TELEPHONE SYSTEMS.
21 THIS LIST IS NOT ALL INCLUSIVE AND WE ANTICIPATE
22 THAT IT WILL EXPAND AS COMPETITORS INCREASE IN
23 NUMBER AND STRENGTH AND AS NEW MARKETS ARE
24 DEVELOPED.

25

1 Q. ARE COMPETITORS TARGETING PARTICULAR MARKETS?

2

3 A. YES. COMPETITORS ARE AGGRESSIVELY PURSUING SOME OF
4 SOUTHERN BELL'S PRIMARY AND MOST LUCRATIVE MARKETS.

5

6 INTRALATA TOLL IS ONE SUCH EXAMPLE. SOUTHERN BELL
7 HAS BEEN EXPERIENCING AN INTRALATA TOLL GROWTH RATE
8 OF APPROXIMATELY 5% FOR THE PAST TWO YEARS (1990
9 AND 1991). IN CONTRAST ARE THE SIMILAR MARKETS OF
10 INTRASTATE AND INTERSTATE SWITCHED ACCESS, WHICH
11 HAVE GROWN AT RATES BETWEEN 9% AND 11% IN THE SAME
12 PERIOD. PREVIOUSLY, ALL THREE MARKETS GREW AT
13 SIMILAR RATES. IT IS OBVIOUS THAT SOUTHERN BELL'S
14 MARKET EROSION IS OCCURRING DUE TO COMPETITION AND
15 BYPASS.

16

17 SOUTHERN BELL ANTICIPATES THAT THIS EROSION WILL
18 INCREASE SUBSTANTIALLY NOW THAT COMPETITORS CAN
19 PROVIDE SERVICE IN ALL LONG DISTANCE
20 JURISDICTIONS -- INTRALATA, INTERLATA INTRASTATE,
21 INTERSTATE AND INTERNATIONAL. OUR ABILITY TO
22 COMPETE FOR ONLY A PORTION OF CUSTOMERS' LONG
23 DISTANCE NEEDS IS FURTHER HINDERED BY OUR LIMITED
24 ABILITY TO COMPETE ON THE BASIS OF PRICE. SOUTHERN
25 BELL MUST IMPUTE IN ITS INTRALATA TOLL RATES

1 INTRASTATE ACCESS CHARGES, WHICH ARE SUBSTANTIALLY
2 HIGHER THAN INTERSTATE ACCESS CHARGES.
3 COMPETITORS, ON THE OTHER HAND, ARE ABLE TO PRICE
4 THEIR SERVICES USING A MILD OF INTRASTATE AND
5 INTERSTATE ACCESS CHARGES. DEPENDING ON A SPECIFIC
6 CUSTOMER'S MIX OF SERVICE, INTERSTATE MARGINS COULD
7 PERMIT LOWER INTRASTATE (INCLUDING INTRALATA)
8 PRICES.

9
10 Q. HAVE COMPETITORS TARGETED SPECIFIC MARKET SEGMENTS?

11
12 A. YES. TYPICALLY, OUR LARGEST BUSINESS CUSTOMERS
13 HAVE BEEN TARGETED, PARTICULARLY IN THE INTRALATA
14 TOLL MARKET. THESE CUSTOMERS ARE NOT NOW AND HAVE
15 NOT BEEN INCONVENIENCED BY HAVING TO DIAL 10XXX TO
16 COMPLETE INTRALATA CALLS. THROUGH THE USE OF PBX
17 SOFTWARE OR AUTODIALERS AS WELL AS SPECIAL ACCESS
18 CONNECTIONS TO AN INTEREXCHANGE CARRIERS' (IXC)
19 POINT OF PRESENCE, LARGE CUSTOMERS HAVE VIRTUAL 1+
20 CAPABILITY WHEN USING COMPETITORS' INTRALATA
21 SERVICES.

22
23 THE TARGETING OF THE BUSINESS INTRALATA TOLL MARKET
24 IS ALSO DEMONSTRATED BY THE SIGNIFICANT DECREASE IN
25 800 SERVICE AND WATS ACCESS LINES FROM 1988 THROUGH

1 1991. MUCH OF THIS LOSS, WHICH FOR SOUTHERN BELL
2 AMOUNTS TO OVER 50%, CAN BE ATTRIBUTED TO THE
3 MIGRATION OF INDIVIDUAL SWITCHED CIRCUITS TO HIGH
4 CAPACITY (HICAP) SPECIAL ACCESS SERVICES USED BY
5 COMPETITORS TO PROVIDE ALL OF A BUSINESS CUSTOMER'S
6 LONG DISTANCE SERVICES. BECAUSE SOUTHERN BELL IS
7 UNABLE TO SCREEN TRAFFIC ON SPECIAL ACCESS
8 SERVICES, INTRALATA TRAFFIC AND REVENUES ARE LOST
9 TO COMPETITORS. AS THE PRICE OF HICAP SERVICES HAS
10 DECREASED, COMPETITORS ARE INCREASINGLY ABLE TO
11 TARGET MEDIUM BUSINESS CUSTOMERS IN ADDITION TO
12 LARGE CUSTOMERS.

13

14 Q. ARE OTHER SOUTHERN BELL SERVICES AND REVENUES
15 AFFECTED BY THE TARGETING OF PARTICULAR MARKETS AND
16 MARKET SEGMENTS?

17

18 A. YES. THE MIGRATION PREVIOUSLY DISCUSSED FROM
19 SWITCHED ACCESS, I.E. WATS AND 800 SERVICE, TO
20 SPECIAL ACCESS, I.E. HICAP (SERVICE BYPASS), NOT
21 ONLY IMPACTS SOUTHERN BELL'S INTRALATA TOLL MARKET
22 BUT ALSO REDUCES THE ACCESS CHARGES THE COMPANY
23 RECEIVES FROM IXCS. THIS IS BECAUSE SPECIAL
24 ACCESS, UNLIKE SWITCHED ACCESS, IS FLAT RATED
25 RATHER THAN USAGE RATED.

1 SOUTHERN BELL'S LARGEST AND MOST REVENUE INTENSIVE
2 CUSTOMERS HAVE ALSO BEEN TARGETED BY ADDITIONAL
3 COMPETITORS. FOR EXAMPLE, ALTERNATE ACCESS VENDORS
4 (AAVS) ARE BUILDING COMPETITIVE NETWORKS DESIGNED
5 TO ATTRACT OUR LARGEST HIGH VOLUME USERS. SUCH
6 NETWORKS EXIST IN MIAMI AND ORLANDO WITH PLANS
7 ANNOUNCED FOR JACKSONVILLE AND OTHER CITIES.
8 ACCORDING TO THE FCC FIBER DEPLOYMENT ANALYSIS,
9 INTERMEDIA COMMUNICATIONS, INC. ALONE HAS DEPLOYED
10 3000 FIBER MILES IN FLORIDA AS OF END OF YEAR 1991.
11 AS AAVS BUILD THESE FIBER ROUTES, ADDITIONAL
12 SOUTHERN BELL PRIVATE LINE AND SPECIAL ACCESS
13 REVENUES ARE AT RISK.
14
15 VSAT VENDORS HAVE TARGETED AND CAPTURED REVENUES
16 FROM 38 OF OUR CUSTOMERS AND HAVE INSTALLED MORE
17 THAN 4000 VSAT LOCATIONS THROUGHOUT THE STATE.
18
19 NON-LEC PAY TELEPHONE SERVICE (NPATS) PROVIDERS
20 HAVE FOCUSED ON SOME OF SOUTHERN BELL'S MORE
21 LUCRATIVE HIGH TRAFFIC LOCATIONS FOR THE PROVISION
22 OF PAY TELEPHONE SERVICE. THIS HAS RESULTED IN,
23 SOUTHERN BELL LOSING HIGH PROFILE AND HIGH REVENUE
24 ACCOUNTS. IN 1988, THE NPATS MARKET SHARE COMPARED
25 TO SOUTHERN BELL IN TERMS OF PAYPHONE LINES

1 (EXCLUDING SEMI-PUBLIC) WITHIN SOUTHERN BELL
2 TERRITORY WAS 17%. AT THE END OF 1991, NPATS LINES
3 REPRESENTED A 27% MARKET SHARE. THE REVENUES
4 ASSOCIATED WITH THESE NPAT LINES ARE APPROXIMATELY
5 ONE-THIRD OF TOTAL MARKET PAYPHONE REVENUES.

6

7 Q. HAS THE EXPANSION OF COMPETITION AFFECTED SOUTHERN
8 BELL DURING THE PAST FIVE YEARS?

9

10 A. YES. COMPETITORS HAVE EXPANDED MARKETS IN TERMS OF
11 BOTH NUMBER AND TYPES OF CUSTOMERS AS WELL AS TYPES
12 OF SERVICES. COMPETITIVE SERVICES THAT WERE ONCE
13 FOCUSED ON CERTAIN MARKET SEGMENTS HAVE BEEN
14 EXPANDED, RESULTING IN THE FURTHER DISPLACEMENT OF
15 A PORTION OF SOUTHERN BELL'S SERVICES.

16

17 FOR EXAMPLE, IXCS AND RESELLERS FIRST TARGETED THE
18 VERY LARGEST CUSTOMERS WITH BULK SERVICE OFFERINGS
19 SUCH AS MEGACOM^R AND PRISM^R. OVER TIME, THE
20 INTEREXCHANGE INDUSTRY HAS REDIRECTED ITS MARKETING
21 EFFORTS TOWARD SMALL AND MEDIUM BUSINESS AND
22 RESIDENTIAL MARKETS. FROM 1989 THROUGH TODAY, A
23 MULTITUDE OF NEW SERVICE OFFERINGS HAS BEEN
24 DESIGNED AND INTRODUCED FOR THOSE MARKETS. AS OF
25 MAY 1992, AT&T, SPRINT AND MCI EACH OFFER OVER 70

1 RESIDENTIAL AND BUSINESS LONG DISTANCE PLANS.
2
3 ANOTHER EXAMPLE IS THE WAY THAT COMPETITORS DEVELOP
4 NEW MARKETING OPPORTUNITIES BY SIMPLY REPACKAGING
5 EXISTING SERVICES. A FEW YEARS AGO, AT&T
6 INTRODUCED 800 READYLINE. WHERE AN AT&T 800
7 SERVICE CUSTOMER PREVIOUSLY TERMINATED CALLS ON A
8 DEDICATED LINE, 800 CALLS CAN NOW BE COMPLETED VIA
9 AN EXISTING BUSINESS LINE. THUS, IT IS NO LONGER
10 NECESSARY FOR THE USER TO MEET MINIMUM USAGE
11 REQUIREMENTS TO ECONOMICALLY JUSTIFY THE COST OF A
12 DEDICATED LINE. SOUTHERN BELL LOSES THE 800
13 SERVICE ACCESS LINE AND THE ACCOMPANYING INTRALATA
14 800 SERVICE TRAFFIC AND REVENUES. OTHER IXCS AND
15 RESELLERS IMMEDIATELY INTRODUCED SIMILAR SERVICES,
16 RESULTING IN THE EXPANSION OF THE 800 SERVICE
17 MARKET TO A NEW SEGMENT -- RESIDENTIAL AND SMALL
18 BUSINESS USERS. THIS EXPANSION HAS LED TO FURTHER
19 EROSION OF SOUTHERN BELL'S INTRALATA TOLL MARKET.
20
21 Q. ARE THERE OTHER WAYS IN WHICH COMPETITION IS
22 EXPANDING?
23
24 A. YES. STRATEGIC ALLIANCES AMONG COMPETITORS PRESENT
25 AN INCREASED COMPETITIVE THREAT TO SOUTHERN BELL.

1 IT IS ONLY A MATTER OF TIME BEFORE ALLIANCES AND
2 ACQUISITIONS AMONG AAVS, IXCS, AND CABLE TELEVISION
3 (CATV) PROVIDERS JEOPARDIZE VARIOUS SOUTHERN BELL
4 REVENUE STREAMS.

5
6 TELEPORT, BASED IN NEW YORK CITY, WAS UNTIL THIS
7 YEAR OWNED BY MERRILL LYNCH. IT IS NOW OWNED BY
8 TELE-COMMUNICATIONS, INC. (49.9%) AND COX
9 ENTERPRISES, (50.1%), TWO OF THE LARGEST CATV
10 OPERATORS IN THE COUNTRY. IN APRIL OF THIS YEAR,
11 CONTINENTAL CABLEVISION OF JACKSONVILLE ANNOUNCED
12 PLANS TO JOINT VENTURE WITH HYPERION
13 TELECOMMUNICATIONS, INC. OF STUART TO CREATE
14 CONTINENTAL FIBER TECHNOLOGIES, INC. HYPERION IS A
15 SUBSIDIARY OF ADELPHIA COMMUNICATIONS, A CATV
16 COMPANY. CONTINENTAL WILL OFFER SPECIAL ACCESS AND
17 POINT-TO-POINT VOICE AND DATA SERVICE, USING
18 SYNCHRONOUS OPTICAL NETWORK TRANSPORT (SONET) AND A
19 SELF-HEALING FIBER RING. SINCE APPROXIMATELY 90%
20 OF AMERICAN HOMES HAVE ACCESS TO CATV, ALLIANCES
21 SUCH AS THESE COULD SUBSTANTIALLY EXPAND THE SCOPE
22 OF OPERATIONS FOR AAVS.

23

24 Q. DO YOU EXPECT TECHNOLOGY WILL CHANGE DURING THE
25 COURSE OF THE PROPOSED PLAN, WITH A CONSEQUENT

1 INCREASE IN THE LEVEL OF COMPETITION FOR YOUR
2 SERVICES?

3
4 A. YES. TELECOMMUNICATIONS TECHNOLOGY HAS MADE
5 POSSIBLE PERSONAL COMMUNICATIONS SERVICE (PCS), A
6 FORM OF WIRELESS COMMUNICATIONS THAT IS EXPECTED TO
7 HAVE A SUBSTANTIAL IMPACT ON THE TELECOMMUNICATIONS
8 INDUSTRY. TRADITIONALLY, THE BULK OF OUR REVENUES
9 AT RISK HAVE BEEN ASSOCIATED WITH THE BUSINESS
10 MARKET. PCS, THOUGH, MAY BE ATTRACTIVE TO THE
11 RESIDENTIAL USER AS WELL AND, AS THE TECHNOLOGY
12 IMPROVES, WIRELESS SERVICES WILL BE ABLE TO PROVIDE
13 MANY OF THE SAME SERVICES OFFERED TODAY BY THE LEC
14 NETWORK.

15
16 RAPID CHANGES IN BROADBAND SERVICES, INCLUDING
17 VOICE, DATA AND VIDEO, WILL ALLOW CUSTOMERS
18 INCREASED SOPHISTICATION IN NETWORK MANAGEMENT
19 CONTROL AND SECURITY SERVICES AND STREAMLINED
20 PROVISIONING, RECONFIGURATION AND TROUBLESHOOTING
21 PROCEDURES. PERCEIVED GAPS IN SERVICE CAPABILITIES
22 WILL BE RAPIDLY FILLED BY NICHE SUPPLIERS.

23
24 THESE TECHNOLOGIES AND MORE ARE ALREADY MOVING
25 FORWARD RAPIDLY. WE CAN EXPECT THAT THE PACE WILL

1 CONTINUE AND SIGNIFICANT CHANGES WILL OCCUR IN THE
2 YEARS TO COME.

3

4 Q. HAS REGULATION CHANGED TO ENCOURAGE COMPETITION
5 SINCE THE IMPLEMENTATION OF THE INCENTIVE
6 REGULATION PLAN?

7

8 A. YES. THE FPSC HAS ESTABLISHED POLICIES THAT
9 ENCOURAGE COMPETITION IN MANY AREAS. THESE INCLUDE
10 OPERATOR, PRIVATE LINE, SPECIAL ACCESS, SHARED
11 TENANT AND INTRALATA TOLL SERVICES.

12

13 SOME EXAMPLES SINCE 1988 INCLUDE FPSC ORDERS
14 ALLOWING FOR OPERATION OF AOS PROVIDERS,
15 AUTHORIZING AAVS TO PROVIDE DEDICATED
16 COMMUNICATIONS SERVICES BETWEEN AFFILIATED ENTITIES
17 AND SPECIAL ACCESS BETWEEN AN END USER AND AN IXC
18 SWITCH.

19

20 ANOTHER MAJOR FPSC DECISION ELIMINATED FLORIDA'S
21 TOLL MONOPOLY AREAS, THEREBY ALLOWING IXCS TO
22 PROVIDE INTRAEAEA INTEREXCHANGE TRANSPORT WITHOUT
23 COMPENSATION TO SOUTHERN BELL.

24

25 IN THE AREA OF SHARED TENANT SERVICES (STS), THE

1 FPSC AUTHORIZED LOCAL SERVICE RESALE FOR KEY
2 SYSTEMS. THE COMMISSION LATER REQUIRED LECS TO
3 LOWER INTERCONNECTION RATES FOR STS PROVIDERS TO
4 REFLECT CURRENT NPATS USAGE RATES.

5
6 GIVEN THE FPSC'S HISTORICAL POLICY OF ENCOURAGING
7 COMPETITION, SOUTHERN BELL CAN REASONABLY
8 ANTICIPATE FURTHER REGULATORY CHANGES THAT WILL
9 INCREASE COMPETITION, WITH A CONSEQUENT EFFECT UPON
10 THE COMPANY'S REVENUES.

11
12 FINALLY, REGULATORY DECISIONS TO ENCOURAGE
13 COMPETITION ARE ALSO MADE AT A NATIONAL LEVEL --
14 DECISIONS WHICH ULTIMATELY IMPACT FLORIDA. JANICE
15 OBUCHOWSKI WILL DESCRIBE THESE ACTIONS IN HER
16 TESTIMONY.

17
18 Q. OVER THE NEXT FOUR YEARS, WHO ARE LIKELY TO BE
19 SOUTHERN BELL'S COMPETITORS AND WHAT TYPES OF
20 SERVICES WILL THEY OFFER?

21
22 A. AS NEW TECHNOLOGIES EVOLVE AND REGULATORY POLICIES
23 OPEN CURRENTLY RESTRICTED MARKETS, WE WILL CONTINUE
24 TO FACE ALL OF THE SAME COMPETITORS THAT I HAVE
25 DISCUSSED, PLUS A HOST OF NEW ONES. WE ALSO

1 ANTICIPATE THAT COMPETITORS WILL FURTHER EXPAND
2 INTO EXISTING AREAS OF OUR BUSINESS.

3

4 Q. CAN YOU QUANTIFY THE IMPACT OF COMPETITION THAT
5 SOUTHERN BELL FACES IN FLORIDA?

6

7 A. ALTHOUGH IT IS DIFFICULT TO QUANTIFY MUCH OF THE
8 EFFECTS OF COMPETITION, WE HAVE ESTIMATED 1991
9 REVENUE LOSSES TO THE FOLLOWING: FACILITY BYPASS,
10 SERVICE BYPASS, INTRALATA TOLL, PRIVATE LINE, AND
11 NPATS. OUR 1991 REVENUE LOSSES IN THESE AREAS ARE
12 ESTIMATED TO BE IN EXCESS OF \$200M.

13 (SEE EXHIBIT 1.)

14

15

16

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18

19

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25

1 SECTION 2: 1988 INCENTIVE REGULATION PLAN

2

3 Q. DID THE 1988 INCENTIVE REGULATION PLAN ASSIST
4 SOUTHERN BELL IN ADAPTING TO THE COMPETITIVE
5 ENVIRONMENT?

6

7 A. YES. THE 1988 INCENTIVE REGULATION PLAN PROVIDED
8 SOUTHERN BELL WITH BOTH THE OPPORTUNITY AND THE
9 INCENTIVE TO BECOME A MORE COMPETITIVE COMPANY. AT
10 THE SAME TIME, IT INCLUDED MANY BENEFITS AND
11 SAFEGUARDS FOR OUR CUSTOMERS.

12

13 Q. HOW HAS SOUTHERN BELL TAKEN ADVANTAGE OF THE
14 INCENTIVES MADE AVAILABLE THROUGH THE INCENTIVE
15 REGULATION PLAN TO BECOME MORE COMPETITIVE ?

16

17 A. SOUTHERN BELL RECOGNIZED THAT IN ORDER TO BE
18 SUCCESSFUL IN A COMPETITIVE ENVIRONMENT, IT MUST BE
19 A STREAMLINED ORGANIZATION THAT PUTS ITS CUSTOMERS
20 FIRST. THE COMPANY HAS INITIATED INNOVATIVE
21 EFFORTS AND ENHANCED EXISTING PROGRAMS TO MOVE IN
22 THAT DIRECTION.

23

24 Q. PLEASE DESCRIBE SOME OF THE STEPS TAKEN TO ADDRESS
25 COMPETITION.

1 A. THE TWO MAIN AREAS OF FOCUS HAVE BEEN COST
2 REDUCTION AND REVENUE GENERATION. I WILL DISCUSS
3 COST REDUCTION IN SOME DETAIL FIRST AND THEN TURN
4 TO REVENUE GENERATION.

5
6 SOUTHERN BELL HAS ACHIEVED SIGNIFICANT COST SAVINGS
7 SINCE 1988, MAINLY THROUGH CONSOLIDATING,
8 STREAMLINING, MECHANIZING, ENCOURAGING COST
9 CONSCIOUS DECISIONS AND THEREBY DRIVING COSTS OUT
10 OF THE BUSINESS.

11
12 EXAMPLES INCLUDE THE FOLLOWING:

- 13
14 -- AN AUTOMATED ALTERNATIVE BILLING SERVICE WAS
15 IMPLEMENTED IN 1990, RESULTING IN MORE THAN \$8M
16 IN SAVINGS.
- 17 -- AN AUDICHRON INTERACTIVE REPAIR ORDERING SYSTEM
18 (AIRO) WAS IMPLEMENTED IN 1989 AND HAS RESULTED
19 IN \$6.3M IN COST SAVINGS.
- 20 -- THE CONSOLIDATION OF THE DATA CENTERS TO MIAMI
21 HAS RESULTED IN MORE THAN \$5.5M IN SAVINGS SINCE
22 1989 WITH INCREASED SAVINGS EXPECTED IN THE
23 FUTURE.
- 24 -- THE REGIONALIZATION OF OUR COMPANY PURCHASING
25 FUNCTIONS IN 1991 HAS ALREADY RESULTED IN COST

1 SAVINGS OF \$3.4M.

2

3 THESE AND OTHER EFFICIENCIES, VARYING IN SIZE AND
4 SCOPE, HAVE CONTRIBUTED TO OUR OVERALL REDUCTION OF
5 COSTS. THE TOTAL DOLLAR SAVINGS OF OUR MAJOR COST
6 EFFORTS IN FLORIDA IS ESTIMATED TO BE IN EXCESS OF
7 \$94M SINCE JANUARY, 1989, AND THESE IMPROVEMENTS
8 CONTINUE TO PROVIDE ONGOING BENEFITS.

9

10 THE "EMPLOYEES PER 10,000 ACCESS LINE" RATIO IS
11 TANGIBLE EVIDENCE OF OUR EFFORTS TO BECOME MORE
12 EFFICIENT. THIS MEASURE REFLECTED IMPROVEMENT FROM
13 48 EMPLOYEES PER 10,000 ACCESS LINES IN 1988 TO
14 ONLY 36.1 IN 1991. THIS REDUCTION INCLUDES OUR
15 1990 AND 1991 EARLY RETIREMENT OFFERS THAT WERE
16 TAKEN BY 989 FLORIDA EMPLOYEES, THEREBY PROVIDING
17 FOR ONGOING COST REDUCTIONS AND AN OPPORTUNITY TO
18 FURTHER IMPROVE EFFICIENCY. IN ADDITION, OUR CRAFT
19 TO MANAGEMENT RATIO HAS INCREASED BY 35% FROM
20 3.43:1 IN 1989 TO 4.63:1 IN JUNE OF 1992, A
21 DRAMATIC IMPROVEMENT OVER OUR 4% INCREASE FROM 1985
22 TO 1988.

23

24 TURNING TO REVENUE GENERATION, SOUTHERN BELL HAS
25 MAINTAINED AND ENHANCED ITS REVENUE STREAMS DESPITE

1 THE UNEXPECTED RECESSION AND THE CONTINUED
2 ONSLAUGHT OF COMPETITION. IN ORDER TO SUSTAIN
3 REVENUE GROWTH THROUGHOUT THE PLAN PERIOD, SOUTHERN
4 BELL INITIATED PROGRAMS TO TARGET COMPETITIVE
5 MARKET NICHEs AND THEREBY STEM THE TIDE OF REVENUE
6 LOSSES.

7
8 FOR EXAMPLE, DISCOUNT TOLL PLANS SUCH AS WATSSAVER^R
9 AND SAVERSERVICE^R WERE IMPLEMENTED IN 1989, WITH
10 THE FIRST RESULTS BEING REFLECTED IN EARLY 1990.
11 THESE CALLING PLANS ALLOWED OUR ACCOUNT TEAMS TO
12 OFFER REDUCED TOLL RATES FOR VOLUME USAGE SIMILAR
13 TO THE RATES OF OUR COMPETITION.

14
15 THROUGH MORE AGGRESSIVE USE OF THE CONTRACT SERVICE
16 ARRANGEMENT (CSA) PROCESS, OUR MARKETING ACCOUNT
17 TEAMS COMPETE HEAD TO HEAD WITH OUR COMPETITORS.
18 THE NUMBER OF CSAS PROCESSED BETWEEN 1984 AND 1987
19 WAS 155, COMPARED TO 329 SUBMITTED BETWEEN 1988 AND
20 1991.

21
22 WE HAVE ALSO IMPLEMENTED RATE DECREASES IN
23 INTRALATA MTS. OUR PER MINUTE RATES ON ALL OF OUR
24 MILEAGE BANDS ARE LOWER THAN AT&T'S, MCI'S OR
25 SPRINT'S RATES.

1 IN ADDITION, SOUTHERN BELL HAS CONTINUED TO BRING
2 NEW PRODUCTS AND SERVICES TO THE MARKETPLACE. FROM
3 1988 TO 1991, MORE THAN 70 NEW TARIFF OFFERINGS
4 WERE INTRODUCED IN FLORIDA, AS COMPARED TO
5 APPROXIMATELY 40 BETWEEN 1984 AND 1987. WE HAVE
6 ALSO IMPLEMENTED 30 SPECIAL PROMOTION AND "GET
7 ACQUAINTED" OFFERS IN VARIOUS EXCHANGES DURING THIS
8 PERIOD TO STIMULATE REVENUE GROWTH.

9

10 AN EXAMPLE OF AN INNOVATIVE PACKAGING IDEA IS THE
11 MULTI FEATURE DISCOUNT PLAN, WHICH IS A CONCEPT
12 ORIGINATED BY OUR CUSTOMER SERVICE REPRESENTATIVES.
13 THESE FLORIDA EMPLOYEES PERCEIVED THAT OUR FORMER
14 PRICING STRUCTURE FOR DISCRETIONARY SERVICES (E.G.
15 CUSTOM CALLING SERVICES, TOUCHSTAR AND RINGMASTER)
16 WAS TOO COMPLEX. THE RESULTING PROPOSAL, WHICH WAS
17 APPROVED BY THIS COMMISSION, PROVIDES A COMMON,
18 UNDERSTANDABLE RATE STRUCTURE FOR OUR CUSTOMERS.

19

20 FURTHERMORE, SOUTHERN BELL HAS PUT IN PLACE
21 INTERDEPARTMENTAL TEAMS TO IDENTIFY NEW REVENUE AND
22 EFFICIENCY OPPORTUNITIES. THE FLORIDA COST
23 CONTAINMENT AND REVENUE ENHANCEMENT AND ASSURANCE
24 COMMITTEES WERE ESTABLISHED IN FLORIDA AS A RESULT
25 OF THE OPPORTUNITIES PROVIDED BY THE CURRENT

1 INCENTIVE REGULATION PLAN.

2

3 ALTHOUGH NOT ALL INCLUSIVE, THESE ARE SOME OF THE
4 SPECIFIC STEPS THAT WE HAVE TAKEN TO MAINTAIN AND
5 ENHANCE OUR REVENUE STREAMS.

6

7 Q. DO OUR CUSTOMERS BENEFIT FROM THE COMPANY'S EFFORTS
8 TO BECOME MORE COMPETITIVE UNDER THE CURRENT
9 INCENTIVE REGULATION PLAN?

10

11 A. ABSOLUTELY. AS SOUTHERN BELL STRIVES TO BECOME
12 MORE COMPETITIVE, ITS FOCUS GOES FIRST AND FOREMOST
13 TO THE NEEDS OF ITS CUSTOMERS.

14

15 WHEN SOUTHERN BELL IMPLEMENTS EFFICIENCY
16 IMPROVEMENTS, THE COMPANY IS ABLE TO KEEP ITS COSTS
17 DOWN, THUS REDUCING PRESSURE TO INCREASE CUSTOMER
18 RATES. THESE NEW EFFICIENCIES HAVE ALSO ENABLED US
19 NOT ONLY TO CONTINUE THE PROVISION OF HIGH QUALITY
20 SERVICE TO OUR CUSTOMERS, BUT IN SOME CASES, TO
21 IMPROVE SUCH SERVICE.

22

23 AN EXAMPLE IS "QUICKSERVICE", WHICH ESTABLISHES AND
24 MAINTAINS A WORKING LINE FROM THE CENTRAL OFFICE TO
25 THE CUSTOMER'S LOCATION FOR RESIDENCE AND SIMPLE

1 BUSINESS. THIS SERVICE ALLOWS DISCONNECTS AND NEW
2 CONNECTS TO BE COMPLETED USING CENTRAL OFFICE
3 PROGRAMMING AND MAY PROVIDE THE ABILITY TO
4 ESTABLISH SAME DAY SERVICE.

5
6 CUSTOMERS ALSO BENEFIT FROM SOUTHERN BELL'S EFFORTS
7 TO BRING NEW PRODUCTS AND SERVICES TO THE
8 MARKETPLACE AND TO PACKAGE AND INTEGRATE OUR
9 SERVICES IN INNOVATIVE WAYS. AS THE COMPANY
10 IMPROVES THIS PROCESS, CUSTOMERS WILL CONTINUE TO
11 BENEFIT FROM THE SPEEDY INTRODUCTION OF NEW
12 SERVICES THAT WILL IMPROVE THEIR QUALITY OF LIFE.
13 THIS WILL ALSO KEEP FLORIDA COMPETITIVE FOR
14 INVESTMENTS BY INDUSTRIES THAT ARE SEEKING A STATE
15 THAT HAS LEADING EDGE TELECOMMUNICATIONS SERVICES.

16

17 Q. ARE THERE OTHER BENEFITS TO RATEPAYERS AS A RESULT
18 OF INCENTIVE REGULATION?

19

20 A. YES. THE CURRENT PLAN PROVIDES ADDITIONAL BENEFITS
21 TO SOUTHERN BELL'S RATEPAYERS. THESE INCLUDE:

22

23 1. SPECIFIC REDUCTIONS AND REFUNDS EQUATING TO
24 CUSTOMER SAVINGS ESTIMATED TO BE IN EXCESS OF
25 \$1.18B THROUGH 1992.

1 2. FLORIDA'S LEVEL OF UNIVERSAL SERVICE, AS
2 DEFINED BY TELEPHONE PENETRATION, HAS CONTINUED TO
3 IMPROVE. THE LATEST (JUNE 1992) FCC REPORT ON
4 TELEPHONE SUBSCRIBERSHIP LEVELS INDICATES THAT THE
5 ANNUAL AVERAGE TELEPHONE PENETRATION IN FLORIDA HAS
6 CONSISTENTLY SHOWN AN UPWARD TREND FROM AN ANNUAL
7 AVERAGE OF 92.7% IN 1988 TO 93.3% IN 1991.
8 SUBSCRIBERSHIP CONTINUED TO INCREASE EVEN DURING
9 THE RECENT RECESSIONARY PERIOD WHEN FLORIDA'S
10 UNEMPLOYMENT ESCALATED FROM 5.63% IN 1989 TO 7.28%
11 IN 1991.

12
13 3. FINALLY, ONE OF THE MOST CRITICAL LONG-TERM
14 BENEFITS THAT SOUTHERN BELL'S CUSTOMERS HAVE
15 RECEIVED HAS BEEN DERIVED FROM THE DEVELOPMENT OF A
16 MORE COMPETITIVE CORPORATE CULTURE, WHICH
17 EMPHASIZES THE PROVISION OF QUALITY SERVICE. THIS
18 ASPECT IS MORE FULLY DESCRIBED BY JOSEPH LACHER.

19
20 Q. YOU HAVE DISCUSSED THE BENEFITS RATEPAYERS HAVE
21 RECEIVED FROM INCENTIVE REGULATION, BUT WERE THERE
22 ANY SAFEGUARDS IN PLACE TO PROTECT RATEPAYERS'
23 INTERESTS?

24
25

1 A. YES. A SIGNIFICANT NUMBER OF CUSTOMER SAFEGUARDS
2 WERE BUILT INTO THE PLAN. THESE INCLUDED:
3 - A CAP ON RESIDENTIAL RATES
4 - A METHOD TO ENSURE THAT SOUTHERN BELL DID NOT
5 BENEFIT FROM EXOGENOUS FACTORS (THE BOX)
6 - AN ESCAPE CLAUSE IF SOUTHERN BELL'S EARNINGS ROSE
7 TO AN UNAUTHORIZED LEVEL
8 - AN ANNUAL REVIEW OF EARNINGS
9 - THE MAINTENANCE OF CUSTOMER SERVICE STANDARDS
10
11 IN ADDITION, THE PLAN PROPOSED REGULATORY STABILITY
12 WHICH WORKED TO THE CUSTOMERS' BENEFIT.

13
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1 SECTION 3: SOUTHERN BELL'S PROPOSED PRICE

2 REGULATION PLAN

3

4 Q. DO ALL OF THE CHANGES IN THE TELECOMMUNICATIONS
5 INDUSTRY THAT YOU HAVE DESCRIBED WARRANT A
6 MODIFICATION TO THE EXISTING INCENTIVE REGULATION
7 PLAN?

8

9 A. YES. GROWING COMPETITION, EVOLVING TECHNOLOGY AND
10 STATE AND FEDERAL POLICIES WILL EXERT INCREASING
11 PRESSURES ON EXISTING RATE BASE REGULATION AND
12 SOCIAL PRICING POLICIES. THE INCENTIVE REGULATION
13 PLAN IMPLEMENTED IN 1988 WAS APPROPRIATE FOR
14 SOUTHERN BELL AT THAT TIME. IT REPRESENTED A
15 MODEST CHANGE IN REGULATION BY ESTABLISHING A RATE
16 OF RETURN RANGE WITH SHARING. FOR THE FIRST TIME
17 IN FLORIDA, EARNINGS ABOVE A CERTAIN LEVEL WERE TO
18 BE SHARED BETWEEN A LEC AND ITS CUSTOMERS. THIS
19 TYPE OF REGULATION PROVIDED THE COMPANY WITH
20 ADDITIONAL INCENTIVES TO OPERATE MORE EFFICIENTLY
21 IN RETURN FOR THE POTENTIAL OF INCREASED EARNINGS.
22
23 SINCE 1988, SOUTHERN BELL HAS ESTABLISHED A STRONG
24 MOMENTUM IN TERMS OF EFFICIENCY AND CUSTOMER
25 SERVICE INITIATIVES, INCLUDING AN INCREASED

1 EMPHASIS ON SERVICE QUALITY AS JOSEPH LACHER
2 DESCRIBES IN HIS TESTIMONY. THE INCENTIVE
3 REGULATION PLAN, HOWEVER, IS STILL BASED ON RATE OF
4 RETURN REGULATION, WHICH WORKS WELL DURING A PERIOD
5 OF LITTLE COMPETITION AND GRADUAL TECHNOLOGICAL
6 CHANGE BUT IS NOT NEARLY AS EFFECTIVE IN A PERIOD
7 OF INCREASING COMPETITION. SOUTHERN BELL'S
8 PROPOSED PLAN ADDRESSES MANY OF THE SHORTCOMINGS OF
9 RATE OF RETURN REGULATION, AS DR. DAVID SAPPINGTON
10 DISCUSSES IN HIS TESTIMONY.

11

12 Q. WHAT IS SOUTHERN BELL PROPOSING?

13

14 A. SOUTHERN BELL PROPOSES THAT ITS PRICES BE REGULATED
15 DIRECTLY, RATHER THAN INDIRECTLY THROUGH COSTS AND
16 EARNINGS REVIEWS AS IS THE CASE IN TRADITIONAL RATE
17 OF RETURN REGULATION. RATHER THAN BEING CONCERNED
18 WITH COSTS AND AN ALLOWED RATE OF RETURN, SOUTHERN
19 BELL'S PROPOSAL DEALS WITH THE PRICES RATEPAYERS
20 PAY FOR THE SERVICES THEY WANT. PRICES IN THIS
21 ENVIRONMENT ARE CHANGED BASED ON OBSERVABLE,
22 VERIFIABLE BENCHMARKS.

23

24 THE PROPOSED PLAN OVERLAYS PRICE REGULATION WITH A
25 SHARING OF EARNINGS ABOVE A THRESHOLD LEVEL AS AN

1 ADDITIONAL CONSUMER SAFEGUARD. SOUTHERN BELL'S
2 PRICE REGULATION PLAN OFFERS ADDITIONAL PRICING
3 FLEXIBILITY AS WELL AS A STREAMLINED PRICE
4 ADJUSTMENT PROCESS WHICH IS BASED ON ACTUAL,
5 HISTORIC ECONOMIC FACTORS. IT PROVIDES SOUTHERN
6 BELL WITH ADDITIONAL INCENTIVES TO INVEST IN ITS
7 NETWORK AND TO PROVIDE INNOVATIVE SERVICES. IF
8 IMPLEMENTED AS PROPOSED BY SOUTHERN BELL, THE PLAN
9 WILL PROMOTE RATE STABILITY, ACCELERATED
10 INTRODUCTION OF NEW SERVICES AND IMPROVEMENT IN
11 OPERATING EFFICIENCIES. THE PLAN ALSO INCLUDES
12 DIRECT CUSTOMER BENEFITS AND ADEQUATE SAFEGUARDS TO
13 ASSURE THAT AFFORDABLE, HIGH QUALITY SERVICE IS
14 MAINTAINED.

15

16 Q. PLEASE DESCRIBE THE PRICE REGULATION PLAN IN
17 DETAIL.

18

19 A. THE PROPOSED PRICE REGULATION PLAN INCLUDES
20 ELEMENTS THAT ARE SIMILAR TO THE FPSC STAFF'S
21 JANUARY 18, 1991 RECOMMENDATION REGARDING FUTURE
22 INCENTIVE REGULATION PLANS. BEGINNING WITH CURRENT
23 RATES, OUR PROPOSED PLAN PLACES A CEILING ON
24 AGGREGATE PRICES BY LIMITING PRICE CHANGES TO A
25 FORMULA WHICH ALLOWS AGGREGATE PRICES TO INCREASE

1 OR DECREASE BY A PERCENTAGE DETERMINED BY AN
2 INFLATION FACTOR, A PRODUCTIVITY FACTOR AND AN
3 ADJUSTMENT RELATED TO EXOGENOUS CHANGES.

4

5 Q. PLEASE DESCRIBE EACH OF THE FACTORS AND
6 MEASUREMENTS USED IN THE FORMULA.

7

8 A. I WILL BRIEFLY DESCRIBE EACH OF THE FACTORS AND
9 MEASUREMENTS INCLUDED IN THE PRICE REGULATION
10 FORMULA. IN HIS TESTIMONY, WALTER REID WILL
11 FURTHER EXPLAIN OUR REASONS FOR SELECTING THESE
12 SPECIFIC MEASUREMENTS.

13

14 THE FIRST FACTOR INCLUDED IN THE PRICE REGULATION
15 FORMULA IS THE INFLATION FACTOR, WHICH MEASURES THE
16 CHANGES IN PRICES FOR PRODUCTS AND SERVICES. IN
17 ORDER TO STREAMLINE AND SIMPLIFY THE REGULATORY
18 PROCESS, THE INFLATION FACTOR SHOULD BE
19 INDEPENDENTLY PRODUCED, READILY ACCESSIBLE AND
20 RELIABLE ENOUGH TO ACCURATELY REFLECT EXTERNAL COST
21 PRESSURES.

22

23 WE RECOMMEND THE USE OF THE GROSS NATIONAL PRODUCT
24 - PRICE INDEX (GNP-PI) FIXED WEIGHT INDEX AS THE
25 MOST APPROPRIATE INFLATION MEASURE TO COMPARE PRICE

1 CHANGES AGAINST A HISTORICAL BASE PERIOD. THE GNP-
2 PI IS PUBLISHED BOTH QUARTERLY AND ANNUALLY BY THE
3 BUREAU OF ECONOMIC ANALYSIS, U.S. DEPARTMENT OF
4 COMMERCE, AND HAS BEEN IN EXISTENCE FOR OVER 30
5 YEARS. IT MEETS EACH OF THE NEEDS IDENTIFIED
6 ABOVE.

7
8 THE SECOND FACTOR INCLUDED IN THE PRICE REGULATION
9 FORMULA IS A PRODUCTIVITY OFFSET, WHICH REFLECTS
10 COMPANY PRODUCTIVITY THAT IS ABOVE AND BEYOND THE
11 REST OF THE ECONOMY. THE APPROPRIATE PRODUCTIVITY
12 OFFSET IS 4.0%, AS CONTAINED IN WALTER REID'S
13 TESTIMONY. THIS OFFSET ASSURES THAT CUSTOMERS WILL
14 DIRECTLY BENEFIT BECAUSE AVERAGE REAL PRICES WILL
15 FALL IN RELATION TO INFLATION.

16
17 THE THIRD FACTOR INCLUDED IN THE PRICE REGULATION
18 FORMULA IS EXOGENOUS COST CHANGES. EXOGENOUS COSTS
19 ARE THOSE MEASURABLE EXPENSES BEYOND SOUTHERN
20 BELL'S CONTROL THAT ARE CAUSED BY CHANGES IN SUCH
21 THINGS AS TAXES, DEPRECIATION PROCEEDINGS,
22 JURISDICTIONAL SEPARATION RULES AND ACCOUNTING
23 RULES. THEY ALSO INCLUDE COST CHANGES RESULTING
24 FROM LEGISLATIVE, JUDICIAL AND REGULATORY
25 PROCEEDINGS.

1 Q. HOW ARE THE FACTORS THAT YOU DESCRIBED USED TO
2 ADJUST THE PRICE CEILING?

3

4 A. FIRST, AN INITIAL CEILING, OR PRICE REGULATION
5 INDEX (PRI), WILL BE CONSTRUCTED USING THE 1992
6 REVENUES (DEMAND MULTIPLIED BY EXISTING RATES) OF
7 EACH SERVICE. THE INITIAL PRI WILL EQUAL 100. FOR
8 ILLUSTRATIVE PURPOSES ONLY, I HAVE CONSTRUCTED AN
9 INITIAL PRICE INDEX FOR A COMPANY HAVING ONLY FOUR
10 SERVICES:

11

12

	<u>EXISTING</u>	<u>1992</u>	<u>1993</u>	<u>REVENUE</u>
	<u>RATE</u>	<u>DEMAND</u>	<u>REVENUES</u>	<u>WEIGHT</u>
	(\$)	(UNITS)	(\$)	(%)
16 SERVICE A	.50	1,500	750.00	5
17 SERVICE B	5.00	300	1,500.00	10
18 SERVICE C	3.75	1,000	3,750.00	25
19 SERVICE D	10.00	900	<u>9,000.00</u>	<u>60</u>
20 INITIAL PRI			15,000.00	= 100

21

22

23

24

25

1 A NEW PRI WILL BE CALCULATED EACH YEAR BASED ON THE
 2 FOLLOWING FORMULA:

3
 4 EXISTING PRI (100%)
 5 + INFLATION % (GNP-PI)
 6 - PRODUCTIVITY OFFSET (4%)
 7 +/- EXOGENOUS COST CHANGES
 8 = NEW PRI

9
 10 THE HYPOTHETICAL EXAMPLES BELOW, A AND B,
 11 ILLUSTRATE THIS FORMULA AS IT APPLIES TO A PRICE
 12 INCREASE AND A PRICE DECREASE:

	EXAMPLE A	EXAMPLE B
	<u>PRICE INCREASE</u>	<u>PRICE DECREASE</u>
	<u>%</u>	<u>%</u>
17 <u>INITIAL PRI</u>	100	100
19 1993 GNP-PI	+ 5.0	+ 3.0
20 PRODUCTIVITY OFFSET	- 4.0	- 4.0
21 EXOGENOUS	- <u>0.5</u>	- <u>0.5</u>
22 PRICE INCREASE/DECREASE	0.5	(1.5)
24 <u>NEW PRI</u>	100.5	98.5

1 Q. BASED ON HYPOTHETICAL EXAMPLES A AND B, WHAT WOULD
2 THE ALLOWED PRICE INCREASE OR DECREASE BE?
3
4 A. FOR EXAMPLE A, AGGREGATE PRICES COULD INCREASE BY
5 .5% OF REVENUES. FOR EXAMPLE B, AGGREGATE PRICES
6 WOULD DECREASE BY 1.5% OF REVENUES.
7
8 Q. HOW WILL SOUTHERN BELL'S PRICES BE ESTABLISHED?
9
10 A. SOUTHERN BELL'S EXISTING RATES, WITH THE EXCEPTION
11 OF THE PROPOSED STRATEGIC SERVICE AND RATE CHANGES
12 DISCUSSED LATER IN MY TESTIMONY, WILL SERVE AS THE
13 STARTING PRICES TO BE INDEXED IN THE PRICE
14 REGULATION PLAN. THESE PRICES WILL BE INDEXED
15 USING 1992 REVENUES AS THE BASE. THE INITIAL PRICE
16 INDEX WILL BE FILED MAY 1, 1993 AND WILL EQUAL 100.
17 THUS, DURING THE FIRST YEAR OF THE PLAN, ANY PRICE
18 CHANGES MUST RESULT IN THE INDEX OF ACTUAL PRICES
19 BEING EQUAL TO OR LESS THAN 100. THE INITIAL PRI
20 (100) WOULD BE ADJUSTED FOR THE FIRST TIME IN 1994
21 USING 1993 INFLATION ASSUMING THAT NO PRI
22 ADJUSTMENTS WERE MADE DURING THE YEAR DUE TO
23 UNKNOWN EXOGENOUS COST CHANGES.
24
25

1 Q. HOW ARE PRICE CHANGES AFFECTED BY THE ANNUAL
2 ADJUSTMENT IN THE PRI FORMULA?
3
4 A. THE COMPOSITE PRICES OF SOUTHERN BELL'S SERVICES
5 SUBJECT TO PRICE REGULATION MUST REMAIN AT OR BELOW
6 EACH YEAR'S PRI. IF THE PRI CHANGE IS NEGATIVE,
7 SOUTHERN BELL MUST DECREASE PRICES IN THE
8 AGGREGATE. THUS, SOUTHERN BELL WOULD BE REQUIRED
9 TO REDUCE PRICES IF INFLATION AND EXOGENOUS COST
10 CHANGES WERE LESS THAN 4.0%. CONVERSELY, SOUTHERN
11 BELL WOULD BE ALLOWED (BUT NOT REQUIRED) TO
12 INCREASE PRICES IF INFLATION AND EXOGENOUS COST
13 CHANGES EXCEEDED 4.0%. HOWEVER, BECAUSE OF THE
14 PRODUCTIVITY OFFSET, EVEN WHEN THE PRI CHANGE IS
15 POSITIVE, PRICES WILL STILL HAVE DECLINED IN REAL
16 TERMS.
17
18 PRICE REGULATION THEREFORE WILL DIRECTLY BENEFIT
19 CUSTOMERS BY ENSURING THAT THE AVERAGE REAL PRICE
20 OF TELEPHONE SERVICES WILL FALL AT LEAST 4%
21 ANNUALLY IN RELATION TO INFLATION REGARDLESS OF THE
22 COMPANY'S EARNINGS.
23
24 THIS AUTOMATIC ANNUAL ADJUSTMENT IS SENSITIVE TO
25 ACTUAL ECONOMIC INDICATORS AND THUS REPLACES THE

1 NEED FOR ADJUSTMENTS BASED ON FORECASTS, WHICH ARE,
2 AT BEST, EDUCATED GUESSES.

3

4 Q. WHAT CONSUMER SAFEGUARDS EXIST UNDER THE PROPOSED
5 PRICE REGULATION PLAN WITH REGARD TO ALLOWABLE
6 PRICE CHANGES?

7

8 A. FIRST, PRICES IN THE AGGREGATE MUST BE AT OR BELOW
9 EACH YEAR'S PRI. IN ADDITION, PRICING RULES ARE
10 PROPOSED FOR TWO SEPARATE CATEGORIES OF PRODUCTS
11 AND SERVICES. (SEE EXHIBIT 2 FOR A COMPLETE LIST
12 OF SERVICES IN EACH CATEGORY.) THESE RULES ALLOW
13 SOUTHERN BELL PRICING FLEXIBILITY FOR SERVICES
14 WITHIN EACH CATEGORY, WHICH, IN TURN, PROVIDES THE
15 COMPANY WITH THE ABILITY TO BE MORE SENSITIVE TO
16 THE MARKETPLACE. AT THE SAME TIME THE RULES STILL
17 RESTRICT THE LEVELS OF PRICE CHANGE PERMITTED.

18

19 Q. WHAT ARE THE TWO SERVICE CATEGORIES AND WHAT
20 PRICING RULES WILL BE APPLIED TO EACH CATEGORY?

21

22 A. THE TWO SERVICE CATEGORIES ARE "BASIC" AND
23 "NON-BASIC."

24

25 CATEGORY ONE, "BASIC SERVICES," CONTAINS THOSE

1 SERVICES GENERALLY REQUIRED TO PROVIDE ESSENTIAL
2 LOCAL EXCHANGE SERVICES TO AN END USER AS WELL AS
3 ACCESS TO PROVIDERS OF BASIC LOCAL SERVICES AND
4 TOLL SERVICE. THIS CATEGORY INCLUDES SUCH
5 OFFERINGS AS RESIDENCE AND BUSINESS EXCHANGE
6 SERVICES, SERVICE CONNECTION CHARGES, AND SWITCHED
7 ACCESS TO AN INTEREXCHANGE CARRIER. THE SUGGESTED
8 PRICING RULES FOR BASIC SERVICES ARE AS FOLLOWS:

9
10 1) PRICES FOR EACH SERVICE, E.G. BUSINESS MONTHLY
11 EXCHANGE RATES, CANNOT INCREASE MORE THAN 5%
12 ANNUALLY.

13
14 2) PRICE REDUCTIONS ARE EFFECTIVE UPON 15 DAYS
15 NOTICE AND PRICE INCREASES ARE EFFECTIVE UPON 30
16 DAYS NOTICE AS LONG AS SUCH PRICE CHANGES DO NOT
17 EXCEED THE PRI OR THE PRICE INCREASE LIMIT FOR THE
18 SERVICE CATEGORY.

19
20 3) AN ADDITIONAL SAFEGUARD TARGETS LOW INCOME
21 GROUPS TO ASSURE AFFORDABLE OPTIONS: LIFELINE,
22 WHICH IS RECOMMENDED LATER IN THIS PLAN, AND
23 LINK-UP SERVICE CHARGES CANNOT BE CHANGED UNLESS
24 APPROVED BY THE COMMISSION.

25

1 CATEGORY TWO, "NON-BASIC SERVICES", CONTAINS ALL
2 TARIFFED SERVICES NOT INCLUDED IN THE BASIC
3 CATEGORY. THESE SERVICES ARE OPTIONAL OR CAN BE
4 PROVIDED OR SUBSTITUTED BY A VENDOR OTHER THAN
5 SOUTHERN BELL. EXAMPLES INCLUDE SPECIAL ACCESS
6 SERVICES, TOUCHSTAR SERVICES, AND INTRALATA TOLL.
7 THE PRICING RULES THAT APPLY FOR CATEGORY TWO
8 SERVICES ARE AS FOLLOWS:

9

10 1) CATEGORY TWO SERVICES THAT CURRENTLY HAVE
11 BANDED RATES WILL KEEP THE EXISTING BAND MAXIMUM
12 AND MINIMUM RATES AS PRICE CEILINGS AND FLOORS.
13 PRICE CHANGES CAN BE MADE ANYWHERE WITHIN
14 THE BAND.

15

16 2) RATES FOR SERVICES WITHOUT BANDED RATES CANNOT
17 BE INCREASED MORE THAN 20% ANNUALLY.

18

19 3) PRICE REDUCTIONS ARE EFFECTIVE UPON 15 DAYS
20 NOTICE AND PRICE INCREASES ARE EFFECTIVE UPON 30
21 DAYS NOTICE AS LONG AS SUCH PRICE CHANGES DO NOT
22 EXCEED THE PRI OR THE PRICE INCREASE LIMIT FOR THE
23 SERVICE CATEGORY.

24

25 Q. CAN THE CLASSIFICATION OF A GIVEN SERVICE CHANGE?

1 A. YES. SOUTHERN BELL MAY PETITION TO CHANGE HOW A
2 SERVICE IS CATEGORIZED. IN SO DOING, IT WILL HAVE
3 TO PROVIDE THE RATIONALE FOR SUCH A CHANGE. THE
4 RATIONALE COULD BE DUE TO A CHANGE IN THE NATURE OF
5 A SERVICE, I.E. A REQUEST TO MOVE IT FROM ONE
6 CATEGORY TO THE OTHER, OR SOUTHERN BELL COULD
7 REQUEST TO EXCLUDE A SERVICE FROM PRICING AND
8 EARNINGS REGULATION ALTOGETHER. THE COMMISSION
9 WOULD RULE ON ANY SUCH PROPOSED CHANGE WITHIN 60
10 DAYS OF RECEIVING THE PETITION.

11

12 Q. WHAT SERVICES, IF ANY, ARE EXCLUDED FROM THE PRI?

13

14 A. REGULATED SERVICES THAT DO NOT HAVE TARIFFED RATES
15 ARE EXCLUDED FROM PRICE REGULATION AND FROM
16 INCLUSION IN THE PRI. SUCH SERVICES WOULD BE THOSE
17 THAT THE COMMISSION HAS DECIDED SHOULD BE
18 DETARIFFED OR SHOULD HAVE PROPRIETARY PRICES.
19 SOUTHERN BELL DOES NOT CURRENTLY HAVE ANY
20 DETARIFFED OR PROPRIETARY PRICED SERVICES IN
21 FLORIDA BUT MAY REQUEST SUCH PRICING FLEXIBILITY IN
22 THE FUTURE. ADDITIONALLY, PRICES FOR SERVICES
23 PROVIDED UNDER CONTRACT SERVICE ARRANGEMENTS WOULD
24 NOT BE INCLUDED IN THE PRICE INDEX. REVENUES FROM
25 EXCLUDED SERVICES WILL BE INCLUDED IN THE

1 CALCULATION OF EARNINGS AND SHARING.

2

3 Q. HOW WILL PRICE CHANGES BE IMPLEMENTED UNDER THE
4 PLAN?

5

6 A. THE PRI WILL BE CALCULATED ANNUALLY BASED ON THE
7 PREVIOUS CALENDAR YEAR. PRICE CHANGES REQUIRED TO
8 MAINTAIN AVERAGE PRICES AT OR BELOW THE NEW PRI
9 WOULD BE FILED, WITH ASSOCIATED TARIFFS, IN AN
10 ANNUAL MAY 1 FILING. THESE PRICE CHANGES WOULD GO
11 INTO EFFECT UPON 60 DAYS NOTICE. ADDITIONAL TARIFF
12 FILINGS COULD BE SUBMITTED THROUGHOUT THE YEAR SO
13 LONG AS AVERAGE PRICES REMAINED AT OR BELOW THE
14 PRI. STREAMLINED AND SIMPLIFIED TARIFF PROCEDURES
15 ARE PROPOSED. PRICE REDUCTIONS AND INCREASES WOULD
16 BE ALLOWED TO GO INTO EFFECT ON 15 DAYS AND 30 DAYS
17 NOTICE, RESPECTIVELY.

18

19 IN ANY PRICE CHANGE FILINGS, SOUTHERN BELL WILL
20 DEMONSTRATE THAT THE PRICE CHANGES DO NOT EXCEED
21 THE EXISTING PRI AND THAT EACH CHANGE DOES NOT
22 EXCEED THE PRICE INCREASE LIMIT FOR THE SERVICE
23 CATEGORY.

24

25 IN SUM, SOUTHERN BELL IS REQUESTING STREAMLINED

1 TREATMENT FOR PRICE REGULATED SERVICES. PRICE
2 CHANGES WOULD BE PRESUMPTIVELY APPROVED SO THAT,
3 WHILE THE EXISTING COMPLAINT PROCEDURES AND
4 INVESTIGATIVE AUTHORITY OF THE FPSC WOULD NOT BE
5 CHANGED BY THE PLAN, TARIFFS WOULD NOT NORMALLY BE
6 SUSPENDED IF THE PROPOSED CHANGES WERE WITHIN THE
7 PRICING RULES. THIS PROCESS WILL REDUCE
8 ADMINISTRATIVE REQUIREMENTS AND BURDENS AND ALLOW
9 SOUTHERN BELL TO RESPOND MORE QUICKLY TO CUSTOMER
10 AND MARKET CHANGES.

11

12 Q. ARE THERE ANY LIMITATIONS ON PRICE DECREASES?

13

14 A. SOUTHERN BELL DOES NOT PRICE ITS SERVICES BELOW
15 LONG RUN INCREMENTAL COST UNLESS DIRECTED BY THE
16 COMMISSION TO DO SO TO ATTAIN A PUBLIC POLICY
17 OBJECTIVE.

18

19 Q. WHAT ARE "NEW SERVICES" AND HOW WILL THEY BE
20 TREATED UNDER THE PLAN?

21

22 A. A NEW SERVICE IS DEFINED AS ANY SERVICE WHICH HAS
23 NOT PREVIOUSLY BEEN OFFERED AND WHICH DOES NOT
24 REPLACE AN EXISTING SERVICE. SOUTHERN BELL WILL
25 FILE TARIFFS FOR NEW SERVICES TO BE EFFECTIVE UPON

1 30 DAYS NOTICE. WITH EACH TARIFF FILING, SOUTHERN
2 BELL WILL PROVIDE EVIDENCE THAT THE REVENUE FROM
3 THE NEW SERVICE MEETS OR EXCEEDS ITS INCREMENTAL
4 COST.

5
6 NEW SERVICES WILL BE PRESUMPTIVELY APPROVED BY THE
7 COMMISSION. THE PRICE FOR A NEW SERVICE WILL BE
8 EXCLUDED FROM THE PRICE REGULATION INDEX FOR AT
9 LEAST THE FIRST 12 MONTHS THAT THE SERVICE IS
10 OFFERED. A NEW SERVICE PRICE WILL THEREAFTER BE
11 ADDED TO THE INDEX IN THE FIRST ANNUAL PRICE
12 REGULATION FILING FOLLOWING THE END OF THE 12
13 MONTHS. THIS PERIOD WILL ALLOW ENOUGH TIME FOR
14 DEMAND FOR THE SERVICE TO BUILD SO THAT THERE WILL
15 BE A REASONABLE REVENUE WEIGHT FOR THE NEW SERVICE
16 PRICES WHEN THEY ARE ADDED TO THE INDEX.

17
18 DURING THE FIRST 12 MONTHS, THE PRICE FOR THE NEW
19 SERVICE MAY BE CHANGED UPON 15 DAYS NOTICE;
20 HOWEVER, THE PERIOD OF TIME THAT THE PRICE REMAINS
21 OUTSIDE THE INDEX WOULD NOT BE ALTERED BY A PRICE
22 CHANGE.

23
24 Q. WHAT ARE RESTRUCTURED SERVICES AND HOW WILL THEY BE
25 TREATED UNDER THE PLAN?

- 1 A. RESTRUCTURED SERVICES ARE SERVICES THAT REPLACE
2 EXISTING SERVICES AS A RESULT OF REDESIGN OR
3 REPACKAGING. RESTRUCTURED SERVICE PRICES WOULD BE
4 INCORPORATED INTO THE INDEX WHEN THEY ARE FILED.
5 FILED RATES FOR THE RESTRUCTURED SERVICE COULD NOT
6 EXCEED THE PRICE CHANGE OTHERWISE ALLOWED FOR THE
7 SAME SERVICE ABSENT RESTRUCTURING.
8
- 9 Q. UNDER WHAT CIRCUMSTANCES CAN SOUTHERN BELL CHANGE
10 ITS PRICES BEYOND THE LEVELS ALLOWED BY THE PLAN?
11
- 12 A. SOUTHERN BELL WOULD BE ALLOWED TO REQUEST PRICE
13 CHANGES THAT WOULD OTHERWISE EXCEED THE PRI LIMIT
14 AND/OR THE SERVICE CATEGORY PRICE LIMITS UNDER THE
15 FOLLOWING CIRCUMSTANCES:
16
- 17 - IF EARNINGS FALL BELOW THE ESTABLISHED FLOOR,
18 PRICE INCREASES WILL BE PERMITTED TO BRING
19 EARNINGS BACK TO THE LEVEL OF THE FLOOR.
20
 - 21 - WITH SIGNIFICANT STRUCTURAL CHANGES TO SOUTHERN
22 BELL'S SERVICE OFFERINGS DUE TO CHANGES IN THE
23 INDUSTRY AND/OR COMMISSION ORDERS.
24
 - 25 - WITH CHANGES TO COMPETITIVE CONDITIONS AUTHORIZED

1 BY THE COMMISSION.

2

3 THESE PRICE CHANGES WOULD BE FILED ON 60 DAYS
4 NOTICE, ACCOMPANIED BY THE APPROPRIATE
5 DOCUMENTATION AND JUSTIFICATION.

6

7 Q. DOES THE PRICE REGULATION PLAN INCREASE SOUTHERN
8 BELL'S PRICING FLEXIBILITY?

9

10 A. YES. FIRST, SOUTHERN BELL WILL BE ABLE TO TARGET
11 SPECIFIC SERVICES FOR RATE INCREASES AND DECREASES
12 IN LIGHT OF COMPETITIVE CHANGES AND MARKET DEMAND.
13 SECOND, PRESUMPTIVE APPROVAL AND THE STREAMLINED
14 TARIFF PROCESS FOR RATE CHANGES WITHIN THE PRICE
15 INDEX AND PRICING RULES WILL PROVIDE FOR QUICKER
16 RESPONSE TO MARKET DEMANDS. FINALLY, NEW SERVICE
17 INTRODUCTION WILL BE EXPEDITED AS A RESULT OF
18 STREAMLINED TARIFF PROCEEDINGS. THESE CHANGES WILL
19 ENABLE SOUTHERN BELL TO RESPOND TO ECONOMIC AND
20 COMPETITIVE FORCES MORE EFFECTIVELY, TO THE BENEFIT
21 OF ITS RATEPAYERS.

22

23 Q. DOES THIS PLAN RECOGNIZE THE POSSIBILITY OF
24 SIGNIFICANT ECONOMIC CHANGES, AS OCCURRED DURING
25 THE TERM OF THE 1988 PLAN?

1 A. YES. THE LAST FIVE YEARS HAVE BROUGHT A RENEWED
2 RECOGNITION OF ECONOMIC UNCERTAINTY. AS IS WELL
3 KNOWN, THIS COUNTRY UNDERWENT A SERIOUS UNEXPECTED
4 ECONOMIC DOWNTURN WHICH WAS NOT CONTAINED IN OUR
5 FORECASTS IN 1988. THE PRICE REGULATION PLAN DOES
6 NOT DEPEND ON FORECASTS; PRICES ARE ADJUSTED
7 ANNUALLY USING THE PRICE REGULATION INDEX FORMULA
8 (INFLATION, PRODUCTIVITY OFFSET AND EXOGENOUS COST
9 CHANGES). THE AMOUNT OF REQUIRED DECREASE OR
10 ALLOWED INCREASE IS DETERMINED BY THESE FACTORS.
11 THIS ASPECT OF THE NEW PLAN AND THE INCREASED
12 PRICING FLEXIBILITY MAKE IT MUCH MORE SENSITIVE TO
13 CURRENT ECONOMIC CIRCUMSTANCES AND THE MARKET
14 ENVIRONMENT THAN IS THE 1988 PLAN.

15

16 Q. WILL EARNINGS SHARING CONTINUE UNDER THE PRICE
17 REGULATION PROPOSAL?

18

19 A. YES. A "PURE" PRICE REGULATION PLAN WOULD NOT
20 INCLUDE AN EARNINGS SHARING MECHANISM. THE COMPANY
21 IS, HOWEVER, PROPOSING PRICE REGULATION WITH AN
22 EARNINGS SHARING MECHANISM AS A CUSTOMER SAFEGUARD
23 AND TRANSITIONAL STEP AWAY FROM TRADITIONAL RATE
24 BASE REGULATION.

25

1 Q. WHAT RISKS DOES SOUTHERN BELL ASSUME UNDER ITS
2 PROPOSED PLAN?
3

4 A. THE COMPANY WILL ASSUME ADDITIONAL RISKS UNDER ITS
5 PROPOSED PLAN SINCE THERE IS NO ASSURANCE THAT THE
6 COMPANY CAN CONTINUE TO OFFSET INFLATION BY 4%.
7 THE COMPANY MUST CONTINUE TO IMPROVE ITS
8 PRODUCTIVITY IN ORDER TO IMPROVE ITS PROFITABILITY.
9 THE ACCOMPANYING REWARD FOR THIS ENHANCED RISK IS
10 THE POTENTIAL TO RETAIN ADDITIONAL EARNINGS.
11

12 THE PROPOSED PRICE REGULATION PLAN, WITH ITS
13 EARNINGS SHARING ASPECT, WILL PROVIDE THE FPSC AND
14 THE COMPANY VALUABLE EXPERIENCE WITH PRICE
15 REGULATION, WHILE CONTINUING THE CONSUMER
16 PROTECTION AFFORDED BY A SHARING MECHANISM.
17

18 Q. PLEASE COMPARE THE EXISTING PLAN AND THE NEW PLAN
19 WITH REGARD TO THE EARNINGS AND SHARING PARAMETERS.
20

21 A. SOUTHERN BELL PROPOSES CHANGES TO TWO OF THE
22 PARAMETERS: THE EARNINGS SHARING RATIO AND THE
23 DURATION OF THE PLAN.
24

25 FIRST, THE EARNINGS SHARING RATIO WAS ORIGINALLY

1 WEIGHTED BY THE COMMISSION IN FAVOR OF THE
2 RATEPAYER ON A 60:40 BASIS. THE RATIONALE FOR THIS
3 IMBALANCE, AS STATED IN ORDER 20162, PAGE 7, WAS:

4
5 WE FIND THAT THE SPLIT SHOULD BE 60:40 IN THE
6 RATEPAYERS' FAVOR. WE HAVE DELIBERATELY
7 TILTED THE BALANCE IN FAVOR OF RATEPAYERS
8 BECAUSE OF OUR INABILITY TO PRECISELY
9 IDENTIFY EARNINGS THAT RESULT EXCLUSIVELY
10 FROM PRODUCTIVITY IMPROVEMENTS GENERATED BY
11 SOUTHERN BELL.

12
13 THIS 60:40 SAFEGUARD IS NO LONGER REQUIRED WITH THE
14 NEW PRICE REGULATION PLAN, WHICH INCLUDES A 4%
15 PRODUCTIVITY HURDLE FROM WHICH THE RATEPAYERS GAIN
16 IMMEDIATE BENEFIT. TO COMPOUND THIS WITH AN
17 ADDITIONAL IMBALANCE IN FAVOR OF THE RATEPAYER
18 WOULD NOT BE FAIR OR EQUITABLE TO SOUTHERN BELL.

19
20 A 50:50 SHARING RATIO IS AN APPROPRIATE BALANCE
21 BETWEEN THE COMPANY AND ITS CUSTOMERS. IF THE
22 COMPANY'S EARNINGS REACH THE SHARING RANGE, THE
23 FPSC WILL DESIGNATE THE CUSTOMERS' 50% PORTION
24 AS A CUSTOMER REFUND OR AS A ONE-TIME EXPENSE.

25

1 SECOND, THE PLAN SHOULD NOT BE CONSIDERED AS HAVING
2 A TERMINATION POINT. RATHER, ITS RESULTS SHOULD BE
3 REVIEWED IN FOUR YEARS TO DETERMINE WHETHER IT
4 CONTINUES TO REMAIN BENEFICIAL TO ALL STAKEHOLDERS.
5 THIS IS CONSISTENT WITH SECTION 364.035(3), FLORIDA
6 STATUTES, WHICH REQUIRES A REVIEW OF A COMPANY'S
7 OPERATIONS ONCE EVERY FOUR YEARS. THIS REVIEW WILL
8 ALLOW THE COMMISSION TO CONSIDER WHETHER CHANGES IN
9 THE TELECOMMUNICATIONS INDUSTRY WARRANT CHANGES TO
10 THE PLAN.

11

12 OTHER THAN THE EARNINGS SHARING RATIO AND THE
13 DURATION OF THE PLAN, SOUTHERN BELL DOES NOT
14 PROPOSE ANY CHANGES TO THE EARNINGS AND SHARING
15 PARAMETERS OF THE EXISTING PLAN.

16

17 Q. DOES YOUR PLAN ENSURE THAT TELEPHONE SERVICE WILL
18 CONTINUE TO BE AVAILABLE AT AFFORDABLE AND
19 REASONABLE RATES?

20

21 A. YES. OUR EXISTING AVERAGE FLAT RATE LOCAL
22 RESIDENTIAL SERVICE RATE IS AMONG THE LOWEST IN THE
23 COUNTRY. THE PRICING RULES ALSO PROVIDE THAT
24 RESIDENTIAL RATES CAN NOT BE INCREASED BY MORE THAN
25 5% ANNUALLY.

1 ADDITIONALLY, SOUTHERN BELL PROPOSES TO OFFER
2 CUSTOMERS AN EXPANDED LOCAL SERVICE OPTION, WHICH I
3 WILL INTRODUCE LATER IN MY TESTIMONY AND WHICH
4 NANCY SIMS WILL DESCRIBE IN DETAIL. THIS OPTION
5 WILL PROVIDE A LOW-RATED USAGE ALTERNATIVE FOR
6 THOSE WHO WANT OR NEED LOWER PRICED SERVICE. THIS
7 AND A PROPOSED LIFELINE PROGRAM TARGETED AT
8 QUALIFIED LOW INCOME CUSTOMERS WILL FURTHER ASSURE
9 REASONABLE RATES FOR ALL FLORIDA CUSTOMERS.

10

11 Q. DOES THE PRICE REGULATION PLAN PROVIDE SOUTHERN
12 BELL WITH ALL THE FLEXIBILITY IT NEEDS TO MEET
13 COMPETITION?

14

15 A. NO. REGULATION, INCLUDING PRICE REGULATION, IS
16 MERELY A SURROGATE FOR COMPETITION. IN FULLY
17 COMPETITIVE MARKETS, COMPETITION REGULATES PRICES
18 TO THE END USER. THE COMMISSION IS CURRENTLY
19 REVIEWING WHAT RULES AND REQUIREMENTS ARE
20 APPROPRIATE FOR "EFFECTIVELY COMPETITIVE" SERVICES.
21 IMPLEMENTATION OF THE PRICE REGULATION PLAN WOULD
22 NOT PRECLUDE SOUTHERN BELL FROM REQUESTING
23 ADDITIONAL PRICING AND EARNINGS FLEXIBILITY FOR
24 SERVICES FOUND TO BE "EFFECTIVELY COMPETITIVE"
25 CONSISTENT WITH ANY RULES IMPLEMENTED FOR SUCH

1 SERVICES.

2

3 Q. PLEASE SUMMARIZE THE BENEFITS OF THE PRICE
4 REGULATION PLAN.

5

6 A. REGULATION IS INTENDED TO BE A SURROGATE FOR THE
7 RESULTS THAT WOULD BE OBTAINED IN A FULLY
8 COMPETITIVE MARKET. THIS WAY, REGULATION ASSURES
9 CONSUMERS THAT PRICE LEVELS, THE MIX OF AVAILABLE
10 SERVICES AND THE QUALITY OF THE COMPANY'S SERVICES
11 COMPARE FAVORABLY TO THOSE THAT WOULD EXIST IF THE
12 MARKET WERE COMPLETELY OPEN AND COMPETITIVE.

13

14 PRICE REGULATION MORE FULLY ACHIEVES THESE GOALS OF
15 REGULATION THAN DOES RATE-OF-RETURN (OR PROFIT)
16 REGULATION. BY PLACING LIMITS ON THE PRICES THAT
17 SOUTHERN BELL WILL BE ABLE TO CHARGE FOR ITS
18 SERVICES, ITS PRIMARY MEANS OF INCREASING ITS
19 EARNINGS WILL BE TO IMPROVE ITS OPERATING
20 EFFICIENCY AND TO DEVELOP MORE INNOVATIVE SERVICE
21 OFFERINGS.

22

23 AS DESCRIBED IN MORE DETAIL IN DR. DAVID
24 SAPPINGTON'S TESTIMONY, THE CONSUMER IS BETTER OFF
25 FOR A NUMBER OF REASONS UNDER THIS APPROACH. WITH

1 TRADITIONAL REGULATION, THE CONSUMER RISKS PAYING
2 HIGHER PRICES WHEN THE COMPANY'S COSTS INCREASE,
3 AND OBTAINS A SOMEWHAT LIMITED "REWARD" FROM THE
4 FIXED PROFIT CONSTRAINT PLACED ON THE COMPANY.
5 WITH PRICE REGULATION, THOUGH, THE CONSUMER IS
6 GUARANTEED THAT PRICE CHANGES WILL ACTUALLY
7 DECREASE IN REAL TERMS RELATIVE TO INFLATION.

8
9 THE COMPANY ASSUMES ADDITIONAL RISK UNDER PRICE
10 REGULATION. IN RETURN, THE COMPANY IS REWARDED BY
11 HAVING PRICING FLEXIBILITY AND THE POTENTIAL TO
12 RETAIN A PORTION OF EARNINGS ABOVE A FIXED LEVEL.
13 SUCH A PLAN GIVES THE COMPANY A STRONG INCENTIVE TO
14 FIND OPPORTUNITIES TO REDUCE COSTS WHILE
15 MAINTAINING SERVICE QUALITY AND A MIX OF PRODUCTS
16 AND SERVICES DESIRED BY CUSTOMERS.

17
18 CONSUMERS WILL FURTHER BENEFIT FROM RESULTANT
19 INCREASED EFFICIENCIES AND NEW SERVICES, WHICH WILL
20 LIKELY RESULT IN PRICE REDUCTIONS. CONSUMERS CAN
21 ALSO BENEFIT FROM SHARED EARNINGS. THE PLAN THUS
22 OFFERS SIGNIFICANT PROTECTIONS TO BASIC SERVICE
23 CUSTOMERS AND YET, AT THE SAME TIME, OFFERS
24 ADDITIONAL INCENTIVES AND FLEXIBILITY TO THE
25 COMPANY.

1 SECTION 4: SERVICE AND RATE CHANGES

2

3 Q. PLEASE DESCRIBE THE SERVICE AND RATE CHANGES
4 SOUTHERN BELL IS PROPOSING UNDER THE PRICE
5 REGULATION PLAN.

6

7 A. WE HAVE TWO SEPARATE GROUPS OF PROPOSALS. THE
8 FIRST IS A SERIES OF STRATEGIC SERVICE CHANGES AND
9 RATE REDUCTIONS CALCULATED TO HELP POSITION THE
10 COMPANY TO MEET COMPETITION. THESE CHANGES WILL BE
11 IN EFFECT IMMEDIATELY UPON THE COMMISSION'S
12 APPROVAL OF THE PLAN. THE FIRST FULL YEAR ANNUAL
13 EFFECT WILL BE A \$36.2M REVENUE REDUCTION IN 1994.
14 NANCY SIMS PROVIDES DETAILS OF THE RATE PROPOSALS
15 IN HER TESTIMONY. IN ADDITION, A \$22M REVENUE
16 REDUCTION WILL BE APPLIED IN 1995 TO THE OPTIONAL
17 EXPANDED LOCAL SERVICE PLAN WHICH I DESCRIBE BELOW.
18 A SPECIFIC RATE STRUCTURE FOR THE \$22M REDUCTION
19 WILL NOT BE RECOMMENDED UNTIL WE HAVE HAD
20 EXPERIENCE WITH THE PLAN IN THE MARKETPLACE DURING
21 1993 AND 1994.

22

23 THE SECOND SET OF PRICE ADJUSTMENTS REPRESENT
24 SOUTHERN BELL'S SUGGESTED 1993 REDUCTIONS TO RATES
25 BY APPROXIMATELY \$47.5M.

1 I WILL BRIEFLY DESCRIBE EACH OF THE PROPOSED
2 SERVICE AND RATE CHANGES. NANCY SIMS WILL PROVIDE
3 FURTHER DETAIL IN HER TESTIMONY.

4

5 1. OPTIONAL EXPANDED LOCAL SERVICE PLAN:

6 SOUTHERN BELL'S EXPANDED LOCAL SERVICE PLAN WILL
7 PROVIDE EACH CUSTOMER WITH AN OPTION THAT COMBINES
8 A DISCOUNTED LOCAL ACCESS LINE WITH USAGE RATES
9 WITHIN THE EXISTING LOCAL CALLING AREA, AND DEEPLY
10 DISCOUNTED USAGE RATES OUT TO 40 MILES FROM THE
11 CUSTOMER'S RATE CENTER (WITHIN THE NPA OR AREA
12 CODE). ALL OF THESE CALLS WOULD BE CONSIDERED
13 LOCAL AND WOULD USE SEVEN-DIGIT DIALING.

14

15 WITH THE EXPANDED LOCAL SERVICE OPTION OUT TO
16 40 MILES, PRESSURES FOR EXTENDED AREA SERVICE (EAS)
17 WILL BE LESSENERED, AS MANY COMMUNITIES OF INTEREST
18 WILL BE ENCOMPASSED WITHIN THE SCOPE OF THE
19 OPTIONAL PLAN. IN ADDITION, ALLOWING SUBSCRIBERS
20 TO HAVE AN OPTION IS PREFERABLE OVER NON-OPTIONAL
21 EAS IN THAT THOSE WHO DO NOT WANT THE PLAN WILL NOT
22 HAVE TO TAKE AND PAY FOR IT. USAGE BASED OPTIONS,
23 EVEN THOUGH DEEPLY DISCOUNTED, WILL ALSO PERMIT
24 SOUTHERN BELL TO RECOVER ITS COSTS MORE EFFECTIVELY

25

1 THAN WOULD THE EXPANSION OF FLAT RATED NON-OPTIONAL
2 EAS.

3
4 THE EXPANDED LOCAL SERVICE PLAN, ALONG WITH
5 EXISTING FLAT RATE LOCAL SERVICE, WILL PROVIDE
6 CHOICES TAILORED TO MEET THE CALLING NEEDS OF ALL
7 OF SOUTHERN BELL'S SUBSCRIBERS. EXPANDED LOCAL
8 SERVICE WILL OFFER A LOW RATED USAGE OPTION FOR
9 THOSE WHO MAKE VERY FEW CALLS, HAVE NEED OF A LOWER
10 PRICED SERVICE, OR HAVE A PHONE FOR SECURITY
11 REASONS ONLY. IT WILL ALSO APPEAL TO THOSE WITH
12 HEAVY CALLING VOLUMES WITHIN THE 40 MILE BAND.

13

14 2. INTRASTATE SWITCHED ACCESS RATES:

15 SOUTHERN BELL PROPOSES A REDUCTION IN INTRASTATE
16 SWITCHED ACCESS RATES THAT WILL MOVE THE INTRASTATE
17 RATES TOWARD INTERSTATE LEVELS. THIS WILL HELP TO
18 LESSEN BYPASS PRESSURES.

19

20 3. INTERCONNECTION USAGE RATES FOR MOBILE SERVICE
21 PROVIDERS: SOUTHERN BELL ALSO PROPOSES A REDUCTION
22 IN ITS INTERCONNECTION USAGE RATES FOR MOBILE
23 SERVICE PROVIDERS. THIS IS A DIRECT RESULT OF THE
24 INTRASTATE SWITCHED ACCESS RATE REDUCTION AND IS
25 DUE TO A FLOW THROUGH IN THE FORMULA FOR THE

1 INTERCONNECTION USAGE RATE FOR MOBILE SERVICE.

2

3 4. ECONOMIC DEVELOPMENT: SOUTHERN BELL PROPOSES
4 AN ECONOMIC DEVELOPMENT OFFERING TO HELP STIMULATE
5 BUSINESS GROWTH IN ENTERPRISE ZONES. THE COMPANY
6 WOULD WAIVE NONRECURRING CHARGES AND DISCOUNT ITS
7 RECURRING CHARGES FOR 12 MONTHS FOR BUSINESSES THAT
8 LOCATE, REBUILD OR EXPAND THEIR OPERATIONS IN ONE
9 OF THE ENTERPRISE ZONES.

10

11 Q. TURNING TO THE OTHER GROUP OF CHANGES, HOW DOES
12 SOUTHERN BELL RECOMMEND THAT THE APPROXIMATELY
13 \$47.5M CREDIT CURRENTLY IN EFFECT BE REFLECTED IN
14 1993 REDUCED RATES?

15

16 A. SOUTHERN BELL RECOMMENDS THE FOLLOWING. NANCY SIMS
17 WILL PROVIDE DETAILS IN HER TESTIMONY.

18

19 1. A REDUCTION IN THE MONTHLY RATES FOR RESIDENCE
20 CALL FORWARDING VARIABLE AND RESIDENCE CALL
21 WAITING. THESE REDUCTIONS WILL MORE CLOSELY ALIGN
22 RATES WITH THOSE IN EFFECT PRIOR TO THE
23 INTRODUCTION OF THE MULTI FEATURE DISCOUNT PLAN.

24

25 2. A REDUCTION IN SERVICE CONNECTION CHARGES.

1 THIS WOULD MOVE THESE RATES CLOSER TO COST AND
2 WOULD BE ACCOMPANIED BY A RESTRUCTURE OF THE RATES.

3

4 3. IMPLEMENTATION OF A LIFELINE PROGRAM FOR
5 QUALIFIED LOW INCOME SUBSCRIBERS. WITH THIS
6 PROGRAM, SOUTHERN BELL WOULD CREDIT AN ELIGIBLE
7 CUSTOMER'S MONTHLY BILL BY \$3.50, MATCHING THE
8 AVAILABLE FEDERAL CREDIT OF \$3.50, TO PROVIDE AN
9 OPTION THAT FURTHER ENHANCES UNIVERSAL SERVICE.

10

11 4. A REDUCTION IN PBX TRUNK, NETWORK ACCESS
12 REGISTER, AND LOCAL ROTARY RATES. THE INTENT OF
13 THIS REDUCTION IS TO MOVE THOSE SERVICES AND OTHER
14 BUSINESS ACCESS LINE RATES CLOSER TO PARITY. THIS
15 IS CONSISTENT WITH THE FPSC STAFF'S PREVIOUS
16 RECOMMENDATION TO LEVELIZE THE PRICES OF ACCESS
17 LINES.

18

19 5. IMPLEMENTATION OF THE PROPOSED RATE REDUCTIONS
20 LISTED ABOVE WOULD OCCUR SOMETIME AFTER JANUARY 1,
21 1993. THEREFORE, SOUTHERN BELL BELIEVES THAT A
22 CUSTOMER REFUND FOR THE REVENUE DIFFERENCE BETWEEN
23 APPROXIMATELY \$47.5M AND THE ACTUAL REVENUE THAT
24 WILL BE REDUCED DURING 1993 DUE TO THE RATE
25 REDUCTIONS WOULD BE APPROPRIATE.

1 SECTION 5: SUMMARY OF TESTIMONY

2

3 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

4

5 A. MY TESTIMONY FOCUSES ON THE COMPETITIVE
6 TELECOMMUNICATIONS ENVIRONMENT IN WHICH SOUTHERN
7 BELL OPERATES. I DESCRIBE COMPETITION THAT
8 SOUTHERN BELL FACES AND THE WAY IN WHICH
9 COMPETITORS ARE EMERGING AND THREATENING OUR
10 TRADITIONAL REVENUE STREAMS.

11

12 I ALSO DESCRIBE HOW SOUTHERN BELL HAS RESPONDED TO
13 THE CHALLENGE OF INCREASED COMPETITION SINCE 1988.
14 I EXPLAIN THE ACTIONS WE HAVE TAKEN TO ADDRESS THE
15 COMPETITION, INCLUDING AGGRESSIVE EFFORTS IN THE
16 AREAS OF COST REDUCTION AND REVENUE GENERATION. I
17 PRESENT THE RESULTS OF THE COMPANY'S EFFORTS TO
18 MAKE THE MOST OF THE OPPORTUNITIES PRESENTED BY THE
19 INCENTIVE REGULATION PLAN.

20

21 OUR ACHIEVEMENTS ARE A TESTIMONIAL TO HOW
22 RATEPAYERS BENEFIT WHEN A COMPANY IS SUCCESSFUL
23 UNDER AN APPROPRIATE REGULATORY PLAN. WE WERE ABLE
24 TO MAINTAIN REASONABLE EARNINGS IN SPITE OF
25 COMPETITION. AT THE SAME TIME, THE COMPANY AND OUR

1 CUSTOMERS FARED WELL DURING THE MAJOR ECONOMIC
2 DOWNTURN WHICH PLAGUED OUR STATE -- A DOWNTURN THAT
3 WAS NOT EXPECTED AT THE TIME OF THE ADOPTION OF THE
4 INCENTIVE REGULATION PLAN.

5
6 I THEN PRESENT SOUTHERN BELL'S PROPOSED PRICE
7 REGULATION PLAN, WHICH IS THE NECESSARY NEXT STEP
8 IN REGULATORY PROGRESS. I CONCLUDE WITH A PROPOSED
9 PACKAGE OF STRATEGIC SERVICE AND RATE CHANGES.

10
11 THE PRICE REGULATION PLAN AND ITS ELEMENTS
12 RECOGNIZE THE CHANGES IN THE INDUSTRY THAT HAVE
13 OCCURRED SINCE THE START OF THE INCENTIVE
14 REGULATION PLAN. THIS PLAN WILL PROVIDE THE
15 COMPANY WITH A DEGREE OF PRICING FLEXIBILITY THAT
16 WILL ASSIST IN THE TRANSITION TO AN INCREASINGLY
17 COMPETITIVE WORLD.

18
19 COMPETITION IS THE DRIVING FORCE THAT MAKES THE NEW
20 PLAN NECESSARY, BUT THE COMPANY ACKNOWLEDGES THAT
21 BENEFITS AND SAFEGUARDS FOR CUSTOMERS ARE OF
22 PRIMARY IMPORTANCE.

23
24 WE HAVE EXPERIENCED FIVE YEARS OF INCENTIVE
25 REGULATION, A TRANSITIONAL STEP WHICH WAS INTENDED

1 TO RECOGNIZE THE CHANGING ENVIRONMENT OF OUR
2 INDUSTRY AND COMPETITION. NOW IS THE TIME FOR THE
3 COMMISSION TO TAKE THE NEXT STEP BY APPROVING
4 SOUTHERN BELL'S PROPOSED PRICE REGULATION PLAN.

5

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

7

8 A. YES IT DOES.

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

FLORIDA 1991 ESTIMATED REVENUE LOSSES TO COMPETITION

<u>SOURCE</u>	<u>LOSS</u> <u>SM</u>
FACILITY BYPASS	
SWITCHED ACCESS (1)	18
SPECIAL ACCESS (1)	19
SERVICE BYPASS (1)	48
INTRALATA TOLL	
PRIVATE MICROWAVE SYSTEMS	9
PRIVATE FIBER NETWORKS (2)	11
IXCS (3)	5
RESELLERS	6
AOS PROVIDERS	1
PRIVATE LINE	
PRIVATE MICROWAVE SYSTEMS	44
PRIVATE FIBER NETWORKS (2)	29
NON-LEC PAY TELEPHONE PROVIDERS	<u>11</u>
TOTAL	201

NOTES

1. INCLUDES BOTH INTRASTATE AND INTERSTATE LOSSES. DATA IS FROM APRIL 30, 1992 BYPASS MONITORING REPORT FILED WITH THE FCC.
 2. INCLUDES ALTERNATE ACCESS VENDORS (AAVS)
 3. INCLUDES ONLY INTRAEAEA MINUTES OF USE (MOU) SUBJECT TO COMPENSATION BILLING.
- ALL REVENUE LOSSES ARE NET OF REVENUES GAINED FROM OTHER SERVICES (I.E. SPECIAL ACCESS, SWITCHED ACCESS) AND COMPENSATION.

CATEGORY 1 - BASIC SERVICES

RESIDENCE FLAT RATE LOCAL EXCHANGE SERVICE
RESIDENCE - MESSAGE RATE LOCAL EXCHANGE, OPTIONAL EXPANDED
LOCAL SERVICE (ELS)
BUSINESS LOCAL EXCHANGE SERVICE - (FLAT RATE, MESSAGE, NARS, ELS,
OUTGOING)
ROTARY SERVICE
OPTIONAL EXTENDED AREA SERVICE
TRUNK SIDE ACCESS FACILITY - LOCAL EXCHANGE SERVICE
LOCAL EXCEPTIONS
BASIC SERVICE CONNECTION AND PREMISE CHARGES
PUBLIC TELEPHONE SERVICE
SEMPUBLIC TELEPHONE SERVICE
PUBLIC TELEPHONE ACCESS SERV. FOR CUSTOMER PROVIDED TELEPHONE,
(INCLUDING BILLING OF SUBSCRIBER SURCHARGE)
TOUCH-TONE CALLING SERVICE
INTERCONNECTION FOR SHARED TENANT SERVICES
EMERGENCY REPORTING PROCEDURES
CARRIER COMMON LINE ACCESS SERVICE
SWITCHED ACCESS SERVICE (EXCEPT BSEs)
ACCESS SERVICE FOR LEC COMPLETION OF INTRALATA LONG DISTANCE
INTERCONNECTION FOR MOBILE SERVICES

CATEGORY 2 - NON-BASIC SERVICES

DIRECTORY ASSISTANCE
OPERATOR ASSISTED CALLS
VERIFICATION AND INTERRUPTION SERVICE
DUAL SERVICE
SPECIAL NUMBER ASSIGNMENT CHARGE
OPTIONAL DIRECTORY LISTINGS
COINLESS COMMERCIAL CREDIT CARD SERVICE
TELEPHONE ANSWERING SERVICE FACILITIES
FOREIGN EXCHANGE AND FOREIGN CENTRAL OFFICE SERVICE
DIRECT-INWARD DIALING (DID) AND IDENTIFIED-OUTWARD DIALING (IOD)
MARITIME MOBILE
ESSX AND PRESTIGE SERVICES
EXTENSION SERVICE
INTERPHONE SERVICES
SPECIAL BILLING SERVICES
CUSTOM CALLING SERVICES, INCLUDING THE MULTI-FEATURE DISCOUNT PLAN
PUBLIC ANNOUNCEMENT FACILITIES
REMOTE CALL FORWARDING SERVICE
SELECTIVE CLASS OF CALL SCREENING SERVICE
DORMITORY COMMUNICATIONS SERVICE
TOLL TRUNKS (TOLL TERMINALS)
911 EMERGENCY SERVICE -8A KEY SYSTEM
LOCAL CONFERENCE SERVICE
LIST SERVICE
NETWORK FACILITIES FOR 976 SERVICE
TOUCHSTAR SERVICE
CUSTOMIZED CODE RESTRICTIONS
BILLED NUMBER SCREENING
WATCH ALERT
DUPLICATE BILL CHARGES
RINGMASTER
CALL TRACING
CENTRAL OFFICE LOCAL AREA NETWORK SERVICE
EXCHANGE LINE DATA SERVICE
TICKETTAKER SERVICE

SIMPLIFIED MESSAGE DESK INTERFACE (SMDI)/SURROGATE CLIENT NUMBER
MESSAGE WAITING INDICATION
TELECOMMUNICATION SERVICE PRIORITY SYSTEM
MULTILINE HUNT QUEUING
HOT LINE SERVICE
WARM LINE SERVICE
UNIFORM ACCESS NUMBER/AUTOMATIC NUMBER IDENTIFICATION
CUSTOM SERVICE AREA
CALL DETAIL INFORMATION
AUXILIARY EQUIPMENT
MOBILE TELEPHONE SERVICE
MTS, WATS, TOLL CALLING PLANS (SAVER SERVICE)
PERSONAL SIGNALING SERVICE (BELLBOY)
DATA TRANSPORT SERVICES
EQUIPMENT FOR DISABLED CUSTOMERS
MULTILOCATION BUSINESS SERVICE
PRIVATE LINE SERVICES

ACCESS SERVICES

SPECIAL ACCESS SERVICES
SWITCHED ACCESS BASIC SERVICE ELEMENTS (BSEs)
BILLING AND COLLECTION SERVICES
DIRECTORY ASSISTANCE ACCESS SERVICES
ENGINEERING AND OTHER MISCELLANEOUS ACCESS SERVICE
OPERATOR TRANSFER SERVICE