



**Communications
Consultants, Inc.**

Tariff Analysis • Regulatory Affairs • Telecommunications Intervention

November 15, 1992

Steven C. Tribble
Director, Division of Records and Reporting
FLORIDA PUBLIC SERVICE COMMISSION
101 E. Gaines Street
Tallahassee, FL 32301

RE: Docket No. 920260-TL
Southern Bell Rate Increase

Dear Mr. Tribble:

Enclosed for filing please find fifteen copies of the Direct Testimony of Douglas S. Metcalf on behalf of the Florida Ad Hoc Telecommunications Users' Committee in the above docket.

Service has been provided to all parties of record in accordance with the attached Certificate of Service.

Sincerely,

Douglas S. Metcalf
Class B Practitioner

DSM:sr

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive Review of the Revenue)
Requirements and Rate Stabilization Plan of)
Southern Bell Telephone Company)
_____)

Docket No: 920260-TL
Filed: November 16, 1992

Direct Testimony

of

Douglas S. Metcalf

On Behalf of the

FLORIDA AD HOC TELECOMMUNICATIONS USERS COMMITTEE

NOV 16 1992
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1 Q: **Please state your name, business affiliation, address, and on whose behalf**
2 **you are testifying?**

3 A: My name is Douglas S. Metcalf. I am President of Communications
4 Consultants, Inc., 1600 East Amelia St., Orlando, FL 32803-5505. CCI provides
5 regulatory, tariff and management assistance to clients using or providing services
6 affected by regulation. My responsibilities include the examination of costing
7 methodologies and rate design policy. I am testifying on behalf of the Florida Ad
8 Hoc Telecommunications Users Committee (Ad Hoc).

9

10 Q: **What is your educational background and experience?**

11 A: I graduated from the University of Oklahoma with a BBA in Finance and I
12 obtained an MBA at Golden Gate University in San Francisco. I have appeared
13 before this Commission on behalf of Ad Hoc and/or the Alarm Assn. of Florida
14 since 1981, and have been a Class B practitioner since 1985.

15

16 Q. **Have you previously testified before regulatory agencies in other jurisdic-**
17 **tions?**

18 A. Yes, since 1981 I have participated in over 130 proceedings on matters of
19 rate design and cost methodology. These cases include, but are not limited to,
20 state regulatory bodies, the FCC and the U.S. Congress.

21

22 Q: **What is the Florida Ad Hoc Telecommunications Users Committee (Ad**
23 **Hoc)?**

24 A: It is an ad hoc group of large users of business telephone services within the
25 state of Florida. The members are major customers of the local exchange

1 companies who are vitally interested in the fairness of any tariff structure or rate
2 changes affecting business services. The current members of Ad Hoc are:

3 American Express Company
4 Amerifirst Bank
5 Barnett Technology Corp.
6 Burdine's
7 Dean Witter Reynolds
8 FL Informagement Services (FIS)
9 First Union National Bank
10 Harris Corporation
11 Honeywell Protection Services
12 NationsBank of Florida
13 Publix Supermarkets
14 Sears Technology Services
15 Seimens/Stromberg-Carlson
16 Southeast Switch (HONOR Group)
17 State of Florida - DMS
18 SunTrust Service Corp.
19 Telecredit, Inc.
20

21 Q: What is the purpose of your testimony?

22 A: The purpose of my testimony is to address Southern Bell Telephone
23 Company's ("SBT" or "Company") rate and restructure proposals and their impact
24 on large business users.

25 Primarily, this testimony addresses Ad Hoc's adaptation of a pricing concept
26 that was proposed by Mr. Richard Cimerman of the Commission staff in the recent
27 United Telephone case and also proposed by Ad Hoc in the recent General
28 Telephone of Florida (GTF) rate hearings which were held before this Commission
29 last month.

30 This concept prices business services based on the cost of the underlying
31 components of each basic business service. Such services include business one-
32 party (B-1), business one-party rotary or hunting (B-1 rotary) and PBX trunks. No
33 proposals have been made for private lines and special access, or for ESSX access

1 lines other than a change in network access registers (NAR), but, in my opinion,
2 those services should also be costed and priced under this concept.

3 The halfway measure SBT has taken in its "parity" proposal for business
4 rates should be rejected in favor of a Commission requirement that all business
5 service be repriced using a cost study equitably and consistently applied to all
6 business services supplied by SBT. As I understand it, this is a Commission goal,
7 and it is also the best way to stem the erosion of business service revenues over
8 which the Company expresses so much concern.

9 Ad Hoc is also concerned with and will comment where appropriate on with
10 SBT's proposals or assertions regarding:

- | | | |
|----|----------------------------------------------|---------|
| 11 | 1. Business service restructuring | Page 4 |
| 12 | 2. Competition | Page 10 |
| 13 | 3. Optional expanded local service (ELS) | Page 13 |
| 14 | 3. Rate flexibility | Page 13 |
| 15 | 5. Basic & Non-basic service categorizations | Page 14 |

16 Further, Ad Hoc feels that Southern Bell has underestimated the \$60+
17 million amount that can and should be used for lowering access charges,
18 eliminating the touchtone rate element for all services and restructuring business
19 service costs and rates as Ad Hoc proposes in this testimony. Significant revenues
20 exceeding some \$200 million should be available from a combination of deprecia-
21 tion changes, a more appropriate lower overall authorized return and rate setting
22 point, inside wire changes and the previous overearning adjustments SBT has all
23 but conceded in their proposals.

24

25 Q: Why do you believe a new pricing concept is needed for business services?

1 A: Primarily for the following reasons:

2 1) the current pricing of business local exchange access services is
3 inconsistent when viewed in the context of the cost of the actual facilities
4 used to provide those services.

5 2) competition in the local exchange market has most likely doomed the
6 present way we set prices for the long term, and

7 3) pricing in this manner would more fairly reflect the unique cost
8 characteristics associated with particular business services.

9

10 Q: Describe your proposal.

11 A: My proposal was originally addressed in the Southern Bell ESSX hearings in
12 1988. With some modifications it was proposed by Mr. Cimerman earlier this year
13 and again by me as Ad Hoc's witness in the GTF proceeding. As referenced earlier
14 in my testimony, a new pricing methodology is needed to more closely align prices
15 to the actual costs associated with business services. Currently, there are cost
16 similarities and differences among the various business services which are not
17 reflected in the pricing. These services include B-1, B-1 rotary, PBX, and ESSX
18 services. They are priced very differently, but are to a large extent functionally
19 interchangeable. There should be a consistent basis for pricing when services are
20 competitive and cross elastic with each other. The inconsistent pricing of these
21 similar services will otherwise lead to unreasonably discriminatory results.

22 Ad Hoc believes, and the staff seems to have concurred, that telephone
23 service consists of three elements: interconnection to the network, the various
24 additional functionalities (e.g., signalling, conditioning, etc.), and usage. The price

1 relationships between the services should reflect the underlying differences in these
2 three elements.

3 Ad Hoc has used Staff witness Cimerman's descriptions in the United rate
4 case in more fully describing the three elements as:

5 **Interconnection** - Interconnection to the network should be viewed as the
6 basic loop or communications path. Loop costs may differ according to the service
7 (by length, by the technology used to provision them, and by cross-section size).
8 All these factors should be considered in determining appropriate relationships.

9 **Network Usage** - Average usage varies by service. Usage will also vary
10 between services with respect to intraoffice versus interoffice calls, time of day
11 (especially peak usage versus average usage), and by distance (though this factor
12 has become less significant in recent years). My reference to usage as a cost
13 indicator contemplates a flat rate element based on the average usage for the
14 service category. This point is discussed in greater detail later in my testimony.

15 **Additional Functionalities** - Functionalities differ between services. A B-1
16 line has no additional functionalities, while a B-1 rotary line has rotary hunting as
17 an additional functionality, and PBX trunks require stricter standards in terms of
18 decibel transmission loss if off-premise extension lines are served by the PBX. The
19 term "functionalities" as used here does not refer to optional additives such as
20 custom calling features which are available for any of these business services.
21 Rather, the term refers to those items which make one business service uniquely
22 and inherently different from another.

23

24 Q: How should these elements be reflected in pricing?

1 A: Business services should be priced to reflect the different facilities and
2 usage characteristics of each service. Separate rate elements need not be created
3 for each component part of a business service. Rather, the rates would be
4 fashioned by considering the discrete underlying elements of each service.

5

6 Q: In your opinion, how should the costs of these elements be determined?

7 A: As described above, the basic structure should include three elements: the
8 loop, the network usage and the additional functionalities or electronics.

9 1) The local loop element should cover the cost of the loop facilities from
10 the customer premises to the central office.

11 2) The network usage element should cover the costs of switching and
12 transporting a call through the network. As indicated earlier, usage should
13 be calculated, costed and priced as one component in determining the cost
14 for a particular category of business services. If utilized in this manner, flat
15 rate pricing will recover the cost. It would be inappropriate to utilize a
16 measured rate to recover these costs, given the relatively small and
17 diminishing role that usage driven costs plays in relation to the balance of
18 costs associated with business services. Staff witness Cimerman agreed
19 in his prefiled testimony in the United Tel case:

20 "Moreover, as the network becomes increasingly digital, the
21 portion of the total cost that is traffic sensitive is expected to
22 decrease. To base the relative rate levels for a group of
23 services on what is now a small and decreasing portion of
24 the total costs, does not seem appropriate."

25 --3) The additional functionalities element should include signalling and
26 conditioning (for PBX trunks) and hunting equipment (for rotary business
27 lines and PBX trunks). This element would cover the costs of the equip-

1 ment and/or software, needed to provide network performance and
2 signalling and the hunting functionality.

3 This same cost structure should apply to B-1 (including hunting), ESSX (including
4 access lines), PBX trunks and private lines.

5

6 **Q: How would these elements be combined to formulate a rate for each
7 business service?**

8 **A: As I indicated earlier in my testimony, I think SBT should price its business
9 services more comparably. Its current proposal is not based on comparable or
10 equitable pricing principles. Accordingly, I submit that the Commission should
11 require the Company, in this proceeding, to separate and cost out its various
12 business services by their individual elements, and price them on that basis. Ad
13 Hoc recognizes the propriety of a Commission directed contribution to continue the
14 support of residential and lifeline type services.**

15

16 **Q: Can you provide an example of how this pricing would work?**

17 **A: Yes. My example will compare PBX and ESSX. Both services should reflect
18 a loop cost that is quantified using the same methodology. While identifying these
19 costs can be accomplished using several different techniques, such as measuring
20 loop costs by distance or technology type (copper, pair gain or fiber), the
21 methodology used must be applied uniformly. Thus, the cost of a 1000 foot ESSX
22 copper loop should not vary from the cost of a 1000 foot PBX or private line
23 copper loop. Then, service specific cost studies should be accomplished to develop
24 average usage and functionality requirements.**

1 Once total costs have been developed for each service, an appropriate but
2 relatively equal contribution should be added to develop the prices for each service.
3 This contribution should be determined by the Commission and should subsidize
4 those services the Commission directs.

5
6 **Q: How would this method change SBT's proposal in this case?**

7 If the Commission were to adopt this rate structure with these elements, in
8 place of the B-1 line rate today, a customer would pay a rate which combines a
9 local loop element and a network usage element. The network usage element
10 could vary according to rate group.

11 A rotary B-1 customer would pay a rate based on a local loop element, a
12 functionality element to cover the additional central office equipment needed for
13 rotary, and a network usage element. The network usage element for rotary B-1
14 service might be different than the non-rotary B-1 network usage element, if the
15 usage studies reflected a higher or lower average usage.

16 A PBX customer would pay a rate based on a local loop element, a signal-
17 ling/conditioning/rotary element or elements, and a network usage element charge.
18 The network usage element for a PBX customer would probably be higher than that
19 paid by rotary B-1 customers, reflecting the expected higher average usage on PBX
20 trunks.

21 The ESSX customer would pay a rate based on a structure similar to that
22 paid today, with today's station line charge becoming two elements: a local loop
23 plus intercom functionalities, and the network-access register (NAR) and telco
24 switch usage becoming the network usage element. I would expect that the
25 network usage portion of the usage element for PBX trunks and for ESSX NAR's

1 would be similar, but the average usage element applied to ESSX should be larger,
2 since every call made through that service uses the central office switch while any
3 intra-company calls using a PBX would not use telco switch facilities or usage.
4 Under this concept a customer could not pick and choose to subscribe only to
5 certain elements.

6

7 **Q: How is your concept an improvement over the current system?**

8 **A:** Implementation of this pricing approach would introduce a greater degree
9 of objectivity into the pricing process for business services by offering a more
10 reasoned basis on which to establish relative rate relationships. This approach,
11 while taking into consideration differences in network usage, would not be solely
12 based on usage differences.

13 Business service rates have traditionally been determined by applying
14 multipliers to the basic R-1 rate. These multipliers were originally derived from
15 relative usage differences. Over time the usage relationships have changed but
16 changes in the rate relationships have not kept pace. The result is that these
17 multipliers bear no real relationship to current cost or traffic differences between
18 these services. This has led to the inconsistent pricing of similar, competitive
19 business services.

20

21 **Q: How does SBT's proposed business rate design stack up against your plan?**

22 **A:** The Company's proposed business rate design reflects little progress in
23 recognizing that business services among themselves should be "levelized" as Mr.
24 Lombardo indicates. There are still serious shortcomings in the Company's pricing
25 proposals.

1 First, there is no attempt by the Company to measure business service costs
2 based on an elemental analysis such as I have described.

3 Second, even though the Company lessened the substantial pricing
4 disparities among a few similar services, it has not proposed or recognized the need
5 for a complete overhaul of all business service pricing. Their proposed pricing
6 perpetuates the distortions which arise from the indexing of business to residential
7 prices under the historic residual pricing regime. As the Commission knows,
8 residual pricing is wholly divorced from cost based ratemaking.

9 Third, the Company's flawed pricing approach appears to have been
10 selectively applied to exclude private line and ESSX service from any "levelizing"
11 change under its new pricing proposal. Ad Hoc submits that all of SBT's business
12 services should be repriced using the element-by-element approach, which would
13 necessarily include ESSX and private lines/special access.

14 Thus, despite Dr. Sappington's testimony on page 20 claiming that the plan
15 only poses a potential cross subsidy for residential services, the reality is that at
16 least one business service (categorized as Non-Basic by SBT) will continue to be
17 subsidized under SBT's proposal. Specifically, ESSX produces a lower contribution
18 to common costs than do services like PBX access with which ESSX competes.
19 Since SBT's plan does not address these anti-competitive rate or contribution
20 disparities, the current cross subsidy will continue.

21
22 **Q: Witness Lombardo, apparently in an attempt to justify the Company's**
23 **proposal, talks about alleged growth in competition that has occurred since**
24 **the Company's last incentive plan was proposed. Lombardo Direct pp 6-7.**
25 **Would you comment on Mr. Lombardo's remarks?**

1 A: Yes. First, Mr. Lombardo's complaints that bypass has grown, including
2 VSAT deployment and private line bypass, ring particularly hollow when viewed in
3 a historic context. Specifically, Ad Hoc has often opposed Southern Bell's high
4 pricing of private line, special access and some switched services. Then and now
5 we stated that, if SBT would price services on a consistent basis, for the long
6 term, and in some way reflective of cost, large users would not have the incentive
7 to purchase capital equipment and get off the network completely. Further, it was
8 SBT's constant threats and requests for unjustified increases in excess of 100%
9 in private line rates during the mid-1980's that caused users to look at alternate
10 vendors and equipment.

11 The LECs now state that they've gotten their prices down, and that they
12 offer competitive or better quality than their competitors, and in some cases that
13 may be true. But users who left the network cannot throw their capital equipment
14 away until its cost is recovered. And users are not likely to come back or continue
15 to support the costs of the total network until they see that they can buy either
16 ESSX or cost effective PBXs, and know that the prices for the facilities they use
17 won't vary drastically because of some marketing plan of the provider over which
18 users have no control. Large users make business decisions on their telecommuni-
19 cations needs for the long term. They buy technologies and services they think will
20 meet their needs and they choose these services on a "payback" basis. Threats
21 of telco facility increases and price instability directly impact their decisions.

22 Despite Ad Hoc's opposition and warnings of bypass, SBT has maintained
23 unreasonably high rates for services used by the business community. That SBT's
24 uneconomic pricing of these services has produced some limited migration to
25 alternatives is not surprising. However, the truly limited use of these alternatives

1 demonstrates the basic service nature of the Company's private line and private
2 line-like services, for which few practical alternatives are available on a local basis.

3 The fact that Southern Bell has overpriced these facilities in the past is
4 certainly no excuse for enhancing its future ability to do so by classifying private
5 line as a "Non-Basic" service which is subject to even less regulatory oversight
6 under its proposed plan.

7

8 **Q: What other comments do you have about Mr. Lombardo's allegations**
9 **regarding competition?**

10 **A: It is particularly ironic that Mr. Lombardo complains about SBT's inability to**
11 **compete in "all" long distance jurisdictions, i.e., other than intraLATA, as a basis**
12 **for justifying its plan (Lombardo Direct pg. 7).**

13 This irony is apparent when one remembers that the restrictions against
14 SBT's carriage of interLATA traffic were imposed precisely because the Company
15 and its former affiliates had unfairly hindered competition in these markets.
16 Southern Bell and its affiliates agreed to these restrictions at the time. Now that
17 these essentially self-imposed restrictions are in place, it complains that it cannot
18 compete effectively without having pricing freedoms in other areas. Mr.
19 Lombardo's claims are thus pretzel logic at its best.

20 As I discuss in my testimony, SBT's plan itself is anticompetitive; it would
21 unfairly subject business customers utilizing basic service to monopoly pricing
22 abuses — all in the name of competition. And the competitive environment to
23 which Southern Bell refers in support of this conclusion is largely the result of the
24 antitrust Consent Decree it signed in order to produce a more competitive

1 telecommunications environment. In short, if there is a "problem", it is of SBT's
2 own making.

3

4 **Q: What are your concerns with SBT's Optional Expanded Local Service Plan?**

5 **A: The Company is proposing to implement a form of mandatory local**
6 **measured service (LMS) by offering a 40 mile local calling area. While it does not**
7 **appear that SBT has provided evidence that the public demands the substantial**
8 **expansion of local calling areas proposed in this case, and certainly not of**
9 **mandatory LMS for the privilege, it can be concluded that some minor and short**
10 **term benefits accrue to the users, while long term benefits accrue to SBT.**

11

12 **Q: Why do you say that SBT's users will only benefit users in the short term?**

13 **A: The expansion of calling areas as proposed by SBT will, practically speaking,**
14 **foreclose effective toll competition within SBT's territory. Even though the**
15 **Commission allowed intraLATA toll competition effective January 1, 1992, SBT's**
16 **scheme creates conditions that will effectively limit an IXC's ability to enter the**
17 **marketplace because their discounted toll rates are lower than the access charges**
18 **that IXCs must pay to serve their customers. This diminution of choice may, in the**
19 **long term, cause customers to pay higher rates and to have fewer choices. In sum,**
20 **under their ELS scheme, the only long term beneficiary appears to be SBT.**

21

22 **Q: What are your concerns with SBT's rate flexibility plan?**

23 **A: ~~My concerns fall into several categories.~~ I am concerned that the rate**
24 **flexibility plan is simply a vehicle for monopoly pricing abuses and the cross**
25 **subsidy of SBT's competitive services and products that will flow from these**

1 abuses. This one-sided rate flexibility threatens considerable anti-competitive
2 mischief if, as SBT claims, competition is growing within its market area.

3 In addition to the systematic bias in the proposal that promises such price
4 gouging — particularly for customers with few other choices — the mechanics of
5 the plan are also unfairly tilted in Southern Bell's favor. I will address both of these
6 topics in order.

7
8 **Q: Would you please explain your concern that the plan is a vehicle for cross
9 subsidy?**

10 **A: Yes. SBT offers some products/services which compete with other
11 products/services that it does not offer. Additionally, SBT offers services, such as
12 Basic Service Elements (BSEs) that are basic network offerings upon which both
13 it and its competitors depend. SBT's plan is thus designed to facilitate two forms
14 of anti-competitive activity.**

15 First, SBT's attempted division between category 1 ("Basic") services
16 appears designed to transfer money from basic monopoly ratepayers to fund SBT's
17 competitive operations, through the scheme of service misclassification. This
18 anticompetitive transfer of money will be made possible through the substantial
19 annual rate increases — up to 20% — that SBT will be able to inflict on Category
20 2 ("Non-Basic") ratepayers. Where these ratepayers enjoy no real alternatives to
21 SBT's price gouging, i.e., monopoly, or basic, service customers, they will
22 undoubtedly become the target of annual rate increases.

23

24 **Q: Can you give some examples of such service misclassifications?**

1 A: Yes. Reference to Mr. Lombardo's Exhibit 2, pages 2-3, shows several
2 services with which I am personally familiar that do not enjoy realistic alternatives.
3 These services thus are improperly classified as "Non-Basic" by SBT.

4 For example, the inclusion of the category "private line services" shown on
5 that exhibit is a virtual prescription for pricing abuses. While some high-capacity
6 private line services may be competitive, many other private line services are not.
7 Bank branches, department stores, alarm companies and most state office
8 locations often use single channel private lines to transfer data or to establish a
9 dedicated voice path. There is no realistic alternative to this common use of low
10 capacity, relatively low speed private line service. By SBT's inclusion of all private
11 lines in the broad category of "Private Line Services" subject to annual 20%
12 increases, SBT has assured that these captive customers will either be priced off
13 the network, or will suffer price gouging.

14 Another example is SBT's WatchAlert® service. This service allows alarm
15 companies to know of a cut in a network access line which connects a customer
16 premise monitored for burglary or fire. There is no alternative to this service other
17 than a low speed private line channel, which Southern Bell has also included as a
18 Category 2 service.

19 Indeed, SBT's zeal to include basic services in this category is demonstrated
20 by its categorization of "Equipment for Disabled Customers and 911 Emergency
21 Service" as "Non-Basic" services.

22 I am also concerned about SBT's inclusion of ESSX service as a non-basic
23 service, while including PBX-trunk service, with which it competes, in the basic
24 category. I am concerned with the discretion SBT will have not to raise rates for
25 this service, while PBX trunks could be increased as much as 5% annually. There

1 is already a price disparity between these two services that favors SBT's ESSX
2 service. It is my belief that the inclusion of ESSX as "Non-Basic" is meant to
3 perpetuate and deepen that disparity.

4
5 **Q: Earlier in your testimony, you mentioned that SBT's misclassification**
6 **scheme also involves facilities and services upon which both SBT and its**
7 **competitors depend. Can you elaborate on this?**

8 **A: Yes. The Company may soon be expected to increase its involvement in the**
9 **enhanced service marketplace. SBT also claims that it is experiencing greater**
10 **competition in the toll market. Its classification scheme threatens fair competition**
11 **in both these markets. I will address the enhanced service market first.**

12 As the Commission is no doubt aware, the FCC's Open Network Architec-
13 ture (ONA) decisions collectively required SBT to unbundle its basic network into
14 piece-parts called Basic Serving Arrangements (BSA) and Basic Service Elements
15 (BSE). These network components will be used by Enhanced Service Provider
16 (ESP) competitors of SBT, and by SBT itself when it offers enhanced services.
17 These network components are, as their name implies, "Basic" in nature. Through
18 logic that is completely absent in SBT's testimony, it has somehow justified the
19 inclusion of these components in the Non-Basic category.

20 The inclusion of BSEs in this fashion will allow SBT to price squeeze its ESP
21 competitors by pricing BSE functions high, and not imputing these prices to its own
22 enhanced products. This sort of "left pocket/right pocket" behavior helps SBT's
23 ESP operations in the marketplace, but ultimately hurts competition and consum-
24 ers. BSEs should thus be included as a Basic service if the Commission gets this
25 far with SBT's flawed proposal.

1 The second area that troubles me about SBT's pricing of facilities used by
2 competitors is Special Access. Special access includes as a component the local
3 loop portion which connects customers with wire centers/central offices. As a
4 matter of practicality, the loop portion of the network is extremely difficult, if not
5 impossible, for a competitor to replace. SBT competes in the toll market which
6 depends on special access services, including the loop facilities of the service. SBT
7 should not be allowed to have such discretionary power to raise the prices of an
8 essential facility (the local loop) in a market in which it also acts as a competitor.

9

10 **Q: Do you have any recommendations concerning SBT's classification scheme?**

11 **A: Yes. In my opinion, SBT has not demonstrated that a change from the**
12 **status quo is necessary as a threshold matter. If the Commission gets this far in**
13 **its consideration of SBT's plan, I believe that it should require SBT to prove for**
14 **each and every service and offering within its Category 2, Non-Basic classification,**
15 **that some basis exists for its inclusion. That proof is totally lacking in SBT's**
16 **current showing, and its absence is understandable in light of the misclassifications**
17 **that I have discussed.**

18

19 **Q: What problems exist with regard to the mechanics of SBT's proposal?**

20 **A: The mechanics are simply one-sided. They unfairly favor SBT. As an**
21 **example, SBT proposes that it alone will apparently have the right to change**
22 **service classifications. (Lombardo Direct p. 39). If the communications market-**
23 **place is changing as quickly as SBT says, why should it alone be entrusted with the**
24 **ability to petition the Commission to change a classification? There is simply no**

1 good reason, and SBT's failure to even discuss the rights of other stakeholders is
2 indicative of its selfish agenda.

3 Another example of the plan's unworkability is found in SBT's escape clause
4 whereby it could even raise Category 1 rates despite the 'guaranteed' price stability
5 which the plan is supposed to assure. The Commission's attention is invited to Mr.
6 Lombardo's testimony (p. 43) in this respect, where he sets out circumstances
7 under which the deal is off. One of the reasons cited by him is "significant
8 structural changes to Southern Bell's service offerings due to changes in the
9 industry and/or Commission Orders."

10 This standard is so significantly without measures as to constitute no
11 standard at all. What constitutes a "significant structural change[s]" to SBT's
12 service offering is not defined or explained, but is left to the reader's imagination.
13 To compound the obscurity of this standard (called a "circumstance" in the
14 testimony"), SBT proposes the generous period of 60 days, presumably during
15 which the Commission and the parties can examine SBT's reasons, before price
16 changes take effect.

17 Ad Hoc respectfully submits that SBT's unwillingness to specify in greater
18 detail the conditions which will justify letting it out of the proposed deal, further
19 points out the one-sided nature of its proposition.

20

21 **Q: Does Ad Hoc have any other concerns with the 30 or 60 day effective date**
22 **for rate increases in SBT's Plan?**

23 **A: Yes. Over and above the fact that 30 days is a short time for the**
24 **Commission or affected parties to review SBT's planned changes, it is also too little**
25 **time to react to them and to budget for their impact. If users must stay with**

1 Southern Bell's service because it is a monopoly offering (even though in Category
2 2), budgets and resources to pay the increase cannot always be reworked in that
3 short time. The State of Florida Department of Management Services is one
4 example of a large user with very limited flexibility in this regard.

5 Alternatively, if the user decides to change his service to another Southern
6 Bell offering, or to leave SBT's network because of the increase, he cannot get the
7 new service installed in time to avoid an increase for which he had no warning.

8

9 **Q: If the Commission decides to make the changes you have recommended in
10 your testimony, and the new rate setting point or other factors make
11 additional revenue available, why should they first attend to business user
12 rates before residential rates?**

13 **A: First, the present method of pricing business service is a continuing problem
14 that will only get worse with time, and decided worse immediately if the Category
15 1 and 2 pricing plan is approved.**

16 Second, I would remind the Commission that, as a result of the 1988 SBT
17 hearings, residential but not business user rates were lowered \$1 per month, even
18 though the record was clear that the overearnings which were the subject of that
19 hearing came in part from business services rather than residential services.
20 Business users are large contributors to the subsidy pool now. We expect to
21 continue to contribute — but we believe that a more equitable overall distribution
22 of our contributions could be made by the enactment of our recosting and repricing
23 methodology.

24

25 **Q: What is your recommendation to the Commission in this case?**

1 A: The Commission should direct the immediate implementation of the business
2 service restructuring, in the manner it's staff has proposed. Further, I recommend
3 that SBT's incentive plan be rejected in light of the many flaws discussed herein,
4 including its failure to price its business rates on any sort of logical cost analysis.
5 I recommend that the Company's proposal to deploy ELS on an expanded basis be
6 rejected because of the long term threat it poses to interexchange competition, and
7 its insidious attempt to force mandatory measured service on users who are willing
8 to pay for the expansion of the current EAS, but who don't want LMS as a result.
9 Since it appears that the Office of Public Counsel's positions in this case are sound
10 and may result in additional available revenue, I suggest that the Commission
11 examine Southern Bell's revenue requirement and rates, and lower those rates
12 where appropriate. I specifically suggest that the Commission eliminate the
13 touchtone element in the tariffs for all services, and I also suggest that SBT's
14 intrastate access charges be lowered toward its interstate access levels.

15

16 Q: Does this conclude your testimony?

17 A: Yes, it does.