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November 16, 1992

Mr. Steven C. Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing in the above referenced docket are one (1) original and fifteen (15) copies of the Direct Testimony of Mike Guedel. Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

Yours truly,

Michael W. Tye

Michael W. Tye

MWT:sdh

Attachments

cc: J. P. Spooner, Jr.
Parties of Record

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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 & TELEGRAPH COMPANY**	**DOCKET NO. 920260-TL**

DIRECT TESTIMONY OF

MIKE GUEDEL

ON BEHALF OF AT&T

NOVEMBER 16, 1992

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Q. **WILL YOU PLEASE IDENTIFY YOURSELF?**

A. My name is Mike Guedel and my business address is AT&T, 1200 Peachtree Street, NE, Atlanta, Georgia 30309. I am employed by AT&T as Manager-State Government Affairs.

Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?**

A. I received a Bachelor of Science degree in Business Administration from Miami University, Oxford, Ohio. Over the past years, I have attended numerous Industry schools and seminars covering a variety of technical and regulatory issues. I joined the Rates and Economics department of South Central Bell in February of 1980. My initial assignments included cost analysis of terminal equipment and special assembly offerings. In 1982, I worked on access charge design and development. From May of 1983 through September of 1983, as part of an AT&T task force, I developed local transport rates for the initial NECA interstate access filing. Post divestiture, I remained with South Central Bell with specific responsibility for cost analysis, design, and development relating to switched access services and intraLATA toll. In June of 1985, I joined AT&T, assuming responsibility for cost analysis of network services including access charge impacts for the five South Central States (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee).

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES?

A. My current responsibilities include directing analytical support activities necessary for intrastate communications services in Florida and other southern states. This includes detailed analysis of access charges and other LEC filings to assess their impact on AT&T and its customers. In this capacity, I have represented AT&T through formal testimony before the Florida Public Service Commission as well as the regulatory commissions in the states of South Carolina and Georgia.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is threefold:

First, I will demonstrate that "price cap" regulation is inappropriate given the current levels and structures of BellSouth Telecommunications' prices, and I will recommend that the Commission reject BellSouth Telecommunications' proposal for "price cap" regulation;

Second, I will support BellSouth Telecommunications' proposal to lower switched access charges ($10M reduction in local transport), and recommend that this Commission order significant additional reductions in the carrier common line charge (CCLC), and;

Third, I will demonstrate the inappropriateness of the BellSouth Telecommunications' proposal to implement expanded local service (ELS) and recommend that the Commission reject this proposal.

I. PRICE CAP REGULATION

Q. **WHY IS PRICE CAP REGULATION INAPPROPRIATE AT THIS TIME?**

A. Price cap regulation is inappropriate for several reasons:

1) Current BellSouth Telecommunications pricing does not support price cap incentives. For example, switched access charges are currently priced well in excess of costs. Particularly, the carrier common line element (CCLC) holds an incremental cost of zero. When access usage is stimulated (generally through the efforts of interexchange carriers), BellSouth Telecommunications realizes incremental revenues without realizing any associated incremental costs. These increased revenues essentially flow straight through to the bottom line. These increased profits would not represent the result of any BellSouth Telecommunications efforts but merely reflect an anomaly of the current pricing structure. Price cap regulation would inappropriately reward BellSouth Telecommunications for this anomaly.

2) BellSouth Telecommunications should not be granted the authority to arbitrarily raise the prices (by up to 20%) of services for which it remains the sole or monopoly provider. While BellSouth Telecommunications may consider these services to be "optional" (such as DID and Basic Service Elements - BSEs), consumers of these services may find them <u>essential</u> to the continuance of their businesses. These consumers (some

of whom compete directly with BellSouth Telecommunications affiliates) should not be subjected to this potential monopoly abuse. Services provided by the BellSouth Telecommunications monopoly should be priced based upon their underlying costs, and offered to all potential customers on an unbundled, non-discriminatory basis.

3) Price cap regulation is not required to meet potential competition. First of all, BellSouth Telecommunications remains the monopoly supplier of the majority of services and functions that it provides under tariff. These would include local service and all varieties of access to the local exchange. However, to the extent that competition is beginning to enter some of these traditional monopoly markets, its entry is being essentially precipitated by the current LEC pricing structures and levels which remain out of sync with the underlying costs incurred in providing the respective LEC services. The solution to meeting competition, therefore, is not to cap the current prices and structures, but to recast the services (or the basic network functions which make up existing services) under a rate design theory that features unbundled, universally available rate structures and

prices which are based upon their underlying costs.

Q. DOES AT&T OPPOSE THE CONTINUANCE OF THE CURRENT REVENUE SHARING PLAN?

A. No. AT&T does not oppose the continuance of the current incentive regulation plan. The plan has offered BellSouth Telecommunications some additional incentives over those of traditional rate of return regulation, while offering the ratepayers a satisfactory degree of protection. The Commission should continue to monitor BellSouth Telecommunications' performance and periodically review the effects of this regulatory plan.

II. ACCESS CHARGE REDUCTIONS

Q. WHY DOES AT&T SUPPORT BELLSOUTH TELECOMMUNICATIONS' PROPOSAL TO LOWER SWITCHED ACCESS CHARGES?

A. AT&T encourages all local exchange companies to reduce their access charges. Reduced access charge levels (levels more representative of the costs incurred in providing access) will mitigate the potential for uneconomic bypass and send more appropriate pricing signals to customers in the marketplace. These lower access rates will encourage interexchange carriers to develop and offer new services and/or offer existing services at lower rates, thus providing an overall greater value to ratepayers within the state. It is AT&T's position that BellSouth Telecommunications' initiative to reduce local transport charges represents a positive step toward the attainment of these goals.

Q. **ARE ADDITIONAL ACCESS CHARGE REDUCTIONS REQUIRED AT THIS TIME?**

A. Yes. Even with the ten million dollar reduction in local transport rates, BellSouth Telecommunications' intrastate switched access charges will remain among the highest in the nation when compared to other Bell Operating Company (BOC) rates. The proposed intrastate rates will still be approximately twice what BellSouth Telecommunications charges for like service in the interstate arena. High access charges support high toll rates, encourage uneconomic bypass, and contribute to the pressure for extended area service (EAS) in the

State.

Q. WHAT ADDITIONAL ACCESS CHARGE REDUCTIONS SHOULD THE COMMISSION ORDER AT THIS TIME?

A. The Commission should order that at least one half of the revenues found available for rate reductions in this proceeding (or a minimum of $35M) be utilized for access charge reductions. Ten million dollars can be utilized for the local transport reductions proposed by BellSouth Telecommunications, and all additional revenues should be applied toward the reduction of the carrier common line charge. Further, the Commission should target access charges for additional reductions as revenues become available.

III. EXTENDED LOCAL CALLING SERVICE

Q. WHY SHOULD THE COMMISSION REJECT BELLSOUTH TELECOMMUNICATIONS' PROPOSED EXPANDED LOCAL SERVICE (ELS) PLAN?

A. The BellSouth Telecommunications' ELS plan is simply an ill-disguised attempt to "re-monopolize" the provision of toll service throughout a significant portion of BellSouth operating territory. BellSouth Telecommunications' proposal would effectively preclude competition over existing toll routes (up to 40 miles) by pricing the service below the level of access charges that BellSouth Telecommunications would charge interexchange carriers for completing the same service. The BellSouth Telecommunications ELS proposal would deny BellSouth Telecommunications ratepayers the benefits of competition - benefits that this Commission has previously found to be in the public interest.

Further, the proposal does not address the underlying causes of extended area service (EAS) pressure. Its adoption, therefore, cannot mitigate those pressures, and, as discussed below, it may actually exacerbate them. The adoption of this proposal will only frustrate a more positive and comprehensive approach to satisfying the demand for EAS in Florida.

Q. **WHAT ARE THE UNDERLYING CAUSES OF EAS PRESSURE?**

A. In the macro sense, the pressure for EAS results from the customer confusion generated by the uneconomic (non-cost based) rate structures that have traditionally characterized pricing in the telecommunication industry. Historically, regulatory commissions have tended to keep the price of local service artificially low, while maintaining toll prices at artificially high levels. In addition, local service has been traditionally offered on a flat rate basis (allowing unlimited calling) while toll services have been offered on the basis of incremental consumption (i.e., messages or minutes of use). The combined effects of these pricing decisions have frustrated customer understanding and led to the demands for expanded local calling areas.

In the micro sense, the pressure for EAS results from the growth in or the growing together of communities as a natural result of economic development. This growth tends to expand or redefine traditional communities of interest, thereby fostering customer demand for expanded local calling areas. This demand is legitimized concurrently from two points of view: one of fairness and one of economics. From the view of fairness, customers argue that other like communities of interest within the state have been afforded expanded calling services, and it would only seem "fair" that their growing community be afforded the same convenience. From the view of economics, customers argue that failure to provide EAS to their community will most likely stifle economic growth within their community, or at least unfairly disadvantage it vis-a-vis the developmental opportunities offered within other communities that currently enjoy the benefits of EAS.

Q. **DOES THE 40-MILE CALLING PROPOSAL ADEQUATELY ADDRESS THESE CONCERNS?**

A. No. The 40-mile calling proposal fails to address either aspect of EAS pressure. First, the proposal does not adequately alter the current disparity between the prices charged for local calling and those charged for toll calling. While its approval would provide limited relief to certain customers on certain selected routes by removing those routes from the toll schedule, it would not alter the current toll schedule. The disparity between the two schedules (local and toll) would remain, as would the associated pressure for EAS.

Second, the proposal does not address any known "community of interest" concerns. Calling circles of 40 miles do not necessarily represent economic or social communities of interest. Each route must be evaluated under the existing Commission rules before that determination can be made. If valid communities of interest do not exist among the effected routes, the proposal will simply not address existing EAS pressures.

Q. **WOULD THERE BE ANY NEGATIVE SIDE EFFECTS ASSOCIATED WITH THE ADOPTION OF THIS PLAN?**

A. Yes, there would be several.

First, the proposal would deny consumers the benefits of competition with respect to the provision of service along currently designated toll routes. By Order No. 23540 (TMA docket), the Commission found such competition to be in the public interest. Many interexchange carriers have responded positively to the opportunity to serve these customers. The proposed 40-mile calling plan will effectively (and arbitrarily) rescind part of that order by allowing the "remonopolization" of the provision of toll service along the effected routes.

Second, by lowering charges on a limited number of toll routes, 40-mile calling would shift the contribution burden, generally borne by toll customers, onto fewer toll services and potentially fewer customers. This shift could exacerbate the pressure for EAS throughout the state.

Third, the approval of this proposal would introduce a new level of arbitrariness into the EAS consideration process. Without the "community of interest" standard, all requests for EAS would appear to possess relatively equal merit. If 40-mile calling circles are significant, then why not 50-mile calling circles, or county boundaries or LATA boundaries, or whatever boundaries a person or group could conceive to obtain lower toll rates? An arbitrary decision with respect to 40-mile calling could foster a new flood of EAS requests.

Q. HOW COULD THE COMMISSION BETTER UTILIZE THE REVENUE AVAILABLE FOR IMPLEMENTING THE ELS PROPOSAL?

A. The Commission could better utilize this revenue by further lowering interLATA access charge levels which are still quite high. As noted above, BellSouth Telecommunications' intrastate access charges are still approximately twice what it charges for like service in the interstate arena. Further, AT&T would not object to BellSouth Telecommunications concurrently lowering its intraLATA toll rates provided that its rate levels continue to satisfy the Commission's established criteria for imputation of access charges. Reducing these charges will continue to narrow the disparity between local rates and toll rates, thus reducing the pressure for EAS, and bringing the benefits of lower toll rates to a greater number of Florida ratepayers.

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

A. Yes. My testimony draws three conclusions:

1) The current level and structure of BellSouth Telecommunications' prices along with its continuing monopoly position with respect to access to the local exchange, renders price cap regulation inappropriate. Price cap regulation would only serve the interests of

BellSouth Telecommunications, and the Commission should reject the proposal. If, through this proceeding, the Commission finds the current revenue sharing plan to be in the public interest, it should extend the trial while continuing to monitor BellSouth Telecommunications' performance under the plan.

2) The Commission should order BellSouth Telecommunications to significantly reduce switched access charges. Intrastate rates are approximately twice what BellSouth Telecommunications charges for like services in the interstate arena. Approximately $100M in rate reductions would be required to bring intrastate rates to interstate levels. The Commission should, therefore, order that at least one-half of the revenues found available for rate reduction in the proceeding (or a minimum of $35M) be utilized for access charge reductions.

3) The proposed 40-mile calling plan (ELS) should be rejected. This proposal represents the monopolist's response to a previous Commission finding that competition within the LATA (or EAEA) is in the public interest. The Commission should affirm the findings of its previous order (Order No. 23540), preserve the

benefits of toll competition, and reject the instant BellSouth Telecommunications' proposal. The available revenues proposed to support the ELS plan should instead be utilized to further reduce switched access charges.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

CERTIFICATE OF SERVICE

Docket No. 920260-TL

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties on this 16th day of November, 1992.

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