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November 8, 1993

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 Testimonies of John P. Spooner, Jr. and Mike Guedel on behalf of AT&T. Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

Yours truly,

A handwritten signature in cursive that reads "Michael W. Tye".

Michael W. Tye

MWT:sad

Attachments

cc: Parties of Record

- T
- P
- CAF
- CHU
- CTR
- EAG
- LEG
- LIN
- CRC
- RUM
- SER
- WAT
- GUE

Guedel
DOCUMENT NUMBER-DATE
12018 NOV-8 8
FPSC-RECORDS/REPORTING

Spooner
DOCUMENT NUMBER-DATE
12017 NOV-8 8
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive review of)
the revenue requirements and rate)
stabilization plan of Southern)
Bell Telephone and Telegraph Co.)

DOCKET NO.. 920260-TL
SUBMITTED FOR FILING:
NOVEMBER 8, 1993

DIRECT TESTIMONY OF

JOHN P. SPOONER, JR.

ON BEHALF OF AT&T COMMUNICATIONS
OF THE SOUTHERN STATES, INC.

NOVEMBER 8, 1993

DOCUMENT NUMBER-DATE

12017 NOV-8 83

FILED-RECORDS/REPORTING

TESTIMONY OF JOHN P. SPOONER

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Q. Please state your name and business address?

**A. My name is John P. Spooner, Jr. My business address is
106 East College Avenue, Suite 1420, Tallahassee,
Florida 32301.**

Q. By whom are you employed and in what capacity?

**A. I am employed by AT&T as Assistant Vice President,
State Government Affairs for AT&T Communications of the
Southern States, Inc. ("AT&T").**

**Q. Please state your background and experience in the
telecommunications industry?**

**A. My Telecommunications industry experience began with
Southern Bell in 1970, when I was employed as a
Communications Consultant in the Jacksonville, Florida
Marketing Department.**

**My initial responsibilities were the analysis of
customers' business problems and the sale of
communications solutions in the small business market.**

1 I held various field sales positions for the next two
2 years, including Account Manager-Insurance Industry and
3 Sales Manager where I was responsible for the
4 development of new Communications Consultants.

5

6 In 1973, I was appointed Marketing Supervisor for the
7 North Florida area with the responsibility for
8 competitive results in the PBX and Key markets.

9

10 After one year in that assignment, I became Marketing
11 Manager for the South Jacksonville District. My
12 responsibilities included development of a sales plan
13 for both equipment and network services, successful
14 implementation of the plan, as well as the development
15 of subordinates.

16

17 My next assignment involved a move from Jacksonville to
18 Gainesville, Florida, where I was responsible for
19 Southern Bell's Marketing efforts with the Higher
20 Education Institutions in Florida.

21

22 In 1978 I moved to Tallahassee, Florida, where in
23 addition to the Higher Education market, I assumed
24 responsibility for the Federal Government market in
25 North Florida.

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At divestiture, I joined the AT&T Marketing organization with responsibility for the State Government and Federal Government markets in Florida, Georgia, Alabama, and Mississippi.

In 1987, I accepted the job of Assistant State Manager in our External Affairs Department. In addition to being the PSC staff interface, my responsibilities included marketing liaison, public relations, and market needs assessment. I assumed my present position in 1988. In my present position I am responsible for the planning and coordination of AT&T's intrastate regulatory affairs in Florida. As part of my job, I coordinate with AT&T customers, AT&T marketing personnel, and other members of AT&T's Legal and Governmental Affairs Division.

Q. Have you previously testified before the Florida Public Service Commission?

A. Yes, in Docket No. 870347-TI, AT&T's Petition for Further Relaxation of Regulation.

1 Q. What is the purpose of your testimony in this
2 proceeding?

3

4 A. The purpose of my testimony is to support AT&T's
5 request for a significant reduction in intrastate
6 access charges in this case and to further support the
7 right of interexchange carriers (IXCs) and their
8 customers to share in any refunds which may eventually
9 result from this proceeding. My testimony will
10 complement the testimony of Mr. Guedel, who is also
11 testifying for AT&T in this docket, and will explain
12 from a business perspective why intrastate access
13 reductions are necessary and how such reductions will
14 benefit interexchange customers. Additionally, my
15 testimony will explain why IXCs are entitled to a share
16 of any refunds which may result from this case and how
17 such refunds can be used to benefit interexchange
18 customers.

19

20 Q. Why is it necessary to reduce Southern Bell's
21 intrastate switched access charge rates?

22

23 A. Among other things, it's an issue of fairness. As Mr.
24 Guedel testified, one minute of access cost Southern
25 Bell approximately one cent. The IXCs, and ultimately

1 their customers, the toll users in Florida, are paying
2 11.2 cents per minute. This rate is 1120 percent of
3 cost. In Mr. Guedel's testimony he points out the fact
4 that IXCs are paying some 105-110 million dollars per
5 year above interstate rates for intrastate access.
6 It's obvious from these numbers that Florida toll users
7 for too long have paid significantly more than they
8 should, and this Commission at this time should take
9 steps to bring intrastate access charges to the
10 interstate level. Even with this significant step,
11 access rates will still be some 600 percent of cost.
12 Toll users have paid these exorbitant rates for too
13 long, and now is the time to bring some measure of
14 fairness into the process.

15

16 Q. Aside from the question of fairness to long distance
17 customers, are there other reasons that Southern Bell's
18 intrastate switched access charges must be reduced in
19 this proceeding?

20

21 A. Yes. It should be noted that a substantial reduction
22 in Southern Bell's switched access charges is necessary
23 to protect the interests of all its customers--even
24 those customers who are not large users of
25 interexchange service. This is because of the fact

1 that excessive switched access rates lead to bypass of
2 the public switched network, thereby draining off
3 revenues which serve to support Southern Bell's overall
4 cost of service.

5
6 Bypass of local exchange company (LEC) facilities has
7 long been a subject for discussion in Florida, but
8 recent events have increased the pressure to lower
9 intrastate switched access rates. The Commission is
10 aware of the fact that Alternative Access Vendors
11 (AAVs) have been recognized by the Florida Legislature
12 since Southern Bell's last rate case, and the provision
13 of AAV service has been authorized by this Commission.
14 Today, there are 14 AAVs certificated in Florida.
15 Moreover, the Federal Communications Commission (FCC)
16 has recently authorized the expanded interconnection of
17 AAVs with LEC facilities.

18
19 Additionally, this Commission has considered this
20 question in Docket No. 921074-TP. Expanded
21 interconnection greatly increases the opportunity of
22 large users to reduce access charges while, in the
23 process, diverting revenues to vendors other than the
24 LEC.

25

1 Additionally, even where the IXC customer does not
2 elect to utilize the services of an AAV, excessive
3 intrastate switched access charges lead customers to
4 find creative ways to use Special Access services in
5 lieu of switched access services, resulting in "service
6 bypass" which reduces the customer's cost of
7 interexchange service while eroding the revenues which
8 support the LEC's overall cost of service. In recent
9 hearings before this Commission in Docket No. 921074-
10 TP, Mr. Ben Poag of United Telephone Company of Florida
11 presented graphic demonstrations of how actual
12 customers have been able to substantially reduce the
13 total costs of their telecommunications services by
14 utilizing interstate Special Access services in lieu of
15 intrastate switched access services. The adverse
16 consequences for the intrastate jurisdiction were
17 enormous. Essentially, the use of interstate Special
18 Access services by these customers resulted in revenues
19 which had previously been used to support the LEC's
20 overall cost of intrastate services being converted to
21 interstate revenues and, therefore, being lost to the
22 intrastate jurisdiction.

23
24 It appears to me that, given the ability of large users
25 to meet their needs through the use of interstate

1 Special Access services, a portion of the revenues that
2 Southern Bell uses today to support its overall cost of
3 intrastate service are in jeopardy. It also appears
4 that expanded interconnection in the interstate
5 jurisdiction (and perhaps in the intrastate
6 jurisdiction) will only add to this problem unless
7 intrastate switched access charges are reduced to a
8 level that is closer to the actual costs of providing
9 those services.

10
11 The large users that seek to reduce their
12 communications costs through the use of Special Access
13 services or through the use of AAVs are not doing so
14 with malicious intent. They are merely acting as
15 prudent businesses by trying to reduce their total
16 costs of telecommunications services (and their
17 individual costs of doing business) through any means
18 available. However, the result is that intrastate
19 telecommunications customers will have to make up these
20 lost revenues (perhaps through local rate increases) if
21 the disparity between the rates and costs of intrastate
22 switched access service is not changed to minimize the
23 incentive to use other services.

24

1 In the past, AT&T and other telecommunications
2 companies have raised the specter of bypass in numerous
3 cases before this Commission. The Commission has
4 responded in some cases by granting reductions in
5 switched access charges, but I am afraid that the
6 threat of bypass has, on occasion, been viewed by some
7 as a nebulous or abstract problem which does not demand
8 immediate attention. Those days have passed.

9 Technological innovations and other events in today's
10 telecommunications market demonstrate that a policy of
11 continuing excessive intrastate switched access charges
12 will prove extremely detrimental to the ability of
13 Southern Bell and other LECs to provide intrastate
14 services at affordable prices.

15
16 Q. How will interexchange consumers benefit from the
17 intrastate access charge reductions which AT&T is
18 seeking in this case?

19
20 A. Toll users in Florida will benefit in many ways from
21 these access reductions, not the least of which are
22 lower and fairer toll rates. Another benefit is the
23 introduction of new and innovative services that will
24 be brought to the marketplace. Also, the movement of
25 rates toward cost should provide rates that are more

1 attractive to the occasional or non-user, and they will
2 find additional or new reasons to use the toll network.

3
4 Additionally, some of the futuristic applications which
5 we've heard about, such as Long Distance Learning,
6 Telemedicine, accessing data bases outside the local
7 calling area, should be far more accessible to the
8 average Floridian.

9
10 Finally, another benefit, and probably in this day and
11 time as important as any of the others, is the economic
12 development aspect. We know that the very industries
13 that Florida and other states are trying to attract,
14 the clean industries, are communications intensive. A
15 state's economic development and ability to attract the
16 types of industries that are desirable for a strong
17 economy are often dependent on how economic conditions
18 within the state contrast with conditions in other
19 states. Today, from the standpoint of switched access
20 charges, Florida does not measure up favorably with
21 neighboring states. For instance, as Mr. Guedel points
22 out in his testimony, southern states, such as Georgia
23 and Mississippi, have considerably lower switched
24 access rates than Florida. Indeed, both Georgia and
25 Mississippi have already reduced switched access rates

1 to the interstate level. Florida is a large market,
2 and certainly reduced intrastate toll rates should
3 enhance our competitive position in this area. Failure
4 to do so could cost Floridians jobs, tax revenues, and
5 other benefits associated with economic growth.

6
7 **Q. Why should IXCs be entitled to share in any refunds**
8 **which may ultimately result from this proceeding?**

9
10 **A. First and foremost, the Commission should be cognizant**
11 **of the fact that IXCs are, in fact, customers of**
12 **Southern Bell. Indeed, AT&T, by virtue of the access**
13 **charges which it pays in Florida, is Southern Bell's**
14 **largest customer in this state.**

15
16 Second, it should be noted, as evidenced by the
17 testimony of Mr. Guedel, that the intrastate access
18 charges which AT&T and the other IXCs pay to Southern
19 Bell are among the highest priced services which
20 Southern Bell offers. In fact, Southern Bell's
21 incremental cost of providing intrastate switched
22 access service is less than 1 cent per minute, while
23 Southern Bell's price for a switched access call which
24 originates and terminates within its service territory
25 is approximately 11.2 cents per minute. Thus, it is

1 reasonable to assume that the vast majority of any
2 overearnings which Southern Bell may be experiencing
3 are generated by switched access charges.

4
5 Third, the delays in bringing this case to a conclusion
6 (and the resulting delays in Southern Bell's
7 implementation of revised switched access charge rates)
8 were not brought about by the IXCs. The Commission is
9 well aware of the fact that Docket No. 920260-TL (the
10 rate case) was originally scheduled for hearings in
11 early 1992 with a final resolution by mid-1992.

12 Because of the consolidation of the various
13 investigation dockets with the rate case docket, the
14 ultimate resolution of the rate case has been delayed
15 at least twice. Under the revised schedule, final
16 tariffs will not be filed by Southern Bell until May
17 26, 1994. The net effect of the consolidation of these
18 dockets (and the resulting continuances) was to delay
19 the needed access charge reductions for a period of
20 eighteen (18) to twenty-four (24) months. During this
21 period of delay, the IXCs have been required to forego
22 not only the \$10,000,000 per year switched access
23 charge reduction which Southern Bell proposed in its
24 initial filing, but also the far greater level of

1 reductions to which the IXCs and their customers are
2 entitled.

3
4 Neither AT&T nor any other IXC has intervened or
5 actively sought to participate in the investigation
6 dockets which precipitated the delays in hearing and
7 resolving the rate case docket. Moreover, the IXCs had
8 little or no control over the events that required
9 postponement of the rate case. However, the IXCs and
10 their customers have continued to be charged excessive
11 access charge rates resulting in the overpayment of
12 enormous sums of money during the period of that
13 postponement. Given these circumstances, it is only
14 appropriate that the IXCs and their customers be
15 entitled to share in any refunds which may ultimately
16 result from this case.

17
18 **Q. How should the Commission go about implementing your**
19 **recommendation?**

20
21 **A. At the time that the Commission voted to continue the**
22 **hearings in the rate case until January 1994, Southern**
23 **Bell committed to make the financial results of the**
24 **case retroactive to January 1, 1993. This same**
25 **commitment should apply to the access charge reductions**

1 that are approved by this Commission as a result of the
2 final determination of the rate case issues. To the
3 extent that the final determination of the rate case
4 results in revenues that are subject to refund, the
5 Commission should use those revenues to compensate IXCs
6 for the excess access charges which they paid from
7 January 1, 1993, until the final disposition of the
8 case. That is, the Commission should apply the
9 intrastate switched access charge rates which are
10 ultimately determined to be appropriate to the actual
11 usage of the IXCs during the period January 1, 1993,
12 until the effective date of the revised rates, and
13 should direct Southern Bell to either provide an
14 appropriate refund to each IXC or to return those
15 excess revenues to IXCs through credits on access
16 charge bills on a going-forward basis until all excess
17 revenues have been returned. Keep in mind that what
18 we're talking about here is going back only to January
19 1, 1993. The fact is that since 1984, Florida toll
20 users have paid many hundreds of millions of dollars
21 more than they should in relation to the actual costs
22 of providing switched access services.

23
24 At the very least, the Commission should recognize the
25 fact that Southern Bell itself proposed switched access

1 charge reductions amounting to approximately
2 \$10,000,000 per annum, and IXCs have been required to
3 forego those reductions for approximately two (2)
4 years. Consequently, at a minimum, the Commission
5 should require that \$20,000,000 of any refund be
6 returned to the IXCs.

7
8 **Q. How will interexchange customers benefit from a refund**
9 **of excess access charges to IXCs?**

10
11 **A. In Order No. PSC-92-0578-FOF-TI, entered in Docket No.**
12 **870347-TI on June 25, 1992, this Commission recognized**
13 **the fact that the competitive interexchange**
14 **telecommunications market insures that cost reductions,**
15 **such as access charge reductions, serve to benefit**
16 **interexchange telecommunications customers. The same**
17 **principle will apply to the refund which I have**
18 **advocated in my testimony.**

19
20 **AT&T has several options for utilizing the refund**
21 **revenues to the benefit of its customers. One option**
22 **would be to use the refund revenues to fund a**
23 **promotional offering such as the summer promotion which**
24 **AT&T offered to intrastate MTS customers during 1990.**
25 **The Commission will recall that AT&T's 1990 summer**

1 promotion involved a 10 percent reduction in intrastate
2 MTS rates for a period of approximately three (3)
3 months. Customers benefited through reduced toll rates
4 during that period, while AT&T benefited by introducing
5 new customers to its service and perhaps inducing some
6 former customers to return to AT&T.

7
8 There are also other options available to AT&T for
9 utilizing refund revenues to benefit its customers.
10 For instance, in past years AT&T has offered promotions
11 which targeted MTS reductions to specific holidays,
12 such as the St. Valentine's Day promotion which AT&T
13 offered in 1990. Or the refund revenues could be used
14 to fund volume discounts for customers during specific
15 time periods. Another possible use of refund revenues
16 would be to continue the Direct Distance Dialed NPA
17 Volume Discount Promotion, which expires in February
18 1994. This promotion provides residential customers
19 who reach a threshold of \$30 per month in total DDD
20 usage a discount of 25 percent on usage to a
21 preselected area code. A bonus discount of 15 percent
22 is applied to all other DDD usage on that month's bill.
23 The point is that the competitive market offers a wide
24 range of opportunities for AT&T's customers to benefit
25 from the refund revenues.

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Q. Is AT&T willing to make a commitment to use all refund revenues to benefit its customers?

A. Yes. I am authorized to make such a commitment on behalf of AT&T. Excessive access charges paid by AT&T's customers generated the overearnings which resulted in the revenues available for refund. Consequently, AT&T's customers should receive the benefits of the refund. I can assure the Commission that AT&T will find an innovative manner that is consistent with competitive pressures in the interexchange telecommunications market to use those revenues to benefit its customers.

Of course, I can only speak for AT&T, but experience in the interexchange market indicates that other IXCs will also find innovative ways to insure that their customers receive the benefits of their share of the refund revenues. Failure to do so in the face of AT&T's commitment to use its refund revenues to the benefit of its customers will only result in loss of market share.

1 Q. Why is AT&T willing to make such a commitment in this
2 case?

3
4 A. The Commission is well aware of the fact that in Order
5 No. PSC-92-0578-FOF-TI, the access charge reduction
6 "flow-through" requirement that had previously been
7 imposed on AT&T was eliminated. In taking that action,
8 the Commission recognized that the competitive
9 interexchange telecommunications market would, in fact,
10 insure that future access charge reductions are passed
11 on to consumers in an effective and efficient manner.
12 The Commission's ruling in that order was appropriate,
13 and AT&T supports that finding. There is no doubt that
14 the competitive market will insure that interexchange
15 customers receive the benefits of the going-forward
16 access charge reductions which are approved in this
17 case.

18
19 However, despite the fact that AT&T is no longer
20 automatically required to flow through access charge
21 reductions, AT&T's request for a refund of excess
22 access charge payments makes this case different from
23 other cases in which AT&T has come before this
24 Commission to seek access charge reductions. Indeed,
25 this is the first time that AT&T has asked this

1 Commission to allow it and other IXC's to share in a
2 refund. AT&T's request here is necessitated by the
3 unique circumstances of this case.

4
5 Had this case gone forward as originally scheduled, IXC
6 customers would have been enjoying the advantages of
7 lower switched access charges (through lower toll rates
8 generated by the competitive interexchange market) for
9 almost two (2) years by the time that this case is
10 finally resolved. Since delays in this case have
11 prevented that from occurring, AT&T feels that it is
12 necessary to assure both its customers and this
13 Commission that any refund which AT&T receives in this
14 case will be used to benefit its customers. In short,
15 both AT&T's customers and the Commission should be
16 assured that the public interest will be furthered by
17 the refund which AT&T has requested in this case.

18
19 **Q. What are the conclusions that should be drawn from your**
20 **testimony?**

21
22 **A. For too long the Florida toll user has paid exorbitant**
23 **access charges to Southern Bell--at today's rates, some**
24 **1120% of cost. This Commission is faced with a unique**
25 **opportunity. There is money available to right this**

1 wrong. The Florida Commission should immediately
2 reduce intrastate access charges by the total amount
3 available: up to 110 million dollars. It should also
4 refund to the IXCs a minimum of 20 million dollars of
5 the money available for refund. It's the fair thing,
6 the right thing, and the sensible thing to do since
7 this money was generated by these extremely high access
8 charges, paid by toll users.

9

10 Q. Does this conclude your testimony?

11

12 A. Yes.

CERTIFICATE OF SERVICE

Dockets Nos. 920260-TL, 910163-TL, 910727-TL, 900960-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 8th day of November, 1993.

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