

MACFARLANE AUSLEY FERGUSON & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(904) 224-9115 FAX (904) 222-7980

111 MADISON STREET, SUITE 2300
P.O. BOX 1831 (ZIP 33601)
TAMPA, FLORIDA 33602
(813) 273-4200 FAX (813) 273-4398

400 CLEVELAND STREET
P. O. BOX 1898 (ZIP 34617)
CLEARWATER, FLORIDA 34618
(813) 441-8888 FAX (813) 442-8470

May 23, 1994

ORIGINAL
FILE COPY

IN REPLY REFER TO:
Tallahassee

BY HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32301

Re: In re: Expanded Interconnection Phase II and
Local Transport Restructure; Docket Nos. ~~930974~~-TP,
930955-TL, 940014-TL, 940020-TL and 931196-TL

Dear Ms. Bayo:

Enclosed for filing in the above-styled docket are the original and fifteen (15) copies of United Telephone Company of Florida's and Central Telephone Company of Florida's Prepared Direct Testimony of F. Ben Poag.

ACK Please acknowledge receipt and filing of the above by stamping
AFA the duplicate copy of this letter and returning the same to this
writer.

APP _____
CAF _____ Thank you for your assistance in this matter.

CMU Reith
CTR _____
EAG _____
LEG Conzano
LIN duipe/du
OPC _____
ROH _____
SEC _____
WAS _____
OTH _____

RECEIVED & FILED
MAY 23 1994
F.P.S.C. BUREAU OF RECORDS

Yours truly,
John P. Fong
John P. Fong

Enclosures
cc: Parties of Record (w/encl.)

DOCUMENT NUMBER-DATE
05036 MAY 23 1994
FPSC-RECORDS/REPORTING

U.S. COURT
FILE COPY

UNITED TELEPHONE COMPANY
OF FLORIDA
CENTRAL TELEPHONE COMPANY
OF FLORIDA
DOCKET NO. 921074-TP, PHASE II
FILED: May 23, 1994

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
2 PREPARED DIRECT TESTIMONY
3 OF
4 F. BEN POAG

5
6 Q. Please state your name, present position, and business
7 mailing address.

8
9 A. My name is F. Ben Poag. I am employed as Director-Tariff
10 and Regulatory Management for United Telephone Company of
11 Florida. My business mailing address is Post Office Box
12 165000, Altamonte Springs, Florida 32716-5000.

13
14 Q. What is your business experience and education?

15
16 A. I have over 25 years experience in the telecommunications
17 industry. I started my career with Southern Bell, where
18 I held positions in Marketing, Engineering, Training,
19 Rates and Tariffs, Public Relations, and Regulatory. In
20 May 1985, I assumed a position with United Telephone
21 Company of Florida as Director-Revenue Planning and
22 Services Pricing. I held the position until February
23 1988, at which time I was appointed to the position of
24 Director-Tariffs and Regulatory. In January 1990, the
25 pricing and tariffs organizations were combined and I was

DOCUMENT NUMBER-DATE

05036 MAY 23 1994

FPSC-RECORDS/REPORTING

1 appointed Director-Revenue Planning and Regulatory. In
2 June 1993, in conjunction with a restructuring, I have
3 assumed new responsibilities and title. In my current
4 position, I am responsible for costing, tariffs and
5 regulatory matters. I am a graduate of Georgia State
6 University with a Bachelor's Degree in Business.

7
8 Q. What is the purpose of your testimony?

9
10 A. The purpose of my testimony is to address on behalf of
11 United Telephone Company of Florida ("United") and
12 Central Telephone Company of Florida ("Centel"),
13 collectively referred to as "the Companies," the several
14 issues that have been assigned to be decided in this
15 phase of the Expanded Interconnection docket. Because
16 Phase II is concerned with switched access
17 interconnection, my testimony will, necessarily, address
18 those issues that are switched access specific, such as
19 issues relating to local transport restructure (LTR) and
20 the tariffs which have been filed to make the price
21 structure of intrastate switched access consistent with
22 its interstate counterpart, as well as those issues which
23 are related to the implementation of special access,
24 including United's and Centel's proposed flexible pricing
25 plans.

1 It may appear that some of my testimony in Phase II is
2 repetitive of my testimony in Phase I; this is necessary
3 because many of the issues in Phase II are the same as
4 those in Phase I and deserve similar treatment. However,
5 even more so than in Phase I, the imposition of switched
6 access interconnection requirements on the LECs will
7 significantly impact United's and Centel's ability to
8 maintain the current pricing disparities between
9 intrastate and interstate switched access and the current
10 prices for basic residential local exchange service. I
11 address those situations in some detail in this
12 testimony.

13
14 Q. Under what circumstances should the Commission impose the
15 same or different forms and conditions of expanded
16 interconnection than the P.C.C.?

17
18 A. In view of the user's ability to send both intrastate and
19 interstate traffic across the same facility, the terms
20 and conditions for use of the facility should be the same
21 regardless of jurisdiction, to avoid forum shopping.
22 However, because the FCC's pricing flexibility plan does
23 not provide adequate flexibility for appropriate Company-
24 competitive responses, this Commission should not limit
25 the Companies' pricing flexibility. This action would be

1 consistent with the Commission's prior decision in Phase
2 I of this proceeding which did not adopt the FCC's
3 limiting requirements for initiating zone density
4 pricing. Although United and Centel believe that the
5 FCC's approach is too limiting, the Companies have filed
6 private line and special access flexible pricing plans
7 which mirror their interstate plans because that is what
8 this Commission ordered be done in its Phase I Final
9 Order (Order No. PSC-94-0285-FOP-TP, issued March
10 10, 1994).

11
12 In addition, as was stated in my Phase I testimony, the
13 price floor for the Companies' competitive access and
14 private line services should be incremental cost, rather
15 than the price floors imposed by the FCC. The approach
16 proposed by the Companies is similar to that contained in
17 the Companies' intrastate tariff for contract service
18 arrangements (CSAs). However, pricing flexibility for
19 switched access should be based on the customer's zone
20 and not limited to an individual case-by-case customer
21 basis.

22
23 As the Commission recognized in Phase I, with respect to
24 private line and special access flexible pricing
25 approaches, this Commission should also authorize

1 flexible pricing plans for switched access services that
2 go beyond CSAs. As I will discuss later in this direct
3 testimony, a different approach from CSA pricing is
4 warranted because CSAs were authorized by the Commission
5 at a time when access bypass by interexchange carriers
6 (IXCs) was prohibited - except in very narrow
7 circumstances - and the alternative access vendors (AAVs)
8 had not yet arrived on the scene in Florida.

9
10 Q. Is expanded interconnection for switched access in the
11 public interest?

12
13 A. United and Centel support expanded interconnection for
14 switched access, provided, however, that all parties are
15 given the same opportunities to compete on the basis of
16 price, quality and technology. This qualified support is
17 based on the premise that increased competition is
18 inevitable; the issue is not whether there should be
19 competition, but rather, whether the pace of competition
20 should be accelerated by allowing expanded
21 interconnection and what will be the terms of
22 competition. The Companies further believe that, in the
23 long run, the competitive provisioning of switched access
24 transport service is in the public interest and will
25 provide customers the benefits of product innovation,

1 higher quality service, network diversity, and lower
2 prices. These benefits will be extended to a larger set
3 of customers than just the "large volume" customers
4 exploring these alternatives today. However, end users
5 that are able to take advantage of the price benefits of
6 expanded interconnection alternatives will pay less,
7 while those customers who do not qualify for expanded
8 interconnection alternatives may pay more for their same
9 service.

10
11 Q. How will expanded interconnection affect the Companies'
12 revenues and the general body of ratepayers?

13
14 A. In its March 10, 1994, Order in Phase I of this
15 proceeding, the Commission stated that it shared
16 "United's concerns regarding the impact of cross
17 elasticity between switched and special access services
18 and how it will affect LEC revenues and the general body
19 of ratepayers." (Final Order No. PSC-94-0285-FOF-TP,
20 page 22.) The Commission also noted that switched access
21 will be addressed in Phase II. It is, therefore,
22 appropriate that the Commission now undertake a thorough
23 examination of how and to what extent these pro-
24 competitive policy decisions will impact traditional
25 residual ratemaking policies.

1 As I noted in my direct testimony in Phase I, this
2 Commission, in its comments provided in Docket No. 41-
3 141, dated August 5, 1991, with regard to switched
4 access, stated:

5 We believe that the transition to switched
6 access competition may be inevitable, however,
7 this change should occur with great caution.
8 The opening up of the switched network could
9 potentially have profound effects on the local
10 exchange companies and the local service
11 subscriber. Most of these impacts will result
12 from changes in historical pricing of services
13 and the change in local network usage as a
14 result. As regulators we created the economic
15 incentives that are currently present in the
16 telecommunications market, therefore, it is our
17 responsibility to mitigate any extreme effects
18 to the local exchange company or the local
19 service subscribers through prudent actions.

20 (Emphasis added.)

21
22 In these comments this Commission correctly recognized
23 the dilemma that results when competition is introduced
24 for services which historically have been priced to
25 provide contributions that support below cost basic

1 residential services. That is, as these historical price
2 supports are eroded by access competition, the prices of
3 subsidized services, such as local dial tone, will
4 necessarily have to be increased or other sources of
5 subsidy will have to be found. However, the true
6 economic benefits of competition will not be realized if
7 pricing supports are not removed and all competitors are
8 not allowed to price based on relative economic costs.
9 Commission-imposed, artificially high access rates serve
10 as a pricing umbrella for inefficient producers to enter
11 the market and be profitable. This profitability will,
12 in the long-run, be at the expense of the Companies'
13 customers for other services.

14
15 The FCC, recognizing the increasing competition
16 associated with its expanded interconnection order,
17 attempted to mitigate the potential loss of interstate
18 local transport access contributions to other services
19 through the imposition of the residual interconnection
20 change (RIC). The RIC pricing element, however, must be
21 eliminated in time. It is an artificial pricing element
22 that creates incentives for its avoidance and cannot
23 exist in a competitive environment.

24
25 The Companies' concerns are not significantly different

1 from those stated in the Commission's above-stated
2 comments and revolve around the amount of revenues at
3 risk due to expanded interconnection as proposed for both
4 special and switched access and the level of contribution
5 these services make to the coverage of the Companies'
6 overhead costs. Some \$315 million, or approximately 45%,
7 of total United revenues are attributed to interstate and
8 intrastate special and switched access services.
9 Likewise, \$86.5 million, or 50%, of Centel's total
10 revenues are attributable to interstate and intrastate
11 special and switched access services.

12
13 The loss of even a small portion of such a significant
14 revenue source could place upward price pressure on the
15 Companies' other services, notably local exchange service
16 rates, and may impact the Companies' longer term
17 financial viability and plans to continue with planned
18 infrastructure improvements. The Companies' customers,
19 especially residential and single line business
20 customers, will be disadvantaged if the Companies are not
21 granted the pricing flexibility needed to meet the
22 competition fostered by expanded interconnection for both
23 special and switched access services.

24
25 Q. What conditions create the possibility that the

1 introduction of expanded switched and special access
2 interconnection will impact basic service prices?

3
4 A. In analyzing how the introduction of expanded switched
5 and special access has the potential for impacting the
6 price of basic telephone service, the concept of
7 "universal service" must be considered. The Federal
8 Communications Act of 1934 (47 U.S.C. § 1, et seq.) (the
9 "Communications Act") states as one of its goals, "to
10 make available, so far as possible, to all of the people
11 in the United States as rapid, efficient, Nation-wide .
12 . . . communication service with adequate facilities at
13 reasonable charges" This goal is often referred
14 to as the "universal service" goal and has been
15 considered essential not only in recognizing the
16 importance of individual customers having access to a
17 telephone at affordable rates, but also the value to the
18 entire telephone system of each customer being able to
19 reach the largest possible number of other telephone
20 customers. In meeting this policy goal, it is considered
21 to be in the public interest to provide affordable rates
22 uniformly to all classes of customers rather than price
23 targeting of specific customer classes. In an
24 increasingly competitive environment, as the level of
25 subsidies decline, the remaining subsidies should be

1 targeted to only the economically disadvantaged that
2 require a subsidy.

3
4 The basis of the Companies' concern is that, in
5 competitive markets, the competitors will seek to attract
6 those customers who have the greatest potential for
7 generating the highest profit margin. In the context of
8 telephone service, this means that those entities, either
9 AAVs, cable companies or large customers, who will gain
10 direct access to the Companies' central offices, will
11 seek to serve themselves or customers who are being
12 charged access service rates substantially higher than
13 their costs. As contributions from access services to
14 the Companies' overhead costs are diminished, there will
15 be upward pressure on the rates of the Companies' other
16 services, including basic service.

17
18 Historically, the Companies' service rates have been
19 determined on the Companies' total revenue requirements
20 which include shared and common costs. However,
21 residential rates traditionally have been residually
22 priced. That is, the Companies' other rates have been
23 developed on a variety of ratemaking bases to recover an
24 unspecified portion of the total revenue requirement, and
25 what revenue requirement is left unrecovered is to be

1 recovered by basic telephone service rates. Residual
2 pricing of basic telephone service has avoided the
3 imposition of higher rates for those services. This is
4 because contributions from non-basic services, such as
5 switched and special access service, have helped to
6 defray a portion of shared or common costs which
7 otherwise might have to be recovered in rates for basic
8 telephone service.

9
10 Q. What are you asking this Commission to do in this docket?

11
12 A. My recommendation is that the Commission approve expanded
13 interconnection, but in order to mitigate the potential,
14 long-term impact on the rates of the Companies' other
15 services, the Commission should give the Companies as
16 much flexibility as possible to respond to competition.
17 To the extent the Companies can compete effectively,
18 their other customers will benefit from the contribution
19 received from the retained services and customers.

20
21 Q. Does a physical collocation mandate raise federal or
22 state constitutional questions about the taking or
23 confiscation of LEC property?

24
25 A. This is a legal issue that was addressed in Phase I, but,

1 based upon what has been filed by some of the LECs, it is
2 not an issue which has been permanently disposed of
3 either here or at the federal level. The FCC's
4 imposition of mandatory physical collocation is currently
5 on appeal on the basis of an unconstitutional taking of
6 the LEC's property. Until that appeal has been
7 concluded, the imposition of mandatory physical
8 collocation is still an open issue. It is also
9 potentially a matter that could be appealed to the
10 Florida Supreme Court.

11
12 Q. Should the Commission require physical and/or virtual
13 collocation for switched access expanded interconnection?

14
15 A. As I stated in my testimony in Phase I, United and Centel
16 are not opposed to providing physical collocation to any
17 qualified entity when it is demonstratively appropriate
18 to do so. The Companies are, however, opposed to being
19 unconditionally required to provide any specific form of
20 collocation, either physical or virtual.

21
22 United and Centel also believe that physical and virtual
23 collocation ought to be treated as a line of business.
24 Today, United has customers/IXCs physically collocated in
25 a number of its central offices. These collocations were

1 negotiated on an arms-length basis with the terms and
2 conditions which are mutually beneficial to both parties.
3 Based on this experience, United and Centel both believe
4 that rather than mandating any particular form of
5 collocation, the Commission ought to adopt rules and
6 regulations which permit and encourage the parties to
7 negotiate physical or virtual collocation arrangements on
8 a case-by-case basis with the same terms and conditions
9 available to all interconnectors.

10

11 Q. From what LEC facilities should switched access expanded
12 interconnection be offered?

13

14 A. Initially, expanded interconnection, on either a physical
15 or virtual basis, should be offered only in those serving
16 wire centers and central offices where it is most likely
17 to be demanded by interconnectors. Additional switched
18 access expanded interconnection locations should be made
19 available on a location-by-location basis when
20 interconnection is requested at locations other than
21 those initially specified.

22

23 For consistency purposes, central offices that are
24 designated for interstate expanded interconnection should
25 also be designated for intrastate expanded

1 interconnection. United's and Centel's proposed
2 intrastate tariffs for special access expanded
3 interconnection and illustrative tariff for switched
4 access expanded interconnection provide lists of offices
5 where collocation is proposed to be offered initially, as
6 well as contain provisions for expanding the number of
7 locations.

8

9 Q. Which entities should be allowed expanded interconnection
10 for switched access?

11

12 A. Expanded interconnection should be available to any
13 customer, i.e., IXCs, AAVs, cable television companies,
14 power companies, information service providers, and end
15 users, for the interconnection of transmission and
16 multiplexing equipment for those services as defined by
17 the FCC's Order in Docket CC 91-141. Requests for
18 expanded interconnection of other types of equipment are
19 not required by the FCC's action in the interstate arena,
20 nor should they be required in the intrastate
21 jurisdiction.

22

23 Q. Should the United and Centel proposed flexible pricing
24 plans for private line and special access be approved?

25

1 **A.** Yes. United's and Centel's proposed intrastate zone
2 density pricing plans essentially mirror the plans the
3 Companies filed in the interstate jurisdiction. Approval
4 of these plans will begin the necessary transition toward
5 market-based rates for the Companies' dedicated services.
6 As I noted earlier in this testimony, United and Centel
7 do not believe that the FCC approach is the appropriate
8 approach as far as flexibility is concerned, but the
9 Companies filed flexibility plans that mirror the
10 interstate plans because this Commission ordered them to
11 do so. We, of course, applaud this Commission's decision
12 to allow implementation of these pricing flexibility
13 plans upon implementation of expanded interconnection
14 which is essential if the Companies are to be able to
15 meet the rapidly developing competition.

16
17 While it is true that United and Centel currently have
18 CSAs for pricing flexibility, CSAs, which were designed
19 to address bypass by individual customers, are clearly
20 not the most effective alternative to meet the
21 competitive challenges posed by the AAVs. Geographic
22 price deaveraging in the context of the zone density
23 framework, which recognizes cost and market differences,
24 is clearly more effective than CSAs in terms of
25 addressing an entire geographic market area and of

1 providing workable flexibility while ensuring that
2 switched access service is not cross-subsidized. Without
3 the availability of zone density pricing, the AAVs will
4 be able to construct networks and price services that are
5 economically inefficient but still priced below United's
6 and Centel's tariffed switched access services. Not only
7 does this approach greatly enhance the AAV's chances of
8 snaring away the Companies' customers, it has the
9 perverse effect of preventing the customer from receiving
10 the full benefits of competition; namely, economically
11 efficient, cost-based prices.

12

13 In its Phase I Final Order (page 23), the Commission
14 required the LECs to file comments with their zone
15 density pricing plans and tariff filings addressing how
16 the CSA process can be improved. As was noted in
17 United's and Centel's March 31, 1994, filings, the most
18 important improvement in the CSA process will be to
19 eliminate the current requirement that the customer have
20 a pending competitive offer before the LEC can respond
21 with a CSA.

22

23 Q. Should United's and Centel's proposed intrastate private
24 line and special access expanded interconnection tariffs
25 be approved?

1 **A.** Yes. United's and Centel's private line, special access
2 and switched access expanded interconnection tariffs
3 essentially mirror the tariff filed in the interstate
4 jurisdiction. The tariffs should be approved, provided
5 United and Centel are granted sufficient pricing
6 flexibility to deal with the increased level of
7 competition that accompanies expanded interconnection.
8
9 **Q.** How should switched access local transport be structured
10 and priced?
11
12 **A.** The Commission should approve the local transport
13 restructure proposed by United and Centel in their
14 December 22, 1993, filings. The restructure of local
15 transport has merit even if it is not in the context of
16 expanded interconnection. However, it is critical that
17 if switched access expanded interconnection is imposed on
18 the Companies, local transport restructure must also be
19 restructured. United and Centel will not be able to
20 compete in the switched access transport market if they
21 cannot structure and price their services in the same
22 fashion as their competitors. For example, the Companies
23 would be required to bill all usage on a usage-sensitive
24 basis, whereas their competitors will be able to offer
25 local transport on a flat-rate option with significant

1 volume discounts. For this reason it is a structure that
2 is incompatible with a policy change that is designed to
3 further competition in the switched transport market.
4 United's and Centel's local transport restructure filings
5 essentially mirror the tariffs filed in the interstate
6 jurisdiction.

7
8 Q. Should United's and Centel's proposed local transport
9 restructure tariffs be approved? If not, what changes
10 should be made to the tariffs?

11
12 A. United's and Centel's local transport restructure filings
13 should be approved. This restructure has already
14 occurred in the interstate jurisdiction, and is a natural
15 step in the evolution of switched access rates becoming
16 more competitive. Moreover, the local transport rate
17 structure that is in place today is incompatible with
18 attempts to further competition for switched transport
19 services, i.e., switched access expanded interconnection.

20
21 Q. Does that conclude your testimony?

22
23 A. Yes, it does.

24
25 ucd\921074.cst

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail or hand delivery (*) this 23rd day of May, 1994, to the following:

Daniel V. Gregory
Quincy Telephone Company
P. O. Box 189
Quincy, FL 32351

John A. Carroll, Jr.
Northeast Florida Telephone
P. O. Box 485
Macclenny, FL 32063-0485

Michael W. Tye
AT&T Communications
106 E. College Ave., Suite 1410
Tallahassee, FL 32301

Joseph Gillan
Florida Interexchange Carriers
P. O. Box 541018
Orlando, FL 32854

Brad E. Mutschelknaus
Rachel J. Rothstein
Ann M. Szemplenski
Wiley, Rein & Fielding
1775 K Street, N.W.
Washington, DC 20006

Laura L. Wilson
Florida Cable Television Assn.
P. O. Box 10383
Tallahassee, FL 32302

Patrick K. Wiggins
Kathleen Villacorta
Wiggins & Villacorta
P. O. Drawer 1657
Tallahassee, FL 32302

Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Reeves, et al.
315 S. Calhoun St., Suite 716
Tallahassee, FL 32301

Jack Shreve
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison St., Rm. 812
Tallahassee, FL 32399-1400

C. Everett Boyd, Jr.
Ervin, Varn, et al.
305 S. Gadsden Street
Tallahassee, FL 32301

Chanthina R. Bryant
Sprint
3065 Cumberland Circle
Atlanta, GA 30339

Janis Stahlhut
Time Warner Cable
Corporate Headquarters
300 First Stamford Place
Stamford, CT 06902-6732

Jodie L. Donovan
Teleport Communications Group
1 Teleport Drive, Suite 301
Staten Island, NY 10311

Kenneth A. Hoffman
Floyd R. Self
Messer, Vickers, et al.
P. O. Box 1876
Tallahassee, FL 32302

Donna L. Canzano *
Division of Legal Services
Florida Public Service Comm.
101 East Gaines Street
Tallahassee, FL 32301

Marshall M. Criser, III
Southern Bell Telephone
and Telegraph Company
150 S. Monroe Street, Suite 400
Tallahassee, FL 32301

Mickey Henry
MCI Telecommunications Corp.
780 Johnson Ferry Road
Suite 700
Atlanta, GA 30342

Richard D. Melson
Hopping, Boyd, Green & Sams
P. O. Box 6526
Tallahassee, FL 32314

Peter Dunbar
Pennington, Haben, et al.
306 No. Monroe Street
Tallahassee, FL 32301

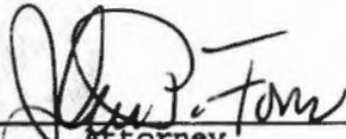
Benjamin H. Dickens, Jr.
Blooston, Mordkofsky, et al.
2120 L St., N.W., Suite 300
Washington, DC 20037-1527

Douglas S. Metcalf
Communications Consultants, Inc.
P. O. Box 1148
Winter Park, FL 32790-1148

Harriet Eudy
ALLTEL Florida, Inc.
P. O. Box 550
Live Oak, FL 32060

Beverly Menard
c/o Richard Fletcher
GTE-Florida
106 E. College Ave., Suite 1440
Tallahassee, FL 32301

Intermediate Communications
V.P., External Affairs
9280 Bay Plaza Blvd., Suite 720
Tampa, FL 32063



Attorney