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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

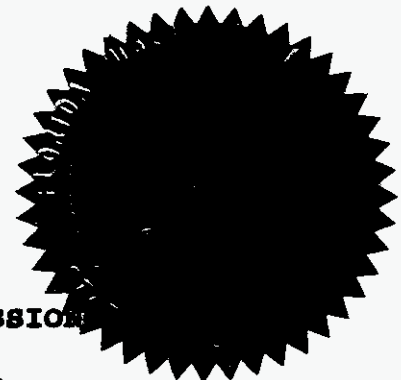
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In the Matter of :  
Comprehensive review of :  
the revenue requirements and :  
rate stabilization plan of :  
SOUTHERN BELL TELEPHONE AND :  
TELEGRAPH COMPANY. :  
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DOCKET NO. 920260-TL



VOLUME 2 - AFTERNOON SESSION

Pages 163 through 286

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN SUSAN F. CLARK  
COMMISSIONER J. TERRY DEASON  
COMMISSIONER JULIA L. JOHNSON  
COMMISSIONER DIANE K. KIESLING  
COMMISSIONER JOE GARCIA

DATE: Monday, July 31, 1995

TIME: Commenced at 9:30 a.m.  
Concluded at 6:20 p.m.

PLACE: The Betty Easley Conference Center  
Hearing Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY: JOY KELLY, CSR, RPR  
Chief, Bureau of Reporting  
SYDNEY C. SILVA, CSR, RPR  
Official Commission Reporters

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER-DATE

FLORIDA PUBLIC SERVICE COMMISSION 07402 AUG-3 88

FPSC-RECORDS/REPORTING

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## P R O C E E D I N G S

(Transcript follows in sequence from Volume 1.)

(Hearing reconvened at 1:40 p.m.)

CHAIRMAN CLARK: We'll go ahead and reconvene the hearing. Commissioners, do you have any questions?

Redirect.

MR. CARVER: No questions. Chairman Clark, would you like for me to move into evidence the first five exhibits or would you rather wait and do them all at the end of the hearing?

CHAIRMAN CLARK: No. It's appropriate to move them into evidence while your witness is still on the stand.

MR. CARVER: Okay. In that case, I would like to move in Exhibits 1 through 5 for identification.

CHAIRMAN CLARK: Without objection, Exhibits 1 through 5 will be admitted. Exhibit 6?

MR. BOYD: Yes, Chairman Clark, we would like to move that into evidence, please.

CHAIRMAN CLARK: Without objection, Exhibit 6 is entered into the record.

MS. CANZANO: Staff moves into the record Pages 1 through 124 of Exhibit 7, and Exhibits 8, 10, 11 and 13.

Because we didn't cross on Exhibits 9 and 12, we are not going to enter those into the record. Those were the redacted versions.

1 CHAIRMAN CLARK: I'm sorry, are you entering all of  
2 Exhibit 7? It's more than 124 pages.

3 MS. CANZANO: Not at this time. We'll do them  
4 witness-by-witness. Witness Stanley has covered Pages 1  
5 through 124. That's the part we'll move in --

6 CHAIRMAN CLARK: We'll leave that exhibit pending  
7 and we'll take it up at the end.

8 MS. CANZANO: Okay.

9 CHAIRMAN CLARK: Exhibit 8 is admitted, Exhibits 10,  
10 11, and 13.

11 I was trying to remember what we had done with  
12 respected to redacted and confidential copies. I think what  
13 we did was the one officially entered into the record is the  
14 confidential copy; and then for purposes of the parties and  
15 the Commissioners, they would get the redacted copies and they  
16 could see the confidential copies if they chose. So I think  
17 it is appropriate just to move the confidential.

18 MS. CANZANO: I agree.

19 CHAIRMAN CLARK: Okay. Then 14, 15 and 16 are  
20 late-filed exhibits; is that correct?

21 MS. CANZANO: That's correct.

22 CHAIRMAN CLARK: Thank you.

23 (Exhibit Nos. 1 through 6, 8, 10, 11 and 13 received  
24 in evidence.)

25 (Witness Stanley excused.)

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CHAIRMAN CLARK: Next witness? Mr. Knowles, is that correct? Go ahead.

MR. RICHARD: Thank you, Madam Chairman.

WILLIAM I. KNOWLES, JR.

was called as a witness on behalf of Communication Workers of America, Locals 3121, 3122, 3107 and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. RICHARD:

Q Would you please state your name and work address for the record.

A My name is William Knowles. I work for the Communication Workers of America, Local 3122 in Miami, 13012 Southwest 133rd Court.

Q And how long have you been an employee of Southern Bell Telephone?

A Approximately 27 years.

Q And what is your current position with the CWA?

A I'm President of the Local 3122 in Miami.

Q Are you speaking on behalf of more than one local?

A Yes.

Q What are those?

A CWA Local 3107 and CWA Local 3121.

Q And the employees represented by those three unions

1 work for whom and where?

2 A The majority of them work for BellSouth, some of  
3 them work for AT&T, and I also have one additional bargaining  
4 unit outside of those units.

5 Q This is located in Dade County, Florida?

6 A Yes.

7 Q Do you have a copy of your prefiled testimony  
8 consisting of 12 pages dated about June 26, 1995?

9 A Yes I do.

10 Q Does it appear to still be correct?

11 A Yes.

12 Q If you were to give that testimony today, would it  
13 still remain the same as it is in that prefiled exhibit?

14 A Yes.

15 Q Is it correct we have no exhibits to go along with  
16 that testimony?

17 A No.

18 MR. RICHARD: We offer the witness for cross  
19 examination.

20 CHAIRMAN CLARK: We'll enter his prefiled testimony  
21 in the record as though read.

22

23

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1 Q.: State your name and provide your background?

2 A.: My name is William I. Knowles, Jr. My business  
3 address is Communication Workers of America, AFL-CIO, Local  
4 3122 ("CWA"), 13012 S.W. 133rd Court, Miami, Florida,  
5 33186. The union's telephone number is 305-232-1333.

6 I am currently the President of CWA Local 3122. Our  
7 union is the exclusive collective bargaining agent for some  
8 2000 employees of Southern Bell Telephone Company ("SBT").  
9 Our union along with the other two (2) unions that filed  
10 the suggested refund plan (CWA Locals 3121 and 3107) are  
11 the representatives for a total of approximately 5000  
12 employees ("CWA Locals"). Almost all of our members are  
13 customers of SBT.

14 Q.: Why did the three "CWA Locals" submit a proposal  
15 suggesting how the Commission should distribute the \$25  
16 Million refund?

17 A.: Our unions have a long history of involvement in  
18 telecommunication issues. Obviously, our activities arise  
19 in part out of our natural interest in issues that affect  
20 us as workers in the industry. However, our organizations  
21 are also dedicated to those consumer efforts seeking to  
22 bring about fairness, equity and affordability in the  
23 telecommunications marketplace.

24 We were excited by that part of the settlement secured  
25 by the Public Counsel and PSC Staff that offered interested  
26 parties the opportunity to submit proposals on how to



1 distribute refund monies. This chance for everyday  
2 citizens to participate in what appears as a prohibitive  
3 and distant arena was relished by thousands of CWA  
4 employees. We forwarded a proposal covering the last  
5 refund issue and later withdrew it after a settlement was  
6 reached between us and SBT.

7 We were almost dissuaded from submitting the instant  
8 proposal because of our negative experience during the last  
9 proposal process. Our efforts were seen as bothersome,  
10 instead of an exercise in democracy. It appeared as if our  
11 involvement was resented, as we were treated as outsiders  
12 to the regulatory forum. But, as workers we are not  
13 unfamiliar with this type of response. We nevertheless  
14 decided to go forward because of our respect for the  
15 Commission and our commitment to our membership.

16 Q.: What is the CWA Locals' proposal?

17 A.: The specifics of the proposal are outlined in the  
18 initial pleading which was previously filed. The plan  
19 calls for an equal distribution of \$5 million to five (5)  
20 classes of taxpayers. This refund would be applied against  
21 basic service for each group. The actual refund formulae  
22 and the determination of eligible ratepayers would be  
23 established by the Commission.

24 The general refund distribution is as follows:

25 (a) \$5 million rate reduction to the basic "lifeline"  
26 senior citizen telephone service.

1 (b) \$5 million rate reduction to the basic  
2 residential telephone service.

3 (c) \$5 million rate reduction to the basic telephone  
4 service to any organization that is non-profit with 501(c)  
5 tax exempt status.

6 (d) \$5 million rate reduction to the basic telephone  
7 service of any public school, community college and state  
8 university.

9 (e) \$5 million rate reduction for telephone service  
10 to any qualified disabled ratepayer.

11 Q.: Why should the CWA Locals' proposal be adopted?

12 A.: The Locals expended great efforts in analyzing the  
13 most equitable manner for refunding the settlement monies.  
14 In reaching the above proposed plan, we were guided by four  
15 (4) regulatory principles.

16 First, the refund dollars should be directed toward  
17 basic universal service. Basic telephone service is the  
18 communication backbone of our nation. Simple dialtone is  
19 the fundamental element of the telephone network. Any  
20 refund plan should be designed to offset only basic  
21 service.

22 Areas like long distance, special features (e.g.,  
23 speed dialing) and even touchtone service, while valuable  
24 and important are dependent upon basic service. Thus, the  
25 refund should focus upon that service which underlies every  
26 other aspect of the system. This guarantees that the

1 greatest number of ratepayers will receive the greatest  
2 breadth of a refund. This will eliminate the possibility  
3 of discrimination against those who cannot afford extra  
4 features. This will help us not forget that long distance  
5 is often a budgeted luxury for some. However, dialtone  
6 defines a way of life.

7 This concept of addressing universal service is not  
8 alien to the regulatory and legislative environment. The  
9 Florida Legislature and Governor have endorsed universal  
10 service. Almost every consumer group and advocate have  
11 agreed upon this universal service pledge. Morton Bahr,  
12 President of the Communication Workers of America  
13 International, (representing nearly one million workers  
14 nationwide) has made the reality of universal service one  
15 of our union's most prominent goals.

16 Second, the refund formulae should seek to assist  
17 those who need it the most. Cross-subsidies have always  
18 been accepted in the regulatory arena. Certain business  
19 customers have historically underwritten residential  
20 service costs. We have long prioritized types of service.  
21 Additionally, the Commission has recognized the needs of  
22 special groups, like the elderly, with the establishment of  
23 "Lifeline" and other similar rates.

24 With this principle as guidance, CWA identified four  
25 (4) groups of ratepayers who have certain special needs.  
26 The needs of senior citizens are already recognized and

1 warrant no discussion. Our public educational  
2 institutions, who themselves are facing critical funding  
3 shortages, prepare our future generations to lead society.  
4 Basic telephone service is a vital requisite to the  
5 operation of our schools, colleges and universities. Next,  
6 disabled citizens have recently won nationwide protection  
7 through the passage of long awaited legislation. Our  
8 communities have addressed basic concerns for these  
9 citizens in the areas of accessibility of buildings,  
10 special transit services and even educational  
11 opportunities. Now the time has come for the  
12 telecommunications industry to make its contribution.  
13 Finally, our state and local governments have recognized  
14 the role of 501(c) exempt non-profit organizations. These  
15 entities play philanthropic, charitable, educational and  
16 scientific roles in our communities. They are beacons of  
17 selfless acts. Because they often have financial  
18 constraints, this refund would represent greatly  
19 appreciated assistance.

20 Third, those who suffered from the alleged  
21 improprieties leading to the settlement should be directly  
22 compensated. The underlying settlement was reached in part  
23 because it ended the allegations of improper sales tactics  
24 leveled against SBT. While such allegations were never  
25 proven, it is clear that the settlement put closure on this  
26 regrettable chapter in our company's history. The basic

1 residential customer would have been the most frequent  
2 target of the alleged sales actions. It is almost  
3 impossible to identify the victims by any demographic  
4 variables. Thus, CWA included all such ratepayers as a  
5 recipient class under the proposed settlement.

6 Fourth, the refund should be singularly directed to  
7 assist consumers and not utilized to directly benefit the  
8 company. We are loyal and committed employees of SBT. We  
9 care about our company and would, at first glance, like  
10 nothing better than to have the money help us with a  
11 competitive edge. But this would be disingenuous. SBT  
12 entered the settlement to redress consumer issues. Any  
13 refund plan should mirror that intent. A lowering of basic  
14 rates will not provide SBT or any potential competitor with  
15 any advantage. It simply allows for the most equitable  
16 redistribution of monies.

17 Q.: Are the CWA Locals opposed to the SBT plan?

18 A.: Yes. We are very supportive of lowering intrastate  
19 long distance rates and applaud the Company's efforts in  
20 that direction. But, the \$25 million refund should not be  
21 used for such a purpose. The reasons are clear.

22 First, long distance rate reduction has the appearance  
23 of being self-serving to SBT. It has more benefit to the  
24 LEC in establishing a competitive edge, than in aiding  
25 ratepayers. "The money is being refunded anyway, why not  
26 help ourselves?" is an unacceptable philosophy given the

1 need to compensate the public for the alleged wrongdoing.

2 Second, the long distance refund plan does not meet  
3 the four principles outlined above which have been long  
4 embraced by regulators. In fact, it has the opposite  
5 effect. For example, lower income ratepayers, who are  
6 least likely to make long distance calls, will not receive  
7 any benefit. There is also no correlation between the  
8 alleged sales tactics and long distance activities.  
9 Overall, intrastate long distance is not an area that will  
10 maximize the benefit of the refund.

11 Finally, the SBT plan has inherent problems. There is  
12 no free tracking device for the consumer to monitor  
13 improperly billed calls. The company plans to charge for  
14 this, which would undermine the spirit of the refund.  
15 Also, the fixed price per call can actually end up costing  
16 consumers more money. This would result in a net loss  
17 instead of a savings. This would be an outrageous result.  
18 There are other such negative consequences.

19 Q.: Would the CWA Locals accept any other alternative  
20 plan?

21 A.: Yes. We would like nothing better than to work with  
22 SBT, Staff, the Public Counsel, consumer groups and the  
23 citizenry to identify an agreed-upon refund mechanism.  
24 Unfortunately, the real "players" in the regulatory forum  
25 smugly ignore the everyday observers.

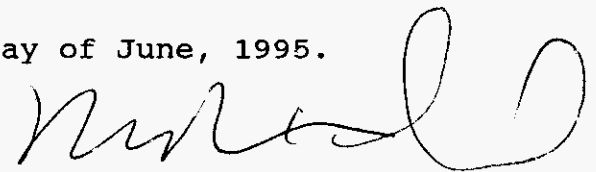
26 This attitude must change. The information highway

1 brings with it new political, economic and technological  
2 challenges. While these challenges are formidable, they  
3 must be resolved in an equitable manner. The very notions  
4 of democracy are threatened if our nation's  
5 telecommunications system is expropriated by expensive  
6 lawyers, corporate giants, regulatory bureaucrats and  
7 lobbyists. So far the industry has not truly brought the  
8 debate to the public. Rather, the surfacing of public  
9 questioning has been viewed as an irritant. Consumer and  
10 labor involvement has been met with fast-talking newspeak,  
11 back door lobbying and legislative dinners and frolic.

12 But the situation is not totally grim. The Commission  
13 has opened the process to the public by accepting proposals  
14 such as the one proffered by the CWA Locals. The PSC has  
15 encouraged the involvement of our 5000 members by allowing  
16 these dedicated and caring employees and consumers to jump  
17 into the process. We recognize this good faith gesture and  
18 in keeping with its spirit, would consider any fair plan.

19 Certificate of Service

20 I HEREBY CERTIFY that a true and correct copy of the  
21 foregoing Direct Testimony of William I. Knowles, Jr. was  
22 mailed to those individuals named on the attached  
23 distribution list on this 23<sup>rd</sup> day of June, 1995.

24   
25 \_\_\_\_\_  
26 MARK RICHARD, ESQ.

1           CHAIRMAN CLARK: Does your witness wish to summarize  
2 his testimony?

3           Q     (By Mr. Richard) Mr. Knowles, would you please take  
4 take a few minutes and summarize your direct prefiled  
5 testimony.

6           A     We put together a package dealing with how the 25  
7 million should be distributed. We feel that 5 million should  
8 go to the Lifeline program in the package that we put in that  
9 was dealing with the senior citizens; 5 million for basic  
10 service; 5 million for the 501-C tax exempt category; 5  
11 million for public schools, community colleges and state  
12 universities, and 5 million for the disabled ratepayer.

13                     The reason we went this route is we feel most of  
14 these customers are the ones that are going to be impacted the  
15 greatest as competition comes on. Many of them live in the  
16 areas that we do not feel the competition will probably go;  
17 so, therefore, we feel that they will be impacted the most by  
18 competition.

19           CHAIRMAN CLARK: Does that conclude your summary?

20           WITNESS KNOWLES, JR.: Yes.

21           CHAIRMAN CLARK: Thank you. Mr. Carver.

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## CROSS EXAMINATION

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BY MR. CARVER:

Q Mr. Knowles, my name is Bill Carver, I represent Southern Bell and I have just a few questions for you.

I just want to ask you a little bit about the five categories of beneficiaries of your plan. Lifeline senior citizen, who would be eligible for that?

A I'm sorry?

Q Who would be eligible for the Lifeline senior citizen service category?

A In some of the discussion and in the testimony I gave the other day on the deposition, we did come to some agreement that there should be some guidelines set based on the level of income dealing with the people, and we'd leave that up to the PSC to determine that.

Q Okay. So as of right now, you don't really have an opinion on what the cutoff should be?

A No, I don't.

Q Another category, qualified disabled ratepayers, what would constitute a qualified disabled ratepayer?

A We felt that if they were qualified under the Americans with Disabilities Act that they would qualify under this category.

Q As to the reduction you proposed to basic residential service, do you know how much that would come out

1 to per customer?

2 A No, I don't.

3 Q For any of the five categories that you proposed, do  
4 you know how much the reduction would be per customer?

5 A No, I don't.

6 Q Not for residential but for the other four  
7 categories, do you know how many people would be in any of  
8 those four categories?

9 A No, I don't, not offhand.

10 Q Now, I understand that it is your opinion that it  
11 would be helpful to these people to have this plan  
12 implemented, but did you do any sort of a survey or a study or  
13 an analysis or any sort of research to specifically try to  
14 identify these groups?

15 A No, we did not.

16 Q Okay. Would it be fair to say that some people in  
17 these groups could be helped more by Southern Bell's plan than  
18 they would be helped by your plan?

19 A I couldn't venture to say that.

20 Q Okay. Just hypothetically, let's say you have a  
21 nonprofit organization that makes a lot of toll calls, a lot  
22 of interLATA toll calls on particular routes, wouldn't their  
23 savings be greater under Southern Bell's plan -- or couldn't  
24 they be greater, perhaps, let me put it that way, than they  
25 would be under your plan?

1           A     Their savings might be greater under theirs,  
2 depending upon the length of call.

3           Q     Let me ask you, Mr. Knowles.  If the PSC adopts a  
4 plan that has an adverse financial impact on Southern Bell,  
5 then could that also have an adverse impact on CWA members?

6           A     Yes, it could.

7           Q     Okay.  And I believe you said that one of the  
8 criteria for the plan you selected was that it would not  
9 benefit Southern Bell?  Is that correct?

10          A     I don't believe we specifically dealt with this plan  
11 and put it together because it did not benefit Southern Bell.

12          Q     Well, what I'm referring to specifically is on  
13 Page 6 of your direct testimony, Lines 6, 7 and 8.  You say,  
14 "Fourth, the refund should be singularly directed to assist  
15 consumers and not utilized to directly benefit the company."  
16 That's what my question really went to.

17          A     I felt this particular refund should be directed in  
18 some way to attempt to help the consumers.

19          Q     But not to help the company?

20          A     Not specifically.

21          Q     Okay.  Earlier this morning, in the context of an  
22 argument, I think your attorney made a statement that Southern  
23 Bell had filed this plan to help its own competitive  
24 interests.  Did you hear that comment?

25          A     Not offhand.

1 Q Okay. Well, let me ask you about your belief. Do  
2 you believe Southern Bell has filed this plan to help its  
3 competitive interests?

4 A I believe that they've probably done some studies to  
5 take a look at what the impact of the dialing plan that's  
6 presently in effect versus what the dialing plan would be here  
7 and feel that they probably have some idea what increased  
8 volume of traffic will be created over that calling pattern.

9 Q Well, if Southern Bell's plan is not approved, if  
10 the result of this hearing is something that has a negative  
11 impact on Southern Bell's ability to compete, then that's  
12 going to harm the Company financially, isn't it?

13 A Possibly.

14 Q And that could possibly have an adverse effect on  
15 CWA members, could it not?

16 A Possibly.

17 Q So, in effect, the general plan that you're  
18 advocating to help certain types of consumers could have a  
19 direct adverse impact on people you represent, would you  
20 agree?

21 A The plan we're presenting could also, as competition  
22 creeps up in the local exchange carrier, could also directly  
23 impact my employment.

24 Q So either one could have an impact on you?

25 A Right.

1 Q Does the fact that CWA's filed a petition and that  
2 you are participating in this hearing, does that relate in any  
3 way to the fact that Southern Bell and CWA have ongoing  
4 contract negotiations?

5 A No, it does not.

6 MR. CARVER: Thank you. I have nothing further.

7 MR. DICKENS: No questions.

8 MR. BECK: No questions.

9 MR. TYE: No questions.

10 MR. BOYD: No questions.

11 MR. MELSON: No questions.

12 MR. SELF: No questions.

13 CHAIRMAN CLARK: Staff?

14 MR. ELIAS: Just one.

15 CROSS EXAMINATION

16 BY MR. ELIAS:

17 Q Do you have your responses to Staff's  
18 interrogatories with you? And I'm speaking specifically to  
19 Interrogatory No. 9.

20 A I don't believe I have a copy of them.

21 Q All right. Maybe to speed things up I can just read  
22 the question and your response. The interrogatory asked: "To  
23 the extent that a senior citizen is also a residential  
24 ratepayer, explain how CWA's proposed rate reductions would  
25 apply."

1           The response is: "This is a question worth  
2 exploring. Our initial intention, subject to change, is that  
3 they might be entitled to this refund under both categories."

4           A     If they qualify.

5           Q     Yes. Are you aware that Southern Bell, pursuant to  
6 the final order that was entered in the rate case in this  
7 docket, already has a Lifeline plan in place for low income  
8 ratepayers?

9           A     Yes. And that's what we had based part of what we  
10 had put together, that we also felt that those people were  
11 going to be the most impacted as the competition goes on.

12          Q     And you're proposing a separate additional Lifeline  
13 plan for those senior citizens who meet certain  
14 yet-to-be-determined eligibility criteria?

15          A     It was a rate decrease for those people who  
16 qualified under that Life- -- under that plan.

17          Q     And you're proposing an additional? All right.

18                To the extent that a senior citizen who is already  
19 receiving the benefit of a Lifeline rate receives the benefit  
20 under your plan of an additional Lifeline discount, receives  
21 the benefit under your plan of a decrease in the rate for  
22 basic residential service, and receives pursuant to your plan  
23 a discount for being qualified under the Americans with  
24 Disabilities Act of 1992, what action, if any, should be taken  
25 to the extent that those four credits exceed the charge for

1 basic residential telephone service?

2 A It was not the intent to decrease the basic rate  
3 down to where somebody would not be paying anything for it.

4 Q Is it fair to say then that you would cap these  
5 revenue reductions at the point where they equal the charge  
6 for basic residential --

7 A Yes.

8 Q -- local exchange service?

9 A Well, we feel that there should be some subsidy in  
10 that area for those people that qualify in those particular  
11 areas, but it was not the intent when we looked at it to say  
12 that somebody that qualified for Lifeline also qualified for  
13 disabled ratepayer and also qualified in one of the other  
14 areas. That was not the intent when we looked at it to see  
15 that somebody possibly got enough that they weren't paying  
16 anything for phone service.

17 MR. ELIAS: We have no further questions. Thank  
18 you.

19 CHAIRMAN CLARK: Thank you. Commissioners?  
20 Redirect.

21 MR. RICHARD: No.

22 CHAIRMAN CLARK: No redirect?

23 MR. RICHARD: No.

24 CHAIRMAN CLARK: Thank you very much, Mr. Knowles.  
25 (Witness Knowles excused.)

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CHAIRMAN CLARK: Mr. Self.

MR. SELF: As I indicated at the beginning of the hearing, the parties have stipulated or are willing to stipulate the admission of Mr. Maass's prefiled direct testimony into the record and to waive cross. And there is one fill-in-the-blank for his testimony on Page 8 at Line 11, there's a blank line that should have the number 1.7. That clause would read, or that line, "The proposal is \$1.7 million."

CHAIRMAN CLARK: With that correction, the prefiled direct testimony of Mr. Kurt Maass will be inserted into the record as though read by stipulation of the parties.

MR. SELF: There are no exhibits.

CHAIRMAN CLARK: Okay.



1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Kurt C. Maass. My business address is  
3 5400 Carillon Point, Kirkland, Washington 98033.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I'm employed as Vice President of External Affairs  
6 by McCaw Cellular Communications, Inc. ("McCaw").

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

8 A. I received a Bachelor's Degree in Business  
9 Administration with a concentration in Accounting  
10 from Pacific Lutheran University in 1980. I also  
11 hold a Certified Public Accountant certificate for  
12 the State of Washington.

13 Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?

14 A. I am testifying on behalf of McCaw, which provides  
15 cellular and paging service in many communities in  
16 Florida and elsewhere.

17 Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE IN THE FIELD  
18 OF TELECOMMUNICATIONS?

19 A. I have been employed by McCaw since April 1985.  
20 Since that time I have been responsible for  
21 external business affairs for McCaw's cellular and  
22 paging operations. This encompasses intercon-

1 necting our cellular systems with local landline  
2 telephone companies and ensuring compliance with  
3 state regulatory requirements. I have also  
4 participated in policy-making proceedings at both  
5 the state and federal level and am a past member of  
6 the Board of Directors of the Personal  
7 Communications Industry association (PCIA)  
8 (formerly Telocator Network of America), the  
9 industry association for cellular and paging  
10 carriers. I also currently serve on PCIA's  
11 Interconnection Committee. I have participated as  
12 a witness in both of this Commission's mobile  
13 interconnection dockets and have testified before a  
14 number of other state commissions and legislatures  
15 on various issues related to the cellular industry.

16 Prior to April 1985, I was employed for  
17 approximately five years with the  
18 Telecommunications Consulting Group of Ernst &  
19 Young (formerly Ernst & Whinney) in Tacoma,  
20 Washington. With Ernst & Whinney, I performed  
21 numerous cost-separation, access charge, and local  
22 rate development studies for a variety of telephone

1 company clients throughout the United States. In  
2 this capacity, I was exposed to basic telephone  
3 engineering, regulatory issues, industry practices  
4 and procedures, and rate and cost study  
5 development.

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. I am here to support the Commission's adoption of  
8 the Issue 1(c) proposal to have some of the  
9 available \$25 million in unallocated rate  
10 reductions used to implement the Commission's  
11 mobile interconnection policy decision in Docket  
12 No. 940235-TL. My testimony also generally touches  
13 upon those matters within the scope of Issues 1  
14 and 3.

15 Q. DID YOU PARTICIPATE IN DOCKET NO. 940235-TL?

16 A. Yes, I provided both direct and rebuttal  
17 testimony in that proceeding for McCaw.

18 Q. WHAT IS THE STATUS OF DOCKET NO. 940235-TL?

19 A. Hearings were held before the Commission in March  
20 of this year, all parties have filed their  
21 posthearing briefs, and the Commission has recently  
22 rescheduled the case for a decision from the June

1 27, 1995 Agenda Conference to the July 18, 1995  
2 Agenda Conference.

3 Q. WHAT WAS THE PURPOSE OF DOCKET NO. 940235-TL?

4 A. The Commission opened Docket No. 940235-TL to  
5 conduct an extensive review of the mobile  
6 interconnection policies adopted by the Commission  
7 in 1988 and 1989 and to determine whether any of  
8 those policies should be changed. The key issue in  
9 the case was whether the mobile interconnection  
10 rates should continue to be linked to access charge  
11 rates or set on some other basis. If the  
12 Commission determines that the link to access  
13 charges should be maintained, then any reductions  
14 in access charge rate elements should continue to  
15 be flowed-through to the corresponding mobile  
16 interconnection rate elements.

17 Q. HOW IS IT THAT IT MAY BE NECESSARY FOR THE  
18 COMMISSION TO "IMPLEMENT" THE DOCKET NO. 940235-TL  
19 DECISION IN THIS DOCKET?

20 A. The issue arises from the adoption of Senate Bill  
21 1554, which became effective July 1, 1995. Under  
22 section 17 of this bill, mobile service provider

1 interconnection appears within the definition of  
2 "network access service," with network access rates  
3 being capped at July 1, 1995 levels until January  
4 1, 1999. We believe that under the new law access  
5 charge reductions should be flowed-through to  
6 mobile interconnection rates if the Commission  
7 maintains the link with access charges in Docket  
8 No. 940235-TL. However, we are concerned, given  
9 the lack of clarity in the new law, that the local  
10 exchange companies will not flow-through access  
11 charge reductions to the mobile interconnection  
12 rates even if the Commission determines in Docket  
13 No. 940235-TL that such a policy continues to be in  
14 the public interest. Specifically, if Southern  
15 Bell successfully disputed its obligation to make  
16 the flow-through, Southern Bell would not have to  
17 reduce mobile interconnection rates when it makes  
18 the promised October 1995 (and October 1996) access  
19 charge reductions required by Order No. PSC-94-  
20 0172-FOF-TL.

21 Alternatively, the Commission may determine in  
22 Docket No. 940235-TL that the current rates should

1 be reduced to some specific level or the Commission  
2 could direct the parties to negotiate some new  
3 interconnection arrangements. However, the new law  
4 potentially may be applied to avoid the  
5 implementation of some of the policies that may be  
6 adopted in Docket No. 940235-TL.

7 Q. WHAT IS MCCA W'S PROPOSAL FOR THIS SOUTHERN BELL  
8 DOCKET?

9 A. If the Commission finds in Docket No. 940235-TL  
10 that as a matter of policy the link between access  
11 charges and mobile interconnection rates should be  
12 continued but that the effectiveness of Senate Bill  
13 1554 might somehow preclude the October 1995 access  
14 charge reductions from being flowed-through to the  
15 mobile interconnection rates, then consistent with  
16 that policy decision Southern Bell in this docket  
17 should be required to make the required flow-  
18 through to the mobile interconnection rates.

19 Q. WHAT IS THE RATIONALE FOR THIS PROPOSAL?

20 A. The Commission and parties have just concluded  
21 in Docket No. 940235-TL extensive proceedings  
22 involving a full review of the Commission's

1           successful mobile interconnection policies.  
2           If on the basis of that record the Commission  
3           has determined that the linkage between access  
4           charges and mobile interconnection rates is  
5           appropriate and should be continued, then the  
6           new law should not operate to prevent the  
7           implementation of that policy, especially when  
8           the Commission has the clear ability to  
9           implement it here in this docket. I should  
10          add that last year, before there was a Senate  
11          Bill 1554, the Commission used some of the  
12          1994 unallocated \$10 million in rate  
13          reductions to implement the 1994 access charge  
14          rate reduction flow-through to mobile  
15          interconnection rates.

16          Q.   WHAT DO YOU PROPOSE IF THE COMMISSION BREAKS  
17          THE LINK BETWEEN ACCESS CHARGES AND THE MOBILE  
18          INTERCONNECTION RATES?

19          A.   If the link with access is broken and there is  
20          a decision to reduce mobile interconnection  
21          rates it may be appropriate to account for  
22          such a reduction within the \$25 million.

1           Again, all of the parties have participated in  
2           an extensive review of the Commission's  
3           policies and it would be appropriate to assure  
4           implementation of the Commission's decision.

5           Q.   IF THE LINK WITH ACCESS IS MAINTAINED, WHAT IS  
6           THE REVENUE IMPACT OF MCCAWE'S PROPOSAL ON THE  
7           TOTAL \$25 MILLION IN RATE REDUCTIONS AVAILABLE  
8           IN THIS PROCEEDING?

9           A.   Based upon information supplied to us by Southern  
10          Bell, we estimate that the revenue impact of our  
11          proposal is \$17 million.

12          Q.   AGAIN, IF THE LINK WITH ACCESS IS MAINTAINED AND  
13          THE COMMISSION ADOPTS YOUR PROPOSAL, SUCH ACTION  
14          MAY NOT DISPOSE OF THE ENTIRE \$25 MILLION.  SHOULD  
15          THE COMMISSION THEN APPROVE EITHER OF THE OTHER TWO  
16          PROPOSALS IDENTIFIED AS ISSUES 1(A) AND 1(B)?

17          A.   From my review of the two other proposals that have  
18          been made, it does not seem appropriate for the  
19          Commission to approve either of them, in full or in  
20          part.   Southern Bell's EAS proposals appear  
21          directed to giving Southern Bell an unfair  
22          competitive advantage in the intraLATA toll market.



1           The CWA's proposals appear unnecessary given the  
2           present price levels of the targeted services and  
3           the availability of lifeline in Florida.

4           Q.   IF THE COMMISSION REJECTS THE SOUTHERN BELL AND CWA  
5           PROPOSALS AND BY IMPLEMENTATION OF THE DOCKET NO.  
6           940235-TL POLICIES DOES NOT UTILIZE THE FULL \$25  
7           MILLION, WHAT ACTION SHOULD THE COMMISSION TAKE  
8           WITH RESPECT TO THE BALANCE OF THE \$25 MILLION?

9           A.   It seems that the overall objective of the rate  
10          reductions identified in the original Stipulation  
11          and Implementation Agreement approved by the  
12          Commission was to address those rate categories  
13          requiring special attention due to their price  
14          levels in comparison to cost, to address  
15          competitive inequalities between customer service  
16          classes, or to otherwise advance important public  
17          policy objectives.   Given the foregoing, it is  
18          appropriate to use some of this money to implement  
19          those reductions in interconnection prices that we  
20          believe will be ordered in Docket No. 940235-TL.  
21          As for the balance of the money, the Commission  
22          should look to those monopoly services where the

1 rate levels are greatly in excess of cost (like  
2 interexchange access or mobile interconnection) or  
3 to those services where there are competitive  
4 inequalities between classes of customers,  
5 especially as between Southern Bell retail services  
6 versus wholesale services (for example, PBX trunk  
7 lines). These types of services seem especially  
8 appropriate for examination given the limitations  
9 that may exist because of the new legislation.

10 Q. WHEN SHOULD TARIFFS BE FILED AND WHAT SHOULD BE  
11 THEIR EFFECTIVE DATE?

12 A. The tariffs should be filed no later than two weeks  
13 after the Agenda Conference decision to be  
14 effective October 1, 1995.

15 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

16 A. McCaw is not attempting to relitigate the issues in  
17 Docket No. 940235-TL or to prejudge the outcome in  
18 that case. Rather, the mobile interconnection  
19 proceeding, Docket No. 940235-TL, represents a  
20 significant policy review undertaking. If there  
21 is any possibility the new telecommunications law  
22 would operate to defeat implementation of the

1 policies rendered in that proceeding or it is  
2 otherwise appropriate to account for rate  
3 reductions in this docket, then the Commission  
4 should utilize some of the \$25 million to implement  
5 those decisions. This action is especially  
6 appropriate in view of the weaknesses in the other  
7 alternatives that are on the table.

8 Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?

9 A. Yes it does.

1 CHAIRMAN CLARK: Mr. Guedel.

2 MR. TYE: Chairman Clark, AT&T calls Mike Guedel to  
3 the stand.

4 MIKE GUEDEL

5 was called as a witness on behalf of AT&T Communications of  
6 the Southern States, Inc. and, having been duly sworn,  
7 testified as follows:

8 DIRECT EXAMINATION

9 BY MR. TYE:

10 Q Mr. Guedel, would you please state your name and  
11 business address for the record.

12 A Yes. My name is Mike Guedel; my address is 1200  
13 Peachtree Street Northeast, Atlanta, Georgia 30309.

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

15 A I'm employed by AT&T as a manager in the Network  
16 Services Division.

17 Q Mr. Guedel, have you prepared and caused to be  
18 prefiled in this proceeding testimony consisting of some 14  
19 pages of questions and answers?

20 A Yes, I have.

21 Q Are there any changes, corrections or additions that  
22 you wish to make to your testimony at this time?

23 A Yes, there's one correction.

24 Q Could you give us that, please.

25 A On Page 23, -- excuse me, on Page 10, Line 23,

1 there's a dollar figure stated \$30.11 and I believe that  
2 number should be \$30.21.

3 CHAIRMAN CLARK: I have 38 -- wait a minute, am I on  
4 the wrong line? I'm on Line 23, 38.11.

5 WITNESS GUEDEL: That's correct, that number should  
6 be changed.

7 CHAIRMAN CLARK: To?

8 WITNESS GUEDEL: 38.21.

9 CHAIRMAN CLARK: I thought you said 30.

10 MR. TYE: I think he did, Chairman Clark.

11 Q (By Mr. Tye) The correct figure is 38.21?

12 A That is correct.

13 Q With that change noted, if I asked you the same  
14 questions contained in this testimony here today, would you  
15 give me the same answers contained therein?

16 A Yes, I would.

17 Q Do you have an exhibit attached to your testimony?

18 A Yes, I do.

19 Q Are there any changes -- excuse me. Was this  
20 exhibit prepared by you or under your direction or  
21 supervision?

22 A Yes, it was.

23 Q Are there any changes, corrections or additions  
24 which you wish to make to that exhibit at this time?

25 A Yes, there are two changes. The line that says "PBX

1 Loop" currently reads \$32.11 and that should read \$32.21. The  
2 line that reads "Resultant Loop Charge" currently reads \$38.11  
3 and should read \$38.21.

4 Q Are those changes consistent with the changes you  
5 just made to your testimony?

6 A Yes, sir, they are.

7 Q With those changes and corrections noted, is the  
8 information contained on Guedel Exhibit 1 true and correct to  
9 the best of your knowledge?

10 A Yes, it is.

11 MR. TYE: Chairman Clark, I would ask that  
12 Mr. Guedel's Exhibit No. 1 be marked.

13 CHAIRMAN CLARK: It will be marked as Exhibit 17.

14 (Exhibit No. 17 marked for identification.)  
15  
16  
17  
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25

1 Q. WILL YOU PLEASE IDENTIFY YOURSELF?

2

3 A. My name is Mike Guedel and my business address is  
4 AT&T, 1200 Peachtree Street, NE, Atlanta, Georgia,  
5 30309. I am employed by AT&T as Manager-Network  
6 Services Division.

7

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK  
9 EXPERIENCES.

10

11 A. I received a Master of Business Administration with  
12 a concentration in Finance from Kennesaw State  
13 College, Marietta, GA in 1994. I received a  
14 Bachelor of Science degree in Business  
15 Administration from Miami University, Oxford, Ohio.  
16 Over the past years, I have attended numerous  
17 industry schools and seminars covering a variety of  
18 technical and regulatory issues. I joined the Rates  
19 and Economics Department of South Central Bell in  
20 February of 1980. My initial assignments included  
21 cost analysis of terminal equipment and special  
22 assembly offerings. In 1982, I began working on  
23 access charge design and development. From May of  
24 1983 through September of 1983, as part of an AT&T  
25 task force, I developed local transport rates for

1 the initial NECA interstate filing. Post  
2 divestiture, I remained with South Central Bell with  
3 specific responsibility for cost analysis, design,  
4 and development relating to switched access services  
5 and intraLATA toll. In June of 1985, I joined AT&T,  
6 assuming responsibility for cost analysis of network  
7 services including access charge impacts for the  
8 five South Central States (Alabama, Kentucky,  
9 Louisiana, Mississippi, and Tennessee).

10

11 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

12

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

23

24 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

25



1 A. The purpose of my testimony is twofold:

2

3 First, I will demonstrate that none of the three  
4 proposals currently before the Commission  
5 appropriately dispose of the available \$25 million.  
6 The Southern Bell proposal is an attempt to "re-  
7 monopolize" a market that this Commission has  
8 previously deemed to be competitive. The  
9 Communications Workers of America (CWA) proposal  
10 includes reductions in the prices for services that  
11 are already affordably priced today. And the McCAW  
12 proposal, while having some merit, will likely not  
13 fully dispose of the available \$25 million.  
14 Clearly, the Commission needs to seek other  
15 alternatives.

16

17 Second, I will offer an alternative that will be  
18 more consistent with recent Florida legislation. My  
19 proposal would use available revenues to remove some  
20 existing barriers to competition inherent in  
21 Southern Bell's pricing of PBX trunk and Direct  
22 Inward Dialing (DID) services.

23

24 **Q. SOUTHERN BELL HAS PROPOSED EXTENDED CALLING SERVICE**  
25 **(ECS). WHY IS THIS PROPOSAL INAPPROPRIATE?**

1 A. The Southern Bell Extended Calling Service (ECS) is  
2 simply an attempt to "re-monopolize" the provision  
3 of toll service throughout a significant portion of  
4 Southern Bell's operating territory. The plan is  
5 not unlike the Extended Local Service (ELS) proposal  
6 that Southern Bell withdrew in conjunction with the  
7 stipulated agreement settling the issues in this  
8 case.

9

10 The Extended Calling Service proposal does include  
11 an itemization of the specific routes involved.  
12 However, considering the breadth of the proposal,  
13 and the fact that Southern Bell has not included  
14 "community of interest" studies generally required  
15 by this Commission to support Extended Area Service  
16 (EAS) arrangements, the proposal cannot be  
17 interpreted as EAS relief. The ECS proposal is  
18 another attempt to offer discounted toll service to  
19 Southern Bell customers.

20

21 Further, it does not appear that the prices  
22 associated with the ECS proposal cover the  
23 underlying costs, including imputed access charges,  
24 as prescribed by the recent legislation. Southern

1 Bell has not presented any evidence in its testimony  
2 that this pricing plan will meet those requirements.

3  
4 Therefore, Southern Bell's proposal is not in the  
5 public interest. The Extended Calling Plan would  
6 only deny rate payers the benefits of competition -  
7 benefits that this Commission has previously found  
8 to be in the public interest.

9

10 **Q. CWA HAS PROPOSED REDUCTIONS IN BASIC RESIDENTIAL**  
11 **RATES AND RELATED "LIFELINE" PROGRAMS. WHY IS THIS**  
12 **PROPOSAL INAPPROPRIATE?**

13

14 **A.** CWA has proposed reductions in the prices of  
15 services that are already affordably priced or in  
16 fact priced below cost today.

17

18 First, CWA has proposed reductions in Southern  
19 Bell's residential local service rates. This  
20 service, however, with rates between \$7.30 and  
21 \$10.65 depending on applicable rate group, is  
22 reasonably priced today. In fact, the rates charged  
23 for residential service in Florida are currently  
24 among the lowest residential rates offered by  
25 BellSouth (parent of Southern Bell) in any of the

1           nine states in which it operates. Further, evidence  
2           offered by Southern Bell in this docket indicates  
3           that these rates are currently priced significantly  
4           below the cost that Southern Bell incurs in  
5           providing the service.

6  
7           Second, CWA has proposed a couple of "lifeline"  
8           services. AT&T supports well targeted "lifeline"  
9           services, but AT&T submits that such services exist  
10          in Florida today. In conjunction with the  
11          stipulation that settled the general issues in this  
12          case, Southern Bell introduced "lifeline" discounts  
13          for customers who demonstrated a need for the  
14          service. These discounts already provide  
15          significant price breaks for "lifeline" candidates.

16  
17   **Q.   MCCAW HAS PROPOSED THAT SOME OF THE AVAILABLE**  
18   **REVENUES BE SET ASIDE FOR POSSIBLE REDUCTIONS IN**  
19   **CELLULAR INTERCONNECTION RATES IN CONJUNCTION WITH**  
20   **DOCKET 940235-TL. WOULD YOU COMMENT ON THIS**  
21   **PROPOSAL?**

22  
23   **A.**   McCaw has proposed that some of the available  
24          revenues be set aside on a contingency basis to be  
25          used as required in setting cellular interconnection

1 rates following the decisions (yet to be taken) in  
2 Docket 940235-TL.

3  
4 Traditionally, the level of cellular interconnection  
5 charges in Florida has been linked to the level of  
6 intrastate switched access charges. Thus when  
7 intrastate switched access charges have been  
8 reduced, cellular interconnection rates have been  
9 likewise reduced. This linkage is currently being  
10 reviewed in Docket 940235-TL. The Commission may  
11 decide to continue this linkage or opt for another  
12 arrangement.

13  
14 In any event, cellular interconnection service, like  
15 switched access service although not to the same  
16 degree, is currently priced significantly above the  
17 cost that Southern Bell incurs in providing the  
18 service. Rates for this service need to be reduced.  
19 Therefore, the Commission should consider utilizing  
20 some of the available revenues to reduce cellular  
21 interconnection rates.

22

23 **Q. WOULD YOU DEFINE YOUR ALTERNATIVE PROPOSAL?**

24

1 A. Yes. My proposal requires that the Commission  
2 utilize the available revenues to reduce the level  
3 of discriminatory pricing which exists in Southern  
4 Bell's provision of certain local exchange  
5 facilities and services - specifically local loops  
6 and direct inward dialing (DID).

7  
8 Currently, the price a customer pays to Southern  
9 Bell for a local loop depends upon that customer's  
10 selection of a vendor for PBX/PBX-like features and  
11 functions. If a customer selects Southern Bell  
12 ESSX<sup>®</sup> service, she/he pays less for the loop than if  
13 that same customer had selected a PBX from a  
14 competitive vendor. This situation tends to  
15 artificially distort the related competitive market  
16 for PBX/PBX-like features and functionality and  
17 needs to be remedied. Therefore, I recommend that  
18 the available revenues be used to reduce PBX trunk  
19 rates and/or rates associated with DID services  
20 provided to PBX customers.

21

22 Q. DOES ESSX SERVICE DIRECTLY COMPETE WITH PBX/KEY  
23 SYSTEMS?

24

1 A. Certain features and functions included in the ESSX  
2 tariff are directly competitive with PBX and key  
3 systems. These include: intercom, call forwarding  
4 associated with intercom, conferencing associated  
5 with intercom, automatic route selection (ARS),  
6 station message detail recording (SMDR) and many  
7 others. A customer seeking these competitive  
8 features and functions could purchase ESSX service  
9 from Southern Bell or he/she could purchase a PBX or  
10 key system from a variety of switching vendors.  
11 Therefore, in the market for PBX/PBX-like features  
12 and functions Southern Bell directly competes with  
13 PBX vendors.

14  
15 Other elements contained in the ESSX tariff are  
16 clearly monopoly bottleneck facilities or services.  
17 These can generally be characterized as being  
18 associated with "dial 9" functionality and include:  
19 local exchange access (loops), local usage, direct  
20 inward dialing (DID) and telephone number  
21 assignments. There are no competitive alternatives  
22 for these services at this time. Whether a customer  
23 selects ESSX or PBX for competitive features and  
24 functions, she/he must obtain these monopoly

1 bottleneck facilities and services from Southern  
2 Bell.

3

4 **Q. WHY IS IT IMPORTANT FOR SOUTHERN BELL TO OFFER THE**  
5 **MONOPOLY SERVICES ON A NONDISCRIMINATORY BASIS?**

6

7 A. When an exchange service monopoly provider also  
8 competes in the market for PBX/PBX-like features and  
9 functions (as Southern Bell does with ESSX), the  
10 monopoly provider has the opportunity to encourage  
11 potential customers to purchase competitive elements  
12 from it by offering substantial discounts on  
13 exchange facilities and services. By enforcing non-  
14 discriminatory pricing of the monopoly elements, the  
15 Commission can eliminate this opportunity and  
16 thereby promote fair and equal competition in those  
17 markets where competition can function.

18

19 **Q. COULD YOU DESCRIBE THE PRICE DISCRIMINATION**  
20 **ASSOCIATED WITH LOCAL LOOPS?**

21

22 A. Yes. Exhibit 1 to my testimony demonstrates that a  
23 PBX customer is charged ~~\$38.11~~ <sup>\$38.21</sup> for a local loop  
24 including the applicable subscriber line charge.  
25 However, the ESSX customer can purchase the same



1 loop for as little a \$6.30 if he/she is located  
2 within 2.5 miles of a central office. Even at  
3 greater distances, the most an ESSX customer would  
4 be required to pay would be \$13.50. (This example  
5 includes rate group 12 prices for the PBX trunk and  
6 the NAR. ESSX loop prices are based upon a medium  
7 configuration at a 60 month contract.)  
8

9 **Q. HOW DID YOU ESTIMATE THE RATE THAT A PBX CUSTOMER**  
10 **PAYS FOR THE LOCAL LOOP?**

11  
12 **A.** A PBX trunk is equivalent to an ESSX loop plus an  
13 ESSX Network Access Register (NAR). The loop  
14 provides connectivity between a telephone company  
15 switch and a customer's terminal equipment. The NAR  
16 provides the "dial 9" capability, i.e., local  
17 exchange usage and switched connectivity to  
18 interchange service providers. Each NAR provides  
19 the same quantity of "dial 9" capability as a PBX  
20 trunk. Therefore, assuming that there is no  
21 discrimination in the pricing of the "dial 9"  
22 services, the price a customer pays for a PBX loop  
23 can be estimated by subtracting the price of the NAR  
24 from the price of a PBX trunk.

25

1 Q. ARE THERE OTHER EXAMPLES OF DISCRIMINATORY PRICING  
2 IN SOUTHERN BELL'S CURRENT RATES THAT COULD AFFECT  
3 THE COMPETITIVE MARKET FOR PBX/PBX-LIKE FEATURES AND  
4 FUNCTIONS?

5  
6 A. Yes. Another example would include direct inward  
7 dialing (DID) and telephone number assignments. If  
8 a customer who has selected a PBX desires these  
9 features, Southern Bell charges him/her \$21.80 per  
10 DID trunk and \$4.00 per group of 20 numbers per  
11 month. If the customer had purchased ESSX service,  
12 Southern Bell would provide these monopoly services  
13 at no charge.

14  
15 Q. WHY SHOULD THE COMMISSION ADOPT YOUR PROPOSAL TO  
16 REDUCE PBX TRUNK AND/OR DID RATES RATHER THAT  
17 SOUTHERN BELL'S PROPOSAL TO IMPLEMENT EXTENDED  
18 CALLING SERVICE?

19  
20 A. My proposal succeeds for the very reason that  
21 Southern Bell's proposal fails - the relative  
22 effects on competition. As the telecommunications  
23 industry moves into the new era of competition  
24 envisioned by the recent legislation, it is  
25 imperative that all vestiges of monopoly advantage

1 be removed. Southern Bell and all competitive  
2 suppliers must be afforded an environment where they  
3 can compete on fair and equal terms. As noted  
4 above, Southern Bell's proposal would raise new  
5 barriers to competition. For this reason, it must  
6 be rejected. On the other hand, lowering rates for  
7 PBX trunks and/or DID services will begin to remove  
8 one of the remaining barriers to fair and equal  
9 competition in the market for PBX/PBX-like features  
10 and functions.

11

12 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY AND YOUR**  
13 **RECOMMENDATIONS?**

14

15 **A.** Yes. The proposals offered by Southern Bell and the  
16 CWA are inappropriate for reasons discussed above.  
17 These proposals should be rejected.

18

19 The proposal submitted by McCaw has merit. Cellular  
20 interconnection is currently priced well above cost,  
21 and relief with respect to these prices is  
22 warranted.

23

24 Further, because the McCaw proposal will not require  
25 all of the available dollars, the Commission should

1 use the remaining revenues to foster competition as  
2 envisioned by the recent legislation. To this end,  
3 the Commission should reduce or eliminate the  
4 charges associated with DID when purchased by a  
5 customer selecting a PBX alternative, or it should  
6 reduce the prices for PBX trunks.

7

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9

10 A. Yes.

1 Q (By Mr. Tye) Mr. Guedel, have you prepared a  
2 summary of your testimony?

3 A Yes, I have.

4 Q Could you give us your summary at this time, please.

5 A Yes. The purposes we are about here are to come up  
6 with the appropriate way of disposing of approximately \$25  
7 million of revenue that Southern Bell has committed to flow  
8 through or committed on towards the reduction of rates in  
9 conjunction with their rate case.

10 To that end, approximately four proposals are placed  
11 before the Commission today. One proposal is by Bell to  
12 implement an ECS, extended calling service. My testimony will  
13 deal with Southern Bell's proposal and the other three  
14 proposals before this Commission.

15 Southern Bell has proposed extended calling service  
16 area. Extended calling service is really a discounted toll  
17 service; it has been characterized by Southern Bell's witness  
18 as a plan to relieve EAS pressure in the state. However,  
19 Southern Bell has not included any of the community of  
20 interest studies generally required by this Commission to  
21 support extended area service. Southern Bell has developed  
22 their own criteria of community of interest; and apparently  
23 approximately 36 of the routes, the routes that were added  
24 recently, have not even met Southern Bell's' criteria for  
25 community of interest.

1           Clearly, what we have here is a discounted toll  
2 plan, a plan that implements rates so low that potential  
3 carriers will not be able to effectively compete. Southern  
4 Bell is basically attempting to remonopolize the provision of  
5 toll service throughout a significant portion of their  
6 territory and that proposal should be rejected.

7           CWA has proposed a variety of reductions in basic  
8 local service rates. It should be noted that basic service  
9 rates, particularly residential rates in the state of Florida,  
10 are significantly low already. In fact, they run from about  
11 \$7.30 a month to \$10.65 a month in Southern Bell's territory  
12 in this state. These are among the lowest rates in any of the  
13 BellSouth territory states. These rates have been decreasing  
14 in real terms over the past few years.

15           Further, this Commission has implemented both a  
16 Lifeline program and a Link-Up America program in the state of  
17 Florida to provide additional relief to those customers who  
18 cannot afford to pay for their toll or their local service.  
19 Since this issue has already been addressed, we believe that  
20 this is not the appropriate issue at this time by Southern  
21 Bell for their \$25 million reduction.

22           Third, McCaw has proposed that a certain amount of  
23 the revenue be set aside for potential reductions in cellular  
24 interconnection rates pending the outcome of the cellular  
25 interconnection docket. We believe this proposal has merit.

1 Indeed, cellular rates, although not to the extent that access  
2 charges, they are priced significantly above cost today and  
3 relief here would be warranted. We believe it may cost \$1.5  
4 to \$2 million for the Commission to set aside that money to be  
5 utilized in the interconnection and cellular interconnection  
6 docket.

7 Finally, we have proposed that Southern Bell utilize  
8 the revenue to reduce the disparity in the prices between PBX  
9 trunks and ESSX loops. PBX and ESSX compete in a variety of  
10 manners in the marketplace. Features and functions offered by  
11 PBX are also offered by Southern Bell through its ESSX  
12 offering, which is a CENTREX type offering.

13 However, PBX vendors cannot sell PBX trunks. A  
14 customer that purchases a PBX from a PBX vendor must purchase  
15 the trunks from Southern Bell, and the same is true for ESSX  
16 loops. So as long as Southern Bell can control the pricing  
17 between ESSX loops and PBX trunks, monopoly elements that only  
18 Southern Bell can provide, they have the opportunity to  
19 distort competition in the market for PBX and PBX-like  
20 features.

21 We believe that PBX trunks are priced significantly  
22 above ESSX loops and we believe that disparity should be  
23 eliminated.

24 That concludes my summary.

25 MR. TYE: Thank you, Mr. Guedel.

1 Madam Chairman, I would ask that Mr. Guedel's  
2 prefiled testimony be inserted into the record as though given  
3 orally.

4 CHAIRMAN CLARK: The prefiled testimony of Mike  
5 Guedel will be inserted into the record as though read.

6 (REPORTER'S NOTE: For convenience of the record,  
7 Mike Guedel's prefiled direct testimony has been inserted at  
8 Page 201.)

9 MR. TYE: Mr. Guedel is available for cross  
10 examination.

11 CHAIRMAN CLARK: I wonder if we shouldn't start with  
12 you, Mr. Dickens, first.

13 MR. DICKENS: Sure.

14 CHAIRMAN CLARK: I guess what I should say is I'm  
15 going to let Southern Bell go last before Staff.

16 CROSS EXAMINATION

17 BY MR. DICKENS:

18 Q Mr. Guedel, in your prefiled testimony, on Page 10  
19 at the bottom of the page, you are answering a question about  
20 price discrimination associate with one of the loops. And  
21 there beginning on Line 22 you say that Exhibit 1 to your  
22 testimony demonstrates that a PBX customer is charged 38.21, I  
23 believe is the corrected number, for a loop including the  
24 applicable subscriber line charge. However, the ESSX customer  
25 can purchase the same loop for as little as \$6.30 if he or she



1 is located within 2.5 miles of the central office.

2 The question I have for you in light of that  
3 statement is: Can you tell the Commission whether ESSX uses  
4 more plant facilities than PBX trunk service?

5 A In the aggregate, ESSX uses significantly more  
6 facilities because the ESSX service requires the installation  
7 of one ESSX loop for every main station that the customer has  
8 in the ESSX system. In a PBX environment, you can generally  
9 get by with about a 10-to-1 ratio; in other words, ten PBX  
10 stations would require only one PBX trunk. So in the  
11 aggregate and on average, there will be about ten times as  
12 many loops if you provide the service with ESSX as you would  
13 with PBX.

14 MR. DICKENS: Thank you, sir. That's all the  
15 questions we have.

16 MR. BECK: No questions.

17 MR. BOYD: No questions.

18 MR. MELSON: No questions.

19 MR. SELF: No questions.

20 CROSS EXAMINATION

21 BY MR. RICHARD:

22 Q Sir, did you have an understanding when the  
23 settlement was reached which left this \$25 million to be  
24 unspecified that there was any attempt on the part of the  
25 parties or the Commission to address those individuals who may

1 have been subject to alleged improper sales tactics?

2 MR. TYE: Madam Chairman, I don't know if this  
3 witness is qualified to answer that question at all. I don't  
4 think he was even party to the agreement.

5 MR. RICHARD: If he was not, he can say that.

6 A I'm not familiar with those details.

7 Q (By Mr. Richard) Now, under your proposal, sir, one  
8 of the reasons you believe it should be adopted is because you  
9 think the Bell ECS proposal might violate the provisions to  
10 Chapter 364; is that correct?

11 A I think, with or without the revisions of 364, I  
12 think they violate the Commission's current policy on  
13 imputation. In addition to that, my reading of Chapter 364, I  
14 would conclude that they violate that, also.

15 Q Isn't it true Chapter 364 won't even apply to this  
16 proceeding since it was pending prior to July 1?

17 MR. TYE: Objection, calls for a conclusion of law.

18 CHAIRMAN CLARK: Sustained.

19 Q (By Mr. Richard) Do you have a position as to the  
20 Company as to whether they think the new law applies to this  
21 proceeding?

22 MR. TYE: Same objection.

23 MR. RICHARD: That's not asking a legal question,  
24 it's asking their position.

25 CHAIRMAN CLARK: I think it is asking a legal

1 conclusion of their Company which this witness is not  
2 competent to answer.

3 Q (By Mr. Richard) If the Commission adopts the AT&T  
4 plan, is it not true that basically residential phone users  
5 will not receive any benefit?

6 A I think that's a fair statement, yes.

7 Q And isn't it true that AT&T is not agreeing to pass  
8 on the lowering of trunk rates or the cellular interconnection  
9 charges if in fact your position is adopted?

10 A Let me -- I guess I don't know the answer to that.  
11 But specifically with respect to PBX trunks, those are sold  
12 directly from the Bell operating company of Southern Bell to  
13 the end users. There's absolutely nothing to flow through.  
14 If you lower the PBX trunk rates, the customer purchasing the  
15 PBX trunk will get those reduced rates, there's absolutely no  
16 flow-through involved.

17 Q Let me ask you this. What percentage of the users  
18 of Southern Bell telephone service will benefit if your plan  
19 is put into effect?

20 A I don't know the answer to that.

21 Q Do you know how much PBX trunk rate users there are  
22 who will benefit?

23 A I don't know the number of customers, no.

24 Q Do you know how much they will benefit on a monthly  
25 basis?

1           A     Depends on how much the trunks are lowered -- prices  
2 are lowered.

3           Q     Assuming your plan is put into effect where all \$25  
4 million goes to trunk reduction rates, how much would that on  
5 the average per month save each user?

6           A     Without knowing the number of customers, I can't  
7 know that.

8           Q     How about the cellular interconnection reduction, do  
9 you know how many that will affect if your plan is approved?

10          A     I don't know how many we're serving in Florida.

11          Q     Do you know how much per month the average cellular  
12 user would save if the interconnection charges were reduced?

13          A     No, I do not.

14          Q     At some point the \$25 million would be used up, if  
15 you will, the amounts of money that Southern Bell has to give  
16 up would be used up. What would happen to the trunk rates and  
17 the cellular interconnection when the \$25 million had  
18 dissipated?

19          A     What would happen? I don't understand that  
20 question.

21          Q     You're using \$25 million to reduce a rate, correct?

22          A     Uh-huh.

23          Q     And at some point the rate will have been reduced an  
24 equivalent amount of 25 million?

25          A     Correct.

1 Q What happens to the rate at that point?

2 A I guess it just stays there until it is reduced  
3 again, all rates.

4 Q Is that your proposal, that all the rates would be  
5 frozen until the Commission acted again?

6 A I'm not making any proposal on that, I'm simply  
7 making a proposal on how to dispose of the \$25 million.

8 Q But under your proposal would it be that the reduced  
9 trunk rates and cellular and connection charges would remain  
10 at the lower reduced level until agency action by this  
11 Commission?

12 A I would hope they would.

13 Q Would you agree that your plan basically benefits  
14 businesses?

15 A Directly, it will benefit businesses who operate PBX  
16 systems or who would be purchasing PBX systems in the future.  
17 Indirectly, it will benefit the customers of those businesses.

18 Q Do you know what's the average annual income of any  
19 of those businesses?

20 A No, I do not.

21 Q And if the Southern Bell plan is proposed, the ECS  
22 plan, is it not true that all the competitors will have access  
23 on those same lines or routes?

24 A Could you rephrase that?

25 Q Sure, perhaps my phrasing is incorrect. I want to

1 establish that if the ECS is adapted by the Commission nothing  
2 stops a competitor of Southern Bell from access on those  
3 same -- from competing on those same routes?

4 A Nothing physically will stop that on the intraLATA  
5 that's true. The prices could render that competition  
6 ineffective, however.

7 Q Do you have a study that indicates that that will  
8 happen?

9 A I think I have seen in this docket two presentations  
10 of whether or not the service covers its costs associated with  
11 access. One was presented by Mr. Gillan in his testimony, a  
12 second was presented by Mr. Hendrix in his rebuttal testimony.

13 The proposal by or the analysis done by Mr. Gillan  
14 seems to be reasonable, and it seems to be reasonable based  
15 upon some information that Mr. Stanley provided this morning  
16 on the average length of call on these particular customers.  
17 Residence customers -- again, based on the information  
18 Mr. Stanley gave this morning -- the revenue is going to be  
19 slightly less than 6 cents. The business is going to be the  
20 7- and 8-cent range. So on average, Mr. Gillan's numbers look  
21 pretty reasonable.

22 We do know that access charges for two random  
23 switched access are going to be in excess of 7 cents on  
24 October 1st, so it appears that this service will not cover  
25 the costs associated with access, not to mention any of the

1 other costs that Southern Bell incurs outside of access. And  
2 that makes it very difficult, if not impossible, for others to  
3 compete.

4 Q Let me ask you this. If you take a look at the  
5 plans you analyzed, the CWA, Southern Bell, the ones that are  
6 here today, would you not agree with me that the CWA plan  
7 brings rate relief to the most number of residential  
8 ratepayers?

9 A I don't know that for a fact but that would seem,  
10 that would seem a logical conclusion.

11 MR. RICHARD: Thank you.

12 CROSS EXAMINATION

13 BY MS. WHITE:

14 Q Good afternoon, Mr. Guedel.

15 A Good afternoon.

16 Q My name is Nancy White, I represent Southern Bell.  
17 Let me ask you just a few questions.

18 Does AT&T currently provide intraLATA toll service  
19 in Florida on a 10XXX basis?

20 A Yes, I believe we do.

21 Q And does AT&T intend to provide intraLATA toll  
22 service on a 1+ basis in Florida when it becomes available?

23 A I would assume so.

24 Q Does AT&T currently provide interLATA intrastate  
25 teleservice?

1 A Yes.

2 Q And does AT&T currently provide interstate  
3 teleservice?

4 A Yes.

5 Q Now, AT&T has several discount plans applicable to  
6 their toll services, do they not?

7 A They have at least one.

8 Q And is the discount based on the total volume of  
9 toll calling that the customer makes?

10 A The True USA plan is, I believe.

11 Q And it is a percentage discount based on that volume  
12 of total telecalling, is it not, the True USA?

13 A Yes.

14 Q Now AT&T's proposal I believe in your summary you  
15 said is to reduce -- use the \$25 million rate reduction to  
16 reduce the disparity in the price between ESSX loops and PBX  
17 trunks. Did I paraphrase that correctly?

18 A That is correct.

19 Q Now, AT&T manufactures PBX equipment, doesn't it?

20 A I believe we still do, yes.

21 Q Does AT&T manufacture equipment to provide ESSX  
22 service?

23 A I believe, yes, ESSX service can be provided out of  
24 AT&T local switches, yes.

25 Q Now, PBX services is not commonly used by



1 residential customers, is it?

2 A No.

3 Q Is PBX service predominantly used by business  
4 customers?

5 A Yes.

6 Q And generally a business would require a certain  
7 number of lines to justify the use of PBX, would it not?

8 A Generally, yes.

9 Q And do you know what that number would be for PBX?

10 A I do not. I would say it would probably, if you  
11 threw key systems in there, you're probably going to talk  
12 about eight or 10 to make it reasonable. Unless you have  
13 other outstanding needs.

14 Q Ares ESSX loops and PBX trunks technically  
15 provisioned in the same manner?

16 A Some of them are. It depends a little bit on the  
17 mileage, and it depends a little bit on whether or not they  
18 have PBX trunks that would have direct inward dialing  
19 capability.

20 Q And so when DID service is required -- direct inward  
21 dialing service is required -- to a PBX system, that requires  
22 additional hardware and software?

23 A Yes. Directing more dialing capability requires a  
24 trunk-side correction at the central office, whereas PBX  
25 trunks which originate telephone calls, that pull dial tone

1 and originate calls, can be connected and generally are  
2 connected to the line side of the office. So there is a  
3 difference there when you add DID to the PBX trunk.

4 Q Is a trunk-side termination more expensive than a  
5 line-side termination?

6 A The evidence -- information I have seen in the study  
7 that the Staff did in 1990 would indicate that there is  
8 additional costs when you have a trunk-side connection.  
9 Whether those additional costs are -- I mean, with the trunk  
10 there is not two sets of additional costs. In other words,  
11 once I have a trunk-side connection, I can add DID with no  
12 additional trunk-side cost. But there is additional cost to  
13 hook up the trunk-side in the office.

14 Q And beyond a certain distance, would it be fair to  
15 say that conditioning or amplification equipment is required  
16 for PBX trunk but not for an ESSX loop?

17 A Yes. Beyond a certain distance, I believe that is  
18 the case.

19 Q Would it be correct -- excuse me, I'm sorry.

20 A The question is whether or not that cost is  
21 significant enough to justify a significant difference in  
22 rates.

23 Q I appreciate that. But my question was just when  
24 that was required. When digital loop carrier is used to  
25 provide service, do ESSX loops and PBX trunks use the same

1 type of plug-ins?

2 A I believe the Staff study indicated that they do  
3 not.

4 Q Now when service is provided from a digital central  
5 office, ESSX is integrated directly into the switch, is it  
6 not?

7 A Yes, it is.

8 Q And PBX trunks are not generally integrated into the  
9 switch because the equipment is at the customer's premises; is  
10 that correct?

11 A Again, that was the indication of the Staff study,  
12 yes.

13 Q So these differences in the technical provisioning  
14 of these two services could contribute to cost differences  
15 between the two services, could they not?

16 A Yes, they could.

17 Q And I believe you stated in response to a question  
18 from Mr. Dickens that ESSX uses 10 times as many loops as PBX?

19 A That is correct. But again, that's assuming a  
20 10-to-1 concentration, which is an assumption. Some customers  
21 doesn't use 10-to-1, some use 6, 8, 12, 15-to-1. That's an  
22 average.

23 Q So the economies of scale are more with ESSX service  
24 than with PBX?

25 A I don't know that that's true.

1 Q Now after January 1, 1996, under the new statute,  
2 will AT&T have the capability to provide ESSX service if they  
3 wish to do so?

4 A My understanding of the statute is that there will  
5 be more opportunities for local competition. I don't know the  
6 details of that right now.

7 Q And if they choose to do so, AT&T could file for a  
8 certificate as an alternate local exchange company?

9 A I believe that's a possibility, uh-huh.

10 Q Now, PBX trunk rates, DID rates and hunting were  
11 reduced by Southern Bell. Southern Bell's rates for these  
12 items were reduced in 1994; is that correct?

13 A I believe that's correct.

14 Q That was reduced by approximately \$35 million?

15 A Yes, I believe that is correct.

16 Q Can AT&T combine its interstate access minutes with  
17 their intrastate access minutes to obtain a lower effective  
18 rate for access?

19 A Not practically, no.

20 Q Are you familiar with this Commission's Order  
21 No. 24859 rendered on July 29, 1991, the imputation order?

22 A I'm familiar with it to an extent, yes.

23 MR. CARVER: May I approach the witness?

24 (Witness provided document.)

25 MS. WHITE: I have an exhibit label on this but

1 really I would just ask that the Commission take official  
2 notice of its order.

3 Q (By Ms. White) On Page 7 of that order --

4 MR. TYE: Excuse me, could we hold on and get a copy  
5 of the order, please?

6 MS. WHITE: Sure.

7 CHAIRMAN CLARK: The Commission will take official  
8 notice of Order No. 24859 entered in Docket 900708-TL.

9 Q (By Ms. White) On Page 7 of that order, I believe  
10 the fourth full paragraph --

11 A Yes.

12 Q -- in the middle of that paragraph there's a star 12  
13 in brackets?

14 A Yes.

15 Q Do you see that? Would you read the sentence after  
16 that into the record?

17 A "However, the technical advantage of the LEC's  
18 ability to use switched accesses is offset by the IXC's  
19 ability to obtain a lower effective rate for access charges by  
20 combining the significantly less expensive interstate access  
21 minutes with intrastate access minutes. Since Southern Bell  
22 may only carry intraLATA intrastate toll traffic, only  
23 intrastate access rates are relevant to the company."

24 Q One more sentence.

25 A "The company cannot take advantage of a blended

1 interstate/intrastate effective rate."

2 MS. WHITE: Thank you. I have no further questions.

3 CHAIRMAN CLARK: Thank you. Staff?

4 CROSS EXAMINATION

5 BY MR. ELIAS:

6 Q Mr. Guedel, in response to a question from  
7 Ms. White, you indicated that AT&T currently offers toll  
8 service on these intra and interLATA routes; is that correct?

9 A Yes.

10 Q And there has been testimony on the record that for  
11 business customers the rate would be 10 cents for the first  
12 minute and 6 cents for each additional minute; is that  
13 correct?

14 A 10 cents for the first minute, 6 cents for each  
15 additional, yes.

16 Q What are AT&T's rates for business customers on  
17 these routes?

18 A I don't know the answer to that right off. It's a  
19 matter of public record, our tariffs. They vary by mileage  
20 band.

21 Q So then you have indicated that AT&T will not be  
22 able to compete on these routes because it would not be  
23 cost-effective for AT&T to do so; is that correct?

24 A That's a way of saying it. Specifically what I have  
25 said is you can't -- an interexchange carrier cannot compete

1 on these routes if any interexchange carrier has to pay  
2 Southern Bell more in access than Southern Bell is receiving  
3 in revenue for provision of complementary and similar calls.

4 Q Other than pricing, there are no other impediments  
5 to competing on these routes?

6 A I don't think there's any legal impediments.  
7 There's still certainly an advantage that Southern Bell has;  
8 in fact, there's two advantages. One advantage is that  
9 Southern Bell is a ubiquitous local provider of local service  
10 in their territories; and, secondly, Southern Bell still  
11 offers their service on a seven-digit dial basis whereas  
12 interexchange carriers cannot do that.

13 Q You have reviewed the revisions of Chapter 364 that  
14 were enacted by the Florida legislature; is that correct?

15 A I have looked at that document, yes.

16 Q Under the revisions to Chapter 364, local exchange  
17 companies will be required to offer resale at interconnection  
18 rates for nonbasic service offerings; is that correct?

19 A For nonbasic service offerings?

20 Q Yes, sir.

21 A I think that is correct generically. I don't know  
22 there was any information as to how they would offer it, at  
23 what prices they would offer it, or anything of that nature.

24 Q Have you had occasion to review the late-filed  
25 exhibit or supplemental exhibit that was filed by Mr. Gillan

1 on Friday?

2 A No, I have not.

3 Q Were you present at the deposition of Joseph Stanley  
4 in this docket?

5 A Yes, I was. Yes.

6 Q Would you please turn to Page 80 of the white-bound  
7 or looseleaf notebook.

8 A Yes.

9 Q Okay. Beginning at Line No. 18 of that page,  
10 Mr. Stanley states that it's inappropriate or suggests that  
11 it's inappropriate to compare a local loop to an ESSX line.  
12 Do you disagree with that statement?

13 A I disagree that it is -- could you rephrase that? I  
14 lost you in the negatives there.

15 Q I'm sorry. Mr. Stanley takes exception to the  
16 notion that you can't -- that you can compare a local loop to  
17 an ESSX line. Do you agree or disagree with that statement?

18 A Well, I disagree with that statement. A local loop  
19 has one basic function. A local loop connects a piece to a  
20 piece of customer-provided equipment to a point on a main  
21 frame in a Southern Bell central office. That's the function  
22 of a loop, and they're all fairly comparable.

23 Q Do you agree that, when comparing ESSX and PBX  
24 service, you should look at the service as a whole and not at  
25 the piece parts?



1           A     I don't believe you can do that because all of the  
2 piece parts are not effectively competitive. If the entire  
3 service was competitive, I would agree with that. But the  
4 local loops and the PBX trunks are simply not on a competitive  
5 basis; they're not offered by any more than one supplier.

6                     And I agree that a PBX vendor or a number of PBX  
7 vendors can offer a lot of features and functionality and  
8 intercom service that Southern Bell can't offer with an ESSX  
9 service. But I don't know of any PBX vendors in this state  
10 that can offer a PBX trunk. They simply can't do it.

11                    The customer buys a PBX from a PBX vendor. He buys  
12 the PBX trunk from Southern Bell, and there's simply no other  
13 way around that. So to say let's compare the whole thing or  
14 compare the service as a whole is inappropriate.

15           Q     During his rebuttal testimony, Mr. Stanley made  
16 reference to what's been identified as Exhibit 4 in this  
17 proceeding, a tariff filing by MFS and Telenet of Georgia to  
18 provide ESSX service. Do you believe similar offerings will  
19 soon be available in Florida?

20           A     I don't, not in the near future. I don't believe  
21 that offering is available in Georgia. There is a tariff. It  
22 suggests that MFS may provide CENTREX-like service. There's  
23 no indication of in what area they're going to provide that  
24 service, how ubiquitous that service will be, whether or not  
25 they'll have one switch in the entire state or one or more

1 switches.

2           The same situation is going to exist in Florida.  
3 It's going to be a very, very, very, very long process before  
4 any competition for local exchange is developed.

5           MR. ELIAS: Thank you very much, Mr. Guedel. We  
6 have nothing further.

7           CHAIRMAN CLARK: Commissioners?

8           I have a question, Mr. Guedel. I seem to recall  
9 that AT&T has bought McCaw?

10          WITNESS GUEDEL: Yes, that's correct.

11          CHAIRMAN CLARK: So is it now a subsidiary of AT&T?

12          WITNESS GUEDEL: I'm not exactly sure what the legal  
13 restrictions are or what the legal arrangement is, but we do  
14 own that company. There are some legal arrangements as far as  
15 whether or not we're separate or not, but I'm not completely  
16 familiar with those.

17          CHAIRMAN CLARK: Okay.

18          MR. TYE: Chairman Clark, it is a wholly-owned  
19 subsidiary of AT&T, but it is operated separately by virtue of  
20 a consent decree that we entered into with the Department of  
21 Justice as a condition precedent to the acquisition.

22          CHAIRMAN CLARK: Okay. I did not understand your  
23 answer on Page 12 starting at Line 6. The question is about  
24 discriminatory pricing.

25          And let me tell you -- let me ask you a question and

1 see if I've got it right. If you want direct inward dial and  
2 you have a PBX, you pay 21.80 per trunk?

3 WITNESS GUEDEL: Per DID trunk, that's correct.

4 CHAIRMAN CLARK: And how many trunks do you need  
5 for -- I mean, how many lines per trunk?

6 WITNESS GUEDEL: Generally, a customer that wants  
7 DID -- and it depends upon his calling volumes whether he has  
8 got more outgoing traffic than he has incoming traffic. But  
9 if a customer has basically the same amount of outgoing  
10 traffic as incoming traffic, he will need about half of his  
11 trunks equipped with direct inward dialing.

12 CHAIRMAN CLARK: Well, I guess how many lines can  
13 you provide in a trunk then? I mean --

14 WITNESS GUEDEL: Whether they're -- let me see if I  
15 can explain this. A PBX customer, a PBX does a concentration  
16 function in and of itself. So if I have a PBX and I serve  
17 1,000 main stations hanging off of my PBX, I may need to buy  
18 100 trunks to get to Southern Bell's central office, because I  
19 do a concentration within the PBX that reduces the amount of  
20 loops I need, basically improve the efficiency of the overall  
21 telecommunications network.

22 The same would be true on incoming trunks. So, in  
23 theory, if a customer had 1,000 main stations, if he had  
24 pretty much the same outgoing and incoming traffic, he would  
25 need approximately 100 trunks; 50 of those trunks would

1 probably be equipped with direct inward dialing.

2 CHAIRMAN CLARK: Okay. And he would have to pay,  
3 that person would have to pay, 21.80 per trunk for 50 trunks?

4 WITNESS GUEDEL: Yes, in addition to the PBX trunk  
5 rate that he pays for those trunks I terminated.

6 CHAIRMAN CLARK: All right. Now, if that person  
7 used an ESSX service instead, they would have an equivalent  
8 DID; is that correct?

9 WITNESS GUEDEL: They would have equivalent  
10 functionality.

11 CHAIRMAN CLARK: Okay.

12 WITNESS GUEDEL: With CENTREX service you provide  
13 direct inward dialing by rigging the station at the person's  
14 desk because each of them has a loop that goes all the way  
15 back to the central office. In a PBX environment, you provide  
16 direct inward dialing by outpulsing either four or five digits  
17 from the Southern Bell central office to the PBX, and then the  
18 PBX does the routing assortment within the PBX and sends it to  
19 whatever station. So in either case you can get DID, but with  
20 ESSX you get it as a function of ringing.

21 CHAIRMAN CLARK: There's no extra cost? It's just  
22 you pay the loop cost and that's it?

23 WITNESS GUEDEL: With respect to ESSX, that is  
24 correct.

25 CHAIRMAN CLARK: Okay. And then you say there's a

1 \$4 per group of 20 numbers per month. Is that -- in addition,  
2 I guess the 21.80 is a nonrecurring cost and then the \$4 per  
3 group of 20 numbers is the recurring cost?

4 WITNESS GUEDEL: No. I believe they're both  
5 recurring costs. Let me look it up in the tariff real  
6 quickly. (Pause) I thought I could do it real quickly,  
7 excuse me.

8 Yes, both are monthly rates.

9 CHAIRMAN CLARK: Well, then, in the example you gave  
10 me with 1,000 main stations behind the PBX trunk and you  
11 probably need -- you estimated you need -- I mean, behind the  
12 PBX, you estimated you'd need 100 trunks and 50 would be DID?

13 WITNESS GUEDEL: Yes.

14 CHAIRMAN CLARK: Then how much extra is added to  
15 that?

16 WITNESS GUEDEL: Well, you'll need 1,000 numbers if  
17 you have 1,000 trunks. And if you want to reserve additional  
18 numbers for expansion, then you'll have additional numbers in  
19 excess of that.

20 CHAIRMAN CLARK: So, in that example, how much would  
21 they be paying a month with respect to the \$4 per group of 20  
22 numbers per month?

23 WITNESS GUEDEL: Okay. If they needed 1,000  
24 numbers, that would be 50 units of 20, so that would be \$200 a  
25 month for the numbers. They would need 50 DID trunks at

1 21.80. Let's say 22 for simplicity. That would be \$1,100 a  
2 month.

3 CHAIRMAN CLARK: And the same service if you were an  
4 ESSX customer would be nothing extra?

5 WITNESS GUEDEL: That's correct.

6 CHAIRMAN CLARK: Okay. Redirect?

7 MR. TYE: Just a couple, Madam Chairman.

8 REDIRECT EXAMINATION

9 BY MR. TYE:

10 Q Mr. Guedel, Ms. White asked you questions about the  
11 ability of IXCs to blend intrastate and interstate access  
12 charges. Do you recall those questions?

13 A Yes, I do.

14 Q Have you reviewed all the routes that are at issue  
15 here?

16 A I have reviewed their filing.

17 Q Is there any route that's at issue here that AT&T  
18 would not be assessed intrastate access charges on it if you  
19 carried a call on that route?

20 A No, there are no such routes.

21 Q Under the scenario we're talking about here, how  
22 would it be possible for AT&T to blend intrastate and  
23 interstate access charges on these routes?

24 A I don't know as a practical matter how you could do  
25 that. And the reason is to argue that you can blend the

1 rates, you have to have the latitude to raise or lower your  
2 own toll rates. In other words, if somebody is going to get a  
3 service priced below cost, you've got to have a service  
4 somewhere you can price above cost to make up for the service  
5 you've priced below cost.

6 In a competitive environment, our rates are simply  
7 not set that way. We cannot arbitrarily raise interstate toll  
8 rates to offset losses in intraLATA toll rates. It doesn't  
9 work that way. If we try to do that, we lose both the  
10 intraLATA and the interLATA.

11 So as a practical manner, you can't blend those  
12 costs. You have to cover each cost at each jurisdiction.

13 Q Mr. Guedel, Ms. White also asked you some questions  
14 about some things that may contribute to cost differences  
15 between PBX trunks and ESSX loops. Do you recall those  
16 questions?

17 A I recall those questions.

18 Q Has the Staff of this Commission taken a look at  
19 those differences in the past?

20 A Yes, they have. They have done a study, I believe  
21 in 1990, that looked at the various costs between PBX and ESSX  
22 loops.

23 Q Did the Staff conclude that those differences were  
24 significant, in your opinion?

25 A The Staff concluded -- and I don't have the document

1 right in front of me; I could get my hands on it -- that the  
2 cost differences were in no way equal to the rate differences.  
3 In other words, the cost differences across the entire  
4 spectrum of distance may be about \$3 to \$5 a month, whereas  
5 the rate differences may be \$30 a month in the example that I  
6 have given.

7 So if we look at a rate structure that would be  
8 based on cost, PBX trunks are disproportionately high.

9 MR. TYE: Thank you, sir. I have no further  
10 questions.

11 CHAIRMAN CLARK: Thank you very much. Exhibits?

12 MR. TYE: AT&T would move the admission of  
13 Exhibit 17, Madam Chairman.

14 CHAIRMAN CLARK: Without objection, Exhibit 17 is  
15 entered into the record.

16 (Exhibit No. 17 received in evidence.)

17 (Witness Guedel excused.)

18 - - - - -

19 CHAIRMAN CLARK: Mr. Metcalf?

20 MR. RICHARD: Madam Chairman, if I could just make  
21 one request to the Commission. We understand that a hurricane  
22 is coming to Dade County. It's a tropical storm, it's  
23 supposed to be upgraded. And the airport we're told -- and  
24 this all subject to hysteria from our office --

25 COMMISSIONER GARCIA: I have a report from Judge



1 Adkins right here that it's scheduled to hit Tuesday, and it's  
2 a Category II hurricane.

3 MR. RICHARD: Okay. In any event, we're going to  
4 try to make alternate arrangements and didn't know if the  
5 Commission would entertain our motion to excuse us without  
6 waiving rights or participation if we were able to get out of  
7 here.

8 CHAIRMAN CLARK: I'm sorry, I was distracted by  
9 thinking I had the same message, but I don't. Go ahead.

10 MR. RICHARD: Okay. I'm sorry.

11 COMMISSIONER GARCIA: That's all right, Chairman. I  
12 had asked for it since my wife is down there and she had  
13 called about a hurricane.

14 CHAIRMAN CLARK: Well, I see something on my screen  
15 that I didn't see before, but it's not that.

16 MR. RICHARD: Anyway, we're able to get accurate  
17 information. But given that, the airport might be closing is  
18 what we're hearing. We were going to try to see if we could  
19 get in earlier, and I didn't know if there would be any  
20 objection to a motion for CWA to be excused from the remainder  
21 of the hearing if we can get out without waiving any of our  
22 rights. We're presented our one witness and --

23 CHAIRMAN CLARK: You want to be excused from this  
24 proceeding at this point on?

25 MR. RICHARD: Just the actual hearing today without

1 waiving any of our rights.

2 CHAIRMAN CLARK: Well, you understand you waive the  
3 right to cross examination?

4 MR. RICHARD: Of course. Of course.

5 CHAIRMAN CLARK: Okay. Is there any objection?  
6 No objection.

7 MR. RICHARD: We're going to first go see if we can  
8 get out.

9 CHAIRMAN CLARK: Okay.

10 MR. RICHARD: Thank you.

11 MS. KAUFMAN: Chairman Clark, before Mr. Metcalf  
12 begins, can I raise a matter of housekeeping?

13 CHAIRMAN CLARK: Yes.

14 MS. KAUFMAN: It is our understanding that  
15 Mr. Hendrix has prepared a late-filed deposition exhibit that  
16 Staff asked for during Mr. Hendrix's deposition. I think it  
17 would greatly speed up Mr. Hendrix's cross if that can be  
18 distributed now ahead of him taking the stand rather than us  
19 receiving it and maybe having to take a break to mull it over  
20 then.

21 CHAIRMAN CLARK: It's okay with me. I mean, do you  
22 have a late-filed exhibit that hasn't been served on the other  
23 parties?

24 MR. ELIAS: I don't believe we've been served with  
25 it yet.

1 MS. WHITE: I don't believe we've given it to anyone  
2 yet. We stated at the deposition that we would bring it with  
3 us.

4 MR. ELIAS: Would produce it, would have it  
5 available --

6 MS. WHITE: Yes. We have brought it with us, but I  
7 think everyone has forgotten about it until now, so we'll be  
8 glad to distribute it.

9 CHAIRMAN CLARK: You'll distribute it now.

10 MS. WHITE: But I'm assuming that this doesn't go to  
11 anything that Ms. Kaufman has a potential motion to strike  
12 on --

13 MS. KAUFMAN: I don't know that. And I haven't seen  
14 your exhibit either. It may.

15 CHAIRMAN CLARK: I think it's a matter of courtesy.  
16 If you have the exhibit --

17 MS. WHITE: Be happy to distribute it.

18 CHAIRMAN CLARK: -- please distribute it.

19 Mr. Metcalf?

20 - - - - -

21

22

23

24

25

1 DOUGLAS S. METCALF  
2 was called as a witness on behalf of McCaw Communications of  
3 Florida, Inc. and, having been duly sworn, testified as  
4 follows:

5 DIRECT EXAMINATION

6 BY MR. DICKENS:

7 Q Would you state your name and address for the  
8 record, please, sir?

9 A Douglas S. Metcalf, Communications Consultants,  
10 Inc., 631 South Orlando Avenue, Winter Park.

11 Q And have you previously prepared and caused to be  
12 filed testimony in this docket on June 26, 1995, consisting of  
13 11 pages?

14 A Yes, sir.

15 Q Was this testimony prepared by you, Mr. Metcalf?

16 A Yes, it was.

17 Q Are there any corrections or additions to your  
18 testimony?

19 A I have two corrections. On Page 2, one is a typo.  
20 Page 2, Line 13, the fourth word says "a," that ought to be  
21 "an." That's the typo.

22 On Page 8, Line 11 --

23 COMMISSIONER KIESLING: I'm sorry, could you repeat  
24 the first one? I missed it.

25 WITNESS METCALF: On Page 2, ma'am. Line 13, the

1 fourth word.

2 COMMISSIONER KIESLING: Okay.

3 WITNESS METCALF: The word "a" is "an."

4 COMMISSIONER KIESLING: Okay.

5 WITNESS METCALF: And on Page 8, Line 11, the number  
6 "40," if you would change that to "55." And those are the  
7 only two corrections.

8 Q (By Mr. Dickens) Okay. And with those corrections,  
9 is this testimony true and correct to the best of your  
10 knowledge?

11 A To the best of my knowledge.

12 MR. DICKENS: Madam Chairman, I would like to move  
13 the admission of Mr. Metcalf's testimony into the record.

14 CHAIRMAN CLARK: Mr. Metcalf's prefiled direct  
15 testimony will be inserted into the record as though read.

16

17

18

19

20

21

22

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24

25

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

3 A: My name is Douglas S. Metcalf. I am President of Communications Consultants,  
4 Inc., 631 S. Orlando Avenue, Suite 450, Winter Park, Florida 32790-1148. CCI provides  
5 regulatory, tariff and management assistance to clients using or providing services affected  
6 by regulation. My responsibilities include the examination of costing methodologies and  
7 rate design policy. I am testifying on behalf of the Florida Ad Hoc Telecommunications  
8 Users' Committee (Ad Hoc).

9  
10 Q. **Have you previously participated on behalf of Ad Hoc in this docket?**

11 A. Yes.

12  
13 Q: **What is the Florida Ad Hoc Telecommunications Users' Committee?**

14 A: It is an ad hoc group of large users of business telephone services within the state  
15 of Florida. The members are major customers of the local exchange companies who are  
16 vitally interested in the fairness of any tariff structure or rate changes affecting business  
17 services. Further, they are users who are very interested in fostering full and fair  
18 competition in the telecommunications marketplace. The current members of Ad Hoc are:

19	Advantis (Sears/IBM)	Great Western Bank
20	Alarm Assn. of Florida	Harris Corporation
21	American Express Co.	Honeywell Protection Svcs.
22	Barnett Technology Corp.	NationsBank of Florida
23	Burdine's	Publix Supermarkets
24	Dean Witter Reynolds	Seimens/Stromberg-Carlson
25	Equifax, Inc.	Southeast Switch (HONOR Group)
26	First Union National Bank	State of Florida - DMS
27	Florida Informanagement Svcs. (FIS)	SunTrust Service Corp.

28 Q: **What is the purpose of your testimony?**

1 A: The purpose of my testimony is to comment on the three proposals which have been  
2 made by Southern Bell Telephone Company ("SBT" or "Company"), McCaw Communica-  
3 tions of Florida ("McCaw"), and the Communications Workers of America ("CWA").  
4 These proposals were made to achieve the \$25 million (\$25M) rate reduction for 1995  
5 which was agreed to and required by the Stipulation and Agreement dated January 5, 1994,  
6 and the Implementation Agreement dated January 12, 1994 in settlement of SBT's 1994 rate  
7 case.

8 Also, Issue 1 offers the opportunity for the Commission to propose its own  
9 alternative to dispose of the \$25M and, in light of the directives included in the local  
10 service and deregulation legislation which passed into law last week, I will offer the  
11 Commission other alternatives they may wish to consider for the use of those funds. These  
12 alternatives are directed at promoting a more competitive telecommunications market and  
13 environment within Florida, <sup>an</sup> a apparent intent of the Legislature in passing the recent bill.  
14 I believe the Legislature wanted to create a competitive telecommunications market for local  
15 and toll service within Florida, on the assumption that competition would bring more and  
16 better services and lower prices to its citizens and business users.

17  
18 **Q. What changes were directed by the legislation which make you believe the**  
19 **Commission may want to consider an alternative to the three that are currently**  
20 **proposed?**

21 A. The three proposals which are pending before the Commission do not create more  
22 competition or improve the market environment to encourage more competition. Obviously  
23 the Commission understands the Legislature's recent intent when it states in Section  
24 364.01(3):

1 "The Legislature finds that the competitive provision of telecommunications  
2 services, including local exchange telecommunications service, is in the  
3 public interest and will provide customers with freedom of choice,  
4 encourage the introduction of new telecommunications service, encourage  
5 technological innovation, and encourage investment in telecommunications  
6 infrastructure. The Legislature further finds that the transition from the  
7 monopoly provision of local exchange service to the competitive provision  
8 thereof will require appropriate regulatory oversight to protect consumers  
9 and provide for the development of fair and effective competition, ..."

10  
11 Furthermore, the Legislature reiterated its commitment to competition in the recently passed  
12 legislation by the enactment of Section 364.01(4)(b) which states as follows:  
13

14 "The commission shall exercise its exclusive jurisdiction to ... [e]ncourage  
15 competition through flexible regulatory treatment among providers of  
16 telecommunication services in order to ensure the availability of the widest  
17 possible range of consumer choice in the provision of telecommunications  
18 services."  
19

20 **Q. Why should the Commission consider alternative suggestions for the use of this  
21 money?**

22 **A.** As stated above, the Legislature was very specific that the PSC encourage the  
23 development of a more competitive telecommunications market within Florida. It is my  
24 opinion that none of the three proposals before the Commission will encourage or achieve  
25 that goal.

26 SBT's proposal will discourage that intent by, in effect, remonopolizing the  
27 southeast LATA, something which appears contrary to the PSC's intent with their  
28 presubscription Order in Docket 930330-TP, and which effectively forecloses the market  
29 to further competition by the IXC's.

30 McCaw's proposal is speculative and in any event, does not need to be resolved in  
31 this docket.

32 CWA's proposal will lower rates for certain groups of subscribers, but does not  
33 enhance competition for any services or users. I believe that some enhancement of  
34 competition would be the best use for this money.



1 Q. **How can increased competition and customer choice best be achieved in this**  
2 **docket?**

3 A. Ad Hoc submits that increased competition and customer choice can better be  
4 achieved by using the available revenues to review those tariffed elements and rates for  
5 which there is competition, but which are the most overpriced using, as a benchmark, the  
6 relative contribution of various competitive services provided by Southern Bell.

7

8 Q. **Give some examples.**

9 A. One example is the cost of PBX service compared to ESSX service (and hence the  
10 relative contributions of the two services). Two particular elements of PBX service, PBX  
11 trunks and Direct Inward Dial (DID), are items which have functionally equivalent features  
12 as compared to ESSX. Yet the rates are significantly higher for PBX, even though similar  
13 facilities are used and the costs of the elements are essentially the same. Disparities like  
14 these make PBX uncompetitive with ESSX, thereby hurting competition in the marketplace.

15

16 Q. **What is the problem when PBX is overpriced?**

17 A. The key problem is that telecommunications markets become competitive when  
18 similar services compete for customers. The PBX market has lost tremendous market share  
19 in the last few years because customers have switched from PBX systems to ESSX service  
20 because of its lower price.

21

22 Q. **Does ESSX service *cost* less to provide than PBX service?**

23 A. No. In fact, if the cost of the service is based on the cost of the facilities used to  
24 provide it — the most logical way to view the cost of a service — ESSX should be priced  
25 significantly higher than PBX service, because ESSX uses more plant and facilities to

1 operate than does PBX. Accordingly, if the aim of the Commission is to foster competition  
2 for SBT's services, it must take these cost considerations into account.

3  
4 **Q. Why did this occur?**

5 A. The story is too long to recount in full detail. Suffice it to say that PBX rates were  
6 initially set long ago based on an index of its perceived "value of service" relative to a B-1  
7 line. ESSX, a newer offering, came along later and was priced based on the additional  
8 "incremental cost" of providing that service. If the Commission were to direct that PBX  
9 service be "incrementally costed" and priced to produce relatively the same percent of  
10 contribution as ESSX, vendors would have an opportunity to again compete in the large  
11 user market, and customers would have an opportunity to purchase their customer provided  
12 equipment (CPE) based on the features of the equipment rather than the nonsensical cost  
13 of the telephone lines that connect it.

14  
15 **Q. How do you know that PBX is overpriced compared to ESSX?**

16 A. This PBX/ESSX pricing disparity has been the subject of some discussion in the  
17 most recent United, GTE and Southern Bell rate proceedings. Staff witness Cimerman  
18 testified in the United docket that all services should be costed and priced based on  
19 facilities, electronics and usage while utilizing a similar cost methodology. Ad Hoc agrees  
20 that this methodology is particularly apt here, and it has testified as to the propriety of that  
21 methodology in prior GTE and SBT proceedings.

22 To verify that ESSX and PBX service and loops are still disproportionately priced  
23 based on their costs, Ad Hoc has asked to see any updated data in SBT's possession related  
24 to the costs of both services. We will file a supplemental exhibit as soon as the data has  
25 been reviewed.

1 Q. How does repricing PBX service create a more competitive market which  
2 benefits all users?

3 A. A more active and competitive market between PBX and ESSX would invariably  
4 spur not only greater competition in price, but also in new and innovative services. Such  
5 competition based on service and features, in addition to price, has been a hallmark of  
6 competition as it has taken root in various telecommunications markets over the past several  
7 years. All users have benefitted from the new offerings available whenever the telephone  
8 company, as well as the equipment and service providers, have actively competed to  
9 produce a more innovative way to provide new features. Benefits and more options for all  
10 users have almost always come soon after the introduction of new bells and whistles to large  
11 users.

12

13 Q. Summarize your reasons why the \$25M should be applied first to repricing  
14 PBX trunks and DID to levels of contribution equivalent to ESSX service?

15 A. That "leveling of the playing field" would meet the Legislature's intent to "..  
16 provide customers with freedom of choice, encourage the introduction of new telecommuni-  
17 cations service[s], encourage technological innovation, and ... provide for the development  
18 of fair and effective competition, ...". Further, it would meet the PSC's directive to foster  
19 competition, and work towards staff's expressed intention in past rate cases of pricing  
20 services more on the basis of relative costs.

21

22 Q. Are there alternative services for which prices could be adjusted other than  
23 those you have mentioned?

24 A. I'm sure there are. While I would like to see the rates adjusted for those business  
25 services which I think are most out of line in the evolving competitive marketplace, I would

1 be happy to see the Commission require a contribution study on all of the tariffed services  
2 and lower any of them that they felt were out of line with competitive alternatives.

3

4 **Q. Custom calling features (CCF) are among those items which have huge**  
5 **markups. Should the cost of those services be lowered?**

6 A. That decision is the Commission's. However, I would suggest that the profitability  
7 of a total service should be looked at when assessing the elements or features to be lowered.  
8 SBT has asserted in the past that R-1 service is underpriced, and that the profitability of  
9 custom calling features and residential toll access charges offset some of the loss from the  
10 R-1 category. I have never seen a cost study for R-1 service but, if SBT's assertions are  
11 correct, lowering CCF rates would not assist in making the residential category more  
12 profitable. SBT has, in the past, asserted that all of the different business service categories  
13 are contributors.

14

15 **Q. Are there any other rates you could suggest lowering that would help all users,**  
16 **but would not be directly to the advantage of your clients?**

17 Y. Yes. Access charges are going down on a specific schedule because of the  
18 settlement agreement. \$50 million was applied to that purpose last year, \$55 million is to  
19 be applied to that purpose this year and approximately \$35 million next year. But interstate  
20 access charges have decreased further since the standard was set during the settlement  
21 discussions last year, and yet another decrease is expected soon. The \$25 million could be  
22 applied to that category, further lowering intrastate long distance rates for all users, but  
23 assuring that, with the \$35 million reduction next year, Florida's access charges would  
24 remain closer to the interstate average.

25

1 Q. **Wouldn't large users be a big beneficiary of that alternative?**

2 A. Large users would certainly benefit, but less in general than other users. This is  
3 because the largest users have purchased dedicated access circuits directly to their IXCs,  
4 and often avoid the originating or terminating access charge for calls to their facilities  
5 connected by those means. The biggest beneficiaries would be the residential and  
6 small/medium business users of toll service.

7

8 Q. **To what other alternatives could the \$25M be applied?**

9 A. I have one suggestion that would directly impact those users Southern Bell is  
10 seeking to assist with their proposal. If the \$25 million were applied specifically to access  
11 charges in the less than <sup>55</sup>~~40~~ mile bands, the rates for all of SBTs' short-haul toll users would  
12 lowered. With full presubscription, that segment of the market will become more  
13 competitive because of the rivalry among IXCs, and with the lower access charges, all short  
14 distance users throughout SBTs territory would benefit. Presumably, the southeast users  
15 would benefit more because of their greater numbers, but the short-haul users throughout  
16 SBT's territory would be treated equally.

17

18 Q. **What is your intent in offering your suggestions?**

19 A. The bottom line is I believe that all users would be better served by an increase in  
20 competition, which is presumably what Southern Bell fought for in the legislation. With  
21 the deregulatory benefits of the legislation now in hand, Southern Bell should not be  
22 allowed to implement a plan to remonopolize a market that would become more competitive  
23 if presubscription was implemented and access charges were further lowered.

24

25 Q: **What are your concerns with SBT's Extended Calling Service proposal?**

1 A: As I testified on SBT's similar Optional Expanded Local Service plan (OELS) in  
2 the last rate case, the company's extended calling service proposal (ECS) will implement  
3 a form of mandatory local measured service (LMS) by offering a larger local seven-digit  
4 calling area. While the public would like lower rates and the substantial expansion of local  
5 calling areas proposed in this case, they might not like seven-digit mandatory LMS for the  
6 privilege. Further, some minor and short term benefits might accrue to the users from this  
7 proposal, but the long term benefits accrue only to SBT.

8

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

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

19

20 Q. **What problems are created for business users by SBT's seven-digit dialing**  
21 **plan?**

22 A. The primary problem is a loss of corporate control over toll calling by employees.  
23 Many of the PBX and key systems currently in use can be programmed to block toll calls  
24 but most allow any seven-digit number to be dialed. The additional equipment necessary  
25 to block individual NXXs costs as much as \$10,000 for some PBXs. There is strong

1 sentiment among the Ad Hoc members both for 1+ presubscription and for intralata  
2 competition, which should, over time, achieve toll rates for all similar to those proposed  
3 by SBT.

4  
5 **Q. What comments do you have on the proposal of the Communications Workers  
6 of America?**

7 **A.** I see little benefit to the users of Florida from this proposal. This money can be  
8 better applied directly to some item that makes Florida's economic climate more competitive  
9 or that lowers rates for some group of services. The Legislature handled its only  
10 educational item of concern when it provided for wideband offerings to the schools and  
11 encouraged distance learning. I do not think that Florida or its telecommunications users  
12 will benefit from CWA's proposal, and I do not advocate that the Commission select this  
13 option.

14  
15 **Q. What comments do you have on the proposal of McCaw?**

16 **A.** Of the three suggestions on the table, this is the least worst. However, the  
17 Commission should not limit itself to any of these three proposals.

18  
19 **Q: What is your recommendation to the Commission in this case?**

20 **A:** The Commission should take a first major step toward proactively fostering "... the  
21 development of fair and effective competition, ..." by using available funds for some  
22 purpose that encourages direct competition between Southern Bell and existing or emerging  
23 players in the telecommunications marketplace. I believe this can best be done by lowering  
24 the cost of all Southern Bell PBX trunks to an amount which provides the same level of  
25 contribution for those loop/path facilities as for Southern Bell's proprietary ESSX product.

1 DID service is similarly overpriced and should also be adjusted. Should the Commission  
2 wish another alternative, I recommend the revenue be used to further lower SBT's intrastate  
3 access charges toward interstate access levels. I specifically recommend that the  
4 Commission not accept the company's ECS proposal as it directly contravenes the result  
5 sought by the legislation. Having offered competition as a carrot to achieve deregulation,  
6 the Commission should not allow Southern Bell to renege on its part of the bargain.

7

8 Q: Does this conclude your testimony?

9 A: Yes, it does.



1 MR. DICKENS: And I have one further direct question  
2 for Mr. Metcalf.

3 Q (By Mr. Dickens) Mr. Metcalf, on Page 5, Line 24 of  
4 your prefiled testimony, you indicated that you were going to  
5 be reviewing data in Southern Bell's possession and would file  
6 a supplemental exhibit as soon as the data's been reviewed.  
7 Did you file such an exhibit?

8 A No, sir, I did not.

9 Q Okay. And could you explain the reason you didn't  
10 file a late-filed exhibit?

11 A I went to Atlanta and looked at the data that was  
12 provided. The data was not complete -- I'm not sure that's  
13 all Southern Bell's fault -- but it wasn't complete in the  
14 form that I was hoping to find it and that I had seen it in  
15 BellSouth states previously, so I was unable to get the  
16 specific data that I was looking for.

17 Further, after reviewing Mr. Guedel's testimony and  
18 then looking at Mr. Stanley's deposition, I decided I had the  
19 information that I needed for the most part, so I didn't  
20 bother to put in an exhibit.

21 Q Okay. But in any event, you are not saying that had  
22 you asked for the information from Southern Bell towards the  
23 latter part of that last week they necessarily would have  
24 refused it to you?

25 A No. I'm saying that I didn't see it in the form

1 that I thought I had seen it before. But I'm not saying that  
2 Southern Bell didn't provide it. I'm saying they provided me  
3 what they thought was responsive to the question, and it  
4 didn't give me the information that I wanted. But I was able  
5 to satisfy my own concerns based on Mr. Guedel's testimony and  
6 Mr. Stanley's deposition.

7 MR. DICKENS: Thank you, Mr. Metcalf. And he's  
8 tendered for cross examination.

9 CHAIRMAN CLARK: You don't wish to have a summary  
10 then?

11 MR. DICKENS: Oh, I'm sorry, thank you. It's been a  
12 while since I have been down here, Madam Chairman.

13 CHAIRMAN CLARK: You can forgo the summary. You  
14 know that. (Laughter)

15 Q (By Mr. Dickens) Would you please give your quick  
16 summary? And I forgot to ask you that.

17 A Yes, sir.

18 Good afternoon, Commissioners. With this hearing,  
19 which is the first that Ad Hoc has participated since the  
20 effective date of the new legislation, we see that the  
21 Commission takes on the challenge of regulation in a totally  
22 different environment than in past cases. New directives by  
23 the legislature to the Commission require you to provide for  
24 fair and effective competition and to encourage competition  
25 within Florida.

1           Because of the new directions, it seems to me that  
2 the primary issue in this case has changed from, "Which of the  
3 parties' proposals should the Commission adopt," to, "What  
4 should the PSC do to best meet its charge of fostering  
5 competition in Florida as directed by the legislature?"

6           It is my position that Southern Bell's proposal  
7 won't enhance competition; CWA's position won't do that; and  
8 McCaw's might do that with a portion of the 25 million if the  
9 revenue is flowed through to consumers. Ad Hoc, AT&T, DOD,  
10 FIXCA, McCaw, MCI and Sprint have offered proposals, some in  
11 their prehearing statements, which will promote competition,  
12 more competition, in at least a segment of that market.

13           For the last seven years, this Commission and its  
14 Staff have expressed concern that business services, which  
15 seem to compete with each other, had very different rates even  
16 though they were composed of very similar elements. For  
17 instance, you have expressed concern in the past that PBX,  
18 which seems to users to be an alternative to ESSX, was priced  
19 several times higher even though the underlying facilities  
20 that make up the service are similar.

21           In the past you directed your Staff to investigate  
22 the problem, and you put the companies on notice that it was a  
23 concern you wanted addressed. You believed, as Ad Hoc does,  
24 that sophisticated users who understand and can use many of  
25 the new offerings of the telcos should be able to look at a

1 service, whether ESSX, PBX, B1 or private line, and should  
2 purchase the service for the features and benefits of the  
3 service, not because of artificial disparities in the prices  
4 of some services.

5           In an earlier United Telephone docket, your Staff  
6 put on its own witness who suggested what Ad Hoc believes to  
7 be the correct method of pricing business services, that is,  
8 cost all of these services using the same cost methodology  
9 and, based on the facilities that make them up, decide on a  
10 contribution level the Commission believes is appropriate;  
11 spread that contribution level somewhat equitably over all  
12 services to support any services that the Commission wants  
13 subsidized.

14           Ad Hoc's testimony also discusses our position that  
15 a further expansion of ECS is not good for users over the long  
16 term because it effectively remonopolizes territory which  
17 presubscription will soon open to competition. Large users  
18 believe that long-term decreases in toll rates to levels at or  
19 below the ECS rates will result from multiple IXCs providing  
20 service in an area.

21           Further, we view ECS and its seven-digit toll  
22 calling as a form of local measured service, something we  
23 absolutely do not support.

24           If you choose not to adopt the suggestion of Ad Hoc  
25 and most of the other parties in this case and if you are

1 instead committed to lowering toll rates for SBT's, Southern  
2 Bell's users in Florida, Ad Hoc has made two alternative  
3 proposals which accomplish that while at the same time  
4 increasing the level of competition among toll providers.  
5 Both involve using the available 25 million to further  
6 decrease the switched access charges currently paid by the  
7 IXC's.

8 In summary, you have available revenue in this  
9 docket with which to exercise your new authority and  
10 direction. Ad Hoc recommends that the Commission reject  
11 Southern Bell's and CWA's proposals and apply the funds to any  
12 purpose which will increase telecommunication service  
13 competition in Florida.

14 Q Does that complete your summary?

15 A Yes, sir.

16 MR. DICKENS: Thank you.

17 CHAIRMAN CLARK: Thank you. Mr. Beck?

18 MR. BECK: No questions.

19 CHAIRMAN CLARK: Ms. Kaufman?  
20  
21  
22  
23  
24  
25

## CROSS EXAMINATION

1  
2 BY MS. KAUFMAN:

3 Q Good afternoon, Mr. Metcalf. Mr. Metcalf, on Page 9  
4 of your testimony, beginning on Line 22, you talk about the  
5 fact that Ad Hoc's members have some concern with combining  
6 seven-digit dialing with a measured pricing plan like ECS. Do  
7 you see that?

8 A Yes, ma'am.

9 Q While understanding that that you have just told us,  
10 that your members are opposed to the ECS plan, if the  
11 Commission were to implement it, are your members in favor of  
12 retaining the 1+ dialing pattern on those routes?

13 A Yes, ma'am. The large users would certainly want 1+  
14 to be available because they would probably try and restrict  
15 their seven-digit dialing to only allow it.

16 Q Now, you've talked about the business users. Do you  
17 think that residential customers might also be confused by  
18 having seven-digit dialing applying to some flat rate and then  
19 some measured-rate calls?

20 A I think all users have come to understand that 1+  
21 is a pay call and seven-digit is a nonpay call. And as we  
22 discussed in the General Telephone case a couple of years ago  
23 where a similar plan was filed, it makes it very difficult for  
24 consumers to know when they are paying and when they are not  
25 paying if all they have to do is dial a straight seven-digit

1 call.

2 Q Mr. Metcalf, you were here during Mr. Stanley's  
3 testimony, weren't you?

4 A Yes, ma'am.

5 Q And did you hear him comment that in his view only  
6 large business users would benefit from the proposal that Ad  
7 Hoc has made?

8 A Yes, ma'am.

9 Q Do you agree with that assessment?

10 A No, I don't agree with it. Frankly, I think all  
11 users benefit from the proposal that Ad Hoc has made.

12 Q And why would that be?

13 A Well, very simply, I'll go to the business of a lot  
14 of the parties that are at this table. MCI didn't fight AT&T  
15 for 10 years to get into the business of selling long distance  
16 service to R1s; their first market and their first goal was to  
17 sell to the Sears and the American Express and many of the  
18 clients that you see in my testimony.

19 As it happens, once they got permission to do that  
20 and were able to do that, they found out that the excess  
21 capacity that they had allowed them to offer R1 users the same  
22 benefits as the business users were getting. And I think  
23 that's the basis of this whole thing.

24 I think almost any competition that goes on in the  
25 next couple of years is going to develop first for my clients;

1 secondly for the smaller, medium-sized users; and thirdly for  
2 the R1 users. But as we have seen the 40% to 50% to 60%  
3 decreases in long distance rates for all users that we're seen  
4 in the last several years, it started with the business users,  
5 that's where the competition was created, and the long-term  
6 benefits have been to everyone.

7 MS. KAUFMAN: Thank you, Mr. Metcalf. That's all I  
8 have.

9 CHAIRMAN CLARK: Mr. Boyd?

10 MR. BOYD: No questions.

11 CHAIRMAN CLARK: Mr. Tye?

12 MR. TYE: Thank you, Madam Chairman. I have a few  
13 of Mr. Metcalf.

14 CROSS EXAMINATION

15 BY MR. TYE:

16 Q Mr. Metcalf, we've been talking about local loops  
17 here this afternoon some. Is it safe to say that a local loop  
18 is nothing more than a pole, a line and a pair of wires?

19 A Roughly, sir. It might be an electronic path, but  
20 that's typically it.

21 Q Okay. Now, with respect to the local loop that  
22 we've been talking about which would apply to ESSX service and  
23 PBX trunk service, would it be safe to say that under certain  
24 circumstances the same pair of wires could serve either  
25 purpose?



1 A Oh, yes, sir, absolutely.

2 Q Okay. And would it also be safe to say that one  
3 pair of wires may be used today as an ESSX loop, and tomorrow  
4 it may become a PBX trunk, and the next day it may become an  
5 R1 service loop?

6 A Yes, sir, absolutely.

7 Q But under that scenario, there would be different  
8 prices for the use of that same facility, would that be  
9 correct?

10 A Significantly different prices.

11 Q And in case of the PBX trunk usage, it would be a  
12 much higher price than, say, the ESSX loop; is that correct?

13 A Based on Mr. Guedel's numbers, some 600%.

14 Q That's really what you are complaining about on  
15 behalf of your clients here today, isn't it?

16 A That's correct.

17 Q Mr. Metcalf, you made reference to intrastate access  
18 charges in Florida. Is it your understanding that those  
19 charges are going to go to somewhere in the neighborhood of 7  
20 cents a minute or above 7 cents a minute on October 1, '95?

21 A Sir, I don't know what the number is, but, yeah, I  
22 would estimate that.

23 Q Is it your understanding that Southern Bell's cost  
24 of providing that switched access service is around a penny a  
25 minute?

1 A That is what's been reported before.

2 MR. TYE: Thank you very much. I have no further  
3 questions.

4 CHAIRMAN CLARK: Mr. Melson?

5 MR. MELSON: No questions.

6 CHAIRMAN CLARK: Mr. Self?

7 MR. SELF: No questions.

8 MS. WHITE: Thank you.

9 CROSS EXAMINATION

10 BY MS. WHITE:

11 Q Good afternoon, Mr. Metcalf. Nancy White for  
12 Southern Bell.

13 A Ms. White.

14 Q You represent a group of large business users, do  
15 you not?

16 A Yes, ma'am, that's true.

17 Q And you're advocating or Ad Hoc is advocating that  
18 the unspecified \$25 million rate reduction should be used to  
19 reduce the rates for PBX trunks; is that correct?

20 A Trunks and DID, yes, ma'am.

21 Q And PBX service is not commonly used by residential  
22 customers, is it?

23 A No, ma'am, it is not.

24 Q And it's more predominantly used by business  
25 customers; is that correct?

1           A     Yes, ma'am, that is correct, large and small. I  
2 mean, medium-sized, too, but yes.

3           Q     Now Southern Bell's ECS proposal is available to  
4 residential and business customers, is it not?

5           A     That's correct.

6           Q     Do you know how many of your clients use 24 or more  
7 trunks?

8           A     Well, ma'am, if you throw in their private lines and  
9 other things, every one of them.

10          Q     Okay. So it's possible that these users can use  
11 Southern Bell's MegaLink service to meet their calling needs,  
12 does it not?

13          A     To some extent, yes, ma'am.

14          Q     So MegaLink is an alternative for your customers?

15          A     MegaLink is an alternative, yes, ma'am.

16          Q     On Page 4 of your testimony -- if I can get the  
17 correct line -- Line 18 of Page 4, there's a sentence that  
18 says, "The PBX market has lost tremendous market share in the  
19 last few years..." Do you see that?

20          A     Yes, ma'am.

21          Q     Can you tell me from what to what? I mean, what is  
22 it now? What was it?

23          A     As an exact number, no, because I didn't have your  
24 data to do that. I'm sorry, I didn't mean to make that sound  
25 louder than just boom in here.

1 MS. WHITE: Booming out. (Laughter)

2 A I did call the Ad Hoc members, several of the  
3 different members, and asked them how much PBX they used to  
4 have and how much ESSX they have in past periods. And  
5 actually, I have a document that showed -- it was a numerical  
6 document for one of them.

7 Most of them indicated that they were exclusively  
8 PBX some years ago and are very much split. I have a -- I  
9 talked to one person here, Mr. Winston Pierce, who is familiar  
10 to all of the people in the room. And, whereas, in ten years  
11 ago, 1986, approximately 9% of the systems that they had on  
12 the SUNCOM network were ESSX systems, at this point  
13 approximately 44% of the systems, that are on their network  
14 are ESSX systems, showing that the growth has been tremendous,  
15 significantly more than the 1% that has come up today.

16 Q Well, wouldn't it be fair to say, Mr. Metcalf, that  
17 what you are showing here is that the percentage of the  
18 members of Ad Hoc who use ESSX has grown?

19 A The percentage of the members of Ad Hoc who use ESSX  
20 has grown?

21 Q I mean, this is a survey you took of the Ad Hoc  
22 members?

23 A Yes, ma'am. The data, when I talked to the Ad Hoc  
24 members, most of them said, "Well, we didn't have any ESSX ten  
25 years ago, and we have a lot of ESSX now," based on the

1 contract pricing you all have negotiated with most of them.  
2 But nobody was able to put it into numbers, exact numbers,  
3 except Mr. Pierce, who was able to pull up some computer  
4 records immediately that showed quite a bit of detail.

5 I put this together for my attorney because the  
6 market share comment came up in Mr. Stanley's deposition, and  
7 I've got that information for everyone if anyone wants to see  
8 it.

9 Q Well, and again, this is a market share of the  
10 members of Ad Hoc?

11 A This is a market share of one member of Ad Hoc that  
12 seems to represent what I was told by a lot of people.

13 Q But it is not representing the market share, PBX or  
14 ESSX market share of the entire market of Florida?

15 A That's correct. I don't know what the market share  
16 was of 100% of the market.

17 Q So this particular customer, while some years ago  
18 relied heavily on PBX, today relies heavily on ESSX?

19 A Yes, ma'am. I don't know how far you want to  
20 extrapolate this, but you can look at the SUNCOM network as  
21 being made up of a lot of customers, most of whom are not Ad  
22 Hoc members.

23 For instance, in 1986 there were 453 customers that  
24 were part of the SUNCOM network, and now there are 626 that  
25 are a part of it. The PBX usage has declined. The ESSX usage

1 has increased significantly. I extrapolate from that that the  
2 market share has changed.

3 The information that I got from other Ad Hoc users  
4 seems to bear out similar -- other Ad Hoc users, large  
5 business users again, and I have made that statement to you --  
6 seems to bear out the fact that ESSX has taken a significant  
7 portion of the market share in the large business user market.

8 Q And this information upon which you base that  
9 conclusion was received from that one member?

10 A This piece of information here numerically shows  
11 what the impact was of one Ad Hoc member, that's correct.

12 Q Do you disagree with Mr. Stanley's estimate of 12%  
13 of the total PBX/ESSX market?

14 A I was a little confused by that, and I'm not really  
15 sure what it was. But whether it was all B1, all business  
16 services, all PBX services -- whether it was comparing ESSX to  
17 all PBX services or whether it was comparing ESSX to all  
18 business services.

19 But I don't dispute the number. I don't know what  
20 the number is. Frankly, I think it's irrelevant. At this  
21 point you have 100% of the business market, so you have 100%  
22 of the PBX market and you have 100% of the ESSX market. And  
23 you have found a way to underprice your PBX service in such a  
24 manner that you are securing for the future a certain portion  
25 of that market, which is apparently growing.

1 Q ESSX service is provided from the central office  
2 equipment; is that correct?

3 A That's correct, ma'am.

4 Q PBX service is provided from equipment located on a  
5 customer's premises; is that correct?

6 A That's correct.

7 Q Now isn't it true that the same pair of wires can be  
8 used to provide PBX and ESSX service but only out to a certain  
9 distance?

10 A Without some electronic bolstering, is that what you  
11 mean?

12 Q That's correct. In other words, beyond a specific  
13 distance, isn't it true that a PBX requires equipment to  
14 amplify the signal? Or conditioning, I believe, it's called?

15 A That's what you assert.

16 Q And ESSX does not require that, does it?

17 A That's what you assert.

18 CHAIRMAN CLARK: Wait a minute. That's what she  
19 asserts. Do you agree with that?

20 WITNESS METCALF: Oh, yes, ma'am. Sure, that's  
21 fine. (Laughter)

22 Up to two-and-a-half miles, which is their  
23 statement, neither one requires anything. Beyond  
24 two-and-a-half miles, according to them, and I agree with it,  
25 ESSX might require additional electronics to be added to that

1 wire or that electronic path.

2 Q (By Ms. Kaufman) And let me correct you. I think  
3 it would be PBX that would require that additional  
4 conditioning, not --

5 A I'm sorry. Yes, beyond two-and-a-half miles, PBX  
6 loops might require some additional electronics at a  
7 relatively small cost.

8 Q And when digital loop carrier is used to provide  
9 service, ESSX and PBX trunks require different types of  
10 plug-ins, do they not?

11 A Yes, ma'am.

12 Q When service is provided from a digital central  
13 office ESSX is integrated directly into the switch, is it not?

14 A Yes, ma'am.

15 Q And PBX service is not integrated into the switch?

16 A Right.

17 Q And is it true that --

18 A And may I make a point on that?

19 Q Sure. Well, I'd rather you didn't, but --

20 A Which makes my point about higher costs for some  
21 ESSX.

22 ESSX usage costs are significantly higher than PBX  
23 usage costs because of the number of times that switch is  
24 used. With just using an ESS5, perhaps the one that serves  
25 this building over on Calhoun Avenue, every time an ESSX call



1 is made from the Commission to its Staff or the Commission to  
2 accounting or anyone in this building to anyone else in this  
3 building, that call goes back and hits the ESS5 and is  
4 transferred there. So every time a call is made through an  
5 ESSX system, the central office switch is involved.

6 The Department of Elder Affairs, I understand, is  
7 also in this same complex; and they have a PBX circuit. The  
8 only time that the ESSX switch or that the ESS5 is used with  
9 the Department of Elder Affairs is when a call is being made  
10 outside of this central office or within the central office to  
11 some other agency. The PBX that's on the property makes all  
12 the switching. Consequently, the usage of the Southern Bell  
13 facilities is significantly less with PBX than it is with  
14 ESSX, and that's not reflected in the cost in any way.

15 Q Do you have anything that shows that ESSX costs more  
16 every time it hits the switch because of the -- excuse me, let  
17 me strike that and start over again.

18 Do you have anything that shows that the cost of  
19 ESSX is higher because it hits the switch more times than PBX?

20 A Ma'am, it's inherent in the type and the way the  
21 service is provisioned. Every time you make a call of any  
22 sort, whether you're calling inside the agency or whether  
23 you're calling outside to some other agency or calling home,  
24 that call taps the central office switch. If this is a  
25 typical business, the Public Service Commission is a typical

1 business, most of the calls are between people within the  
2 company.

3 If I go to my banks and I ask or if I go to the  
4 State and ask, most of the calls that occur on a daily basis  
5 from any party are within the company somehow. If you have a  
6 PBX, all of those remain within the company and the PBX acts  
7 as the switch.

8 But with ESSX, the Department of Management  
9 Services, which is located out here, and the Public Service  
10 Commission, which is located out here, every one of those  
11 calls must go back and tap that switch on Calhoun to make the  
12 same call. So the usage has to be more for ESSX.

13 Q You also suggest in your summary, I believe, that  
14 the \$25 million could be use to reduce switched access  
15 charges; is that correct?

16 A Yes, ma'am.

17 Q And are you aware that as of October of '96  
18 Southern Bell will have reduced its intrastate switched access  
19 charge by \$140 million?

20 A Will have reduced them by --

21 Q Will have reduced. Under the rate case settlement?

22 A Sure.

23 Q Oh, wait a minute. I do have one more.

24 Now, the end users benefit from the reduction in  
25 access charges only if the interexchange carriers pass those

1 savings on to them as flow-through savings; is that correct?

2 A Yes, ma'am. Most of the users benefit only that  
3 way.

4 Q And that's a decision by the interexchange carriers  
5 as to whether they're going to pass through those access  
6 charge reductions, is it not?

7 A I'm trying to remember. It seems to me like the  
8 Commission directed AT&T to flow those things through; and it  
9 would be illogical for everyone else then not to flow theirs  
10 through if they want to maintain the same level of margin  
11 against AT&T that they have had in the past.

12 But I'm not testifying to that. I'm just  
13 remembering back to last March, and it seemed to me that AT&T  
14 was suppose to flow that through.

15 MS. WHITE: Thank you, Colonel Metcalf. I don't  
16 have any further questions.

17 WITNESS METCALF: Thank you.

18 CHAIRMAN CLARK: Staff?

19 MR. ELIAS: Just a few.  
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21  
22  
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25

## CROSS EXAMINATION

1  
2 BY MR. ELIAS:

3 Q In response to a question from Ms. Kaufman, you  
4 stated that if the Commission approved Southern Bell's ECS  
5 tariff filing, these calls should continue to be dialed on a  
6 1+ basis. Are there any calls to which toll charges apply  
7 which are currently dialed on a seven-digit basis in Southern  
8 Bell's service territory?

9 A Yes, sir. There are two or three different plans  
10 that Mr. Stanley mentioned in his thing; ES, EAS charges. I  
11 know in the Orlando area that 25-cent plan exists down to  
12 Kissimmee. So, yes, there are certain areas now that a  
13 different kind of plan applies.

14 Q Other than where an EAS or ECS offering has been  
15 approved by the Commission, are you aware of any calls to  
16 which a toll applies or an additional charge applies that are  
17 dialed on a seven-digit basis?

18 A I can't think of one right now. If you have one and  
19 you want me to agree to it, I can. But I am unaware of that.  
20 No.

21 Q Thank you. You had indicated in your summary and I  
22 believe in a response to a question from your counsel that you  
23 looked at Mr. Stanley's testimony that was filed in this  
24 docket?

25 A I looked at his testimony, yes, sir.

1 Q Did you examine his rebuttal testimony?

2 A Yes, sir, I did.

3 Q Are you familiar with the exhibit which has been  
4 identified as Exhibit 4 in this proceeding, which is the  
5 filing in Georgia by MFS and Telenet to provide ESSX service?

6 A Yes, sir, I have seen that.

7 Q Do you believe that similar offerings will be made  
8 in Florida any time soon?

9 A Filing, I don't know. The answer is, I don't know.  
10 But filing for the tariff doesn't necessarily mean the service  
11 is offered.

12 Q Understood. And I didn't mean to put something into  
13 that question that wasn't there. Let me ask the same question  
14 another way.

15 Do you believe, given the changes in Chapter 364,  
16 that there will be other providers of ESSX service or capable  
17 of offering ESSX service after January 1, 1996?

18 A The legislation says that people are able to offer  
19 it. Do I think they will? No, I don't.

20 Q What is that answer based on?

21 A I think it's going to be a long time before people  
22 start offering local competition on a basis that's creditable  
23 enough that my users, my clients, are going to jump onto it.  
24 They are very likely to continue using the AAVs for the backup  
25 and the alternatives that they are using them for now.

1           There might be a very limited amount of switched  
2 local service of whatever sort: ESSX, PBX, trunks, stuff like  
3 that. But do I think that's going to be a big competition the  
4 next couple of years? No, sir.

5           Q     Would you agree that the kinds of customers or kinds  
6 of ratepayers you represent would be the most likely targets  
7 for this type service offering?

8           A     Absolutely. I think we would be the primary  
9 targets, and I don't think very many of them are going to bite  
10 early on.

11          Q     And do you have any other feel or any particular  
12 reasons why that's not going to happen?

13          A     I think everyone else -- everyone is going to stand  
14 around and try and test the reliability of the systems. And I  
15 think that could take a couple of years to occur.

16                 Business users, particularly the largest business  
17 users, are the ones least capable of taking a risk. The world  
18 is just too competitive at this point. And so, consequently,  
19 our users are going to have to be sure that the services are  
20 absolutely comparable in safety, quality, service, a whole  
21 host of different things before they are going to make that  
22 decision.

23                 And they may test alternative lines as they tested  
24 alternative access vendors for two and three years before they  
25 made a significant commitment to them. As they tested MCI and

1 Sprint for years before they made a significant commitment to  
2 them, and even now still split their traffic just to be sure.  
3 I think that's what's going to happen in the competitive  
4 world, the tests could go for a couple of years.

5 Q Turning to your direct testimony on Page 5, Lines 5  
6 through 8?

7 A Yes, sir.

8 Q You state that PBX is based on an index of its  
9 perceived value of service relative to B1 while ESSX was  
10 priced on the additional incremental cost of providing that  
11 service?

12 A That's correct, sir.

13 Q Can you expound on that a little bit?

14 A Yes, sir. If you go back 80-odddy -- 80 years, long  
15 before any of us were involved, PBXs have been priced -- or B1  
16 service has been priced higher than R1 service. And PBX was  
17 priced higher than B1 service. And the reason for that was  
18 because we were into a value of service concept a long time  
19 ago -- at least this is how it was related to me -- and they  
20 perceived that PBX was worth more, and they perceived that B1  
21 was worth more.

22 There were some data to support that, data put forth  
23 to support that saying that business users used business lines  
24 more than residential users and, therefore, they were more  
25 important. So it is things like value of service that caused

1 business services to be priced higher.

2 In addition to that, of course, they wanted the  
3 subsidy from business services to subsidize residential. And  
4 so, consequently -- so PBX, which was perceived to be worth  
5 more than B1, was charged more, so there was more subsidy.

6 ESSX service came along considerably later. And  
7 Southern Bell was able, when they put forth their ESSX  
8 tariffs, to come in and say, "It's covering the incremental  
9 cost of the service so, consequently, we want to price it at  
10 X," whatever X was. And the Commission, which was inclined to  
11 agree with that or allow that to occur, and so they did.

12 So ESSX came along much later and was based on a  
13 different cost methodology and pricing methodology than PBX  
14 service was many years before.

15 MR. ELIAS: Thank you very much. We have nothing  
16 further.

17 WITNESS METCALF: Yes, sir.

18 CHAIRMAN CLARK: Mr. Dickens, redirect?

19 MR. DICKENS: Thank you.

20 CHAIRMAN CLARK: I'm sorry.

21 MR. DICKENS: Mr. Metcalf?

22 COMMISSIONER DEASON: I'm sorry, I have a question.

23 MR. DICKENS: Oh, excuse me. I'm sorry.

24 COMMISSIONER DEASON: Do you know how much R1  
25 service is priced below its cost?



1           WITNESS METCALF: No, sir, I don't. And as I have  
2 suggested several times in this case and in others, as far as  
3 I'm concerned, we ought to do incremental cost studies on  
4 every service out there to determine exactly that. And then  
5 once we have determined that, allow you, as the Commission, to  
6 decide how much subsidy ought to be applied to various  
7 services and how you want to price things in the future.

8           I'm not sure that's going to happen after the  
9 legislation that has recently passed, but that is what we have  
10 advocated for quite a few years.

11           COMMISSIONER DEASON: Well, do you have believe B1  
12 is priced above or below its cost?

13           WITNESS METCALF: Yes, sir, I do believe that.

14           COMMISSIONER DEASON: Well, is it above or below its  
15 cost?

16           WITNESS METCALF: Oh, it's significantly above its  
17 cost. And Southern Bell has stated in this last case, as did  
18 General Tel, as did United in their most recent cases, that  
19 every business service in the aggregate more than covers its  
20 cost and provide subsidies to other services.

21           COMMISSIONER DEASON: So B1, which is based upon a  
22 multiple of R1, is above its cost; R1 is below its cost?

23           WITNESS METCALF: Well, there's a lot of belief in  
24 the market at this point that R1 in the aggregate -- as a  
25 matter of fact, a Bell South cost witness in another state

1 just stated that R1, in the aggregate, covers its costs also.  
2 Now "in the aggregate" means that you take the access charge  
3 and revenue that comes from toll and some of the profit that  
4 comes from other service, vertical services, like Call  
5 Forwarding and Call Waiting and those services that have a  
6 nominal cost and a tremendous price, and if you add the profit  
7 from those, that R1 in the aggregate covers its costs also.  
8 But the R1 loop is generally asserted by the phone company to  
9 be below cost.

10 COMMISSIONER DEASON: What is your opinion? Do you  
11 think R1 is below cost if you do not add in the high  
12 contributors such as Call Waiting and Call Forwarding?

13 WITNESS METCALF: I would suspect that there's a  
14 couple of dollars subsidy in there.

15 COMMISSIONER DEASON: That's all I have.

16 CHAIRMAN CLARK: Any other Commissioners? Redirect?

17 MR. DICKENS: Thank you.

18 REDIRECT EXAMINATION

19 BY MR. DICKENS:

20 Q Mr. Metcalf, I want to redirect your attention to  
21 the document that Ms. White was cross examining you on  
22 entitled "SUNCOM Network User Distribution."

23 A Yes, sir.

24 Q It is entitled "DSM-1." This shows the percentage  
25 growth -- let me ask you to characterize what this shows over

1 the --

2 A Well, generally what it shows, Mr. Dickens, is  
3 that -- and the three dates there which Mr. Pierce was able to  
4 pull out on computer runs he had. Back in 1986 -- it was  
5 CENTREX at that time, not ESSX -- but there were 41 CENTREX  
6 systems around the state and 412 PBX systems or users around  
7 the state that were participants in SUNCOM. And that was --  
8 so ESSX was about 9% of the market at that time.

9 You can go up to today's date, but the significance  
10 is that you will note a tremendous increase from 41 systems to  
11 276 systems in ESSX, about a 600% growth in those numbers,  
12 where you see an actual decline in the number of PBX systems  
13 from 412 down to 350.

14 Now I believe most of the 412 customers are still on  
15 the SUNCOM network and are included in the 276 or the 350  
16 number, but certainly are included in the 626.

17 Q All right. And you referred to Mr. Pierce, that is  
18 with the Department of Management Services?

19 A That's correct. Mr. Pierce is the Director of  
20 Communications for the Department of Management Services,  
21 which is the agency that runs the state SUNCOM network.

22 Q And they're an Ad Hoc member; is that right?

23 A That's correct.

24 Q And this exhibit is true and correct to the best of  
25 your knowledge?

1           A     Yes, sir.

2           MR. DICKENS: Madam Chairman, I'd like to have this  
3 marked, and I would also like to move it as an exhibit.

4           CHAIRMAN CLARK: Exhibit DSM-1, entitled "SUNCOM  
5 Network User Distribution," will be marked as Exhibit 18.

6           MR. DICKENS: And I'd like to move it so --

7           CHAIRMAN CLARK: Are you through with your redirect?

8           MR. DICKENS: Yes.

9           CHAIRMAN CLARK: Okay. And you want Exhibit 18  
10 moved into the record?

11          MR. DICKENS: Yes, thank you.

12          CHAIRMAN CLARK: Without objection, Exhibit 18 is  
13 moved in the record.

14          MR. DICKENS: I have no further redirect.

15          (Exhibit No. 18 marked for identification and  
16 received in evidence.)

17          CHAIRMAN CLARK: Thank you, Mr. Metcalf.

18          WITNESS METCALF: Thank you, Commissioner.

19          CHAIRMAN CLARK: We'll take a ten-minute break.

20          (Witness Metcalf excused.)

21          (Brief recess.)

22                                   - - - - -

23          (Transcript continues in sequence in Volume 3.)

24                                   - - - - -

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