

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In Re: Comprehensive Review of the )  
Revenue Requirements and Rate )  
Stabilization Plan of Southern )  
Bell Telephone & Telegraph Company )

Docket No. 920260-TL

Filed: August 17, 1995

POST-HEARING BRIEF OF  
SPRINT COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

Sprint Communications Company Limited Partnership ("Sprint"), by and through its undersigned counsel and pursuant to Commission Rule 25-22.056(3)(a), Florida Administrative Code, and Order No. PSC-95-0642-PCO-TL, files its post-hearing brief of the evidence in the referenced proceeding.

Issue 1: Which of the following proposals to dispose of \$25 million for Southern Bell should be approved?

(1) SBT's proposal to implement the Extended Calling Service plan pursuant to the tariff filed on May 15, 1995. (T-95-304.)

(2) CWA's proposal to reduce each of the following by \$5 million:

(i) Basic "lifeline" senior citizens telephone

service;

(ii) Basic residential telephone service;

(iii) Basic telephone service to any organization

that is non-profit with 501(c) tax exempt status;

(iv) Basic telephone service of any public school,

community college and state university;

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(v) Basic telephone service of any qualified disabled ratepayer.

ARGUMENT

(1) Southern Bell's ECS proposal should be rejected. The \$300 plus million rate reduction settlement arose in the first instance because of Southern Bell's monopoly derived over-earnings situation. Although perhaps a "masterful marketing plan" (Key-Sprint; Tr. page 346), Southern Bell should not be permitted to implement a portion of the rate reductions to put in place an anticompetitive ECS calling plan.

The Commission has only recently taken the important step of ordering intraLATA toll competition on a 1+ presubscription basis. The ECS plan is an outrageous, thinly veiled attempt to capture the attractive intraLATA toll calling routes - 20% of the total Florida toll market - (Stanley-Southern Bell; Tr. page 134), prior to the start of 1+ intraLATA competition. The rate reduction should not be implemented in a manner totally self-serving to Southern Bell -- to "establish a competitive edge" for Southern Bell. (Knowles-CWA; Tr. page 175). From the rate payer's perspective, the captive customer who, without analyzing the maze of various toll options and rates, dials the 7-digit ECS calls, will pay a higher rate - 25 cents - for one minute calls than if placed by AT&T, Sprint or MCI. (Exhibit 3 - JAS 3.) In addition, for calls of three minutes or less duration, residential customers will pay a higher rate than business customers. (Stanley - Southern Bell; Tr. page 80.)

The ECS plan fails the Commission's traditional access charge imputation policy, as well as the imputation requirement imposed by newly enacted Section 364.051(6)(c), Florida Statutes. Witness Joe Gillan provided an imputation analysis that clearly shows the proposed ECS plan will produce revenues at levels below its October 1, 1995, access charges.<sup>1</sup> Gillan-FIXCA; Tr. page 299.)

Southern Bell's own data presents an even clearer picture:

A.	Residential ECS rate		\$0.25
B.	Residential Call Access Charges		
	10/1/95 Access		\$0.07152
	Times 4.2 minutes <sup>2</sup>		
	average call length	<u>X 4.2</u>	\$0.3003

Southern Bell's 25-cent rate for an average length residential call is a nickel less than the access charges an IXC must pay for that call! To carry traffic on all of the ECS routes, an IXC must pay Southern Bell access charges. (Guedel-AT&T; Tr. page 240.) In this instance, one need not argue over appropriate imputation requirements or methodologies. The pure, undeniable fact is that, for residential traffic on the ECS routes, the ECS proposal is anticompetitive and, indeed, the antithesis of the Commission's

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<sup>1</sup> Witness Gillan estimated October 1, 1995, access charges at \$0.0745. Southern Bell shows October 1, 1995, composite access charges of \$0.07152, and October 1, 1996 of \$0.06017. (Exhibit 21 - Southern Bell response to Item 28, McCaw's second set of interrogatories.)

<sup>2</sup> Exhibit 22 - Hendrix Late Filed Deposition Exhibit

procompetitive decision implementing 1+ intraLATA (over the LECs' vehement objections). There can be no effective competition on the 288 ECS routes when IXCs will lose \$0.05 per call, or more if they have to discount the Southern Bell rate to attract customers; that loss cannot be made up by volume!

Mr. Hendrix makes the incredulous suggestion that IXCs can be competitive by somehow "melding" (Hendrix-Southern Bell; Tr. rebuttal page 371), access charges paid on these routes with intrastate and interstate access charges. But, the fact remains that for traffic on these routes, an IXC must start in the hole to the extent of 5 cents per call. Given the extremely competitive toll markets, Mr. Hendrix's melding suggestion should be totally disregarded.

Mr. Hendrix's further attempt to justify the proposed ECS plan with a hand-crafted access charge imputation methodology also should be rejected by the Commission. The Hendrix methodology conveniently produces averaged "ECS"-like revenues of \$0.1350 per minute, compared to average access charges of \$0.0574. (Hendrix-Southern Bell; rebuttal page 365.) But, his jackleg methodology uses unacceptable figures on both ends.

Mr. Hendrix conveniently includes, in his "ECS" revenue calculations, all intraLATA toll revenues except 800 and WATS. (Hendrix-Southern Bell; Tr. rebuttal page 366.) That forced average per minute revenue grossly exaggerates the actual ECS revenues of residential \$0.060 (25 cents divided by 4.2 minutes

average call length), and business \$0.078 (17.2 cents divided by 2.2 minutes average call length) (Exhibit 22; Hendrix late filed deposition exhibit.) Mr. Hendrix lumped in the Southern Bell toll revenues - obviously to increase his average ECS revenue figure - despite the fact that the ECS revenues will be accounted for as local revenues (Hendrix-Southern Bell; Tr. rebuttal page 380; Exhibit 7, page 007-Southern Bell response to Staff's Interrogatory Number 7, first set), the ECS calls will be considered local for dialing purposes. (Hendrix-Southern Bell; Tr. rebuttal page 380; Exhibit 7, page 006 - Southern Bell response to Staff's Interrogatory Number 6, first set), ECS is an enhancement to existing local exchange service offerings (Stanley-Southern Bell Tr. pages 47, 74), ECS converts the routes to local calling (Stanley-Southern Bell; Tr. page 113) and is considered a local, calling plan (Stanley-Southern Bell; Tr. page 149).

Southern Bell's contrived revenue figure is alone enough to render its imputation analysis unworthy of probative consideration.

Likewise, Mr. Hendrix has calculated the access charge element of his imputation analysis to his liking, and to Southern Bell's benefit. Southern Bell's discovery response shows the October 1, 1995, composite access rate to be \$0.07152 (Exhibit 21, Southern Bell response to McCaw's Second Set of Interrogatories Item 28), while Mr. Hendrix' imputation analysis uses an applicable access charge figure of \$0.0574 (Hendrix-Southern Bell; Tr. rebuttal page 365).

Mr. Hendrix has dropped the local transport element from his access calculation, suggesting that there are several transport alternatives in the form of AAVs (Hendrix-Southern Bell; Tr. rebuttal page 368). Yet, there is not one instance shown in this record of switched access transport being provided today by an AAV.

Southern Bell's attempt to justify its ECS plan and rate levels with a tailored imputation analysis simply does not work. The ECS proposal fails the Commission's established imputation requirement (Order No. 24859) and the new imputation requirement of Section 364.051(6)(c). The ECS plan, for this reason alone, should be rejected as proposed.

(2) CWA's Proposal

Three union groups of the Communication Workers of America, AFL-CIO ("CWA"), have proposed equal \$5 million rate reductions in lifeline senior citizen rates, basic residential service, basic service to § 501(c) non-profit organizations, basic service to schools and basic service to disabled ratepayers, all forms of "basic universal service". (Knowles-CWA; Tr. pages 171-172.)

Southern Bell's current rates for residential service are priced significantly below cost, (Guedel-AT&T; Tr. page 5), and are among the lowest residential rates offered in any of the nine Bell South operating states. (Guedel-AT&T; Tr. page 205.) Reducing basic residential rates further is not good public policy from an economic efficiency standpoint, (Key-Sprint; Tr. page 348), as subsidies create distortions in the market place.

Although perhaps well-intentioned, the CWA proposal simply is not the most reasonable or prudent action to implement the additional \$25 million rate reduction.

(3) McCaw's and FMCA's Proposal

Sprint takes no position regarding this proposal.

(4) Any other plan deemed appropriate by the Commission

Sprint takes no position regarding other proposals.

Issue 2: If the Southern Bell proposal is approved, should the Commission allow competition on the Extended Calling Service Routes? If so, what additional actions, if any, should the Commission take?

**ARGUMENT**

The Commission must allow competition on the ECS routes if Southern Bell's plan is approved, and that competition must be real:

- (a) The ECS routes must be available to IXCs on a 1+ dialing arrangement.<sup>3</sup>
- (b) Southern Bell should be directed to offer reduced access or interconnection charges for the ECS routes to make effective IXC toll competition possible (Key-Sprint; Tr. page 350).
- (c) Southern Bell should be directed to offer a wholesale rate at which IXCs would be allowed to resell the ECS

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<sup>3</sup> Southern Bell has conceded this point and proposes that 1+ IXC dialing be allowed. (Stanley-Southern Bell; Tr. pages 97, 99.)

route traffic to their own customers. (Gillan-FIXCA; Tr. page 305.)

As proposed, the ECS plan is anticompetitive, almost to the absurd, seeking to remonopolize its intraLATA toll territory (Metcalf-Ad Hoc; Tr. page 262). Should the Commission determine it appropriate for other reasons, these minimum level of conditions must be imposed to overcome the patently anticompetitive effects.

As demonstrated above, as proposed there can be no effective competition on the 288 ECS routes. The plan especially targets the Southeast LATA, and effectively removes that market and its \$100 million of revenues from competition (Gillan-FIXCA; Tr. pages 311, 317). Southern Bell's concession to 1+ dialing arrangements for IXC customers is a first step toward making effective competition possible (Stanley-Southern Bell; Tr. page 97). The second step is for Southern Bell to offer an interconnection or reduced access charge on these routes that will enable IXCs to compete for the ECS traffic.<sup>4</sup>

Mr. Gillan has proposed an interconnection rate of \$0.0227 for each end of an ECS call that would give IXCs an opportunity to compete (Exhibit 19; JPG-1). The Commission should order the establishment of such an interconnection rate as an absolute condition to implementation of the ECS proposal.

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<sup>4</sup> Even if IXCs can compete on price - with reduced access charges - Southern Bell's ability to offer 7-digit dialing (vs. 1+ 10 digits for IXCs) creates a competition advantage for Southern Bell. Mr. Stanley admits it is a "dialing advantage" and easier for customers to use. (Stanley-Southern Bell; Tr. pages 89, 115.)



It is ironic that Mr. Hendrix disparagingly says that Mr. Gillan's proposal is "simply to lower switched access" (Hendrix-Southern Bell; Tr. page 370), and rejects Mr. Metcalf's proposal by declaring that "this is not a proceeding to discuss reductions in switched access charges (Hendrix-Southern Bell; Tr. page 373). It is Southern Bell that has put the level of access charges squarely at issue by proposing a rate that is \$0.05 less than the actual switched access rates for the 4.2-minute average residential ECS call.

Mr. Gillan has also outlined a rational wholesale ECS service concept - ECS service with all retail support functions unbundled from its price - (Gillan-FIXCA; Tr. pages 305, 306) and proposed a rate level of \$0.0455 for the service (Exhibit 19; JPG-1). Such an appropriately priced wholesale ECS service will allow competition by price, together with non-price elements of billing systems and customer support. (Gillan-FIXCA; Tr. page 306.) Under this scenario, the Commission will truly promote intraLATA competition on the proposed ECS routes in conformance with Section 364.01(3) and its own 1+ intraLATA Order No. PSC-95-0203-FOF-TP.

Issue 3: When should the tariffs be filed and what should be the effective date?

Sprint takes no position on this issue.

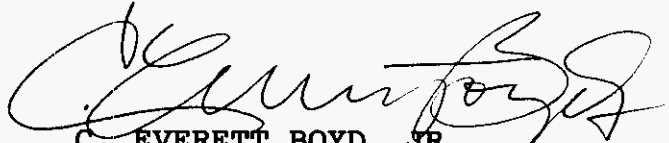
Issue 4: Should this docket be closed?

Sprint takes no position on this issue.

**LEGAL ISSUES**

Sprint adopts the argument of AT&T, MCI and FIXCA on the legal issues identified by Staff.

Respectfully submitted,



C. EVERETT BOYD, JR.  
of the law firm of  
Ervin, Varn, Jacobs,  
Odom & Ervin  
Post Office Drawer 1170  
Tallahassee, FL 32302  
(904) 224-9135

**ATTORNEYS FOR SPRINT  
COMMUNICATIONS COMPANY LIMITED  
PARTNERSHIP**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail on this 17th day of August, 1995, to the following:

Michael Tye  
106 East College Avenue  
Suite 1420  
Tallahassee, FL 32301

Benjamin H. Dickens, Esquire  
2120 L. Street, N.W.  
Washington, DC 20037

Peter Q. Nyce, Jr.  
901 N. Stuart Street, Suite 400  
Arlington, VA 22203-1837

Douglas Metcalf  
Communications Consultants  
Post Office Box 1148  
Winter Park, FL 32790-1148

Laura Wilson  
Post Office Box 10383  
Tallahassee, FL 32302

Joseph P. Gillan  
Post Office Box 541038  
Orlando, FL 32854

Lance Norris  
315 S. Calhoun Street  
Suite 710  
Tallahassee, FL 32301

Dan B. Hendrickson  
Post Office Box 1201  
Tallahassee, FL 32302

Richard Melson  
Post Office Box 6526  
Tallahassee, FL 32314

Michael J. Henry  
780 Johnson Ferry Road  
Suite 700  
Atlanta, GA 30342

Vicki G. Kaufman  
117 S. Gadsden St., 3rd Floor  
Tallahassee, FL 32301

Kenneth Hoffman  
Post Office Box 1876  
Tallahassee, FL 32302

Charles J. Beck  
Office of Public Counsel  
111 W. Madison Street, Rm. 812  
Tallahassee, FL 32399-1400

Michael Gross  
Department of Legal Affairs  
The Capitol, PL-01  
Tallahassee, FL 32399-1050

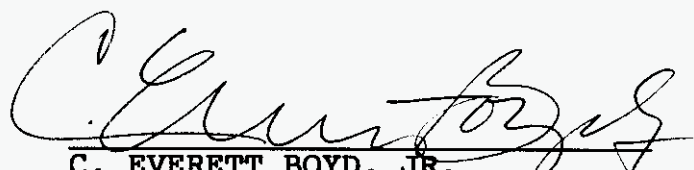
Nancy B. White  
675 W. Peachtree Street  
Suite 4300  
Atlanta, GA 30375

Tracy Hatch  
101 E. Gaines Street  
Tallahassee, FL 32399-0863

Tony Key  
3065 Cumberland Circle  
Atlanta, GA 30339

Floyd R. Self  
Post Office Box 1876  
Tallahassee, FL 32302

Robert V. Elias  
Public Service Commission  
2540 Shumard Oak Commission  
Room 370  
Tallahassee, FL 32399-0850

  
C. EVERETT BOYD, JR.