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May 28, 1996

Mrs. Blanca S. Bayó  
Director, Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Betty Easley Conference Center, Rm. 110  
Tallahassee, FL 32399-0850

Re: Docket 951354-TL  
Price Regulation

Dear Mrs. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Direct Testimony of A. J. Varner, which we ask that you file in the captioned matter.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely,

*J. Phillip Carver*  
J. Phillip Carver

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Enclosures

All Parties of Record  
A. M. Lombardo  
R. G. Beatty  
R. Douglas Lackey

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CERTIFICATE OF SERVICE  
DOCKET NO. 951354-TL

I HEREBY CERTIFY that a true and correct copy of the  
foregoing was served by U.S. Mail this 28<sup>th</sup> day of May, 1996  
to the following:

Mr. Tracy Hatch  
Staff Counsel  
Florida Public Service Commission  
2340 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850

*J. Phillip Carver (pd)*  
J. Phillip Carver

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**BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY OF A. J. VARNER  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 951354-TL  
MAY 28, 1996**

**Q. Please state your name, employer, position and business address.**

**A. My name is Alphonso J. Varner. I am employed by BellSouth Telecommunications, Inc. ("BellSouth") as Senior Director for Regulatory Policy and Planning for the nine state BellSouth Region. My business address is 675 West Peachtree Street, Atlanta, Georgia.**

**Q. Please summarize your background and experience.**

**A. I graduated from Florida State University in 1972 with a Bachelor of Engineering Science degree in systems design engineering. I immediately joined Southern Bell in the division of revenues organization with the responsibility for preparation of all Florida investment separations studies for division of revenues and for reviewing interstate settlements. Subsequently, I accepted an assignment in the rates and tariffs organization with responsibilities for administering selected rates and tariffs including preparation of tariff filings. In January 1994, I was appointed Senior Director of Pricing for the nine state region. I assumed my current responsibilities in August of 1994.**

1

2 Q. What is the purpose of your testimony?

3

4 A. My testimony explains BellSouth's position that the reclassification of an  
5 exchange (regrouping) does not constitute a price increase under Section  
6 364.051, Florida Statutes. Moreover, if regrouping is not allowed, this will  
7 result in price discrimination that violates Chapter 364.

8

9 Q. Which exchanges are at issue in this docket?

10

11 A. There are three exchanges that are subject to rate regrouping based on  
12 access line growth after July 1, 1995: Jensen Beach, West Palm Beach  
13 and Holly-Navarre. However, the Commissions' decision on this issue will  
14 affect not only these exchanges, but other exchanges that could be  
15 subject to regrouping in the future.

16

17 Q. How does BellSouth determine when regrouping is warranted?

18

19 A. BellSouth is required by Rule No. 25-04.056 (1), Florida Administrative  
20 Code, to reclassify exchanges (regroup) in response to access line  
21 increases and decreases. The Rule states:

22

23 Whenever the number of access lines in the local calling area of an  
24 exchange increases or decreases to the extent that such exchange  
25 would fall into a different rate group, the company shall file a

1 revised tariff with the Commission requesting authority to reclassify  
2 the exchange to its appropriate group.

3  
4 The tariff change associated with the reclassification of an exchange is  
5 quickly implemented and virtually automatic. The Commission has  
6 routinely approved these tariffed changes in the past.

7  
8 Q. Can regrouping result in a change in a subscriber's rate?

9  
10 A. Yes. If there is a sufficient increase in access lines in the local calling  
11 area to trigger a rate group change, subscribers in that exchange would  
12 be regrouped into the next highest rate group. As a result, the rate that  
13 they are charged for local service would be increased. Similarly, if there is  
14 a sufficient decline in access lines to trigger a rate group change,  
15 subscribers in that exchange would be regrouped into a lower rate group.  
16 Consequently, the rate charged to subscribers in that exchange would be  
17 reduced.

18  
19 Q. Is a reclassification of an exchange that results in a particular customer's  
20 paying a higher rate, an increase that is prohibited under Section 364.051,  
21 Florida Statutes?

22  
23 A. No. Under this Section of the Statutes, as it applies to BellSouth, the rate  
24 charged for basic telecommunications and certain protected nonbasic  
25 services is capped until January 1, 2001 at the levels that applied on July

1 1, 1995. The price cap in Section 364.051 applies to the price of service  
2 in the existing exchange rate groups, not to the service of individual  
3 customers who may move from one rate group to another. Each rate  
4 group price is established by individual tariff. All individual customers  
5 included in the same rate group category pay the same price for basic  
6 exchange service. In regrouping situations, the price for a given rate  
7 group does not change; instead, the customer simply moves into a  
8 different rate group.

9  
10 Q. How does the rate group pricing correspond to the value of the service?

11  
12 A. Each exchange rate group is separately priced and tariffed, with monthly  
13 basic exchange rates varying by rate group, according to the value of the  
14 service provided. The service has greater value when calls can be placed  
15 to a greater number of customers. For example, the value (and thus the  
16 price) of the basic service in a Rate Group 10 exchange service area,  
17 such as Boca Raton, is greater than that of a Rate Group 1 exchange  
18 service area, such as Cedar Keys. This is because customers in the Rate  
19 Group 10 area have access to up to 550,000 exchange access lines (and  
20 PBX Trunks) while customers in a Rate Group 1 exchange service area  
21 have access to 2000 or less exchange access lines (and PBX Trunks).  
22 Thus, a rate group reclassification prompts a difference in calling scope  
23 that changes both the value and extent of the service. Coincident with  
24 this, a customer simply pays a higher rate that corresponds to the greater  
25 calling scope.

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This pricing differentiation is not unlike that of other products and services. For example, Caller ID is offered in Florida on a two tier price level based on the added feature value. Customers may purchase Caller ID - Basic service for \$6.00 per month, which permits the customer to view on a display unit the directory number on incoming telephone calls. However, for \$7.50 per month, the customer may purchase Caller ID - Deluxe, which permits the customer to view on a display unit the calling party directory name and directory number on incoming telephone calls. The price difference is commensurate with the greater value of the enhanced version of the service.

Q. If regrouping by BellSouth is not allowed, is there a resulting disparity in the price charged to similarly situated customers?

A. Yes. If this Commission does not allow BellSouth to continue established regrouping procedures, this will result in a pricing disparity among affected subscribers with the same basic local calling scope.

For example, if regrouping is not allowed, BellSouth will be required to revert West Palm Beach back to a Rate Group 9 classification. Presently, there are ten (10) exchanges within Florida that are classified as Rate Group 9, with an average calling scope of approximately 433,000 access lines and trunks. Currently, West Palm Beach has access to 485,000 access lines and trunks, which is 52,000 greater than the average Rate

1 Group 9 exchange, and 35,000 greater than the upper limit on Rate  
2 Group 9. At the same time, there are three other existing Rate Group 10  
3 exchanges which have a calling scope of between 450,001 to 550,000  
4 local access lines (as does the West Palm Beach exchange).

5  
6 Under the normal regrouping process, customers in the West Palm Beach  
7 exchange would be charged the tariffed rate for services in Rate Group  
8 10. Without regrouping, customers in the West Palm Beach exchange  
9 would pay less than the customers in the three exchanges that are  
10 currently in Rate Group 10, even though these exchanges have the same  
11 numerical range of access lines to which they can place a local call.

12 Conversely, customers in the West Palm Beach exchange would pay the  
13 same price for local service as these customers in the ten exchanges that  
14 are currently in Rate Group 9, even though customers in these exchanges  
15 have a smaller calling scope. This disparity is simply not fair.

16  
17 Q. Is this disparity in pricing legally permissible under Florida law?

18  
19 A. In my opinion, no. This disparity constitutes price discrimination that  
20 violates Chapter 364. Sections 364.08, 364.09, and 364.10 generally  
21 preclude a telecommunications company from charging different rates to  
22 different customers for the same service if the customers are similarly  
23 situated. In particular, Section 364.09 states:



1           A telecommunications company may not, directly or indirectly, or by  
2           any special rate, rebate, drawback, or other device or method,  
3           charge, demand, collect, or receive from any person a greater or  
4           lesser compensation for any service rendered or to be rendered  
5           with respect to communication by telephone or in connection  
6           therewith, except as authorized in this chapter, than it charges,  
7           demands, collects, or receives from any other person for doing a  
8           like and contemporaneous service with respect to communication  
9           by telephone under the same or substantially the same  
10           circumstances and conditions. (Emphasis added.)

11  
12       Likewise, Section 364.10 (1) states the following:

13  
14           A telecommunications company may not make or give any undue  
15           or unreasonable preference or advantage to any person or locality  
16           or subject any particular person or locality to any undue or  
17           unreasonable prejudice or disadvantage in any respect  
18           whatsoever.

19  
20       In other words, customers in an exchange that is not regrouped in  
21       response to access line growth will pay less for their local service than all  
22       or most of the other customers in Florida who have comparable calling  
23       scopes. This is clearly unduly discriminatory pricing for a service provided  
24       to similarly situated customers. Accordingly, this disparity violates Florida  
25       law.

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Q. Are you saying that all customers must pay the same price for the same service?

A. No. There are permissible reasons to charge different prices for the same service. The most obvious example of this is a single line used to provide local service. In this case, the price of the line varies substantially depending on whether the line is used for business or residential service. In this example, the difference in usage of the line provides a reasonable and statutorily permissible basis to support a price difference.

The statute does not prohibit all discrimination in pricing, only "undue" or "unreasonable" discrimination. This distinction goes to the heart of the reason that regrouping must continue. On June 30, 1995, the tariff revision reclassifying the Fort George exchange from Rate Group 8 to Rate Group 9 became effective. Presently Fort George subscribers have access to approximately 398,400 access lines and trunks. If BellSouth is not allowed to reclassify its exchanges, the West Palm Beach subscribers will pay the same rates as Fort George subscribers, but they will have access to about 87,000 more access lines and trunks (22 percent more) than Fort George. There is no basis for this disparate treatment (i.e., charging the same price for different service) other than the fact that regrouping of the Fort George exchange took place four months before the regrouping of the West Palm Beach exchange was to occur. Differently, customers in these two exchanges are similarly situated in

1 that, based on access line growth, both should be regrouped. If  
2 regrouping of the West Palm Beach exchange is prohibited, then these  
3 two groups of customers will be treated differently based on nothing more  
4 than a quirk of timing. Any distinction in the treatment of similarly situated  
5 customers based on this type of happenstance is arbitrary and  
6 impermissible.

7

8 Q. Please summarize your testimony.

9

10 A. Regrouping constitutes a change in the nature of a customer's service  
11 and is not merely a price change for the same service. Section 364.051  
12 caps the prices that apply to existing exchange rate groups, not to  
13 individual customers who may move to a different rate group because  
14 their calling scope changes. In addition, to the extent that BellSouth is  
15 forced to abruptly terminate regrouping, undue discriminatory pricing will  
16 necessarily result.

17

18 Q. Does this conclude your testimony?

19

20 A. Yes.

21

22

23

24

25