

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL
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Comprehensive Review of the Revenue
Requirements and Rate Stabilization Plan of
Southern Bell Telephone and Telegraph Co.

Docket No. 920260-TL

REBUTTAL TESTIMONY

of

HARRY GILDEA

on behalf of

THE UNITED STATES DEPARTMENT OF DEFENSE AND
ALL OTHER FEDERAL EXECUTIVE AGENCIES

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Rebuttal Testimony of Harry Gildea

2 Introduction

3 Q. What is your name and business address?

4 A. My name is Harry Gildea. My business address is 1220 L
5 Street, N.W., Suite 410, Washington, D.C. 20005.

6 Q. What is your professional background?

7 A. I have been a consultant for more than 34 years. Currently, I
8 am a Senior Consultant with Snavely King Majoros O'Connor & Lee, Inc., a
9 position I have held since 1972. Before then, I was with the Economic
10 Development Administration in the U.S. Department of Commerce, where I
11 was responsible for evaluating federal development programs. From 1962
12 to 1969, I was with Peat Marwick Livingston & Company, where I managed
13 the firm's operations research consulting practice in the Washington area.
14 Prior to 1962, I was a research engineer with Sylvania Electric Products, a
15 subsidiary of the General Telephone and Electronics Corporation.

16 Q. What is your educational background?

17 A. I received the degrees of Bachelor of Science in Electrical
18 Engineering and Master of Science in Electrical Engineering from the
19 Massachusetts Institute of Technology in 1958.

20 Q. What is the nature of your work with Snavely King Majoros
21 O'Connor & Lee, Inc.?

22 A. As a Senior Consultant for the firm, I work with clients in cases
23 before state and federal regulatory agencies involving public utilities. In this

1 capacity, I perform research and analysis on issues in telecommunications
2 policy, regulation, engineering and economics.

3 My work has been primarily in the telecommunications field. I
4 also have participated in gas, electric and water cases, as well as several
5 cases concerning the U.S. Postal Service. In my 24 years of experience in
6 the telecommunications industry, I have analyzed almost all monopoly and
7 competitive services, including local exchange services, message telephone
8 services, private line services, Centrex, telex, video, data, cellular, personal
9 communications, and other services.

10 Q. Have you previously submitted testimony in this matter?

11 A. Yes. In November 1993, I submitted testimony concerning rate
12 proposals by BellSouth Telecommunications, Inc. ("BellSouth").

13 Q. Have you testified before other regulatory agencies?

14 A. Yes. I have testified as an expert witness before the Federal
15 Communications Commission and the Federal Energy Regulatory
16 Commission, as well as the regulatory agencies of California, Connecticut,
17 the District of Columbia, Georgia, Illinois, Kentucky, Maryland,
18 Massachusetts, Michigan, Missouri, New Jersey New York, North Carolina,
19 Ohio, Pennsylvania, Rhode Island, North Carolina, Tennessee, Texas and
20 Virginia. In addition to testimony, I have prepared and presented written
21 comments on telecommunications matters to the FCC and many state
22 regulatory agencies.

23 Q. Do you have additional experience in the telecommunications
24 field?

1 A. Yes. I have been a consultant to the Federal Executive
2 Agencies on rate design and tariff issues in major procurements, including
3 the Aggregated System Procurements for local telephone services in 30
4 states and the FTS2000 system for intercity telecommunications throughout
5 the U.S. I have also been a consultant to the Defense Information Systems
6 Agency concerning domestic and international telecommunications rate
7 structures and services, and the costs of military data and voice
8 communications systems.

9 I have performed damage studies in three antitrust cases
10 involving telecommunications firms. I have also been a consultant to the
11 International Telephone & Telegraph Corporation, the Radio Corporation of
12 America, Western Union International, and TRT Telecommunications
13 Corporation in several proceedings before the Federal Communications
14 Commission, and a case before the United States Court of Appeals. In
15 addition, I have been a consultant to the government of Canada, carriers,
16 and users of telecommunications services in many regulatory proceedings.
17 Also, I testified as an expert witness in a proceeding before the General
18 Services Administration Board of Contract Appeals concerning the award of
19 a large contract for telecommunications services.

20 Q. For whom are you testifying in this proceeding?

21 A. I am testifying on behalf of the customer interests of the United
22 States Department of Defense and All Other Federal Executive Agencies
23 ("FEAs").

1 Q. What are the customer interests of the FEAs in this
2 proceeding?

3 A. The federal government is a major user of the services and
4 facilities offered by all telecommunications firms in Florida. Because of the
5 presence of many federal offices and military installations in Florida, the
6 government is one of the largest end users of the services provided by local
7 exchange carriers and other telecommunications companies in the state.

8 From their experience as a major user of telecommunications
9 services in Florida and other states, the FEAs have learned that competition
10 benefits all parties. Therefore, the FEAs urge the Florida Public Service
11 Commission to take the necessary steps to allow competition for all
12 telecommunications services to develop quickly.

13 **Subject of Testimony**

14 Q. What is the general subject of your testimony?

15 A. My testimony is rebuttal to the direct testimony of BellSouth
16 witness Alphonso J. Varner, which was filed in this case on July 31, 1996. In
17 that testimony, Mr. Varner describes the price reductions which the company
18 proposes pursuant to an order by the Commission in this proceeding on
19 February 11, 1994.

20 Q. What is the total revenue reduction proposed by the company?

21 A. The company is proposing a total revenue reduction of \$84
22 million for 1996. Of that amount, \$40 million is allocated to bring switched
23 access charges to parity with December 1993 interstate levels, as discussed
24 in the testimony of BellSouth witness Jerry D. Hendrix.

1 Q. What aspect of BellSouth's proposals will you address?

2 A. I have no objection to the company's proposal to bring access
3 charges to parity with the interstate levels. My rebuttal testimony concerns
4 only the balance of the \$84 million total, which has been increased from \$44
5 million to \$48 million, as noted in witness Varner's testimony.¹

6 **Evaluation of BellSouth's Refund Proposal**

7 Q. How does BellSouth propose to apportion the \$48 million
8 revenue reduction?

9 A. As shown by the data in the table on pages 3 and 4 of
10 BellSouth witness Varner's direct testimony, the \$48 million total is divided
11 into three fairly equal parts: \$15.3 million for reductions in Private Branch
12 Exchange ("PBX") and Direct Inward Dialing ("DID") charges; \$16.4 for
13 additional switched access charge reductions; and \$16.3 million in rate
14 reductions for a group of other services. This group includes residence and
15 business service charges, business line monthly rates, usage charges for
16 remote call forwarding, and a variety of additional service elements.

17 Q. What is your objection to BellSouth's proposals?

18 A. One objection concerns BellSouth's proposals with respect to
19 PBX and DID services. BellSouth's proposals are misguided because they
20 are not directed at the appropriate users. Also, the proposals will do little, if
21 anything, to enhance the opportunities for competition for local
22 telecommunications services in Florida.

1 Direct Testimony of A. J. Varner, page 3.

1 Q. Why are the company's proposals not directed at the
2 appropriate users?

3 A. BellSouth's proposals for DID services focus principally on
4 new users rather than existing users who should be the primary
5 beneficiaries of rate reductions. For example, the company proposes to
6 reduce the nonrecurring service establishment charge for the trunk group
7 and first group of 20 numbers from \$915 to \$55. Also, the company
8 proposes to cut the nonrecurring installation charge for each trunk from \$90
9 to \$65. In contrast, the company is proposing no change in the recurring
10 monthly charge for DID numbers and only a small reduction from \$21.80 to
11 \$20.00 in the monthly recurring charge for DID trunks.

12 Q. Are the major reductions in nonrecurring charges intended to
13 bring these charges nearer to costs?

14 A. The company's witnesses do not maintain that the changes are
15 designed to better align the charges with the underlying costs. I do not know
16 the costs for the work associated with these rate elements, so I do not know
17 whether the proposed rates are compensatory or not.

18 Q. Is the lack of cost data significant?

19 A. Yes. In my November 1993 testimony in this proceeding, I
20 explained why it is critical for rates to reflect costs in a mixed monopoly and
21 competitive environment, but BellSouth has barely recognized the
22 importance of costs in its proposals for revenue reductions this year.

23 Q. Are the company's proposals for other services also tilted in
24 favor of new subscribers?

1 A. Yes. Of the \$16.3 million reduction proposed for the other
2 services, about \$5.8 million is associated with reductions in service charges
3 for residence and business customers. Reductions in the nonrecurring
4 charges that BellSouth proposes will disproportionately benefit new
5 customers or customers who change the location or other characteristics of
6 their service. BellSouth's plan concentrates too much on this group, with
7 insufficient reductions in the recurring monthly charges that will continue to
8 be incurred by long-term users who have contributed to the levels of
9 profitability that triggered the Commission's requirements for rate reductions
10 in the first place.

11 Q. Are the reductions in nonrecurring charges for these other
12 services designed to reflect BellSouth's costs?

13 A. Apparently not. BellSouth witness Varner states that one of
14 these changes, the reduction in the first business line connection charge,
15 will result in a rate below costs. The company's testimony does not contain
16 cost information for most of the elements with rate changes, so it is difficult to
17 assess most of the company's proposed changes from a cost perspective.

18 Q. Why will BellSouth's proposals do little to enhance the
19 opportunities for competition in Florida?

20 A. Bell South's concentration on reducing nonrecurring charges
21 also has the effect of restricting the opportunities for competitors. New
22 businesses, expanding businesses or firms moving to a new location would
23 naturally be evaluating telecommunications options with the company's
24 competitors. Up-front savings in the form of lower service initiation charges

1 are particularly enticing to new subscribers. In short, by concentrating
2 reductions on the nonrecurring charges rather than monthly charges,
3 BellSouth is maximizing its chances of gaining new subscribers rather than
4 providing benefits to present subscribers. At the minimum, the company's
5 proposals will tend to confuse current users by presenting a reduction that
6 they will not receive unless they change locations.

7 Q. What are the company's proposals for PBX services?

8 A. BellSouth is proposing to reduce PBX trunk rates in all rate
9 groups and to introduce term contracts for PBX trunks.

10 Q. Do you concur with these proposals?

11 A. I concur with the company's proposal to reduce the monthly
12 rates for PBX trunks. However, I have reservations about the company's
13 proposal to initiate term contract plans. Although term contracts are an
14 important feature of telecommunications rate structures, I do not believe that
15 the company should be allowed to satisfy part of the requirement for an
16 overall revenue reduction by introducing a structure clearly designed to
17 lock-in present subscribers. BellSouth witness Varner's justification for this
18 change seems disingenuous.

19 Witness Varner indicates that term contracts will respond to
20 customer requests for lower rates and for rate stabilization.² However, fixed
21 charges for a contract term do not provide "rate stabilization" unless there is
22 a prevailing tendency for charges to increase. Because PBX rates are

² *Id.*, page 9.

1 coming down, and further decreases are expected, fixed charges are of
2 more benefit to the company than to its subscribers.

3 Q Have you considered proposals by other parties for
4 implementing a \$48 million revenue reduction?

5 A. Yes. One of the alternatives to the proposal by BellSouth is a
6 Joint Proposal by the Florida Ad Hoc Telecommunications Users' Committee
7 ("Ad Hoc") and other parties. This proposal calls for a somewhat smaller
8 reduction in PBX and DID charges, about \$11 million as opposed to \$15
9 million, with the major part of the \$48 million reduction obtained by
10 eliminating the Residual Interconnection Charge. The FEAs supported this
11 proposal by a Motion of Joinder filed with the Commission on June 13, 1996.

12 Q. Do you believe that the appropriate total reduction for PBX and
13 DID services is \$15 million as proposed by BellSouth or \$11 million as
14 proposed by Ad Hoc and others?

15 A. If all other conditions were equal, I would prefer the larger \$15
16 million reduction for these services. However, I believe that the procedure
17 for applying the reduction is more important than the \$4 million difference in
18 the two plans. Therefore between the two alternatives, I recommend that the
19 Commission adopt the revenue reduction plan proposed by Ad Hoc.

20 Q. Does that conclude your pre-filed testimony?

21 A. Yes, it does.