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BELLSOUTH TELECOMMUNICATIONS, INC.
REBUTTAL TESTIMONY OF A. J. VARNER
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 920260-TL

SEPTEMBER 16, 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. Are you the same Alphonso J. Varner who filed direct testimony on behalf of BellSouth on July 31, 1996?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. My testimony rebuts direct testimony filed in this case by: Douglas S. Metcalf on behalf of Florida Ad Hoc Telecommunications Users' Committee; Joseph Gillan on behalf of the Florida Interexchange Carriers Association; Don J. Wood on behalf of MCI; Thomas Erwin Allen, Jr. of Intermedia Communications, Inc.; James A. Garver on behalf of the Citizens of the State

1 of Florida; and James W. Freeman on behalf of Palm Beach Newspapers, Inc.
2 and Florida Today.

3

4 Q. Douglas S. Metcalf on behalf of Florida Ad Hoc Telecommunications Users'
5 Committee states in his direct testimony on page 2, lines 8-10, "...First, the
6 Commission should target the refund to the parties who have paid the most in
7 excessive contribution and rates over the years..." Do you agree with this
8 statement?

9

10 A. Absolutely not, and foremost, this docket is open to implement the Stipulation
11 and Implementation Agreement ("Settlement Agreement"), approved by this
12 Commission on February 11, 1994. The Settlement Agreement provided for,
13 among other things, various rate reductions for 1994 thorough 1996. Mr.
14 Metcalf is quite mistaken in his assessment that these monies are in the nature
15 of a rate reduction.

16

17 Q. Do you have any overall comments concerning the intervenor testimony
18 related to PBX trunks and DID?

19

20 A. Yes. It is no surprise that all of the intervenors favor those reductions which
21 reduce their costs, increase their margins and make their services more
22 economically viable. The basic arguments against the BellSouth proposals for
23 PBX trunk term contracts and DID reductions allege that BellSouth is
24 attempting to "foreclose competition" and to "lock" the marketplace. There

25

1 seems to be general consensus that PBX trunk and DID rate reductions are
2 appropriate if the motive is not one of seeking a competitive advantage.

3

4 Q. On page 3 lines 15-18 Thomas Erwin Allen, Jr. of Intermedia
5 Communications, Inc. states in his direct testimony, "The restructure of PBX
6 rates and the elimination or reduction of NRCs [nonrecurring charges] provides
7 little if no relief for the average rate payer and only improve BellSouth's
8 competitive advantage..." Do you agree with this statement?

9

10 A. No. The reduction proposed by BellSouth provides varying degrees of relief to
11 just about every type of customer in BellSouth's customer body. Some
12 reductions favor residential customers, IXC's, AAV's, business customers, etc.
13 All reductions, however, are consistent with BellSouth's commitment to the
14 general rate payers in Florida to share in the benefits of Price Regulation. In
15 addition, the proposed reductions in PBX recurring and nonrecurring trunk
16 rates move BellSouth closer to an even playing field by helping to remove
17 some of the cross-subsidy in trunk rates.

18

19 Q. On page 5 lines 12-14 Mr. Allen states in his direct testimony, "The proposal
20 to introduce the term contracts are just another in a series of recent actions by
21 BellSouth to lock up market share..." Do you agree with this statement?

22

23 A. No. Offering service contracts in BellSouth's General Subscriber Service
24 Tariff is not a new or innovative concept. In fact, contracts have a long history
25 as a common instrument used to document business transactions in this

1 marketplace. A BellSouth contract for PBX trunks will insure that customers
2 have rate stability during the life of the contract. However, a BellSouth
3 contract on PBX trunks, like contracts on other BellSouth services does not
4 and has not "locked up" or eliminated any current BellSouth customer's right to
5 seek or obtain, a more favored economic or value added competitive service
6 offering, should one exist.

7

8 Q. On page 5 lines 19-23 Mr. Allen states in his direct testimony, "...BellSouth
9 understands that competitors are gearing up to provide similar services [by
10 reducing PBX trunk rates through contracts] to business customers and will
11 also be willing to provide attractive pricing for these services. Therefore, it is
12 attempting to restrict customer choice." Do you agree with this statement?

13

14 A. No. BellSouth believes that the benefits of price regulation and competition
15 include providing greater value at reduced rates. To characterize the flow
16 through of savings or to suggest that BellSouth not be allowed to offer lower
17 rates and a variety of pricing options because competitors will offer them in the
18 future as somehow "attempting to restrict customer choice" is ridiculous.

19

20 Q. On page 7 lines 5-6 Mr. Allen states in his direct testimony, "BellSouth is
21 proposing to reduce DID Trunk Termination recurring rates from \$31.00 to
22 \$20.00 (per month)..." Is this statement correct?

23

24 A. Absolutely not. The actual proposed reduction is from \$21.80 to \$20, or \$1.80
25 less per month.

1

2 Q. On page 7 lines 12-21 Mr. Allen states in his direct testimony, "...NRCs are
3 typically established at cost and if the cost for DID establishment has been
4 reduced by 940%, then BellSouth efficiency increase in response to anticipated
5 competition has been miraculous. With all due respect to BellSouth, however,
6 Intermedia suggests that this proposed reduction is not due to any efficiency-
7 based cost reductions. In addition, the Commission should not approve these
8 reductions because NRCs typically affects future customers and the reductions
9 in this proceeding should benefit current customers." Do you agree with these
10 statements?

11

12 A. No. The existing DID rates reflect both value of service pricing and cost
13 recovery concepts. The original DID non-recurring rates were based on the
14 high cost associated with pre-electronic central office technology. The current
15 non-recurring rates resulted from a restructure of DID service in 1988 from
16 groups of 100 to groups of 20 numbers, using electronic central office
17 technology. Nonrecurring charges remained significantly above cost, based on
18 the established value of service. The proposed rates reflect both reduced cost
19 and value of service pricing. In addition, BellSouth reminds Mr. Allen that
20 DID is an inward calling service used by customers who typically have (and
21 had) outward and/or combination PBX trunks to handle other calling needs
22 prior to adding DID service. In addition, these same current customers
23 occasionally add new DID trunk groups at both existing and new locations as
24 a result of business growth. Many of BellSouth's current customers who add
25 DID trunks, as well as some number of DID subscribers who will be totally

1 new to the BellSouth network, will receive the benefits of lower nonrecurring
2 charges. These nonrecurring charges provide contribution to the Company's
3 overheads, thereby benefiting the general body of rate payers.

4

5 Q. On page 5 lines 4-10 James W. Freeman on behalf of Palm Beach Newspapers,
6 Inc. and Florida Today states in his direct testimony, "...An example of
7 potentially anticompetitive side effects might be in the PBX area if it turns out
8 that SBTT's rate reductions and long term contract proposals reflect a
9 preemptive strike through which SBTT hopes to lock up the existing PBX
10 business and foreclose future competitors from even bidding on it for several
11 years..." Do you agree with this statement?

12

13 A. No. BellSouth's rate reductions and contract proposals are intended to provide
14 rate relief and stability while reducing cross-subsidies. BellSouth's position is
15 that neither current nor proposed contractual arrangements preclude any
16 BellSouth customer from requesting, receiving or purchasing service from a
17 competitor.

18

19 Q. On page 3 lines 3-4 of his direct testimony Mr. Metcalf on behalf of Florida Ad
20 Hoc Telecommunications Users' Committee states, "...the proposed [PBX] rate
21 reduction inequitably favors new business customers whose payments did not
22 contribute to the overearnings being refunded." Do you agree with this
23 statement?

24

25

1 A. No. Once again, Mr. Metcalf totally misunderstands the genesis of this docket.
2 This is not a docket concerning a rate refund; rather it is a docket concerning a
3 rate reduction. Additionally, Mr. Metcalf is conveniently ignoring the
4 BellSouth proposal to reduce recurring PBX trunk charges. If approved, the
5 BellSouth proposal would immediately reduce recurring rates on all existing
6 PBX trunks (over 78,000 in Florida) as well as any newly added PBX trunks.
7 Moreover, all of BellSouth's current DID subscribers will see lower monthly
8 Trunk Termination charges.

9
10 From a nonrecurring charge perspective, Mr. Metcalf apparently does not
11 understand that existing customers have needs for additional services as
12 business needs change. The nonrecurring charge decreases proposed for
13 adding lines, trunks, or ESSX^R NARs; and the proposed nonrecurring rate
14 reductions for DID service will benefit both existing and new customers.

15
16 Q. On page 3 lines 8-15 of Mr. Metcalf's testimony, he states, "BST's proposal
17 unfairly seeks to "lock-in" business users during a time that historic
18 competitive opportunities will otherwise be available to these
19 customers...BST's proposal unfairly holds hostage refunds, which are rightly
20 due to the customers, to a scheme that would deny these customers the fruits of
21 local competition." Do you agree with these statements?

22
23 A. No. Again, Mr. Metcalf continues under his mistaken apprehension that he is
24 participating in a rate refund docket. Contracts do not preclude or lock-in
25 business users from competitive alternatives nor are contracts available only to

1 new customers. BellSouth believes that the best way to pass on PBX trunk
2 savings while providing rate stability is through contracts. The BellSouth
3 proposed reductions will benefit both existing and new customers.

4

5 Q. On page 4 lines 11-15 of Mr. Metcalf's testimony, he states, "...However, BST's
6 proposed rate structure targets new customers by eliminating/reducing non-
7 recurring charges associated with ordering new or additional ESSX^R,
8 Multiserve (sic), and DID services. This particular reduction badly misaligns
9 costs and benefits -- a result which is just the opposite of that historically urged
10 by BST's frequent reliance on principles of 'cost causation.' This proposal is
11 simply inequitable." Do you agree with these statements?

12

13 A. No. This is a totally inaccurate characterization of the BellSouth proposal. As
14 previously stated, over 78,000 existing PBX trunks, every newly added PBX
15 trunk, every current DID subscriber, and every future DID subscriber will
16 benefit from the reductions. ESSX^R service is an obsolete offering, one that
17 did not use DID service for PBX trunks. It is therefore of no consequence in
18 this Docket. Similarly, BellSouth's DID services are not used by its
19 MultiServsm service subscribers and therefore, that comparison is also
20 irrelevant to this Docket.

21

22 Q. On page 4 lines 19-24 of Mr. Metcalf's testimony, he states, "As the
23 Commission knows, Ad Hoc is the principal advocate of business customers
24 appearing before the Commission in telecommunications matters. Ad Hoc and
25 its members have never communicated a desire to BST for this particular rate

1 structure, and Mr. Varner has not discussed it with Ad Hoc or its members.
2 Accordingly, the Commission should not be misled into believing that there is
3 a large nucleus of business users advocating this particular BST rate structure
4 based upon a desire for this form of 'rate stabilization'." How do respond to
5 these statements?
6
7 A. Although I acknowledge that I did not discuss the PBX contract structure nor
8 many other elements of BellSouth's proposal with Ad Hoc, a BellSouth
9 representative did meet with Ad Hoc to discuss BellSouth's proposal at great
10 length. Moreover, Mr. Metcalf is misleading this Commission if he is trying to
11 give the impression that Ad Hoc and virtually all PBX business customers in
12 Florida have not communicated a desire to reduce PBX rates and to control and
13 predict, with some degree of certainty, communications expenditures.
14
15 Q. On page 5 lines 3-11 of Mr. Metcalf's testimony, he makes the argument that
16 PBX trunks are priced significantly above their relative costs, unlike their
17 competitors, ESSX^R services. Do you agree?
18
19 A. No. Mr. Metcalf is apparently unaware that BellSouth has made its ESSX^R
20 service offering obsolete, meaning that ESSX^R is no longer offered for new
21 installations. The Commission addressed ESSX^R costs and pricing in earlier
22 dockets. As ESSX
23 did not and does not use DID trunks or trunk equipment and is an obsolete offering,
24 the issues raised by Mr. Metcalf are not relevant to this docket.
25

1 Q. Concerning the proposed reductions for business line rates, Mr. Allen of
2 Intermedia Communications, Inc. in his direct testimony on page 9 lines 2-5
3 states, "...ICI believes that while business rates may need to be reduced the
4 rationale for BellSouth's proposal is flawed. We believe that these rates
5 should not be reduced just because of the changes in PBX trunk rates." Do you
6 agree with these statements?

7

8 A. No. While Mr. Allen acknowledges that business line rates "may need to be
9 reduced", he states that the BellSouth rationale is flawed. However, he
10 provides no support for his contention that the rationale is flawed. Since
11 business lines and trunks are equivalent services, BellSouth believes rate parity
12 between lines and trunks is a valid reason for reducing the business line rate.

13

14 Q. On page 7 lines 21-25, of his direct testimony, Mr. Freeman states, "...I see the
15 local nature of N11, which allows small services to attempt to meet consumer
16 demand as a small, almost cost free laboratory in which information services of
17 the future can be developed." Do you agree with this statement?

18

19 A. No. N11 is not the proper service for market trials or experimentation for
20 information services. A seven digit local number would be more appropriate
21 for testing new innovative service offerings due to costs to activate and
22 disconnect an N11 service. In addition, utilizing the limited number of
23 available N11 codes for numerous service trials would create customer
24 confusion concerning N11 applications. There have been approximately 51
25 applications for these limited N11 codes in Florida since the service was

1 introduced. The current demand exceeds the quantity of numbers which are
2 available in the major markets where there is currently a waiting list for N11
3 codes.

4

5 Q. On page 10 lines 8-9 of his direct testimony, Mr. Freeman states, "...The
6 variable cost of N11 is primarily associated with the rating and recording of
7 each revenue producing call..." Do you agree with this statement?

8

9 A. No. Each N11 call must be switched by BellSouth switches, and most N11
10 calls must be transported over BellSouth interoffice trunk facilities. There is
11 variable cost associated with switching and transporting N11 calls. Mr.
12 Freeman fails to recognize such necessary functions and the cost associated
13 therewith.

14

15 Q. On page 12 lines 6-8 of his direct testimony, Mr. Freeman states, "...The cost
16 per call is a per minute charge, but the expenses to SBTT of rating and
17 recording are per call, not per minute in nature..." Do you agree with this
18 statement?

19

20 A. No. As mentioned previously, Mr. Freeman fails to acknowledge BellSouth's
21 cost associated with switching and transport of N11 calls. Such costs are
22 incurred both per minute and per message.

23

24 Q. On page 13 lines 4-5 of his direct testimony, Mr. Freeman states, "...I would
25 also propose that a flat charge of \$.01 per minute be instituted, so that N11

1 customers would pay the monthly minimum or \$.01 per minute, whichever was
2 greater..." Do you agree with this proposal?

3

4 A. No. As stated earlier, at the current price levels, demand exceeds capacity in
5 the major markets. Therefore, we do not believe that the service is priced too
6 high such that it is stifling the market. The current rate levels and structure are
7 appropriate.

8

9 Q. Concerning WATS Access line rates, on page 8, lines 15-18 Mr. Allen states in
10 his direct testimony, "...ICI believes that WATS Access line rates and the
11 secondary service order charge should not be reduced using the revenues
12 identified in this proceeding. BellSouth is again proposing a rate reduction that
13 would not benefit the general body of ratepayers, nor for the most part, current
14 customers." Do you agree with this statement?

15

16 A. No. The practice of charging customers for subscribing to an Optional Calling
17 Plan was widespread throughout the industry in past years. However, that
18 practice has now been virtually eliminated by all carriers who now charge their
19 customers nothing when subscribing to one of the carriers' OCPs. BellSouth is
20 simply bringing its WatsSaver service charge in line with the competition's.
21 ICI gives no real reason in its testimony as to why they believe that WATS
22 access line rates should not be reduced in this proceeding. Florida has the
23 highest WATS access lines rates of any state in BellSouth's region. The
24 technological advances in provisioning these lines and availability of
25 competitive services are only two reasons that these rates should be lowered.

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Q. Concerning mobile service interconnection rates, Kurt C. Maass on behalf of AT&T Wireless Services of Florida advocates on page 3 lines 3-4 of his direct testimony, a reduction in mobile interconnection service rates. Do you agree that the Commission should reconsider mobile interconnection rates in this Docket?

A. No. This Commission has already thoroughly examined this issue in Docket No. 940235-TL (In Re: Investigation into the rates for interconnection of mobile service providers with facilities of local exchange companies.), and rendered its decision in Order No. PSC-95-1247-FOF-TL on October 11, 1995. The Commission's decision was appealed to the Florida Supreme Court by McCaw Communications of Florida, Inc. on November 13, 1995, and a Motion for Stay was filed by McCaw on December 7, 1995. The Motion for Stay was denied by the Commission by Order No. PSC-96-0334-FOF-TL and BellSouth (and other LECs) filed mobile interconnection tariffs pursuant to Order No. PSC-95-1247-FOF-TL. The tariffs were approved under Order No. PSC-96-0132-FOF-TL on January 29, 1996. Again, on February 13, 1996, McCaw filed a Motion for Reconsideration, and again, the Motion for Reconsideration was denied by Order No. PSC-96-1003-FOF-TL, issued on August 5, 1996. This Docket remains open pending the outcome of the appeal filed by McCaw with the Florida Supreme Court. The outcome of the mobile interconnection rates is best handled through the existing legal process.

1 Q. Concerning Remote Call Forwarding ("RCF") for use in NPA splits, James A.
2 Garver on behalf of the Citizens of the State of Florida states in his direct
3 testimony on page 3 lines 12-13, "...this is an interim tariff that is scheduled to
4 expire at the end of this year..." Is the RCF proposal for eliminating usage
5 charges, filed as part of the overall \$48 Million reduction, an interim tariff?
6

7 A. No. The Special RCF Offering Associated With Numbering Plan Area (NPA)
8 Conversions, offered in A13.11.8 of the General Subscriber Service Tariff, is a
9 special tariff that provides interim relief for customers affected by an area code
10 change by waiving the Company-provided local and toll usage charges
11 normally associated with RCF for up to five months following the date
12 specified for mandatory dialing of the new area code.
13

14 The proposed BellSouth tariff filed in conjunction with Docket 920260-TL,
15 permanently eliminates local usage billing for all RCF customers. This
16 elimination of local usage charges should benefit subscribers affected by an
17 area code change should they decide to retain RCF service beyond the interim
18 period associated with the Special RCF Offering.
19

20 Q. Concerning reducing the Business Lines Connection Charge Reduction, Mr.
21 Allen in his direct testimony on page 4 lines 13-24, advocates that
22 nonrecurring charges should not be reduced. Do you agree?
23

24 A. No. In proposing this rate change, BellSouth is not suggesting that the non-
25 recurring costs associated with the business line connection charge have

1 changed significantly, but rather that the costs associated with this reduction
2 will be recovered in the recurring rates for the business services added.
3 Residence and business services differ in respect to their ability to recover non-
4 recurring costs in recurring rates. Currently business services provide
5 contribution levels which allow for this recovery. Furthermore, our business
6 customers have expressed specific concerns regarding the existing rate. This
7 reduction is an attempt to satisfy some of these customer concerns.

8

9 Q. Does this conclude your testimony?

10

11 A. Yes, it does.

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