**BEFORE THE**

**FLORIDA PUBLIC SERVICE COMMISSION**

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| In re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of the Southern Bell Telephone and Telegraph Company | Docket No. 960260–TL |

INITIAL BRIEF

of

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

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November 21, 1996

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## Introduction

This case was initiated by the Florida Public Service Commission to evaluate the Rate Stabilization Plan employed for regulation of BellSouth Telecommunications, Inc. ("BellSouth") since 1988. In proceedings two years ago, the Commission approved a Stipulation and Agreement requiring a series of changes in the company's rates and charges for intrastate services. The current proceedings concern the allocation of undesignated rate reductions scheduled for 1996.

The United States Department of Defense and All Other Federal Executive Agencies ("FEAs") have participated in this case since its inception in 1992. The FEAs filed the testimony of an expert witness on August 28, 1996 to address the 1996 rate reductions.[1] That testimony was entered into the record of this case on October 30, 1996.

1 Direct Testimony of FEA witness Gildea, DoD Exhibit No. 1.

The FEAs are major users of the services and facilities offered by all telecommunications firms in Florida. Because of the presence of many federal offices and military installations throughout the state, the government is one of the largest end users of the services provided by BellSouth and other telecommunications companies.

From their experience as major users of telecommunications services in Florida and elsewhere, the FEAs have learned that competition benefits all parties. Therefore, the FEAs urge the Florida Public Service Commission to take the necessary steps to allow competition for all telecommunications services to develop as rapidly as possible.

## Argument

The Commission should adopt the Joint Proposal filed by AT&T, MCI, Sprint, FIXCA, Ad Hoc and McCaw.

The Commission should adopt the Joint Proposal submitted on May 30, 1996 by AT&T Communications of the Southern States ("AT&T"), MCI Telecommunications Corporation ("MCI"), Sprint Communications Company ("Sprint"), the Florida Interexchange Carriers Association ("FIXCA"), the Florida Ad Hoc Telecommunications Users Committee ("Ad Hoc"), and McCaw Communications of Florida, Inc. (McCaw"), collectively referred to as "Joint Petitioners".

The Joint Petitioners' plan provides for distribution of the $48 million revenue reduction through cuts in the rates for trunks and DID services ($11 million), elimination of the Residual Interconnection Charge within the local transport rate elements of switched access service ($35 million), and a reduction in the usage rates for mobile interconnection services ($2 million). The Joint Petitioners' specific rate reductions are focused on existing customers who have contributed to the excessive BellSouth earnings level that engendered the phased reduction in the company's revenue. As the FEAs have indicated to the Commission, this is the only refund plan providing a substantial and balanced set of benefits to ratepayers.[2]

Intrastate access charges and mobile interconnection rates are well in excess of costs. Also, PBX trunk rates and DID charges are significantly above the corresponding prices for ESSX, which is the equivalent BellSouth service for end users.[3] Reductions in the rates and charges for PBX trunks, DID services, or switched access services are in order. Cost–based rates for these services will help competition to develop and also ensure more efficient use of BellSouth's network.

The FEAs would prefer that the Commission accept the Joint Petitioners' plan without any modification, because this plan will allow competition to develop. However, the FEAs do not object to the proposal by Public Counsel to establish a reserve fund to assist BellSouth customers who have experienced problems with conversion to the 954 NPA. The reserve fund should be established by allocating a maximum of $2 million of the amount otherwise designated for reductions in the rates and charges for PBX trunks, DID services, and switched access services.

The Commission should reject BellSouth's plan.

BellSouth proposes to apportion the $48 million revenue reduction in three fairly equal parts: $15.3 million for reductions in Private Branch Exchange ("PBX") and Direct Inward Dialing ("DID") charges; $16.4 for additional switched access charge reductions; and $16.3 million in rate reductions for a large group of other services.[4] This latter group of services includes residence and

2 Notice of Joinder of the FEAs, June 13, 1996.
3 Statement by AT&T Wireless Services, Prehearing Order for October 7, 1996 hearing.
4 DoD Exhibit No. 1, page 5.

business service charges, business line monthly rates, usage charges for remote call forwarding, and additional service elements.

The FEAs have explained that BellSouth's proposals are misguided at best, because they are not directed at the appropriate users.[5] The proposals will do little, if anything, to enhance the opportunities for competition in local telecommunications markets.

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

In addition to the changes for PBX and DID, additional rate actions proposed by the company are also tilted in favor of new subscribers. In fact, of the $16.3 million total reduction proposed for the other services, about $5.8 million is associated with reductions in non–recurring service charges for residence and business customers.[7]

BellSouth's proposed reductions in non–recurring charges will disproportionately benefit new customers or customers who change the location or other characteristics of their service. BellSouth's plan concentrates too much on this group of customers, with insufficient reductions in the recurring monthly charges that will continue to be incurred by long–term users who were forced to

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5 *Id.*, pages 5–8.
6 *Id.*, page 6.
7 *Id.*, page 7.

contribute to the profitability that triggered the Commission's requirements for rate reductions in the first place.

BellSouth's proposals are not designed to bring the company's rates in line with its costs. In fact, BellSouth witness Varner states that one of these changes, the reduction in the first business line connection charge, will result in a rate below costs. BellSouth's proposals appear to be directed at maintaining its competitive advantage over new entrants, rather than compensating the customers who have already been harmed by excessive rates. Indeed, the company's testimony contains almost no cost information, so that it is not possible to assess the company's proposed changes from a cost perspective.[8]

Bell South's concentration on reducing non–recurring charges also has the effect of restricting the opportunities for competitors. New businesses, expanding businesses, or firms moving to a new location would naturally be evaluating telecommunications options with the company's competitors. Up–front savings in the form of lower service initiation charges are particularly attractive to new subscribers. In short, by concentrating reductions on the non–recurring charges rather than monthly charges, BellSouth is maximizing its chances of gaining new subscribers rather than providing benefits to present subscribers. At the minimum, the company's proposals will tend to confuse current users by presenting a reduction that they will not receive unless they change locations.

The FEAs have explained that BellSouth's plan contains additional proposals for PBX services which are anti–competitive.[9] For example, BellSouth is proposing to reduce PBX trunk rates in all rate groups and to introduce term contracts for PBX trunks. Although term contracts are critical

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8 *Id.*
9 *Id.*, page 8.

features of telecommunications rate structures, the company should not be permitted to satisfy part of the requirement for an overall revenue reduction by introducing a structure clearly designed to lock–in present subscribers.

Except for a small allocation to help customers accommodate the new 954 NPA, the additional proposals should be rejected.

As noted above, the FEAs do not object to the proposal by Public Counsel to establish a reserve fund to assist BellSouth customers who have experienced problems with conversion to the 954 NPA, providing that this proposal does not reduce the aggregate revenue change for PBX, DID and switched access services by more than $2 million. However, the FEAs urge the Commission to reject proposals by the Florida Cable Telecommunications Association and Palm Beach Newspapers, Inc./Florida Today.

The Florida Cable Telecommunications Association ("FCTA") suggests eliminating non–recurring charges for interconnection trunks and special access circuits ordered by alternative local exchange carriers. The FEAs believe that the Commission should reject this proposal affecting non–recurring charges for two reasons. First, elimination of these charges is not justified because BellSouth clearly incurs some up–front costs for providing interconnection facilities. These costs should be recovered through non–recurring charges. Second, a focus on eliminating non–recurring charges incurred by new carriers provides an unfair advantage to these firms in the same way that sharp reductions in BellSouth's non–recurring charges to its own end users is unfairly tilted against competitors.

Finally, Palm Beach Newspapers, Inc./Florida Today urges the Commission to reduce usage rates for N11 services by $0.02 per minute. The FEAs believe that the Commission should reject this self–serving proposal that would benefit only a few ratepayers for the company's services.

## Conclusion

WHEREFORE, the premises considered, the United States Department of Defense and All Other Federal Executive Agencies urge the Florida Public Service Commission to make findings in accord with the recommendations set forth in this Brief.

Respectfully submitted,

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