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RECORDS AND REPORTING

September 24, 1998

## BY HAND DELIVERY

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Special Project 980000A-SP  
Fair and Reasonable Residential Service Rate

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of the comments of F. Ben Poag and Kent W. Dickerson on behalf of Sprint-Florida, Inc. Sprint-Florida, Inc. is also co-sponsoring the comments of Dr. Robert G. Harris and Dr. William E. Taylor, being submitted by BellSouth Telecommunications, Inc., and Donald M. Perry, being submitted by GTE-Florida.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Yours truly,

  
John P. Fons

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# SPRINT FLORIDA, INC. BASIC LOCAL SERVICE COST STUDY

Filed in Docket 980000A-SP

Presented by Kent W. Dickerson

## INTRODUCTION AND OVERVIEW

The purpose of these comments is to describe Sprint's philosophy and methodology related to the preparation of Total Service Long Run Incremental Cost (TSLRIC) studies for basic local service. It is organized in the following sections:

- TSLRIC Studies
- Study Methodology - Basic Local Service
  - Local Loop
  - Local and EAS Switching
  - Port
  - EAS Transport
  - Annual Charge Factor Development
  - Basic Local Service Summary
- Summary

## TSLRIC STUDIES

TSLRIC is defined as the total forward looking, long run incremental cost created by the total demand for a given service assuming the demand for all other services remains constant. In other words, TSLRIC represents all the costs directly caused by a service. TSLRIC includes all of the service-specific fixed costs and volume sensitive costs. It represents the total direct cost that the service places upon the resources of the company.

In more precise terms, TSLRIC is the difference between (1) the total long-run cost of a company that provides the study service and a number of other services, and (2) the total long-run cost of that same company if it provided all of its other services in the same quantities, but not the study service.

The total forward looking cost in a TSLRIC study must use the least cost and most economically efficient technology for a network function that Sprint would use if it were to initially offer the function. Sprint's TSLRIC studies reflect the total costs related to the total demand for the service considered and include all costs incremental to the offering of the service. All costs were considered from a long run perspective such that all costs associated with the provision of a service or basic network function were considered avoidable and incremental.

Sprint's TSLRIC studies follow the principle of cost causation and include the costs that change as a result of the decision to offer the function, or to provision it in a specific way. TSLRIC studies do not include joint and common costs which do not meet the incremental cost causation standard. Dr. William Taylor in "Costing and Pricing Principles for Determining Fair and Reasonable Rates Under Competition" defines shared and common fixed costs in the following way:

*"Shared fixed costs are those associated with the supply by a firm of a group of services comprising more than one, but less than all, of its services. (A special case of shared cost is joint cost which is the cost that is shared by a group of services or products that are produced in fixed proportions to each other). 'Fixed' in this context means that those costs vary with neither the level of any individual service in the group nor the decision to produce or cease producing any service or subset of services within the group. For example, the cost of software right-to-use fee is a shared fixed cost of switched services.*

*Common fixed costs are not associated with a specific service or groups of services. Instead, those fixed costs are shared by all services produced by the firm. The president's desk is a classic example of a fixed cost that is common to all services."*

Accordingly, Sprint's TSLRIC studies exclude joint and common costs.

#### **STUDY METHODOLOGY - BASIC LOCAL SERVICE**

The end result of this TSLRIC study was to determine the cost of basic local telephone service expressed in dollars per month per customer. Costs were developed by class of service (Residence, Business, Centrex, and Key) and by rate group.

Services were comprised of the following basic network functions which are described in this section:

- Local Loop
- Port
- Local and EAS Switching
- EAS Transport

Each of these functions are calculated in a two-step process. First, the forward looking investment is determined. This forward-looking investment is then converted to a monthly cost by applying an annual charge factor. An ACF is a factor that, when applied to the investment and divided by the number of customers and months in the year, will result in the average cost per month per customer. Development of the annual charge factors is described on Page 6.

#### Local Loop

Local loop costs are the costs associated with the network facilities from the customer network interface device (NID) to the customer port in the central office. Monthly cost, in dollars per month per customer, were developed by applying an annual charge factor to the forward-looking local loop investment.

Sprint uses the Benchmark Cost Proxy Model (BCPM) version 3.1 to develop forward looking local loop investment. Forward-looking cost inputs to the BCPM were developed based upon Sprint's operational Florida-specific experience wherever possible. Company-specific inputs used in the model included:

- installation costs for fiber and copper cable;
- cable and strand material cost;
- feeder/distribution interface cost and drop terminal cost;
- serving area interface cost;
- drop cable cost and network interface device;
- digital loop carrier cost;
- construction activity;
- distribution/feeder plant mix;
- maximum fiber, feeder and distribution sizes;
- access lines by wire center;
- pole structure sharing

An example of the forward looking investment developed by the BCPM at the state-wide level is shown on Exhibit 1 attached to these comments. Investment was developed for circuit equipment (digital loop carrier devices), poles, cable (including cross-connects), and conduit. Monthly costs were derived by applying the appropriate annual charge factor to the investment and dividing by twelve. An example of the monthly cost development for local loop would be as follows:

Account	Forward-Looking Investment	Annual Charge Factor	Investment * ACF
Circuit Equipment	\$ 462,150,412	0.22721	\$ 105,005,195
Pole Investment	22,857,607	0.25083	5,733,374
Aerial Cable - Copper	76,917,615	0.28560	21,967,671
Underground Cable - Copper	39,793,912	0.22825	9,082,960
Buried Cable - Copper	1,109,985,682	0.23941	265,741,672
Aerial Cable - Fiber	2,057,990	0.23244	478,359
Underground Cable - Fiber	40,427,518	0.19639	7,939,560
Buried Cable - Fiber	120,059,738	0.19087	22,915,802
Conduit Investment	70,990,328	0.16447	11,675,779
<b>TOTAL</b>			<b>\$ 450,540,373</b>
Number of Lines			1,938,005
<b>Direct Monthly Cost</b>			<b>\$ 19.37</b>

These costs were then de-averaged to rate group levels using the number of grid-level access lines in BCPM. Loop costs were differentiated by residential and business service by weighting the loop cost developed in the BCPM using the assumed number of grid-level business and residential access lines. An example of how residential and business costs were developed using the BCPM is as follows:

Grid	Loop Cost	Residential Lines	Business Lines	Weighted Residential Cost (1)	Weighted Business Cost (2)
A	\$ 10.00	100	150	\$ 0.37	\$ 3.16
B	15.00	200	125	1.11	3.95
C	20.00	600	100	4.44	4.21
D	25.00	800	75	7.41	3.95
E	30.00	1,000	25	11.11	1.58
<b>TOTAL</b>		<b>2,700</b>	<b>475</b>	<b>\$ 24.44</b>	<b>\$ 16.84</b>

1. Grid Loop Cost \* Residential Lines / Total Residential Lines
2. Grid Loop Cost \* Business Lines / Total Business Lines

### Local and EAS Switching

Included in Sprint's TSLRIC studies for R1, B1, Centrex and Key costs are switch to switch local and EAS calls. The monthly cost for local and EAS switching was developed by multiplying a minute of use cost by the total (local and EAS) monthly usage.

Sprint uses the investment for the central office switching equipment developed in the Switching Cost Information System/Model Office (SCIS/MO or SCIS). SCIS is a pc-based Bellcore model that determines the forward-looking investment of a switch. SCIS allows Sprint to develop costs that are specific to each switch. For example, Sprint might have two switches with the same line size, but due to local demographics, they might have different usage and a resulting difference in cost.

SCIS/MO reflects a composite of existing Sprint in-service switches with actual data including:

- Number of access lines per switch
- Administrative fill factors
- Line Usage
- Trunk Usage
- Number of DS3's
- Number of trunks
- SS7 Octets
- ISDN
- AMA Equipment Type
- TR303 Ports
- Associated remotes

The outputs of SCIS are total investment dollars for each switch broken down into:

- Getting started cost (fixed cost) - The minimum investment required to provide switching, regardless of usage. It is composed primarily of the central processor and memory.

- Working lines investment - The cost associated with the physical appearance of a line on the switch. The primary cost components for analog lines are the distribution and protection frame costs and the line card.
- Excess CCS investment - That portion of the traffic-sensitive cost components not recovered by actual usage.
- Line CCS - Line CCS is the investment associated with usage sensitive line-side switching. It is composed primarily of the line concentrating module, DS-30A links, line group controller, DS-30 links, and the network module. (CCS is an acronym for 100 call second).
- Trunk CCS - The investment with usage sensitive trunk-side switching. It is composed primarily of digital trunk controllers, DS1 links, and the network module.
- SS7 and Umbilical CCS - The cost associated with the SS7 network (signaling information that is sent over a separate channel than the call itself) and investment related to the equipment at each end of the host and remote.

These investment dollars were then input to the Switching Model (SWIM). SWIM is a Sprint model that uses the SCIS investment outputs to develop unit costs for Line, Trunk and Tandem Set-up, Fixed Line, and Line and Trunk Tandem and Umbilical CCS.

Costs (in dollars per minute of use) were then multiplied by usage to yield monthly costs. The usage study was prepared by selecting a random sample of approximately 350 customers for each class of service in the study (R1, B1, etc.). Sprint used the local measured service feature in the switch for these customers to monitor the number and duration of calls during a two week period. This was used as the basis for the monthly cost developed for switching and transport costs.

#### Port

Port costs include the working line costs (line card, main distribution frame, and protector) and battery. Total port investment was developed in SCIS. Total port investment was multiplied by an annual charge factor, and divided by twelve and the number of lines to yield monthly port cost per customer.

#### EAS Transport

EAS transport costs are the cost to transport EAS calls from the calling party's local switch to the EAS called party's switch location. TSLRIC EAS transport costs were developed using Sprint's Transport Cost Model (TCM). Sprint believes that the development of TSLRIC interoffice transport costs should be based on the following key items, all of which are incorporated in the TCM. The model:

- Uses forward looking technology
- Is capable of costing OC3, OC12 and OC48 transport rings
- Reflects the use of existing wire centers

Assumptions used in the TCM are:

1. The material costs used in the model are based on current manufacturers' quotes. The installation costs reflect state-specific engineering and labor rates when possible.
2. The forward-looking terminal utilization factors used within the cost model are based on current utilized bandwidth adjusted for expected growth.
3. The ring configurations are based on the currently provisioned and planned configurations and are consistent with forward-looking applications.

For the EAS study, the TCM was run with annual charge factors developed to reflect the costs of providing local service. Transport costs (in dollars per minute of use) were multiplied by usage to yield monthly costs.

#### Annual Charge Factor Development

Annual charge factors were developed and applied to basic network functions in the process of calculating TSLRIC costs. FCC Accounts representing investment in basic network functions were digital switching (2212), circuit equipment (2232), and cable & wire facilities (2411 through 2441).

TSLRIC factors were calculated as total TSLRIC cost divided by total TSLRIC investment. They include cost of money, depreciation, deferred tax benefits, federal tax, ad valorem tax, and direct maintenance. In addition, they include costs of light and heavy trucks, network operations expenses (6530), uncollectibles (5301), and ordering costs (6623).

Sprint used an overall cost of money of the FCC-authorized rate of return of 11.25% to develop the annual charge factor. Depreciation lives reflected forward-looking lives of accounts 2212, 2232, and 2411 through 2441 as supported by a Technical Futures, Inc. study. For accounts 2112.2 and 2112.3, forward-looking depreciation lives were based on Sprint's depreciation lives for external reporting purposes.

Factors for basic network functions used in the provision of local services were developed based on loop, interoffice transport, and switching investment.

#### Basic Local Service Summary

The direct costs developed for the local loop, port, local and EAS switching, and EAS transport were summed to yield total basic local service TSLRIC cost. An example of the monthly cost development for basic local service would be as follows:

Function	Cost	Usage (hours per month)	Total Cost
Local Loop	\$19.37 / mo	Not Applicable	\$ 19.37
Port	\$1.79 / mo	Not Applicable	1.79
Local Switching	\$.0032200 / MOU	754.49	2.43
EAS Switching	\$.0031550 / MOU	198.24	0.63
EAS Transport	\$.0007402 / MOU	198.24	0.15
<b>Total Direct Cost</b>			<b>\$ 24.36</b>

### SUMMARY

Sprint's TSLRIC cost studies are specific to the costs of providing service in Sprint's Florida local telephone serving territory. To the extent possible, Sprint used geographic and company specific inputs which reflect the realities of providing service to specific Florida geographic areas. Sprint's experience with actually purchasing and installing telephone plant equipment provides the best information for predicting the forward looking installed costs within Sprint - Florida's serving areas. Inputs were based on current vendor prices for material and equipment purchases and current state-specific contract and company labor costs for engineering and installation.

This recent, factual and objective data provides the best basis for predicting the forward-looking cost of constructing telephone plant in Sprint - Florida's service territory. Use of the most currently available actual information serves as the best basis for estimating these costs on a forward-looking basis.



# EXHIBIT 1

## Benchmark Cost Proxy Model Results

### Key Elements

#### TOTAL SUMMARY

#### SPRINT

#### Investment: Capped<sup>1</sup>

Lines Above \$10K Loop Investment = 7,635

Analysis	Total	Per Line		
GRID Lines Served	1,938,005			
Average Distribution Length	2,093,554,840	1,080		
Average Feeder Length	36,524,036,205	18,846		
Average Loop Length	38,617,591,045	19,926		
Distribution Investment	\$ 876,137,822	\$ 452		
Feeder Investment	\$ 1,209,409,150	\$ 624		
Loop Investment (Capped)	\$ 1,945,240,801	\$ 1,004		
Plant Type	Capped Annual Investment	Percentage	Annual Per Line Investment	
2112 Motor Vehicle	\$ -	0.00%	\$ -	
2114 Special Purpose Vehicle	\$ -	0.00%	\$ -	
2113 Garage Work	\$ -	0.00%	\$ -	
2116 Other Work	\$ -	0.00%	\$ -	
2122 Furniture	\$ -	0.00%	\$ -	
2123 Office	\$ -	0.00%	\$ -	
2124 General Purpose Computers	\$ -	0.00%	\$ -	
<b>Total Support Investment</b>	<b>\$ -</b>	<b>0.00%</b>	<b>\$ -</b>	
2111 Land	\$ -	0.00%	\$ -	
2121 Building	\$ -	0.00%	\$ -	
2210 Switching Equipment	\$ -	0.00%	\$ -	
2230 Circuit Equipment	\$ 462,150,412	0.00%	\$ 238.47	
2230 IOF Equipment	\$ -	0.00%	\$ -	
2411 Pole Investment	\$ 22,857,607	1.18%	\$ 11.79	
2421 Aerial Cable - Copper	\$ 76,917,615	3.95%	\$ 39.69	
2421 Aerial Cable - Fiber	\$ 2,057,990	0.11%	\$ 1.05	
2421 Aerial Cable	\$ 78,975,605	4.06%	\$ 40.75	
2422 Underground Cable - Copper	\$ 39,793,912	2.05%	\$ 20.53	
2422 Underground Cable - Fiber	\$ 40,427,518	2.08%	\$ 20.86	
2422 Underground Cable	\$ 80,221,429	4.12%	\$ 41.39	
2423 Buried Cable - Copper	\$ 1,109,985,682	57.06%	\$ 572.75	
2423 Buried Cable - Fiber	\$ 120,059,738	6.17%	\$ 61.95	
2423 Buried Cable	\$ 1,230,045,419	0.00%	\$ 634.70	
2441 Conduit Investment	\$ 70,990,328	3.65%	\$ 36.63	
<b>Total Plant Investment</b>	<b>\$ 1,945,240,801</b>	<b>13.01%</b>	<b>\$ 1,003.73</b>	
<b>Total Investment</b>	<b>\$ 1,945,240,801</b>	<b>13.01%</b>	<b>\$ 1,003.73</b>	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand delivery (\*) this 24th day of September, 1998, to the following:

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*Charles J. Rehwinkel*  
ATTORNEY  
TKH

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
2                                   **COMMENTS OF F. BEN POAG**  
3                   **ON BEHALF OF SPRINT-FLORIDA, INCORPORATED**  
4                                   **SPECIAL PROJECT 980000A-SP**  
5

6       Q. Please state your name and business address.  
7

8       A. My name is F. Ben Poag. I am employed as Director-  
9       Regulatory Affairs for Sprint-Florida, Inc. My business  
10      mailing address is Post Office Box 2214, Tallahassee,  
11      Florida 32301.  
12

13     Q. What is your business experience and education?  
14

15     A. I have over 30 years experience in the telecommunications  
16     industry. I started my career with Southern Bell, where  
17     I held positions in Marketing, Engineering, Training,  
18     Rates and Tariffs, Public Relations and Regulatory. In  
19     May, 1985, I assumed a position with United Telephone  
20     Company of Florida as Director-Revenue Planning and  
21     Services Pricing. I have held various positions since  
22     then, all with regulatory, tariffs, costing and pricing  
23     responsibilities. In my current position I am responsible  
24     for regulatory matters regarding Sprint's local  
25     telecommunications operations. I am a graduate of Georgia

1 State University with a Bachelor's Degree in Business.

2

3 Q. What is the purpose of your comments in this proceeding?

4

5 A. The purpose of my comments is to provide Sprint's position  
6 regarding affordability, value of service and fair and  
7 reasonable residential local service rates. I also  
8 provide comments regarding the customer impacts of current  
9 rate structures and levels and the benefits that would  
10 likely result if telecommunications services were to be  
11 repriced.

12

13 Q. Does Sprint believe that repricing of telecommunications  
14 services is appropriate?

15

16 A. Yes. Historically, in a monopoly environment, basic local  
17 residential service rates have been priced as low as  
18 possible, and of average priced substantially below cost,  
19 with the objective of maintaining universal service. By  
20 pricing other services, primarily long distance toll and  
21 access services (toll), and non-basic services, such as  
22 call waiting and business access lines, substantially  
23 above their costs, sufficient revenues, it was hoped, were  
24 provided to recover appropriate costs. Thus, prices of  
25 telecommunications services in a monopoly environment have

1           been influenced more by public policy and social welfare  
2           objectives than economic forces.   However, with the  
3           passage of the Federal Telecommunications Act of 1996 (the  
4           Act) and revisions to Chapter 364, Florida Statutes, a  
5           legally enforceable monopoly environment no longer  
6           prevails.   It is inappropriate, and will become  
7           economically impossible in a developing competitive  
8           market, to maintain such pricing policies.   It is  
9           important to remember that the intent of both the federal  
10          and state legislation is to foster competition in the  
11          local telecommunications market.   Section 253 of the Act  
12          prohibits any state or local statute or regulation or  
13          other legal requirement prohibiting the ability of any  
14          entity to provide telecommunications services.

15  
16          Some of the major elements of the Act which are designed  
17          to foster competition are: Section 253, (removal of  
18          barriers to entry); see 254.(5) ("There should be  
19          specific, predictable and sufficient Federal and State  
20          mechanisms to preserve and advance universal service.");  
21          254.(b)(3) (including, for universal service purposes  
22          low-income consumers and those in rural, insular, and high  
23          cost areas); and 254(e) (all eligible telecommunications  
24          carriers shall be eligible to receive support and any such  
25          support should be explicit.)

1 Q. From a competitive perspective are there other reasons why  
2 telecommunications services need to be repriced?

3  
4 A. Yes. Competitors entering the local access market are  
5 doing so based on pricing which is not always based on the  
6 underlying economics. For example, ALECs serving business  
7 customers generally rely for their margins on the umbrella  
8 of high ILEC access charges, PBX, key or business access  
9 line rates, all of which currently provide implicit  
10 support of basic residential service. This can result in  
11 inefficient entrants and inappropriate investment  
12 decisions. When this occurs, consumers are the ultimate  
13 losers. Additionally, all consumers will not see the  
14 benefits of competition as competitors will not enter  
15 certain markets, especially high cost, low density  
16 markets, due to the low price/high cost disparity unless  
17 some combination of rates and universal service funding is  
18 sufficient to attract competition.

19  
20 Q. From a customer perspective what are the problems with the  
21 current price/cost disparities?

22  
23 A. The biggest problem from a customer perspective is that  
24 existing pricing policies result in cross subsidies  
25 between customers without regard to their ability to pay.



1 Low income customers who are heavy users of non-basic  
2 features and toll services are paying a premium for these  
3 services and would likely be winners if prices were  
4 rebalanced. According to the FCC March 1997 Reference  
5 Book, "nearly half of the telephone expenditures made by  
6 low income households are for toll and other discretionary  
7 services." There is absolutely no justification for these  
8 types of cross subsidies; to the contrary, it runs  
9 directly counter to commonly accepted public policy.  
10 Further, many low income customers may deny themselves the  
11 use of toll and non-basic services or use them less  
12 because of the higher prices for these services.

13

14 Additionally, under the current pricing of  
15 telecommunications services, customers in high cost areas  
16 will not see the benefits of competition and, over time,  
17 will see greater price increases than would otherwise be  
18 required unless an explicit targeted universal service  
19 mechanism is implemented as intended by the Act.

20

21 Q. What do you mean by "repricing"?

22

23 A. By repricing I mean, on a revenue neutral basis, reducing  
24 subsidies and bringing local basic residential service  
25 prices closer to the cost of providing the service and

1           reducing the prices of other services to be more in line  
2           with their costs.

3

4       Q.   What are the benefits of repricing telecommunications  
5       services to customers on a revenue neutral basis?

6

7       A.   Customers who use toll and non-basic local services, such  
8       as call waiting, are paying higher prices for these  
9       services so that basic residential local service rates  
10      will remain below their cost.   Customers will see  
11      reductions in the prices of non-basic services, such as  
12      toll as a result of access charge price reductions to  
13      interexchange long distance carriers.   With price  
14      reductions in toll and non-basic services, other customers  
15      may also benefit from subscription to the services to  
16      which they otherwise would not subscribe at the higher  
17      rates.   Lower prices for toll and non-basic services  
18      increase the utility and value of the basic service.

19

20      Q.   Because non-basic services and toll usage are not as  
21      important as basic service, what is the incentive for  
22      removing the subsidies to basic residence service?

23

24      A.   Implicit subsidies are not competitively neutral and will  
25      not bring the benefits of competition to all consumers.

1           Additionally, implicit subsidies are not targeted where  
2           they are most needed, that is, to high cost areas and low  
3           income customers. The current pricing scheme also results  
4           in a larger subsidy than is necessary because virtually  
5           all residential subscribers are receiving a subsidy  
6           without regard to needs.

7  
8           From a customer perspective, non-basic features can  
9           provide significant added value to the basic service and  
10          may be a near necessity in terms of how customers use the  
11          service. For example, in households with high volume  
12          telephone usage, call waiting is an extremely valuable  
13          service. In the case of a low income subscriber, call  
14          waiting may be the low priced alternative to a second  
15          line. Similarly, the increased privacy associated with  
16          Caller ID service has significant value for any  
17          individual, regardless of income status, and is  
18          particularly important for customers who are intimidated  
19          by some types of calls or who may feel threatened for some  
20          reason.

21  
22          Additionally, toll service has significant value for both  
23          business and personal uses. Households that have high  
24          demand for these services, particularly low income  
25          subscribers, should not have to pay a premium for services

1           in order to provide implicit subsidies to customers that  
2           do not need to be and should not be subsidized.

3

4       Q.   Why should some customers pay more for basic local service  
5           so other customers can get reductions in their toll and  
6           non-basic telephone service charges?

7

8       A.   Perhaps the more pertinent question is why are low income,  
9           and medium and high income customers paying more for their  
10          toll and non-basic services to keep basic service rates  
11          low for medium and high income customers that can well-  
12          afford to pay a larger portion of the cost of their basic  
13          local service? The problem is that under the existing  
14          system some customers are subsidizing other customers but  
15          there is absolutely no economic logic to the process. The  
16          result is that some high income customers are actually  
17          benefiting at the expense of low income customers that  
18          subscribe to non-basic services and/or make toll calls.  
19          This is inappropriate from a social, public policy,  
20          economic, and rational perspective. The FCC recognized  
21          this problem years ago and implemented the interstate  
22          subscriber line charge (SLC) as a recurring monthly local  
23          service charge; these SLC revenues were used for access  
24          reductions to toll carriers and were passed through to end  
25          user customers as lower interstate toll rates. This same

1 rebalancing has not occurred on the intrastate side; thus,  
2 intrastate access charges for most ILECs are much higher  
3 than their interstate counterpart even though the costs  
4 are the same. The result is that Florida's low income  
5 citizens and customers in general pay higher intrastate  
6 toll rates, but the resulting contributions from the  
7 higher prices are not targeted. This is contrary to the  
8 intent of the 1996 Telecommunications Act to make  
9 subsidies explicit and target them to low income customers  
10 and high cost areas. The current rates and rate  
11 structures are inconsistent with those goals and  
12 objectives.

13  
14 Q. Are you suggesting that prices for basic local service in  
15 all instances cover cost?

16  
17 A. No. In addition to acknowledging the need for reasonable  
18 Lifeline rates, I also recognize that customers in high  
19 cost areas should not have to pay the full cost of serving  
20 them and that a universal service mechanism should be put  
21 in place to provide such support.

22  
23 Q. What are you proposing?

24  
25 A. Today in Florida, because of the generally below-cost

1 residential basic local service rates, effectively most  
2 residence customers are receiving a subsidy from toll and  
3 other services. It makes no sense to continue to  
4 subsidize customers that can well-afford to pay more of  
5 the cost of their basic service. Additionally, low income  
6 customers should be relieved of the subsidy burden  
7 implicitly included in the higher rates they pay for toll  
8 and other non-basic services. Therefore, I am proposing  
9 to raise residential local service rates and decrease the  
10 latter for non-basic services in a revenue neutral manner.

11

12 Q. Would basic residential local service rates then become  
13 unaffordable?

14

15 A. No. Residential local service rates in Florida are  
16 substantially lower than the rates in other states for  
17 comparable residential services. For example, the  
18 national average rate for urban basic residential local  
19 service with Touchtone in 1997 was \$13.94 (without the  
20 subscriber line charge), (FCC Reference Book, July 1998).  
21 As I discuss later in my comments, the basic local rates  
22 in the seven other southern states studied are even higher  
23 than \$13.94. The current average rates for the three  
24 largest local telephone companies in Florida, Sprint,  
25 BellSouth and GTE, are \$4.36, \$3.93 and \$2.58,

1           business rates were approximately twice the residence  
2           rates. Similarly, rates in exchanges in metropolitan  
3           areas with larger local calling scopes were higher than  
4           rates in rural exchanges with smaller local calling areas.  
5           Thus, rates were set on value of service rather than  
6           costs, which are actually the inverse of prices (i.e., the  
7           lower the cost, the higher the price). That is, business  
8           services generally have shorter loops and are in more  
9           dense lower cost areas. Residence lines on average have  
10          longer loops and have a proportionately higher percentage  
11          of access lines in lower density rural areas and hence are  
12          more costly than business loops.

13  
14          However, under the value of service pricing concept  
15          business lines are priced higher than residence lines and  
16          residence lines in metro/urban areas are priced higher  
17          than in rural areas. This pricing is consistent with  
18          usage/value of the lines; i.e., the higher the usage the  
19          greater the value and the higher the price. The increased  
20          value of the larger local calling has been demonstrated  
21          before this Commission on many occasions in extended area  
22          service dockets (EAS) where customers agreed to pay higher  
23          local service rates to gain additional flat-rate local  
24          calling.

25

1 Q. Earlier you stated that introduction of the SLC permitted  
2 toll rate reductions. What is the basis for your  
3 statement that toll rates have decreased?

4  
5 A. Attachment 1 is a copy from the FCC's July 1998 Reference  
6 Book which shows the CPI adjusted interstate and  
7 intrastate toll rates from 1984 to 1998.

8  
9 Q. Are there other value of service considerations?

10

11 A. Yes. Consider, for example, the availability and prices  
12 of toll and non-basic services. We know from past  
13 experience in the EAS dockets that customers are willing  
14 to pay a higher local rate for additional flat-rate  
15 calling. We also know from current offerings that  
16 customers will subscribe to higher monthly charges for  
17 reduced toll calling rates; both interexchange carriers  
18 and LECs offer such plans. Thus, to the extent that toll  
19 prices are reduced, the value of the basic access line  
20 increases. Similarly, to the extent that the availability  
21 of non-basic services increase the utility of basic  
22 service, reductions in the prices of non-basic services  
23 and the availability of additional services increase the  
24 value of the service itself. As an analogy, as the price  
25 of gas, parking and maintenance decreases, the value of



1            automobile ownership increases. In Florida, over the past  
2            twenty years many new features have been added, local  
3            calling areas expanded through growth and additional EAS  
4            routes, and toll rates reduced. Thus, the value of basic  
5            service has increased greatly, but in real dollars, rates  
6            are substantially lower.

7

8            Q    From a rate or price perspective, how would you quantify  
9            an affordable rate level?

10

11            A.    Affordability is a combination of the ability to pay and  
12            the degree of need or necessity perceived by the customer.

13

14            From a rate perspective we can easily identify what  
15            customers in other areas are paying for service and  
16            compare it to the rates in Florida. For example, in  
17            Jackson, Mississippi, the basic rate for a local  
18            residential line is \$19.01 per month (not including the  
19            SLC) which provides flat-rate calling to approximately  
20            244,000 access lines in the local calling area. In  
21            contrast, Sprint's Winter Park exchange has a local  
22            calling area which includes more than 533,000 access  
23            lines, but the basic residential rate with Touchtone in  
24            Winter Park is only \$11.23 per month (not including the  
25            SLC).

1 Another factor that must be considered in establishing an  
2 affordable rate level is the availability of alternatives  
3 to the basic service, especially for low income customers.  
4 Lifeline service, with a Lifeline credit of \$10.50 per  
5 month, is available to low income customers in Jackson,  
6 Mississippi and Winter Park, Florida. The resulting basic  
7 rate for a Lifeline customer would be \$12.01 in Jackson  
8 and \$3.23 in Winter Park. Lifeline service is available  
9 in Florida to subscribers that qualify for any of six  
10 Federal assistance programs for low income individuals or  
11 families and generally covers households with an income  
12 up to 130% of the poverty level. Attachment 2, pages 1  
13 through 4 provide the Lifeline rates for Sprint's service  
14 area and the Federal eligibility requirements programs  
15 that are used to establish Lifeline eligibility in  
16 Florida. Thus, in determining an affordability level for  
17 residential subscribers in general, it is important that  
18 the focus be on subscribers who are above 130% of the  
19 poverty level and are not eligible for Lifeline service.  
20 If local service rates are established based on  
21 affordability for low income customers, the net result is  
22 that subsidies flow to subscribers that do not need to be  
23 subsidized and should not be subsidized. Therefore,  
24 affordability should be quantified separately for the low  
25 income customer segment versus the medium/high income

1 segment.

2

3 Q. How should the Commission quantify affordability for basic  
4 telecommunications service for the medium/high income  
5 segment?

6

7 A. A comparison of rates to subscribers in other states,  
8 along with data on households with service and income data  
9 provides a reasonable basis for determining what is  
10 affordable.

11

12 Q. Has Sprint done a comparative analysis of rates in other  
13 states with Sprint's residential basic local service rates  
14 in Florida?

15

16 Yes, in an effort to keep the data as relevant as possible  
17 to Florida, the analysis was limited to BellSouth's rates  
18 in seven other sunbelt states in the southeastern United  
19 States. I used BellSouth's rates because they serve the  
20 largest number of customers in these states and agreed to  
21 provide the requested rate information. I have also  
22 reviewed GTE's rates in three southeastern states; GTE  
23 provides service in Alabama, North Carolina and South  
24 Carolina. Their rates are comparable to BellSouth's  
25 rates. Sprint's residence basic service rates in North

1 Carolina, South Carolina and Tennessee are \$15.81, \$16.25,  
2 and \$17.80, respectively, with Touchtone and the SLC  
3 included.

4  
5 Attachment 3 is a list of the states and the BellSouth  
6 flat-rate single line residence average charges and the  
7 highest rates including EAS additives, and Sprint's  
8 comparable Florida rates.

9  
10 As shown by the attachment, Sprint's Florida rates on  
11 average are \$4.99 per month lower than the average charges  
12 and \$4.39 lower than the average highest rates for the  
13 seven other states. However, from an ability to pay  
14 perspective, Florida customers have higher average incomes  
15 than any of the other seven states. Attachment 4 shows  
16 the per capita personal income for Florida as compared to  
17 the other states; Attachment 5 shows the level of social  
18 security payments for Florida versus the other states; and  
19 Attachment 6 shows Florida's income rank nationally in  
20 comparison to the other states. Attachment 7 shows  
21 Florida's higher level of disposable personal income  
22 versus the seven other states.

23  
24 Q. How do these seven other states compare to Florida in  
25 terms of level of subscribership?

1       A. Based on the FCC's subscribership report for 1997, there  
2       is only 1% or less difference in subscribership levels for  
3       these other states except for Tennessee, which has a  
4       higher subscribership level, 96.4% versus 94.0%, than  
5       Florida. Attachment 8 is a bar chart of the 1997  
6       subscription levels of residential subscribers in Florida  
7       and the other seven southeastern states. Based on the  
8       rates in Florida and more favorable economic conditions,  
9       it would be expected that Florida would also have the  
10      highest subscription level. However, that is not the  
11      case. Two of the other states, North Carolina and  
12      Tennessee have higher subscription levels even though  
13      their residential local service rates are higher on  
14      average than the Florida rates of Sprint, GTE and  
15      BellSouth. Mississippi and Louisiana have measured  
16      residence service options; Louisiana did not have a  
17      Lifeline program in 1997, but does in 1998.

18  
19      It is significant to note, that even though these other  
20      states have basic residence local service rates that are  
21      on average 20% to 34% higher than the rates for the three  
22      largest LECs in Florida, the percentage of households with  
23      service in each of the other states has, over the past  
24      nine years, actually increased more than Florida's  
25      household subscription level. This is shown in Attachment

1           9 which compares the annual 1988 and 1997 subscription  
2           levels as reported by the FCC. Tennessee, which has the  
3           highest subscribership level, also has the lowest  
4           intrastate toll rates based on Sprint Communications  
5           Limited Partnership data. While some of the results may  
6           be attributable to sampling deviations, the magnitude of  
7           the penetration improvements in the other states cannot be  
8           the result of sampling deviation.

9

10        Q. What other information do you have which indicates that an  
11        affordable residence local rate in Florida and in  
12        particular Sprint's service area, is higher than its  
13        current rates?

14

15        A. Absolute rate comparisons and their effect on  
16        subscribership cannot be made because Sprint-specific  
17        subscribership data on households with service is not  
18        available. However, intuitively it is significant to  
19        point out that Sprint's current residential basic service  
20        rates are lower today than the rates that were in effect  
21        in its predecessor company's, the former Florida Telephone  
22        Corporation, service territory twenty years ago.  
23        Attachment 10, pages 1 and 2 are copies of tariffs of the  
24        Florida Telephone Corporation. As shown by these tariff  
25        sheets, in 1974 the one-party residential rate in the

1 former Florida Telephone Corporation's rate group 10 was  
2 \$11.25. This rate included the telephone set and inside  
3 wire maintenance; the interstate subscriber line charge  
4 was not applicable. In October 1978 the rate increased to  
5 \$14.85.

6

7 Q. In real or CPI adjusted dollars, what would be a 1998  
8 equivalent rate to the October 1978 rate of \$14.85?

9

10 A. The October 1978 CPI is 67.1 versus 163.4 for August 1998.  
11 Therefore, the CPI adjusted rate would be \$32.13. Since  
12 2-party and 4-party services were also available in 1978,  
13 the 2-party service CPI adjusted rate would be a \$24.34.  
14 Given that the value of service is greater today than it  
15 was in 1978 in terms of access lines in the local calling  
16 area, greater availability of features, lower priced toll  
17 service, and access to the Internet, this historical  
18 comparison would suggest that an affordable rate is well  
19 above \$20.00 for medium and high income customers in  
20 Sprint's service areas.

21

22 Q. Did the 1978 rate also include a telephone set, inside  
23 wire maintenance and no separate charges for directory  
24 assistance calls versus the current three call allowance?

25

- 1 A. Yes, and I made adjustments to the base rate to remove the  
2 charges for these other services.  
3
- 4 Q. Weren't the rates for Florida Telephone Corporation  
5 subsequently reduced?  
6
- 7 A. Yes. In the 1982/1983 time frame, the Florida Telephone  
8 Corporation, the Orange City Telephone Company, the Winter  
9 Park Telephone Company and the United Telephone Company  
10 were merged into a single company and most of the  
11 companies' rates were made uniform.  
12
- 13 Q. Why are you concentrating on the highest rates in your  
14 analogies and examples?  
15
- 16 A. The purpose of this proceeding is to establish fair and  
17 reasonable residential basic service rates. The  
18 legislation requires consideration of affordability, value  
19 of service, comparable rates in other states and cost. In  
20 establishing an affordability level, it is appropriate to  
21 look at the higher rates not the lower rates. It is also  
22 appropriate for the analysis of affordability to consider  
23 the households with service and income levels.  
24
- 25 Q. Do you have a more current example of affordability in



1 Florida?

2  
3 A. Yes, another example of affordability is the rate in  
4 effect in Sprint's Greenville exchange in Madison County,  
5 Florida. The Greenville exchange basic residence local  
6 service rate, which is \$13.07 with Touchtone, provides its  
7 subscribers flat-rate local calling to 227,568 other  
8 access lines including access lines in the Tallahassee  
9 exchange. On the other hand, Sprint's Tallahassee  
10 exchange customers pay only \$10.65 (with Touchtone), or  
11 \$2.42 per month less than Greenville's residence  
12 customers, and have access to 234,686 access lines in the  
13 Tallahassee exchange local calling area.

14  
15 The Greenville rate was changed in Docket No. 920643-TL  
16 when the FPSC ordered Centel (Sprint) to expand the  
17 Greenville local calling area to include the Tallahassee  
18 and Monticello exchanges in April, 1993. The approval  
19 was based on a majority of the respondents to the EAS  
20 survey indicating that they were willing to pay the higher  
21 rate for EAS to Tallahassee. Clearly, this is a strong  
22 indication that in 1993 customers believed \$13.07 was a  
23 fair and reasonable rate for the Greenville exchange with  
24 the expanded local calling area.

25

- 1 Q. What other data do you have to support the affordability  
2 of higher priced residential local service for medium and  
3 high income customers?  
4
- 5 A. According to the FCC's Telephone Subscribership in the  
6 United States, July 1998 report, 80.8% of U.S. households  
7 in 1997 with less than \$5,000 annual income had telephone  
8 service available. For households with incomes between  
9 \$5,000 and \$7,499 and \$7,500 and \$9,999, 85.9% and 89.5%  
10 of households had telephone service available,  
11 respectively. (See Attachment 11.) If 80 to 90% of  
12 households in the U.S. with incomes below \$10,000 can  
13 afford telephone service, and telephone service rates in  
14 other states are higher on average than in Florida,  
15 clearly there is no need to continue the current level of  
16 subsidies to residential service for medium and high  
17 income customers that can well afford to pay a larger  
18 portion of the cost of the service.  
19
- 20 Q. Based on your analysis, what would you propose as fair and  
21 reasonable local service rates for Sprint's service area?  
22
- 23 A. Based on analysis of the rates in other states; the  
24 overall level of households with service; the rates in  
25 effect in the 1970's and early 1980's for the Florida

1 Telephone Corporation; and the availability of Lifeline  
2 service for low income subscribers, a fair and reasonable  
3 rate for basic local service is no less than the \$15.62  
4 average of the other seven southeastern sunbelt states.  
5 When demographic data is considered, this rate is not only  
6 reasonable but it is proven affordable by empirical data;  
7 that is, the rates and the percentage of households with  
8 residential telephone service in the seven neighboring  
9 states. The rates for the highest rate groups for  
10 Alabama, Mississippi and South Carolina are \$16.30, \$16.40  
11 and \$19.01, respectively. Adding the SLC charge of \$3.50  
12 produces local service rates of \$19.80, \$19.90 and \$22.51,  
13 respectively. As shown by FCC's May 29, 1997, telephone  
14 subscribership report, the percentages for the number of  
15 households with telephone service available for these  
16 three states are 93.6, 93.2 and 93.8, respectively. From  
17 an economic/ability to pay perspective, Florida consumers  
18 have more personal income than any of the other seven  
19 sunbelt states. Attachment 12 graphically illustrates the  
20 average rates for the three largest local exchange  
21 companies, subscribers levels and per capita income for  
22 Florida versus the seven other southeastern states and the  
23 United States.

24  
25 Additionally, the Florida Public Service Commission has

1 extended Lifeline service eligibility to customers which  
2 qualify for any of six federal programs (see Attachment 2)  
3 for persons and/or households needing financial  
4 assistance. Thus, any household which is up to 130% above  
5 the national poverty level can qualify for Lifeline  
6 service. For a family of four, this would include  
7 households with an income level of up to \$21,385, based on  
8 1998 federal poverty guidelines.

9  
10 Q. Have you done an analysis of Lifeline rates in other  
11 states?

12  
13 A. Yes, Attachment 13, provides a comparison of Lifeline  
14 rates in the seven southeastern states, the national  
15 average and Sprint's Winter Park exchange Lifeline rate.

16  
17 Q. What do you propose for Lifeline rates in Florida?

18  
19 A. All Lifeline customers should get the \$10.50 credit as is  
20 currently available in Florida. Given that 80.8% of  
21 customers with less than a \$5,000 household income have  
22 telephone service available, the \$10.50 credit, based on  
23 the national average Lifeline rate, is fair and  
24 reasonable.

25

1           In establishing a support level for low income subscribers  
2           it should be recognized that it is customers in general  
3           that are paying the subsidies. The smaller the subsidies,  
4           the more equitable, fair and reasonable rates for all  
5           services will be. Thus, subsidies should be targeted  
6           where needed.

7

8           Q. Is it appropriate to increase local service rates to  
9           justify decreases in the rates for other services?

10

11          A. Yes. First, aligning rates with their underlying cost  
12          will foster competition in all telecommunications markets,  
13          not just in low cost areas. Second, it will be more  
14          equitable to consumers. For example, if two grandmothers  
15          with equal incomes both pay \$15.00 in total charges each  
16          for their local service, but also one, Grandma Toll, makes  
17          \$15.00 in long distance calls to her grandchildren, there  
18          is no rational justification why she should pay more for  
19          her toll calls so that the Grandma Local pays less for her  
20          local service. Unfortunately, this is how the current  
21          subsidy system works.

22

23          More importantly, there is no justification why Grandma  
24          Toll should contribute to the cost of basic local service  
25          for the many customers that have incomes well above the

1 poverty level.

2

3 If the subsidies to residence local service only went to  
4 the low income customers, it would provide at least some  
5 justification for the contributions from toll and non-  
6 basic services; however, the Lifeline program is designed  
7 to take care of the low income subscribers. The current  
8 pricing policies deny low income subscribers access to  
9 toll and non-basic services at more affordable levels.

10

11 Q. Do you have data on subscription to non-basic services and  
12 use of toll by low income customers?

13

14 A. Yes, Approximately half (49.2%) of Sprint's Lifeline  
15 customers subscribe to non-basic services. The average  
16 expenditures for the non-basic customers is \$9.69 per  
17 month (August 1998). Additionally, according to PNR and  
18 Associates data, 94% of Florida customers with household  
19 incomes below \$25,000 make toll calls. Given this data,  
20 the continued need for cross subsidies between customer  
21 classes is not economically or socially justified.  
22 Results in economic misallocations of resources, does not  
23 foster competition for residential services and, as  
24 evidenced by comparison to subscription levels in the  
25 seven neighboring states, has not increased Florida's

1 households with service relative to the other states.  
2  
3 Q. You indicate that residential local service rates are  
4 below costs. What are Sprint's costs for residential  
5 basic local service?  
6  
7 A. Sprint's average forward looking cost is \$26.91, excluding  
8 any joint and common costs. This compares with an average  
9 basic revenue per line of \$14.23. The \$14.23 includes  
10 measured Extended Local Calling, Touchtone and the  
11 subscriber line charge (SLC) revenues.  
12  
13 Q. How does this compare to the embedded cost of residence  
14 local service?  
15  
16 A. Sprint does not have embedded cost data by class of  
17 service. However, local exchange companies file embedded  
18 accounting data with the National Exchange Carrier  
19 Association for determining Universal Service high cost  
20 funding based on a FCC prescribed cost methodology. For  
21 Sprint, the average loop monthly cost for residence and  
22 business loops combined is \$22.50. The residence loop  
23 cost would actually be higher because residence loops on  
24 average are longer than business loops. However, using  
25 the \$22.50 as a surrogate for the residence loop and

1 adding the embedded accounting line port cost of \$3.15  
2 produces a conservative embedded residence cost of \$25.65.

3

4 Q. If this is a declining cost industry, why should rates  
5 increase when costs are decreasing?

6

7 A. We are seeing some economies of scope, but by the same  
8 token, labor, material, and transportation costs are  
9 increasing. Yet, even if costs were declining, because of  
10 the current high disparity between cost and price as shown  
11 above, it would be many years into the future before costs  
12 would be aligned with current rates. This is especially  
13 true for high cost areas which are being subsidized with  
14 implicit subsidies. This is contrary to the intent of the  
15 1996 Telecommunications Act which is to make subsidies  
16 explicit. Further, it will not foster competition in all  
17 markets and many customers will be denied the benefits of  
18 competition if prices are not aligned with their economic  
19 costs.

20

21 Q. Are you proposing that the flat-rate basic residence local  
22 service rates should be doubled or increased to the \$22 to  
23 \$23 range?

24

25 A. No, I am not proposing to double local service rates. I



1 do propose that local exchange companies be allowed the  
2 flexibility to begin the process of adjusting local  
3 service rates, on a revenue neutral basis, more in line  
4 with the cost of providing the service, but not above an  
5 affordable rate level. I do not think that it is  
6 necessary to flash cut the rate changes, but monthly local  
7 service rates should be transitioned by a maximum of \$2.00  
8 per year until the current average rate of the other  
9 southeastern Sunbelt states of \$15.62 is reached.

10  
11 Assuming this process were to start after the 1999  
12 legislative session, it would most likely be late 1999 or  
13 early 2000 before any price changes take place. Thus, if  
14 the first price increase were to take effect on January 1,  
15 2000, it would be the year 2003, more than four years,  
16 before Sprint's highest rate group price reached the  
17 current average of the other sunbelt states. Once that  
18 level is attained, there will be much more competition and  
19 local exchange service providers should have complete  
20 freedom to reprice local residence services as long as the  
21 increases do not exceed 6% annually. In any situation in  
22 which it is determined that rates beyond a certain level  
23 are not affordable, the difference between cost and the  
24 affordable rate should be funded by a competitively  
25 neutral Universal Service fund.

- 1 Q. What about earnings? Should the FPSC make a determination  
2 of the earnings of each company before recommending a fair  
3 and reasonable residence service rate?  
4
- 5 A. No. Earnings have nothing to do with the price of  
6 residential basic local service. The legislature  
7 specifically identified the four issues that the FPSC  
8 should consider in determining a fair and reasonable  
9 residential rate. The issues are: one, affordability;  
10 two, value of service; three, comparable rates in other  
11 states; and four, cost. The purpose of both the Federal  
12 Act and State Legislation on telecommunications is to  
13 foster competition, not return to an antiquated earnings  
14 regulatory tool. A return to such regulation at best  
15 would be short lived, would do nothing to bring the  
16 benefits of competition to consumers and would consume  
17 resources that could better be utilized to implement the  
18 intent of legislation by establishing an explicit  
19 universal service fund for low income consumers and high  
20 cost areas. Such a fund should be used to foster  
21 competition and ensure that subsidies are properly  
22 targeted consistent with the intent of the 1996  
23 Telecommunications Act.  
24
- 25 Q. How do you respond to the argument that because the local

1           loop is used for both local and long distance services it  
2           should be treated as a common cost or its costs allocated  
3           to all services for which it is used?

4  
5       A. That argument is really illogical because it still results  
6       in one customer paying more so another customer pays less  
7       without any regard to the ability of either to pay. For  
8       example, since Grandma Local only subscribes to local  
9       service, it is irrational to state that the loop is a  
10       common cost. It makes no sense for Grandma Toll to pay  
11       higher toll rates to subsidize Grandma Local's local  
12       service, (they both have the same income), and then  
13       attempt to justify such pricing by stating that the loop  
14       is used for both services. Even if there were some long  
15       distance and features used by the Grandma Local, only a  
16       small amount of the cost of the loop would be allocated to  
17       these other services. However, it is not logically  
18       persuasive to argue for revenue imputation and/or cost  
19       allocation on the one hand, and, on the other hand state  
20       that some customers will see a rate increase because they  
21       do not use these services. This is the proverbial  
22       mentality of having my cake and eating it too. The best  
23       way to address the problem is to have all services cover  
24       their direct cost and provide some contribution to common  
25       costs. Where the cost of basic service exceeds an

1           affordable level, explicit universal service funds should  
2           make up the difference between the affordable rate and the  
3           cost. Universal service funding would also be used to  
4           subsidize low income customers. However, we need to stop  
5           subsidizing all residential customers.

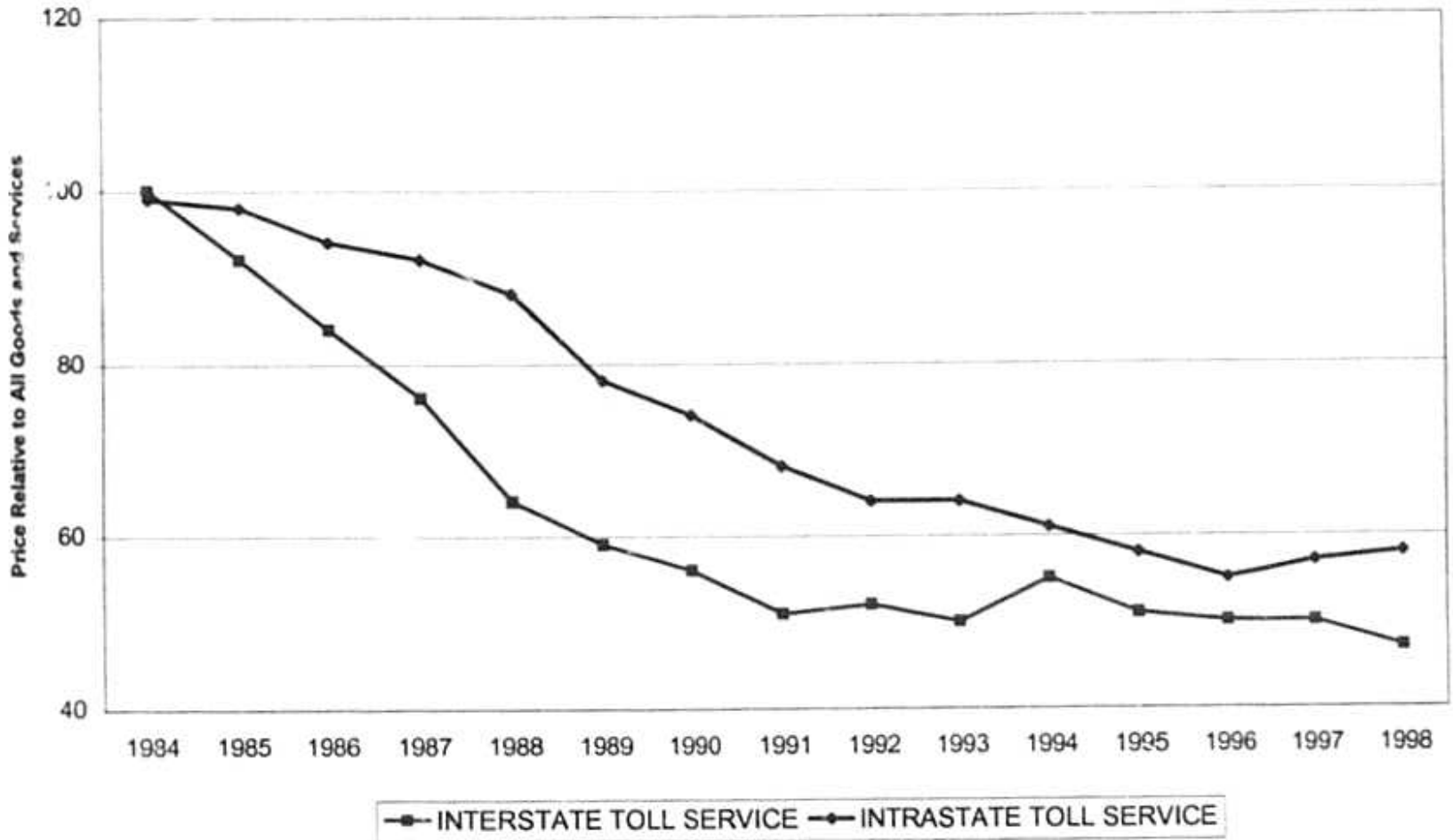
6

7           Q. Does that conclude your comments?

8

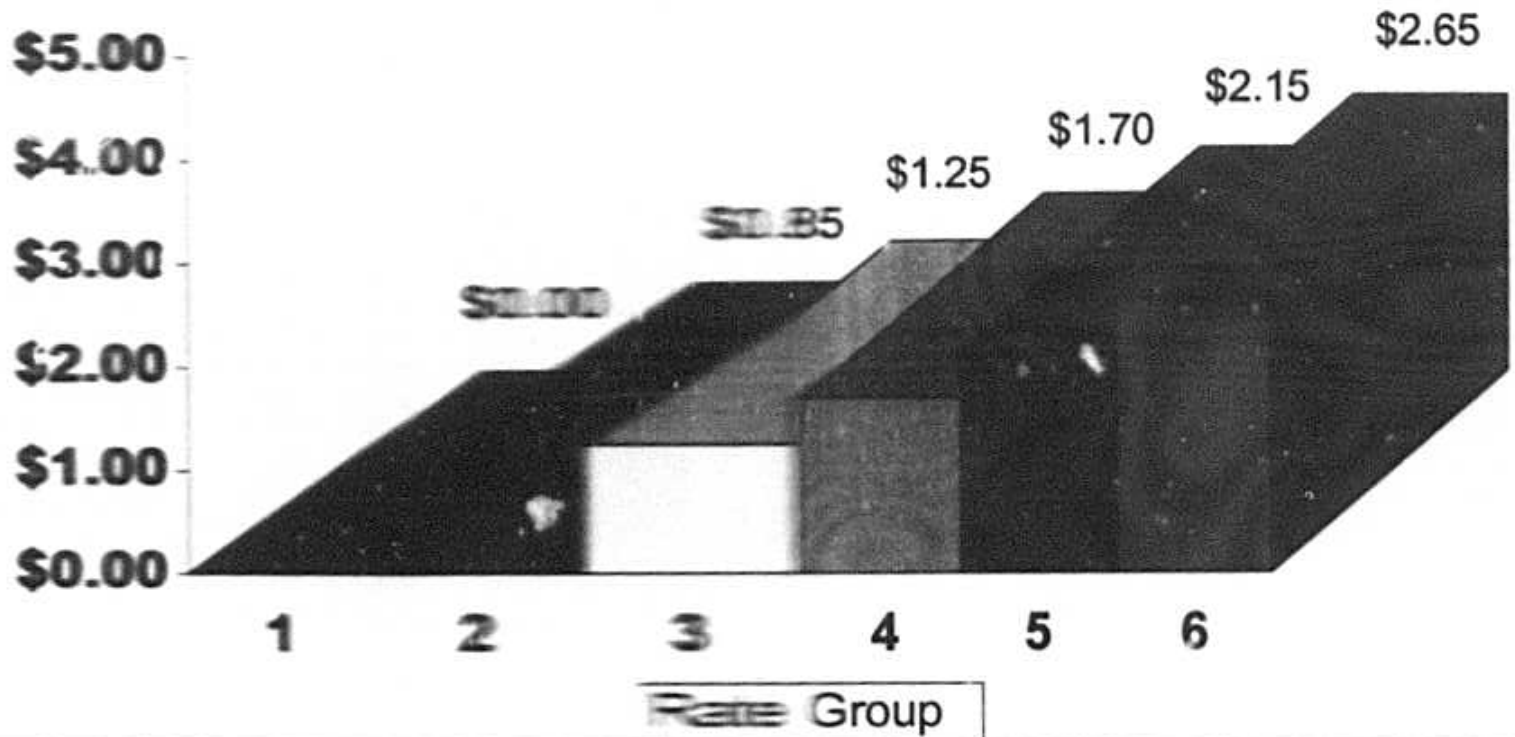
9           A. Yes.

### Consumer Price Indices Adjusted for Inflation

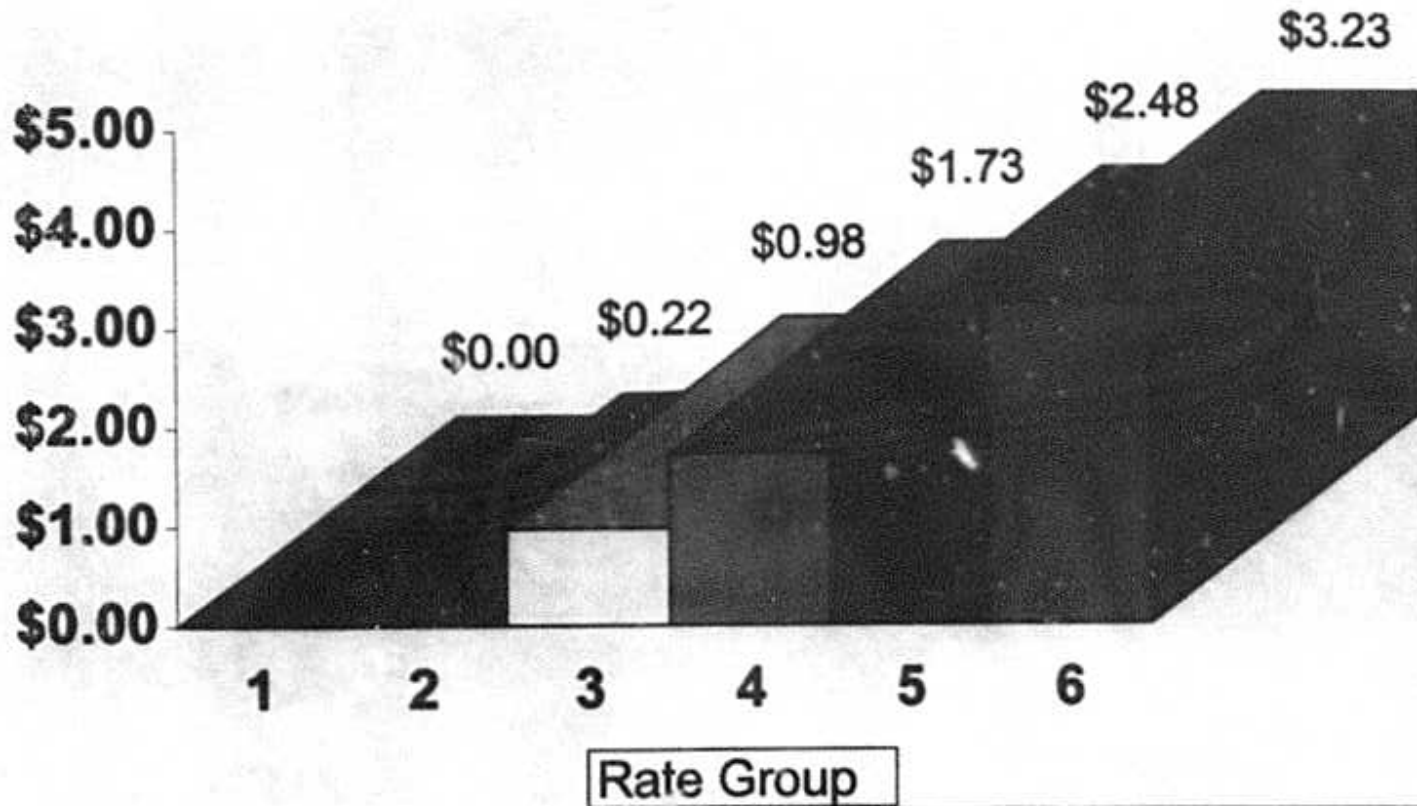


Adjusted using the CPI for all goods and services

# SPRINT LIFELINE RATES NORTHERN REGION (Former Centel Area)



## SPRINT LIFELINE RATES SOUTHERN REGION (Former United Area)



## FEDERAL TELECOMMUNICATIONS LIFELINE ASSISTANCE ELIGIBILITY REQUIREMENTS

Program Name/Definition	Eligibility
<p><b>Medicaid</b> Medicaid is a joint state-federal health insurance program for low income individuals. Medicaid is administered by individual states with federal oversight and regulation.</p>	<p>State Medicaid plans are currently linked to federal SSI eligibility requirements (\$458 per individual, \$687 per couple). States have some flexibility in the eligibility criteria.</p>
<p><b>Temporary Aid to Needy Families (TANF)</b> TANF is a block grant program established by the welfare reform law of 1996 to replace the AFDC (Aid to Families with Dependent Children) cash assistance program.</p>	<p>The family income and resources must meet the pre-reform AFDC Standards. Deprivation requirement; a child must be living with a parent or other relative and deprived of parental support by the death, absence, incapacity or unemployment of a parent.</p>
<p><b>Supplemental Security Income (SSI)</b> SSI is a means-tested, federally administered income assistance program that provides monthly cash payments to the needy, aged, blind and disabled in accordance with uniform nationwide eligibility requirements.</p>	<p>Monthly income, after certain amounts are disregarded, cannot be greater than the maximum monthly SSI benefit amount (\$458 per individual, \$687 per couple). The limit on countable resources for SSI eligibility is \$2,000 per individual and \$3,000 per couple.</p>

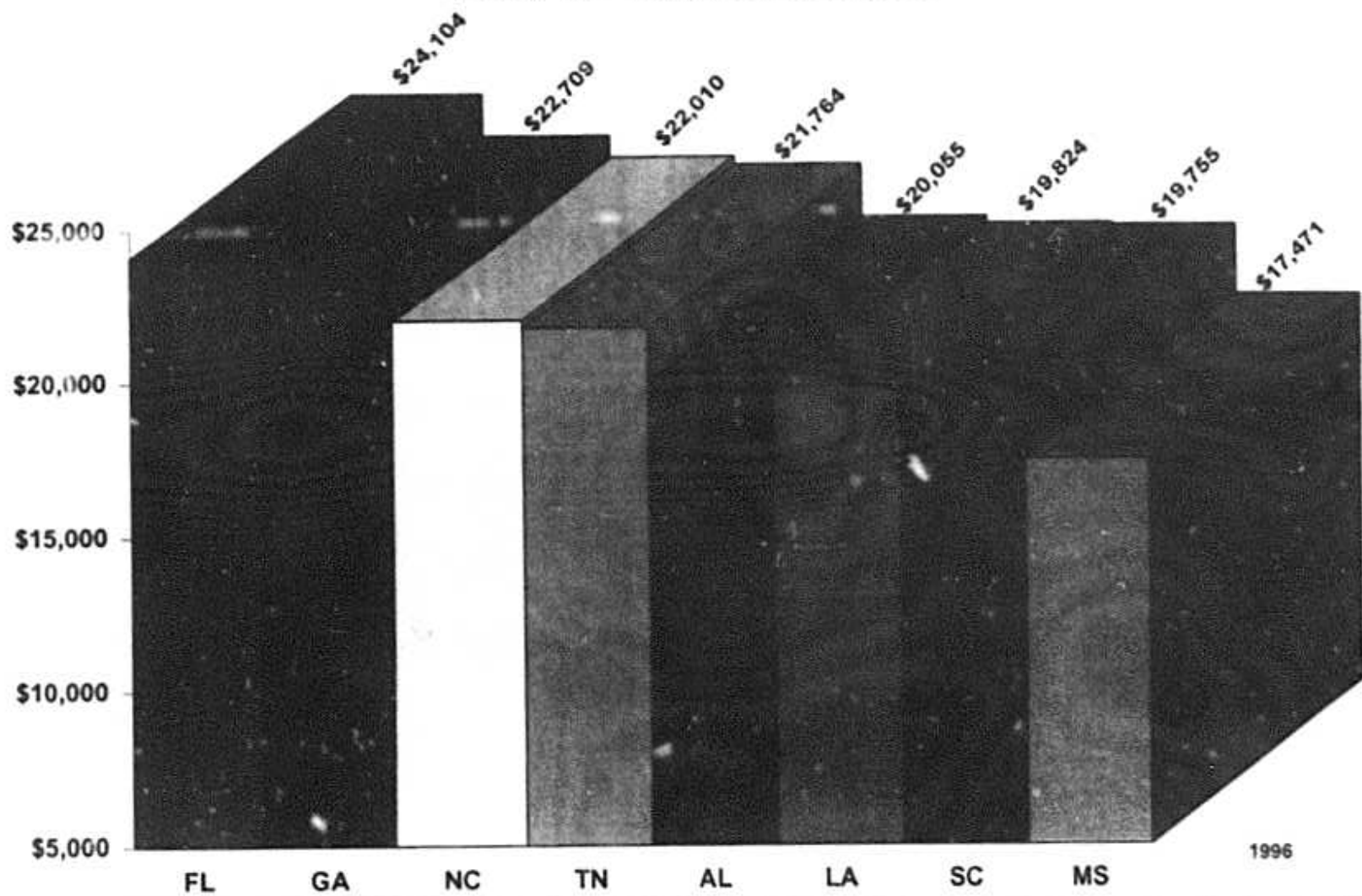


## FEDERAL TELECOMMUNICATIONS LIFELINE ASSISTANCE ELIGIBILITY REQUIREMENTS

Program Name/Definition	Eligibility
<p><b>Food Stamps</b> The Food Stamp program is a Federal/State program to help low-income families buy the food they need to stay healthy, and be productive members of society. Food coupons or debit cards are used to buy food in approved food stores.</p>	<p>The net and gross income eligibility standards is 100 percent and 130 percent, respectively, of the Federal income poverty levels. The maximum allowable resources is \$2,000 for the household, except that, for households including a member or members age 60 or over, such resources shall not exceed \$3,000.</p>
<p><b>Low Income Home Energy Assistance Program (LIHEAP)</b> A federal program to assist low-income households in winter crisis, summer crisis, and energy assistance, block-granted and administered by states.</p>	<p>The Florida Dept. of Community Affairs set an income eligibility standard of 125 percent of the Federal income poverty levels.</p>
<p><b>Federal Public Housing Assistance</b> Public housing is built by cities using federal funds and operated by housing authorities. Rent is based on the family's income and size. Generally public housing rent cannot be more than 30% of the family's total annual income.</p>	<p>Public housing is available to families and to the handicapped, disabled and elderly. Section 8 assistance family income must be in the lower quartile of family incomes by county. The housing authority may also review applicant's history as a tenant and any criminal history.</p>

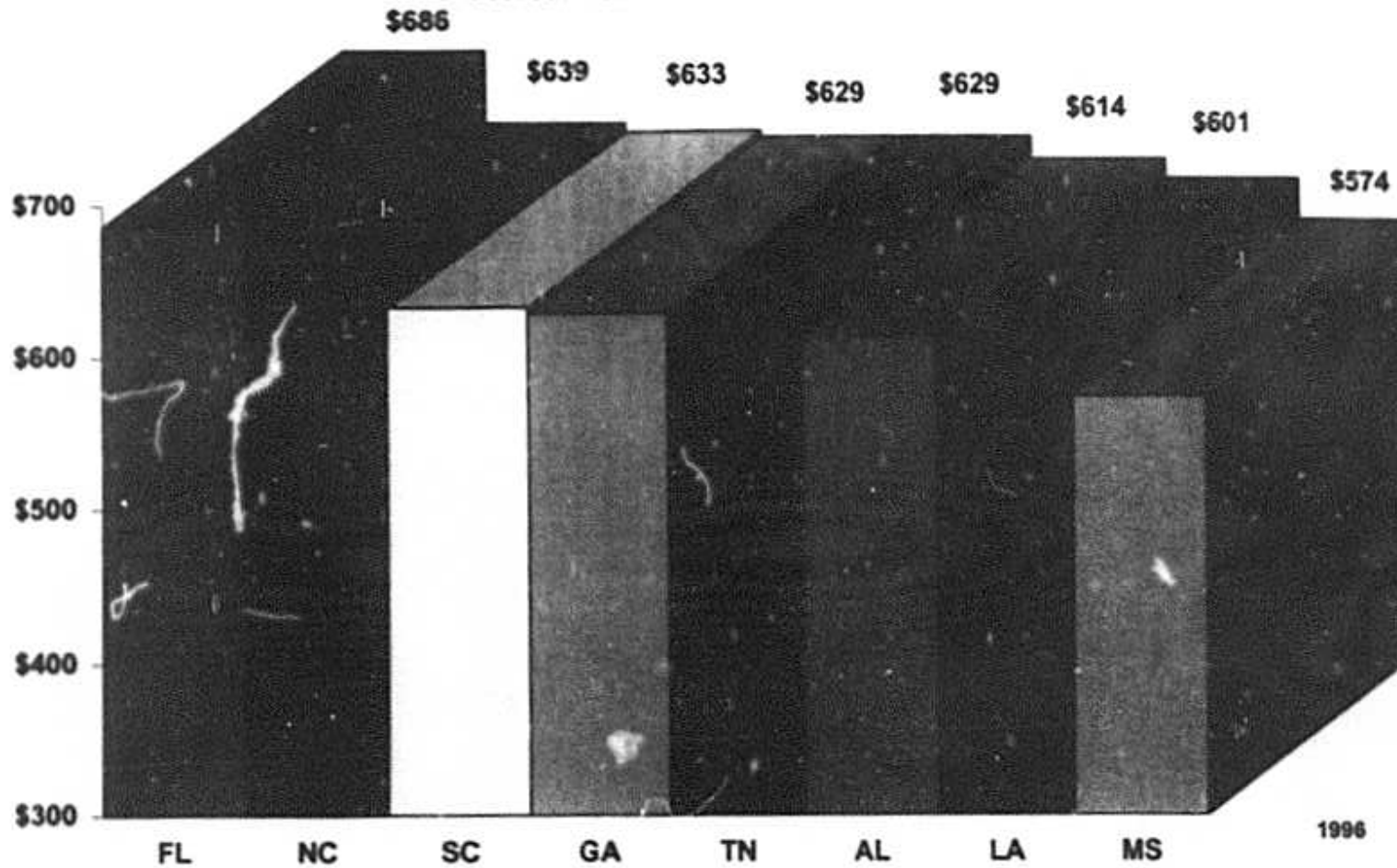
# PERSONAL INCOME PER CAPITA

Source: 1997 Florida Statistical Abstract



## AVERAGE MONTHLY SOCIAL SECURITY PAYMENTS

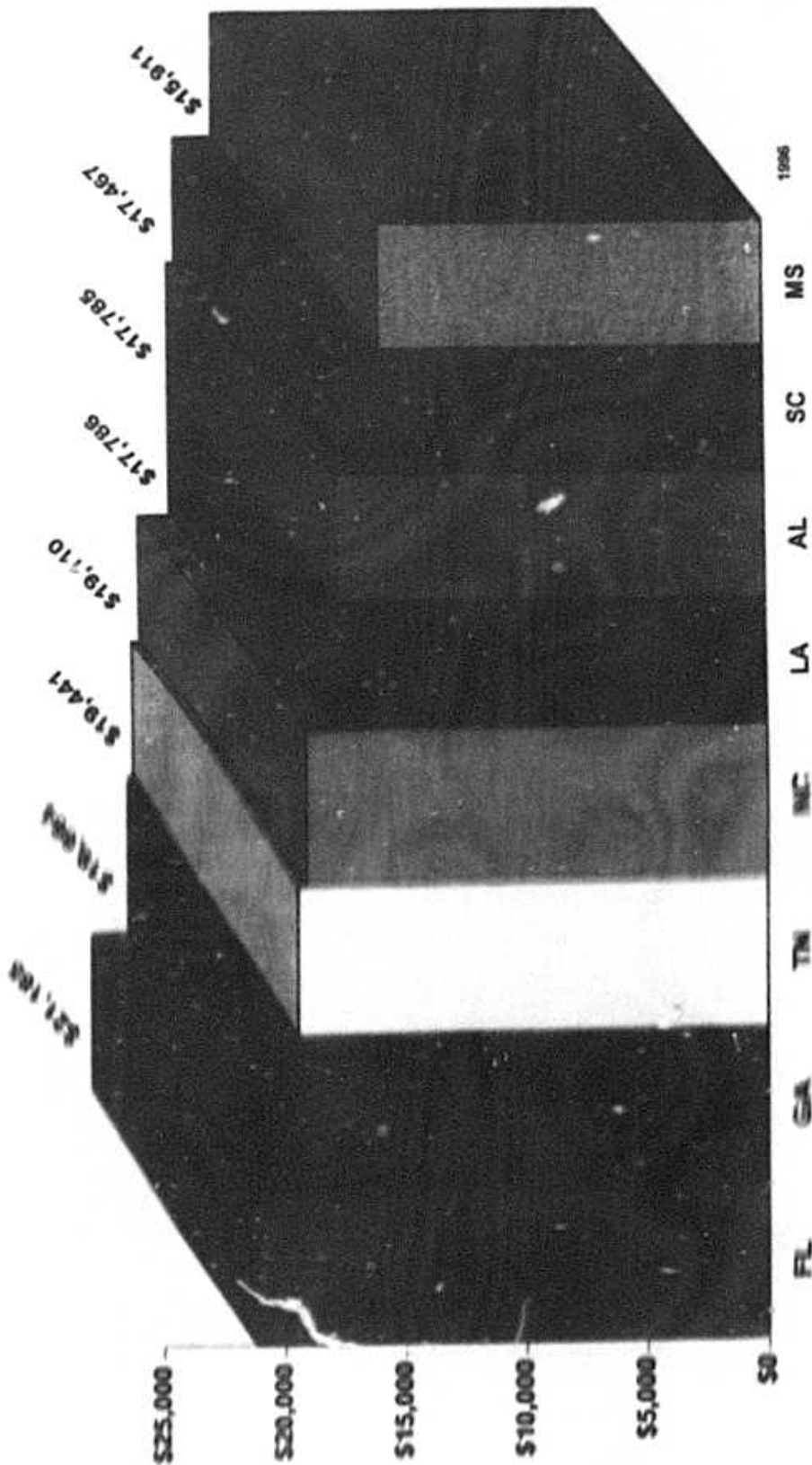
Source: 1997 Florida Statistical Abstract



1996

# DISPOSABLE PERSONAL INCOME

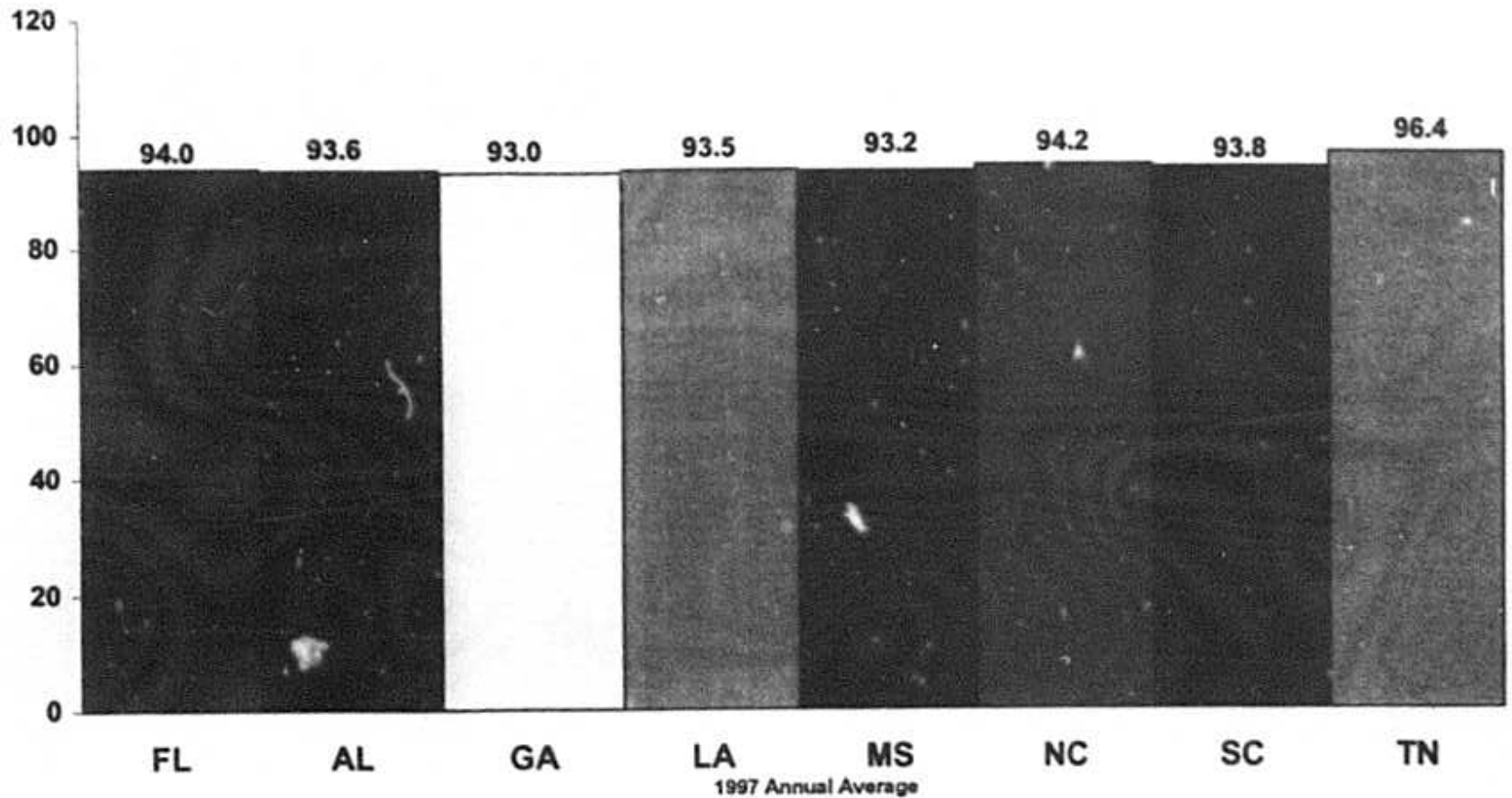
SOURCE: 1987 Florida Statistical Abstract



1986

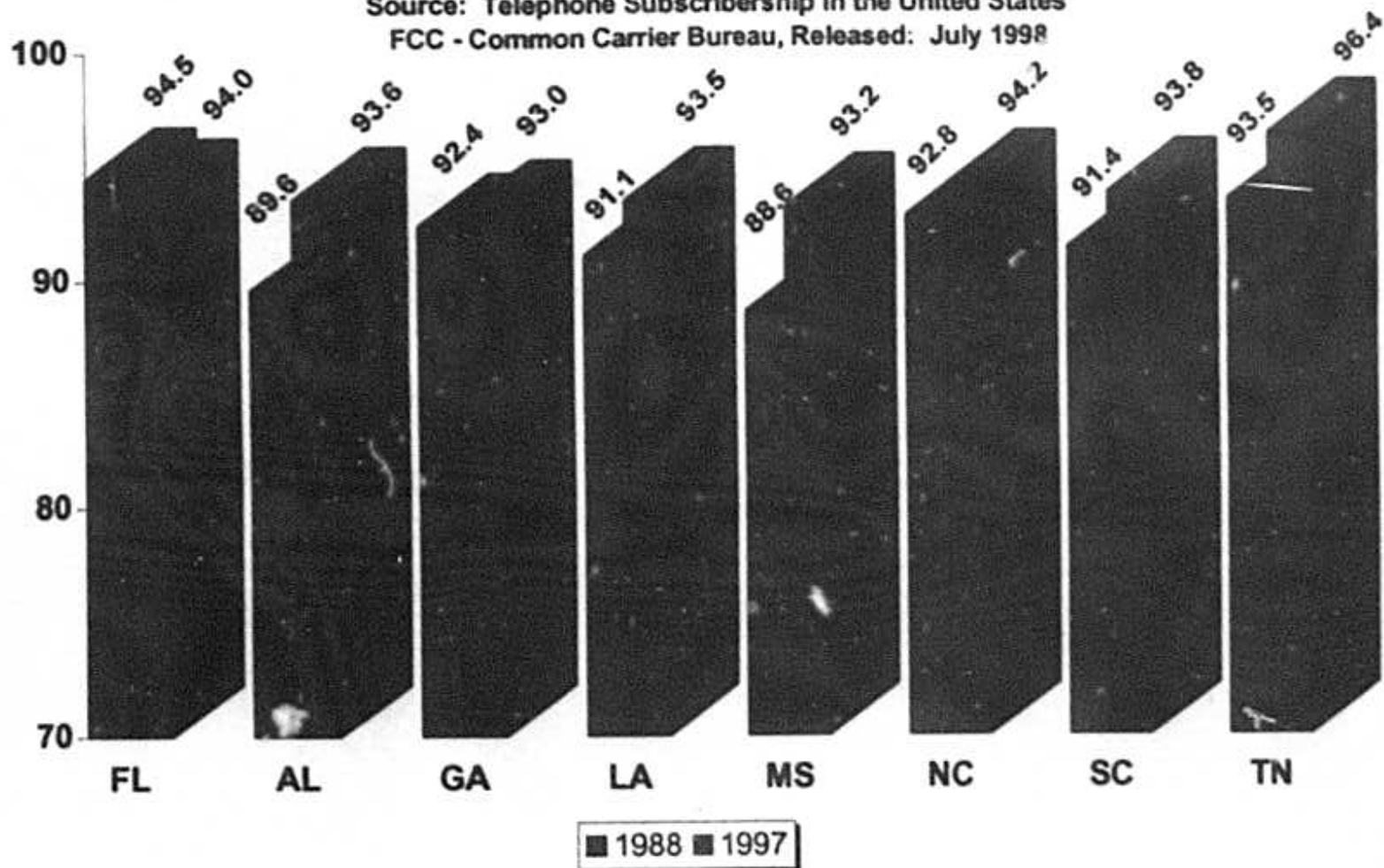
## % HOUSEHOLDS WITH TELEPHONE SERVICE AVAILABLE

Source: Telephone Subscribership in the United States  
FCC - Common Carrier Bureau, Released: July 1998



## % HOUSEHOLDS WITH TELEPHONE SERVICE AVAILABLE

Source: Telephone Subscribership in the United States  
FCC - Common Carrier Bureau, Released: July 1998



FLORIDA  
 TELEPHONE  
 CORPORATION

GENERAL EXCHANGE TARIFF

Section 26  
 6th Revised Sheet 2  
 Cancelling 5th Revised Sheet 2

LOCAL EXCHANGE SERVICE

B. RATE SCHEDULE (Cont'd)

Group	Main Station and Trunk Upper Limit		Individual Line	2-Party Line	4-Party Line	(1)
	9	Unlimited	Business Residence	\$ 32.05 14.85	\$ 25.60 11.65	

1. A reduction of \$.60 will apply to those rates whenever a one-party residence or business subscriber elects to provide his own main station telephone equipment. (N)

2. Whenever the number of main stations and trunks in the local calling area of an exchange increases or decreases to the extent that such exchange would fall into a different rate group, a revised Local Exchange Tariff shall be filed for authority to reclassify the exchange to its current appropriate group. Such excess or deficit will be considered to have been established, for such reclassification purposes when:

- a. The number of main stations and trunks in the local calling area of the exchange, average for ends of any twelve (12) consecutive months, falls into a different rate group from that currently authorized, or
- b. The local calling area of an exchange is revised as a result of a change of extended area service as approved by the Commission, and the number of main stations and trunks in the revised local calling area falls into a different rate group than that in which the exchange is currently classified.

3. All lines in a group of main station lines (excluding PBX trunks) arranged for rotary, hunting or similar service which allows completion of an incoming call to any of the lines in the group from a line that is called but is in use, to another line, by means of central office equipment, will have a rate on each of the lines in the group of 1.3 times the individual line rate specified in B. 1. preceding. This rotary rate differential will not be applicable on PBX trunks.

C. GROUPING OF EXCHANGE AND KEY TO EXCHANGE RATES

The following is a list of Florida Telephone Corporation exchanges by group:

Exchange	Rate Group	Local Calling Area Includes:
Apopka	9	East Orange*, Montverde, Lake Buena Vista*, Orlando*, Windermere, Winter Garden, Winter Park*
Astor	6	Clermont, Eustis, Groveland, Howey, Lady Lake, Leesburg, Montverde, Mount Dora, Tavares, Umatilla

Florida Public Service Commission  
 Issued:

Order No.:  
 Effective: OCT 17 1978

By: R. E. King, Vice President - Revenue Requirements

FLORIDA  
 TELEPHONE  
 CORPORATION

GENERAL EXCHANGE TARIFF

Section 26  
 1st Revised Sheet 2  
 Cancelling Original Sheet 2

LOCAL EXCHANGE SERVICE

B. RATE SCHEDULE (Cont'd)

1. (Cont'd)

Group	Main Station and Trunk Upper Limit		Individual Line	2-Party Line	4-Party Line	5-Party Line	(0)
8	100,000	Business	\$ 22.00	\$ 17.75	\$ -	\$ 15.50	
		Residence	10.25	7.75	7.00	7.25	
9	185,000	Business	23.00	18.50	-	16.25	
		Residence	10.70	8.25	7.25	7.50	
10	Unlimited	Business	24.00	19.25	-	17.00	
		Residence	11.25	8.75	7.75	8.00	

2. Whenever the number of main stations and trunks in the local calling area of an exchange increases or decreases to the extent that such exchange would fall into a different rate group, a revised Local Exchange Tariff shall be filed for authority to reclassify the exchange to its current appropriate group. Such excess of deficit will be considered to have been established, for such reclassification purposes when:

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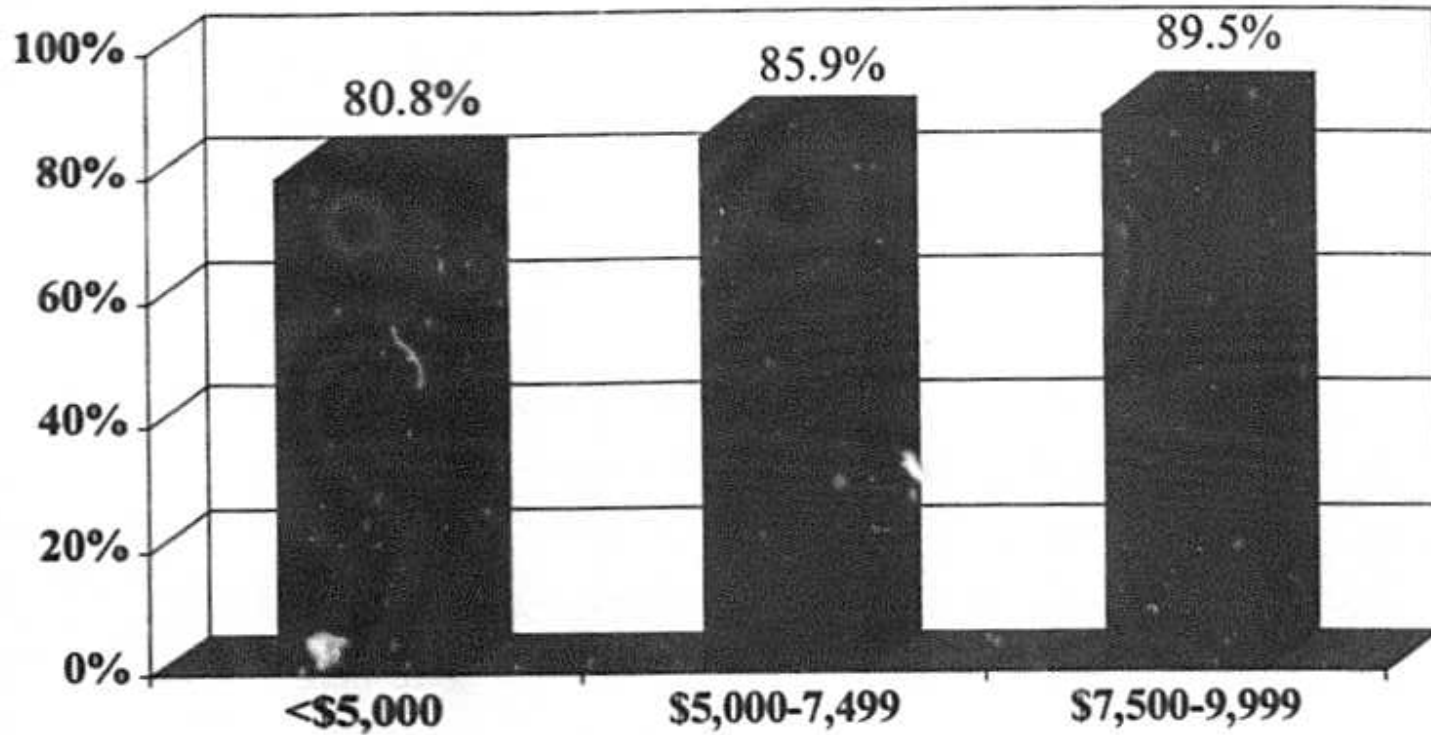
Florida Public Service Commission  
 Issued:

Order No.:  
 Effective: FEB 15 1974

By: R. E. King, Vice President - Revenue Requirements

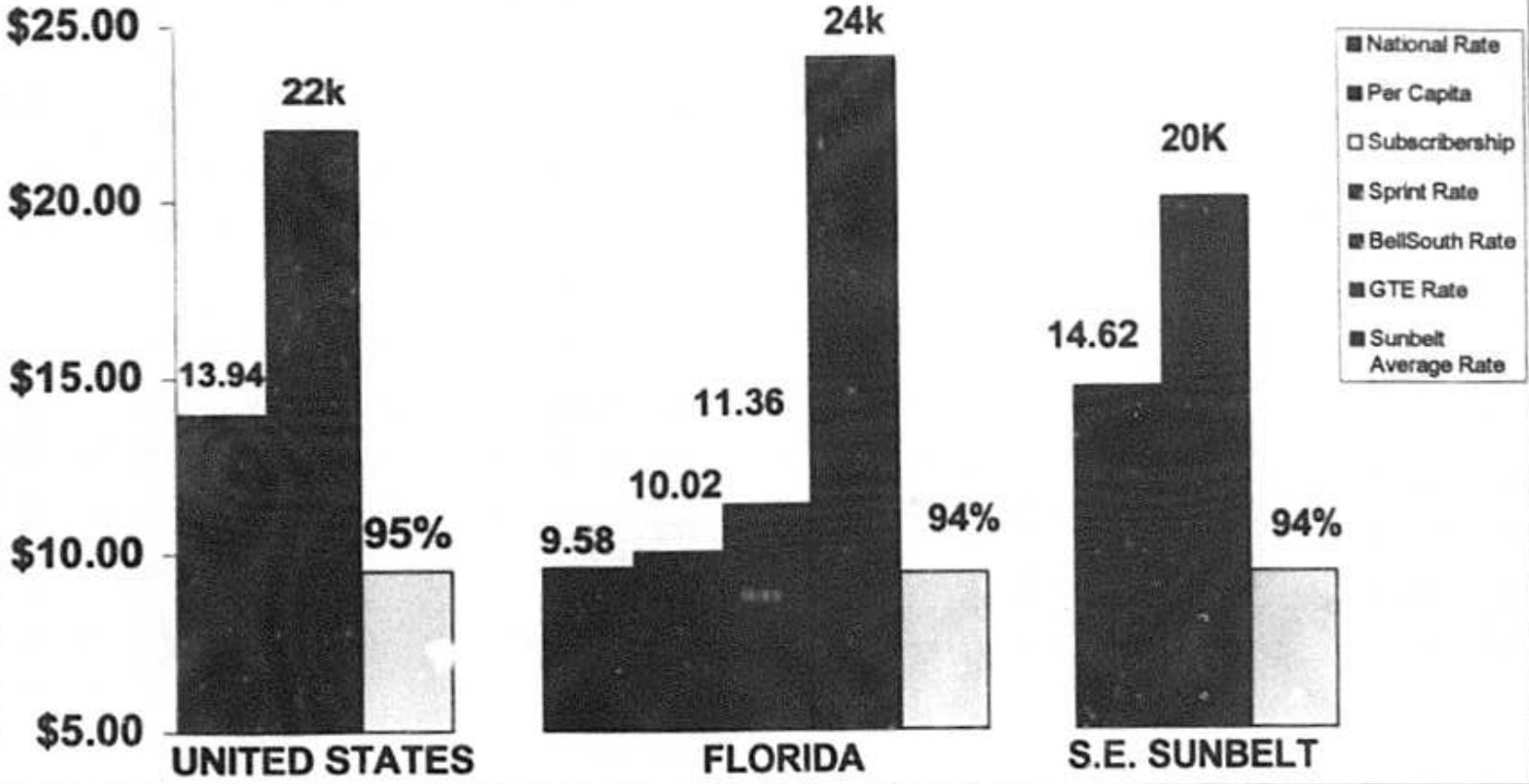


## Low Income/Lifeline



Source: FCC July 1998; Telephone Subscribership in the United States.

**RESIDENCE FLAT-RATE SERVICE  
 COMPARABLE AVERAGE RATES,  
 PER CAPITA PERSONAL INCOME AND SUBSCRIBERSHIP  
 1996 Data: Florida Statistical Abstract**



# LIFELINE RATES

