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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SPECIAL PROJECT
NO. 980000A-SP

In Re: Fair and reasonable residential)
basic local telecommunications rates.)
_____)

DAY 1
MORNING SESSION

IN RE: Staff Workshop
CONDUCTED BY: Anne Marsh
DATE: Thursday, October 1, 1998
TIME: Commenced at 8:30 a.m.
Adjourned at 4:15 p.m.
PLACE: Betty Easley Conference Center
4075 Esplanade Way
Room 148
Tallahassee, Florida
REPORTED BY: NANCY S. METZKE, RPR, CCR

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P R O C E E D I N G S

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3 MS. MARSH: Good morning. We are ready to
4 start. I've got a few preliminary matters before we begin
5 with the speakers. One of the matters we needed to
6 determine today is whether we'll start tomorrow at 8:30 or
7 nine. We had originally noticed it for 8:30. We have
8 actually for the speaker to start at nine. We can move
9 that up, and I wanted to get an idea of what people's
10 preference is. Is there anybody that prefers to start at
11 8:30? Could you all just -- How about nine? You all
12 need to raise your hands a little higher here. How about
13 the commissioners, do you have a preference?

14 COMMISSIONER CLARK: 8:30 is fine.

15 MS. MARSH: 8:30 is fine? I think we'll just go
16 with 8:30. There are some each way. We normally, you
17 know, have a set time, but we had to notice this before we
18 knew who was going to be speaking, and we wound up without
19 very many speakers for tomorrow.

20 The commissioners will be coming in and out.
21 They do have other obligations, but I know most of them do
22 wish to be here for as much as they can. We will break at
23 noon today because Commissioner Garcia has an oral
24 argument, so we will break for lunch at twelve. So if
25 somebody is not finished, we may need to split up their

1 presentation. I've timed it in such a way that I hope it
2 won't happen that way, but we do need to break today at
3 twelve.

4 If anybody needs any kind of equipment for their
5 presentations, once we get started, please get up with me
6 so I can get a list to Carol Purvis so she can get
7 everything together. The screen up here operates off of a
8 laptop, but we do not have software that everybody needs.
9 If you all have your own laptops and wish to use this same
10 setup that Ben Poag is using, you can do that. Get with me
11 for the list of what anybody might need.

12 There are some extra materials up here. They are
13 the same comments that have been served to everybody.
14 There are some extras in case you need them or in case
15 there are interested persons here who don't have copies of
16 the comments, and we'll be putting some extras out each
17 day.

18 I want to remind everybody, this isn't a
19 hearing. It is a workshop, and we are not doing cross
20 examination. I expect everybody to ask questions and for
21 there to be discussion. And I'd like the speakers, if you
22 would, to indicate your preference as you get up here
23 whether you want questions asked as you go, or if you want
24 them held until the end of your presentation. I know some
25 people get rolling and it breaks up their train of thought,

1 so if the speakers will just announce that at the beginning
2 of each presentation, what your preference is.

3 Also want to announce, I know some of you heard
4 this yesterday. We will be having a workshop on October
5 20th dealing with Lifeline. It is not docketed, and it is
6 not part of this project. We will be investigating certain
7 issues, such as automatic enrollment in Lifeline or the
8 possibility of a standardized form. We'll also be
9 discussing ancillary services and whether or not Lifeline
10 subscribers should be allowed to take ancillary services.
11 There will be a call-in number for that workshop, and it is
12 in the notice. It has been noticed. I think it has just
13 gone out in the last few days, so you may not have the
14 notice yet. There are copies up front of the notice.

15 I think that's everything I really needed to
16 bring up before we get started. We are a few minutes
17 early, but I think Mr. Poag is ready to start.

18 Does anybody else have any preliminary matters?

19 (NO RESPONSE)

20 MS. MARSH: If you do, we have microphones set
21 up. That is something else I need to mention. We have a
22 microphone set up up here but whenever somebody is using
23 the lapel mike, that one has to be off, and Mr. Poag will
24 be using the lapel mike. So when he is using that or any
25 of the other speakers, either come up to this mike here or

1 the one over here on the side so that the court reporter
2 will be able to hear you. So if anybody has anything or if
3 you have any questions, come up to one of those mikes.

4 (NO RESPONSE)

5 MS. MARSH: If not, then I guess we are ready to
6 start. Ben you, you ready to go?

7 MR. POAG: Good morning. I'm Ben Poag. I'm with
8 Sprint. I've got some handouts that I can give you all
9 that will follow along with the slides. You're getting
10 ahead of me, Commissioner.

11 COMMISSIONER DEASON: I'm always ahead of you.

12 MR. POAG: Yes, sir, you are.

13 With that in mind, let's go ahead and get
14 started. I will take questions as we go through the
15 presentation, so if you have anything, just stop me and
16 I'll try to respond to the question on it.

17 Why are we here? Just a quick review of the
18 legislation and why we got here, or how we got here. We
19 are talking about Section 2 of chapter 98-277. Basically
20 the Commission has been mandated with making some reports.
21 The ones I'm going to talk about today are under Subsection
22 1 and Subsection 2, but under Subsection 1 we are talking
23 about relationships among costs and charges and the
24 legislation said for basic local service, intrastate access
25 and other services.

1 We filed cost studies, total service long run
2 incremental cost studies in response to the Division of
3 Communications data request on June the 19th. Now those
4 are the same types of incremental cost studies that we have
5 filed historically in tariff filings and other proceedings
6 before the Commission, the same basic type studies that we
7 have always filed. We broke the residence -- broke it down
8 into residence and different categories of business
9 services, and I'll review those in just a few minutes.

10 The second thing that we were charged with is
11 that -- under subsection 2 to report on the conclusions,
12 the Commission's conclusions as to the fair and reasonable
13 residential basic rate considering affordability, value of
14 service, comparable rates and cost. And I will touch on
15 each of these, but there are other witnesses that will be
16 talking about value of service, affordability, comparable
17 rates and cost that Sprint is sponsoring as well.

18 The question is, you know, what was on the
19 legislature's mind when they gave you this charge; and
20 again, citing that chapter, subsection 1, it's in the first
21 sentence, the legislature determined that the charges for
22 intrastate switched access and other services may be set
23 above cost and may be providing an implicit subsidy of
24 residential basic local telecommunications service rates in
25 this state, emphasis added.

1 So lets look at what some of those charges.
2 Excuse me, look at what some of the problems are if that
3 predicate is correct. First of all, is we've got cross
4 subsidies between customers and services and that's without
5 regard to subsidy needs. The second thing is that
6 subsidies are not targeted to low-income subscribers in
7 high-cost areas. Thirdly, we are subsidizing those that do
8 not need to be subsidized, and we are substantially
9 increasing the size of the subsidy by doing that. The
10 fourth problem is that the subsidies are implicit and are
11 not competitively neutral. Five, is that under the current
12 pricing structure we are sending the wrong pricing signals.
13 This is effectively the result of some prices being too
14 high and inviting inefficient entry into the market, and on
15 the other hand, some prices are too low and they are
16 serving as barriers to entry in certain markets.

17 Low-cost, high-profit margin customers will see
18 the benefits of competition under the structure that we
19 have today, but as profits are lost from those customers,
20 either through price reductions or loss of the customers
21 themselves to competitors, the contributions that they are
22 making, the implicit subsidies that they are making to
23 other customers, will be lost and will put upward pressure
24 on the prices to the high-cost customers. And we are
25 looking at this thing from a long-term.

1 COMMISSIONER GARCIA: Ben, what do you mean by
2 inefficient entry on five? Some prices are too high, what
3 do you mean by -- what is inefficient entry?

4 MR. POAG: Let's say I'm sitting out there and
5 I've got a particular customer segment where the profit
6 margin is 50%, and with that profit margin a lot of that is
7 an implicit subsidy that is going to high-cost areas today.
8 Okay, somebody can come in and they can compete with me,
9 let's say at 75% of my price, but their actual cost is
10 higher than my cost. And if my prices were based more on
11 my cost than on the current structure where --

12 COMMISSIONER GARCIA: Your term of "inefficient
13 entry" is not as a market concept but simply as a concept
14 to Sprint?

15 MR. POAG: No, I think it's a basic economic
16 concept.

17 COMMISSIONER CLARK: What he is suggesting is
18 that if they were allowed, in fact, to charge the prices
19 that are more reflective of their cost this competitor
20 wouldn't come in because they couldn't provide it
21 efficiently enough?

22 MR. POAG: Yes, that's correct.

23 COMMISSIONER CLARK: But because they are higher,
24 they can do it inefficiently and still get their share of
25 the market?

1 MR. POAG: Correct. Yeah, in the long-term, I
2 don't think that is a competitor that you necessarily want
3 in the marketplace because they are not going to be able to
4 sustain competing if they are less efficient in the
5 long-term. Basically what you're saying is --

6 COMMISSIONER GARCIA: I understand what --

7 MR. POAG: You are basically getting resources
8 committed to something that for the long-term --

9 COMMISSIONER CLARK: Yeah, I agree.

10 MR. POAG: -- won't really benefit consumers,
11 yeah.

12 COMMISSIONER GARCIA: It has been benefitting
13 consumers in that particular case. Do me a favor, go back
14 to three before you get too far off the mark.

15 MR. POAG: Okay.

16 COMMISSIONER GARCIA: What does that mean?

17 MR. POAG: To the -- Number 3?

18 COMMISSIONER GARCIA: Yeah.

19 MR. POAG: Yeah. To the extent that you are
20 subsidizing high-income or medium-income customers'
21 services that don't need to be subsidized, it's a subsidy
22 going to customers that don't need to be subsidized, and
23 yet it -- As a result of that, the size of the entire
24 subsidy is larger than it needs to be. And what we are
25 saying is that to the extent that customers can afford to

1 pay more, you can reduce the subsidy to them, then that's
2 the appropriate action to take.

3 COMMISSIONER GARCIA: Okay. Thank you.

4 MR. POAG: Yeah. So we've talked about the
5 low-cost, high-profit margin customers. Let's look at this
6 in terms of services. We are talking about cross subsidies
7 being between customers. One of the benefits, I think,
8 that if we fix this is, is that we can really take care of
9 a lot of low-income customers that are spending money on
10 what I'll call non-basic and toll services. According to
11 the FCC's 1997 reference book, approximately half of the
12 telephone expenditures by low-income households are for
13 toll and other discretionary services. So to the extent
14 that these people are paying premium prices for those
15 services we're not helping them.

16 Proper cost price cost relationships will provide
17 more efficient allocation of resources, and that's what we
18 just kind of talked about. The benefits of competition
19 will be expanded to more residential customers instead of
20 focusing competition on the low-cost, high-profit margin
21 customers. Basically, we are going to reprice services
22 such that the customers in other markets are attractive for
23 competition as well.

24 And basically, both state and federal legislation
25 are designed to foster competition, and in the long run --

1 and I think this is where we've got to keep our focus on,
2 the long run of where we're going, and that's to bring the
3 benefits of competition to as many customers as possible,
4 not only those in the low-cost areas, but those in the more
5 rural and higher cost areas as well.

6 Look at some of the information that we filed in
7 the proceeding, basic residence service, our average
8 charges for that, and this includes the basic service rate,
9 the 3.50 subscriber line charge, one dollar -- excuse me,
10 the touchtone charges, and we included in that the 25-cent
11 message revenues as well because some of those were
12 classified as basic services under the statute. When you
13 add all those up, you come to \$14.23 in charges, you have a
14 cost of \$26.91, and a negative contribution. The other
15 services that we filed -- and this is not all of them, but
16 I picked a sample of the ones that I thought were the
17 bigger buckets in terms of the revenues -- the single line
18 business, the charges, again, with the subscriber line
19 charge and touchtone and the extended local calling, 31.71;
20 cost 18.64; the contribution 70%. PBX trunk, 54.14; cost
21 19.70; contribution, 174%. Switched access, about five
22 cents a minute on each end, as far as the access charge,
23 about four tenths of a cent in cost, about 1200%
24 contribution. IntraLATA toll 18 cents per minute in
25 revenue, about a half a cent in cost. The non-basic

1 features, and my terms for it today, by the way, in most
2 cases when I talk about non-basic features, I'm talking
3 about custom calling features. I'm talking about class
4 features, caller ID, call waiting, those types of features.
5 When I talk about toll, I'm talking about intraLATA long
6 distance toll and I'm talking about access charges.

7 COMMISSIONER CLARK: Can I ask a question? Going
8 back to your benefits on the cross subsidies and nearly
9 half the telephone expenditures by low-income household are
10 for toll, is it all toll, or is it also intraLATA toll?

11 MR. POAG: That's all toll. That is FCC data,
12 and that was -- I believe I put that right in as a quote..

13 COMMISSIONER CLARK: Yeah.

14 MR. POAG: Yeah, and that is a quote right out of
15 the FCC's 1997 reference book.

16 COMMISSIONER DEASON: Ben, I have a question.
17 The 14.23 for basic residence --

18 MR. POAG: Yes, sir.

19 COMMISSIONER DEASON: -- that includes an amount
20 for ECS, and that is an average over all of your
21 residential customers?

22 MR. POAG: Yes, sir.

23 COMMISSIONER DEASON: Even those that don't even
24 have access to ECS plans because their calling scope is
25 already large enough they don't need it?

1 MR. POAG: Yes, sir.

2 COMMISSIONER DEASON: Okay. So then in your
3 incremental cost for intraLATA toll is .005. So then for
4 those customers who use ECS a lot in those areas that don't
5 have a large calling area, they are giving you more
6 contribution than those that do not use ECS; is that
7 correct?

8 MR. POAG: If you are only looking at those two
9 pieces of the pie, yes, sir.

10 COMMISSIONER DEASON: For example, if there is a
11 customer who is in an area that doesn't have a large local
12 calling area, uses ECS a great deal, and say their basic
13 residence rate, including ECS is \$30 a month, you are
14 actually getting a positive contribution because your
15 incremental cost of intraLATA toll is only .005?

16 MR. POAG: Yes, sir, absolutely.

17 COMMISSIONER DEASON: Okay.

18 COMMISSIONER GARCIA: I want to make sure I
19 understand that number then because Commissioner Deason
20 clarified it for me. The 14.23 is then an average of those
21 customers included, or is that charge basically what your
22 basic service is, you add to it touchtone, you add to it
23 the 3.50 subscriber line charge from the FCC that what you
24 get, or is that -- you begin from an average of
25 contributions to ECS and things of that nature?

1 MR. POAG: Yeah, I'm trying to remember how we
2 did this now going back. Let me verify what I just told
3 you. It was spread over all of the routes where -- It
4 may have been spread over all of the routes where there was
5 ECS and where there were exchanges that did not have ECS it
6 wasn't spread, but the net result of it is, is that when I
7 come to this overall revenue, I guess it has to -- yeah, it
8 ends up being spread over all of them in this scenario. If
9 you went into the details of it you may be able to see by
10 individual exchange that the revenues varied, and I just
11 don't recall exactly how we filed that at this point in
12 time.

13 But going back to your question, Commissioner
14 Garcia, it's the basic rate, plus the 3.50, plus the
15 average touchtone charge, not all customers get touchtone,
16 and then it's the -- in this case, the average of the ECS
17 spread against all of the residential customers. That's
18 the total 25-cent revenues divided by the total residence
19 access lines.

20 COMMISSIONER GARCIA: Off the top of your head,
21 do you remember how many -- what percentage of your
22 customers get touchtone?

23 MR. POAG: I think it's 74%.

24 COMMISSIONER GARCIA: Okay.

25 MR. POAG: Now let me qualify that, it's 74% that

1 are charged for it; and the reason I say that is some
2 customers basically don't get it. For example if you are
3 an Internet service provider and you've got a 20-line
4 incoming rotary, you don't have any outgoing calls, you
5 don't need touchtone service, so they don't order it, as an
6 example. And some residence customers just don't order it
7 either.

8 COMMISSIONER GARCIA: The charge is the same for
9 everyone, which is --

10 MR. POAG: The charge is one buck for everyone,
11 yes, sir.

12 COMMISSIONER DEASON: Ben, what is the reason for
13 the difference in incremental cost between residence and
14 business, single line business?

15 MR. POAG: Mr. Dickerson can probably get into
16 more detail with you on that.

17 COMMISSIONER DEASON: That's fine.

18 MR. POAG: Essentially it's the fact that
19 business loops are closer to the central office and they
20 are shorter, and they are also in more dense facilities,
21 more dense locations; so the big driver, density and
22 distance. If you look at the difference between the single
23 line business and the PBX trunk, there is probably not --
24 there may be some difference in loop length, but most
25 likely that is probably more a difference in switching cost

1 than it is anything else for the difference in those two.
2 But Mr. Dickerson is the expert on the cost, and he is the
3 one that actually did the actual development of those
4 costs.

5 Now talking about cost, I think the one thing
6 that is going to be the big issue is the basic residence
7 cost. And a lot of people would suggest to you that that's
8 a joint cost, or that's a common cost, or that it ought to
9 be allocated, or that you ought to take the revenues from
10 other services and attribute it to basic residential
11 service; and I'd like to look at an example of what happens
12 when we do that.

13 I've got two customers, grandma local and grandma
14 toll. And grandma local lives in the same town as her
15 grandchildren, but grandma toll, her grandchildren live in
16 Miami. They're neighbors of Commissioner Garcia down
17 there. So she makes a lot of long distance calls to talk
18 to her grandchildren. Now on the basic service side, I'm
19 saying that we've got an average cost of \$25 for these two
20 customers. Grandma local pays \$15 in charges. That's my
21 14.23 rounded. On the other hand, grandma toll, she has
22 the same cost, \$25, pays the same charges for basic
23 service, \$15, she generates another five dollars in costs
24 for toll, placing those calls down to Miami to talk to her
25 grandchildren, but she gets charged \$25 in toll charges by

1 the long distance carrier. Now what some folks are
2 suggesting is that this service over here should be
3 credited with some of these revenues, or some of the costs
4 of this service ought to be put over here with this person
5 because of the fact that the basic service is used for toll
6 and local usage, and it's also used for non-basic features.
7 But effectively, what happens is that when somebody just
8 orders the basic service or they just order the basic
9 service and they use very little toll or very little
10 non-basic services, we end up putting the burden of paying
11 for that, this shortfall, on these other customers; and
12 there is no economic rationale or social welfare reason why
13 we are doing it. What I'm saying is that these are two
14 equally situated customers, but when we attempt to allocate
15 some of this cost to toll or when we allocate it to
16 non-basic service or say that those revenues should go over
17 there, we are just causing some other customer to pay for
18 the service for another customer. I don't follow the
19 logic. It's an illogical approach to it to me when you
20 look at it in this way, but I think that's the big problem
21 that you run into.

22 Now there is another problem with it too, and
23 that is, that if you look at the situation where you've got
24 high-cost customers and low-cost customers, you run into
25 the same thing. In this scenario I'm saying that the cost

1 of service is a rural area, low density area, so your cost
2 of service is \$50. Also, since this is a rural area,
3 instead of a \$14 -- or excuse me, \$15 charge for local
4 service, because of the grouping plan and this being in a
5 small exchange with very few access lines, it's got a small
6 local calling area, it's in rate group one, the charges for
7 that are as low as about \$7 a month and you put the
8 subscriber line charge on it as 3.50, but I'm saying about
9 \$10.

10 Now they've also got the \$3 is what I'm saying is
11 some cost associated with non-basic services, or it can be
12 toll services -- it doesn't make any difference -- and then
13 you've got some revenues, about \$15. I've got exactly the
14 same thing on the other side. The big difference here is
15 that my cost is less because it's a high-density, low-cost
16 area and my revenues for the non-basic services are larger
17 and my costs are larger. And what I'm trying to reflect
18 here is that not only do I have in some of the high-cost,
19 less-dense areas the higher cost, but also, when you look
20 at our subscription rate levels to the non-basic services,
21 we have about a 66% take of the custom calling features and
22 class features in what I refer to as in our rate group 6.
23 Our largest rate groups, our largest exchanges have about a
24 66% take, but in the -- all the rate groups five down, the
25 take rate is about 40%, so there is about a 25% difference

1 in the take rate.

2 So here again, you get into the situation of,
3 okay, yes, these customers are generating some non-basic
4 feature charges, but if you start looking at averages, you
5 can say, well, yeah, if we get enough of these other
6 customers, we'll make up the difference in cost. Now this
7 is a hypothetical example. I've got a real world example,
8 and this kind of goes to that question, so what? On
9 average you're okay.

10 And then what we are driving at here is that in
11 Maitland -- this is a wire center in our Winter Park
12 exchange down in central Florida, and I've got Kenansville,
13 is a wire center which is full exchange, which is south of
14 Saint Cloud, kind of in between the Melbourne, Eau Gallie
15 area in south Osceola County -- or excuse me, west of the
16 Eau Gallie, Melbourne area in south Osceola County. It's a
17 very rural area, very large geographic land area. I think
18 we've got about 750 access lines in the Kenansville
19 exchange.

20 Now I couldn't separate my revenues between
21 residence and business, but when I look at my revenues for
22 all services in Maitland and my revenues for all services
23 in Kenansville, we see that up here I've got about \$70 per
24 access lines, got a higher ratio of business lines bringing
25 in more revenue per line. Down here I've got a higher

1 ratio of residence lines relative to Maitland, not as much
2 money.

3 Look at the basic service rates. Here again,
4 this is in rate group 3, so their charges are a little
5 lower. This is rate group 6, so the charges -- the base
6 rate there is 10.23, plus the 3.50 subscriber line charge.
7 I didn't put -- yeah, and the touchtone, and then look at
8 the cost per line. The cost in Maitland is 15.75. The
9 cost in Kenansville is 2.46.

10 Now the costs are out of the benchmark cost
11 model, and the 2.46, is what is referred to as an uncapped
12 cost. The capped cost, and that's where they basically say
13 that when you get into an exchange and the investment per
14 access line goes over 10 thousand, 10 thousand dollars,
15 they cap it at 10 thousand dollars. What I'm showing you
16 is the uncapped cost. If you cap it at the
17 10-thousand-dollar investment per line, then that number
18 would drop to about 1.20.

19 But in any case, what we are showing here is that
20 in this market I'm going to get lots of competition,
21 particularly for the business. In fact, in the Maitland
22 central office, we've had more requests, I think, for
23 collocation than in any other wire center; and I can't
24 remember the exact numbers now, but I think we had like
25 four or five collocated with additional requests coming in,

1 and we didn't have the space to accommodate them. Now I've
2 got room down in Kenansville, but for some reason nobody
3 wants to go down there and compete.

4 COMMISSIONER JACOBS: Ben.

5 MR. POAG: Yes, sir.

6 COMMISSIONER JACOBS: Is that the reason that
7 your cost in the Maitland center is not going to come up to
8 your -- I mean, I'm sorry, your charge doesn't come up to
9 your cost in the Maitland center because of competition
10 there?

11 MR. POAG: What I'm reflecting here is just the
12 residence basic rate. This does not have any toll or any
13 of the non-basic features included in it. But overall, I
14 will -- in Maitland, I will far exceed my cost in Maitland.

15 COMMISSIONER JACOBS: Okay. So the average basic
16 service charge here, the 15.75, that's your cost, right?

17 MR. POAG: Yes, sir.

18 COMMISSIONER JACOBS: And your 14.73 is what you
19 are charging for that with the touchtone in it, right?

20 MR. POAG: Yes, sir.

21 COMMISSIONER JACOBS: I'm wondering what factors
22 drive that below cost there because it appeared to me that
23 you recovered the cost on that, the basic charge, the 14.73
24 could approach the 15.75.

25 MR. POAG: Well, right now I'm capped in these

1 charges --

2 COMMISSIONER JACOBS: Oh, that's your cap.

3 MR. POAG: -- what I can charge here by the
4 current statute.

5 COMMISSIONER JACOBS: That's your cap?

6 MR. POAG: Yes, sir.

7 COMMISSIONER JACOBS: Okay. I'm sorry.

8 MR. POAG: Is that --

9 COMMISSIONER JACOBS: That was my question.

10 MR. POAG: Okay. Right, I'm capped there.

11 Okay. So basically, the current structure is not
12 conducive to bringing competition to all areas; and then
13 again, it's inviting the efficient entry where you've got a
14 situation like Maitland.

15 COMMISSIONER DEASON: Your first column there, it
16 says "All services." That includes toll?

17 MR. POAG: I'm sorry?

18 COMMISSIONER DEASON: Your first column --

19 MR. POAG: All services.

20 COMMISSIONER DEASON: -- all services, Does that
21 include toll?

22 MR. POAG: Yes, sir. Now when I say "toll," in
23 my talking about "toll" I'm talking about intraLATA toll
24 and the access charges associated with the toll provided by
25 interexchange carriers. I guess another way to say it,

1 those are local exchange company revenues.

2 So what I think we need to do to fix it is price
3 services more in line with costs. Now we're talking about
4 repricing services on a revenue-neutral basis, and I would
5 just like to clarify something here. When we are talking
6 about repricing go on a revenue neutral basis, we are
7 saying, yes, we think that residential local exchange
8 service rates need to be increased. We say we are going to
9 decrease the prices of access charges and decrease the
10 prices of vertical services.

11 Now I will tell you that our access charges
12 historically have been growing in the vicinity of about 10%
13 a year. Vertical services probably growing somewhere close
14 to that. And what I'm driving at here is that when we --
15 if we make this change and we say, okay, increase residence
16 and decrease these others, remember we had a 10% growth
17 rate out here. We are looking at a 5 or 6% over here, so
18 there is no revenue benefit to the local exchange company
19 over time to make that change.

20 We think that as part of the repricing that we
21 are basically saying that those that can afford to pay a
22 larger portion of the cost should, and to the extent that
23 we determine that there are subsidies that are needed and
24 that we've got an affordable level beyond which we do not
25 want to raise rates, then we need to establish subsidies

1 for the low-income customers in the high cost areas.

2 Talking about low-income customers, what is the
3 impact of the current price structure on low-income
4 customers? Again, I'm going back to the FCC. 50% of
5 low-income expenditures are for toll and non-basic
6 services. In Florida, what I'm hearing from some of the
7 data that is going to be presented, that that number is
8 higher. It's something more in the range of maybe two
9 thirds of the expenses are for toll and non-basic services,
10 and that kind of follows because, if you think about it,
11 Florida with the local service rates --

12 COMMISSIONER GARCIA: Does that include
13 intrastate in that too?

14 MR. POAG: That includes both inter and
15 intrastate I believe. Again, that is an FCC number, and I
16 don't -- I didn't have the details of it. It's right out
17 of their report.

18 COMMISSIONER GARCIA: I was asking for your
19 Florida.

20 MR. POAG: I've got some --

21 COMMISSIONER GARCIA: Because it could also be a
22 result of poor regulation on our part, making territories
23 too small, therefore, we force more of that expense on the
24 customer in Florida to pay intrastate tolls.

25 MR. POAG: Say that again.

1 COMMISSIONER GARCIA: Don't worry about it.
2 Don't worry about.

3 MR. OCHSHORN: Is your definition of low income
4 under 25 thousand dollars per year?

5 MR. POAG: I did not have an explicit definition
6 of low income. The 25-thousand-dollar number is the number
7 that was in the survey that was done by PENR and
8 Associates. They did not have any information below 25
9 thousand. Had they had that, I probably would have looked
10 at it.

11 MR. OCHSHORN: Did they ask people on the
12 telephone what their annual income was? Is that how they
13 got the income?

14 MS. MARSH: Excuse me, I don't want to interrupt,
15 but you do need to come to the microphone. The court
16 reporter can't hear you. Either on the side over there and
17 remember to turn it on, or for those of you on this side,
18 if you'll come up to this one right here and turn it on.

19 MR. OCHSHORN: I want to apologize to the court
20 reporter. My name is Benjamin Ochshorn. I'm with Florida
21 Legal Services. And the question I had was whether the
22 definition of a low-income household was less than 25
23 thousand dollars income per year.

24 MR. POAG: I do not have a definition. I do have
25 some information that I will bring up later, that it

1 regards Lifeline, and it shows that people can qualify for
2 Lifeline when they make up to as much as 48 thousand
3 dollars a year. So if you would, it would probably be
4 better to respond to that a little bit later in the
5 presentation.

6 MR. OCHSHORN: Yeah, that information is correct
7 because some of the qualifying programs for Lifeline aren't
8 necessarily based on income. For the most part they are,
9 but some families can qualify with incomes well above the
10 poverty level.

11 The other question that I had was how Sprint came
12 up with the customer income data.

13 MR. POAG: The customer?

14 MR. OCHSHORN: Income information.

15 MR. POAG: Okay, I didn't -- You're talking
16 about this?

17 MR. OCHSHORN: Right.

18 MR. POAG: Yeah, Sprint didn't come up with
19 that. That is from a survey that was done by PENR and
20 Associates.

21 MR. OCHSHORN: Okay. And --

22 MR. POAG: And I'm not -- I'm looking at the
23 results of the survey. It's a nationally acknowledged
24 survey. I don't know the details of exactly how it was
25 done.

1 MR. OCHSHORN: It was done in 1998?

2 MR. POAG: I do not know.

3 MR. OCHSHORN: And did they get the income data
4 from asking people on the telephone what their income was?

5 MR. POAG: I presume. It was a survey. It was a
6 written survey.

7 MR. OCHSHORN: A written survey?

8 MR. POAG: Yeah. I believe it was, yes.

9 MR. OCHSHORN: How was it administered if it was
10 a written survey?

11 MR. POAG: I don't know.

12 MR. OCHSHORN: Thank you.

13 COMMISSIONER JACOBS: A lot of the testimony we
14 got, and I guess we have to look at the FCC numbers, but I
15 just toss this out, seem to indicate as income levels went
16 down, that was a much greater scrutiny in the household on
17 subscription to these services, and I'm wondering how sound
18 that average of 50% is. You know, it seemed to indicate
19 that as income became more scarce in the household they
20 monitored the long distance calls to a much greater level,
21 and a lot of the elderly customers said they simply didn't
22 subscribe to a lot of these services. I don't doubt that
23 there is a large volume of customers in that income level
24 who subscribe to those services, but I'm just wondering how
25 the 50% across all households is.

1 MR. POAG: Yeah, I've got some Sprint-specific
2 information, and there is a witness from General Telephone,
3 I believe, that has some General Telephone-specific
4 information, and staff also did a data request. And, Anne
5 Marsh, I think you indicated in the data request that you
6 got that 60% of customers generally subscribe to non-basic
7 services.

8 MS. MARSH: It was 60% of Lifeline, but we don't
9 know to what extent, what dollar amounts or what particular
10 ones. It was just a question: What percentage of customers
11 subscribe to ancillary services? We will be getting that
12 information to the commissioners and to everyone shortly.
13 We have just gotten the information, and there were some
14 numbers we were going to be qualifying -- or clarifying, so
15 that is why you haven't seen them yet, but that is what the
16 number was.

17 COMMISSIONER JACOBS: Okay.

18 MR. POAG: Yeah, now I do have -- Now what I'm
19 giving you here is basically Florida-specific data from the
20 PNR and Associates, and this basically just shows
21 subscription to the different features. Now to the extent
22 that some of these customers have more than one feature, it
23 won't tell you exactly what the overall take is or that --
24 you know, 38% could have call waiting and 23% could have
25 call forwarding, and there be no duplication, which would

1 suggest that you had a 61% take rate, which is about what
2 she is saying overall they had, just for Lifeline, for
3 Lifeline customers.

4 Let me go -- point out though that on the long
5 distance side, 94% make long distance calls, I don't know
6 whether that is 94% in a month or whether that is 94% in a
7 year; but they do, you know, use long distance services.
8 Again, that's inter and intrastate I feel certain.

9 Sprint-specific Lifeline customer data, 49.2% of
10 our Lifeline customers subscribe to non-basic services.
11 Now for those that -- the subscribers, that 49% their
12 average charges are \$9.69. Now the predominant two
13 features that they subscribe to were call waiting and
14 caller ID. And the reason I bring that out is I think it's
15 important to understand how a Lifeline household might use
16 some of these services and that these services can have
17 significant value.

18 Okay. If you -- I read all these papers and
19 comments and everything, and I hear things about, well,
20 you've got to have a phone to get a job and, you know, all
21 these other things. By the same token, if you've got a
22 phone and you've been on the phone and you've been trying
23 to get a job and somebody calls you back and you are still
24 on the phone and they can't get through to you, then you
25 may not -- they may go down the list and call somebody else

1 to offer that job to. These services can be very valuable
2 to these folks. In the case of the low-income --

3 COMMISSIONER GARCIA: Would you like to lump in
4 then caller ID or call waiting into basic service; is that
5 what you're saying?

6 MR. POAG: No, sir, I won't do it for free.

7 COMMISSIONER GARCIA: I was surprised. I was
8 going to snap up that offer.

9 MR. POAG: Yeah, I'm sure you were. But I guess
10 what I'm saying though is that --

11 COMMISSIONER GARCIA: Let me ask you before you
12 get off that. That 49.2%, is that call waiting and caller
13 ID, or do you include, because you've used that non-basic
14 services with several definitions. Does that non-basic
15 services include long distance?

16 MR. POAG: No, sir.

17 COMMISSIONER GARCIA: No. In this case it's only
18 these two features, the 49%?

19 MR. POAG: No, it's all features.

20 COMMISSIONER GARCIA: For these two features and
21 other vertical services.

22 MR. POAG: It's all features.

23 COMMISSIONER GARCIA: All vertical services?

24 MR. POAG: Yeah, it's all features, excepting
25 call blocking, which we don't charge for, and excepting

1 touchtone.

2 MR. OCHSHORN: Does it include inside wiring?

3 MR. POAG: No.

4 MR. OCHSHORN: Okay.

5 MR. POAG: This is strictly the --

6 MR. OCHSHORN: The vertical services.

7 MR. POAG: -- regulated class and -- We refer to
8 them -- internally we refer to them sometimes as network
9 features as well.

10 Again, let me go back to my definition again. My
11 definition of toll is intralATA toll and access charges,
12 and my non-basic is effectively the network services and
13 other, what we've referred to historically as vertical or
14 discretionary services, or network services, yeah.

15 But again, these can be very valuable services to
16 low-income customers, and I think, again, call waiting can
17 be in lieu of that extra line, and if you -- if you've ever
18 been in a situation where you are intimidated by phone
19 calls or have some concerns about who is calling you, then
20 caller ID might be the answer to a lot of your concerns.
21 By the same token, if you're not in the house, people
22 sometimes won't necessarily leave a message on a voice mail
23 system, but if you've been out job hunting and you come
24 back in and you scan your caller ID calls and you find out
25 that the company that you called about a job earlier called

1 you back and you've got a notification on that caller ID
2 unit that they called you, then you are going to get back
3 to them and see if you can get that job.

4 COMMISSIONER DEASON: Mr. Poag, do you conclude
5 that if these services are that valuable and those Lifeline
6 customers subscribing spend on average of almost \$10 a
7 month for these services, that they value telephone service
8 generally and would probably still subscribe to telephone
9 service, even if they were not getting the Lifeline
10 subsidy?

11 MR. POAG: Absolutely.

12 COMMISSIONER DEASON: So you are saying that the
13 subsidy is really not -- for these customers, at least,
14 it's not being used to increase the penetration in
15 universal service because these customers probably would
16 subscribe to telephone service anyway, even without the
17 Lifeline subsidy; is that your conclusion, or should we --
18 What do you read into this?

19 MR. POAG: Well, when I build that into the other
20 information that I have in the presentation that I haven't
21 gotten to yet, my conclusion is that these folks will
22 continue to subscribe to telephone service. I think that
23 where we have lost people off the network has not been
24 because of the charges for basic local service, but as we
25 all know, it's been in the case of where they have not been

1 able to manage the long distance charges and it's the long
2 distance charges. Now we work with those folks today to
3 keep them on the network if they will agree, for example,
4 you know, to go with the call blocking.

5 COMMISSIONER GARCIA: And then unless you've had
6 significant penetration in that area, customers you don't
7 want to stay on the network or you don't give them options
8 to stay on the network, you have competitors who provide
9 services for them, phone services, certainly not at your
10 rates, but at more expensive rates?

11 MR. POAG: That's true, yeah. That's a good
12 point too. There are competitors out there who will come
13 in and provide basically -- resell our service at a much
14 higher rate to these same folks; so, yes, they will get
15 back on the network somehow. Yeah, and I've got some
16 actual subscribership levels for the low-income folks,
17 which I'll get to a little bit later.

18 Okay. Basically what I'm saying here is that
19 low-income customers are paying premium rates for toll and
20 non-basic services, and the problem is that the current
21 structure doesn't target the subsidies where needed. The
22 scope of the subsidy is too large, we talked about that.
23 And my question is, is the current structure fair and
24 reasonable? And when I look at the data, I just -- it
25 doesn't -- When we see the low-income customers that are

1 paying premium prices for these services, I don't see that
2 that is necessarily fair and reasonable; but we are talking
3 about fair and reasonable, talk about -- go to the
4 subsection 2, what we were asked to look at was cost, value
5 of service, affordability and comparable rates.

6 Now I've already talked about cost. The next
7 thing I want to talk about is value of service. With value
8 of service -- The whole key to value of service in my
9 mind is usage. And historically, if you go back to when we
10 came up with these rate grouping plans, we essentially said
11 that people that are in an area that have a limited number
12 of access lines that they can call within their flat rate
13 toll free area, will pay a lower rate than people who are
14 in the larger areas and have a lot more access lines.
15 Well, if you do traffic studies on these customers, you go
16 out here and you study the small exchange and you study the
17 large exchange, you will find that the usage in the small
18 exchanges is significantly lower than it is in the larger
19 exchanges. So the same thing, when you go to the
20 business/residence relationships. And let me say when I'm
21 talking about usage in the context that I'm talking about
22 it now, I'm talking about total usage. I'm talking about
23 usage for long distance. I'm talking about incoming usage.
24 I'm talking about outgoing usage and a local usage, so I'm
25 talking about total usages.

1 Go to the business/residence relationships.
2 Business rates historically have been somewhere between two
3 to 2.5 times as much as residence service rates. If you go
4 back over history -- and when I say history, you go back
5 before Internet -- and you'll find that when these rates
6 were actually put in place for those types of structures,
7 if you did the usage studies on them, you'd see down here
8 in rate group 1 that business would have X-amount of usage.
9 Up here in rate group 6, it would have more usage. And
10 you'd find that the rate structure just kind of followed
11 that level of usage. By the same token, you look at
12 residence and the residence rate structure, the rates are
13 about as half as much. The usage, similarly, was about
14 half as much.

15 So when you are talking about the value of
16 service, you buy it so you can use it, and so the demand
17 for it is related to the usage. To the extent that the
18 local calling area is part of that usage, and as I talked
19 about, as you get into the higher rate groups, the more
20 access lines you've got in your flat rate local calling
21 area, the more you use the service. So the more we have
22 extended the local calling area, the more we have increased
23 the value of that service. By the same token, as far as
24 the availability of complimentary or non-basic services, to
25 the extent that we give people these other services, which

1 will help them utilize the service, whether it be voice
2 mail, whether it be call waiting, whether it be caller ID,
3 whether it be call forwarding, it increases the value of
4 the service. By the same token, the prices of those will
5 affect the value of service. An analogy I used in my
6 comments is that the price of gas, the price of parking,
7 the availability of parking and these things become lower
8 or more accessible, then the greater the value of owning an
9 automobile to me. I think it's the same analogy with the
10 telephone service.

11 Prices of -- Talking about the prices. Access
12 to Internet. This one is a situation where not only is
13 there such value to having access to the Internet, that
14 that value is driving a lot of subscription to additional
15 lines.

16 The other one is the prices of toll services, in
17 some cases the prices of extended area calling. People
18 have demonstrated that they are willing to pay more for, on
19 a monthly recurring basis for extended local -- additional
20 or extended local calling. Today long distance companies
21 will, in fact, charge a recurring monthly rate; and if you
22 pay that recurring monthly rate, then you get a discounted
23 toll -- a discount on your toll usage. So basically what
24 we're saying is that they are willing to pay more for the
25 service as the price of the usage and the complimentary

1 services go down.

2 COMMISSIONER JACOBS: What is your experience --
3 I guess it kind of goes back to Internet access as well --
4 in terms of line, access line growth? Are you finding that
5 the demand comes from more dense areas versus less dense?
6 I would expect more dense areas. And do you find business
7 versus -- what do you find in business versus residential
8 in terms of that line growth?

9 MR. POAG: Our line growth has changed rather,
10 over the last several years significantly towards second
11 lines. We have a substantial number of residence lines --
12 substantial number of lines going in today, and I don't
13 remember. I think it's somewhere even around 50% are
14 second lines.

15 COMMISSIONER JACOBS: Residential?

16 MR. POAG: Yes, sir. Also, we, generally
17 speaking, are seeing fairly strong business growth.

18 COMMISSIONER JACOBS: On par, one pace of growth
19 out exceeds the other?

20 MR. POAG: I'm not sure.

21 COMMISSIONER JACOBS: Okay.

22 COMMISSIONER GARCIA: Ben, is that second line
23 growth simple line growth, or is it a complex service --
24 vertical and network services.

25 MR. POAG: I'm not sure. I have heard that,

1 generally speaking, second lines have less features on them
2 and less toll. What we are looking at there, generally
3 speaking, is the teen line or the Internet access line.

4 COMMISSIONER GARCIA: Right.

5 MR. POAG: And there is not a lot of need for
6 features or long distance on Internet lines. The same
7 thing by the folks -- the same thing with people buying
8 lines for the teenagers aren't necessarily inclined to put
9 a lot of features on them, in some cases.

10 Just real briefly a look at the FCC data on what
11 has happened to toll prices in 1984 to 1998. Just
12 indicates that in real dollar terms they are down about 50
13 to 60%. Looking at Sprint long distance, data from our
14 long distance company, they've indicated to me that they
15 have reduced rates intrastate in Florida on a per minute
16 basis in '94 to '95, 6.6%; '95 to '96 4.9%; and '96 to '97
17 of 9.5%. So we are seeing competition working in that long
18 distance market in bringing prices down.

19 COMMISSIONER DEASON: Ben, these prices, are
20 they -- is it a cents per minute of usage, is that the way
21 it's calculated?

22 MR. POAG: Yes, sir.

23 COMMISSIONER DEASON: How do you determine these
24 prices?

25 MR. POAG: Yeah, basically, you have

1 difficulty -- Because you have so many plans out there,
2 what you have to look at is the average revenue per minute,
3 look at all the revenues and all of the usage and then just
4 divide it by total minutes.

5 COMMISSIONER DEASON: Do you factor in the 3.50
6 SLC charge as being toll revenue.

7 MR. POAG: No, sir that is not included in this.

8 COMMISSIONER DEASON: But that's what that --
9 people are told that is what that is for, right? I mean
10 that is access to be able to make an interstate call,
11 correct?

12 MR. POAG: Well --

13 COMMISSIONER DEASON: So, and there have been
14 costs that have been, that are being recovered now through
15 a 3.50 charge on customers as opposed to costs being
16 recovered on a per minute of usage, and my question is:
17 What would happen to this, the shape of this curve? If you
18 factored in the 3.50 in with the per-minute cost, would you
19 have it as a dramatic reduction in toll cost? Do you
20 understand the question?

21 MR. POAG: Yes, sir, I understand the question.
22 I would phrase the application of the 3.50 differently, and
23 I think that's where we got into a lot of unnecessary
24 criticism with our customers because of what we -- the way
25 it has been explained. My understanding of it is that the

1 interstate jurisdiction basically takes responsibility for
2 an allocation or recovery --

3 COMMISSIONER DEASON: Hold on. I understand
4 that, and it's basically where costs are and how you
5 recover those costs and how costs have been recovered
6 historically; but what you were doing, is you were doing a
7 historical comparison. And we know that in 1984 that there
8 were costs that were being recovered at that time that were
9 basically costs being recovered through minutes of use.
10 Now whether that was a good thing or a bad thing, I'm not
11 arguing that. But that was in that price, and that's why
12 that price started out at the index level of a hundred in
13 1984. And one of the reasons that price has been able to
14 go down though is there has been a change in the method of
15 recovery of costs allocated between jurisdictions, et
16 cetera. And that to have a proper comparison of costs or
17 prices now back to 1984, it seems to me you need to factor
18 in the impact of that method of switching cost recovery.
19 Do you understand?

20 MR. POAG: Yes, sir, I understand, and I do not
21 disagree with you. I pull this right out of the FCC
22 reference book, and I do not believe that the 3.50 has been
23 factored into it; and I do understand what you're saying.
24 I will say this, that if you put the 3.50 in there, I would
25 agree that the declines would be less; but I would say that

1 with the increasing volumes of traffic that we've seen that
2 you would still see a significant decrease in revenue per
3 minute, yeah.

4 Okay. Talk about -- when we talk about
5 affordability, I think there are basically three primary
6 inputs. There may be more, but the three that I'm going to
7 deal with are value of service, income and price. Now I've
8 already talked about value of service.

9 I do want to talk for a minute though about how
10 do you measure affordability, and I think the only thing
11 that is out there that I'm aware of that would really
12 measure it on an empirical basis would be the demand or
13 households with service. And we take a look at penetration
14 levels or subscribership in the southeast, and I will point
15 out that what I'm using here is the BellSouth states in the
16 southeast excluding Kentucky. The reason I excluded
17 Kentucky is that I'm also using some income data, and I
18 didn't have income data available for Kentucky on a state
19 basis. So anyway, I left them out of my analysis, but that
20 is the only reason.

21 But when I start looking at penetration levels or
22 affordability of telephone service, and this is 1997 data.
23 This is reported by the FCC, we see that Florida is 94%.
24 And you come across the scale, or across the chart, and
25 they are all within one percent, except for Tennessee.

1 Tennessee is about 96.4%. And so when we look at Florida
2 and we look at the other states, we don't see any big
3 difference in the demand for service. But let's look at
4 one other thing, and that's your income in Florida. If you
5 look at income in Florida, you see that we are at 24
6 thousand per capita, higher than all of the other states.
7 Looking at Social Security payments. See, again, that
8 Florida in terms of Social Security recipients, it's on
9 average as higher Social Security receipts.

10 COMMISSIONER GARCIA: Is that based on
11 population, per head?

12 MR. POAG: That's per head.

13 COMMISSIONER GARCIA: Divided by the population
14 or just by the Social Security recipients?

15 MR. POAG: Social Security recipients. This
16 information is out of the Florida Statistical Abstract.

17 Looking at ranked nationally with one being the
18 highest and I'm not sure who that was, New York or
19 California, but we see that Florida ranks 20th in terms of
20 per capita income. Again, going across the other states in
21 the Southeastern Sunbelt area 26, 32. Mississippi at the
22 tail end with number 50 in terms of per capita income
23 rank.

24 Look at disposable personal income. Again, it's
25 the same story, Florida is far and away ahead of the other

1 companies in terms of financial economic ability to pay.

2 Now look at residence one-party, flat-rate
3 service with touchtone throughout these same states.
4 Alabama, their highest rate is \$16.30, and some of this
5 stuff I know that you all have seen and you've got it in
6 your own chart, and I won't spend too much time on it, but
7 I do want to make a couple of points. Talk about the
8 average though, the average is 16.01, and the difference
9 being is that the 16.30 would be in the highest rate group
10 and then having some slower rate groups; but when you take
11 all of the revenues and add them together and divide by the
12 residential access line, you get an average. And I think
13 it's important to show what that is.

14 Coming across the states, Georgia, 17.45 their
15 highest. Louisiana is 12.33 and 12.64. Mississippi is
16 \$19.01. Now these do not include the subscriber line
17 charge. You would have to add the 3.50 on to this to get
18 the total charges for these services.

19 Tennessee has a separate touchtone charge. I've
20 added that in at a buck 50. The other states the touchtone
21 is included. Come across and you get an average of \$14.64
22 for these states 15.62 on the highest.

23 Sprint's rates, our average rate is \$9.65. Our
24 highest rate is \$11.23 with touchtone. We are about \$5 per
25 residential access line less than the average of the other

1 states. Now what has this done for Florida?

2 MR. BECK: Ben, could I ask you a question? Do
3 you see the comments filed by Ben Ochshorn that showed that
4 business rates in Florida are less than the other southeast
5 states as well? I just wondered how you would explain
6 that.

7 MR. POAG: That they're -- I'm sorry, that what?

8 MR. BECK: That the Florida business rates are
9 less on average than the southeast as well, so we have both
10 lower residential and business rates. Why is that?

11 MR. POAG: Charlie, I just got his material. In
12 fact, I didn't get that until last night, and I haven't
13 been all the way through it, but I was looking at some of
14 the rates in there, and I noticed that the rates were
15 referenced to the FCC report; but I couldn't track those
16 back to the FCC report.

17 Okay, what I did find is that he had quoted a
18 California rate in there of \$11.25, but that \$11.25
19 California rate is the rate that is offered by Pac Bell,
20 and that is a flat measured service offering. It's not a
21 flat rate service offering.

22 MR. OCHSHORN: Where the rates came from was the
23 report, but it is in some of the appendices. They are
24 available in Sprint's spread sheet form. The report itself
25 simply reports the averages, as you know, and then the

1 different appendices.

2 MR. POAG: Well, you need to be careful with that
3 data because like you were showing an 11.25 rate there in
4 California, that is 11.25 rate has a 12-mile limit on the
5 calling radius, okay? So that is not a comparable rate
6 with what we have got in Florida for local calling areas.

7 MR. OCHSHORN: Well, according to the FCC report,
8 it was for unlimited basic service.

9 MR. POAG: Within a 12-mile area.

10 MR. OCHSHORN: That is not what the FCC report --

11 MR. POAG: I will provide you the information.

12 MR. OCHSHORN: That would be a good idea.

13 MR. POAG: Yeah. What has this done for us in
14 Florida? And if you look at Florida back in 1988, and the
15 reason that I stumbled onto this slide was that back in
16 1989 I made a presentation somewhat similar to the one that
17 I'm doing today in terms of the rates in the other states,
18 but those rates in those other states, back in 1989
19 averaged \$14.85; and I've still got the chart from that
20 prior rate case. But if you look at Florida, from 1988 to
21 1997, you don't see a heck of a lot of change in the
22 subscribership. Now actually it's down a half a percent.
23 This is sampling, and it could be basically statistical
24 error, so it's not something that, you know, I jump up and
25 get too concerned about. We need to look at it overtime.

1 This is a 1997 annual average number.

2 Look at Alabama, again, with rates that were much
3 higher throughout this time period than in Florida, and
4 their subscribership level has gone from 89.6% to 93.6%.

5 COMMISSIONER GARCIA: What conclusion are you
6 drawing from this, that if we charge more, more people
7 would get the phone?

8 MR. POAG: I'm saying that if you charge more you
9 certainly will not lose subscribership, particularly if you
10 offset the charges in one service with decreases in another
11 service; and that service, for example, long distance, adds
12 value.

13 MR. OCHSHORN: Mr. Poag, did you do research on
14 changes in state median income over that ten-year period?

15 MR. POAG: Did I do median income changes?

16 MR. OCHSHORN: Right, I mean the main determinant
17 of subscribership generally is income, and so I was curious
18 whether you'd done research on changes in income in those
19 states over that time period.

20 MR. POAG: I have not. I think Mr. Harris has
21 some information on that in his comments, Doctor Harris.

22 MR. OCHSHORN: Okay. I think that would be
23 pretty relevant to subscribership.

24 MR. POAG: I don't disagree with you that it
25 might be relevant, but I would also suggest to you that

1 it's pretty relevant that their rates have been 20 to 30%
2 higher than in Florida and they've got about the same
3 subscribership level. I don't care about their income.
4 And their income is not higher than Florida.

5 COMMISSIONER JACOBS: Do we have any information
6 on Lifeline subscribership in these states?

7 MR. POAG: Yes, sir. I don't have it with me. I
8 don't have it with me, but I do have it. I can't tell you
9 specifically what each state -- I can basically tell you
10 what the ranges were, and I can talk about that.

11 I will tell you that Louisiana did not have
12 Lifeline until 1998. Both Louisiana and Mississippi do
13 have measured service offerings that have fairly high
14 levels of subscription. Louisiana has about a 22% take
15 rate on their measured service option. Mississippi has
16 about a 51% take rate. But I will tell you that the take
17 rate in Mississippi -- excuse me, with the 51% take rate on
18 measured service in Mississippi, the charge for their
19 measured service in Mississippi is about the same as
20 Sprint's flat rate charges in Florida.

21 MR. DUNKEL: I have a simple question. The FCC
22 reports -- My name William Dunkel. The FCC reports two
23 different percent penetration figures. One is the unit
24 penetration, which means you have a telephone in your home;
25 and the other is availability, which means you can go to a

1 neighbor's house and use a telephone. You are using the
2 term available. Which of those two measures are you using?

3 MR. POAG: I'm using the available.

4 MR. DUNKEL: So this is not the percent of people
5 with telephone service, but this includes those who can go
6 to a neighbor and use their phone?

7 MR. POAG: Well, they can go to a neighbor, or
8 they may have one in the hallway. If it's a dorm, maybe
9 somebody else in the dorm has one. I presume, and
10 correctly or incorrectly, that a large proportion of those
11 that had it available would not subscribe because it was
12 available. There is not a significant difference in the
13 two. I think there is 1 or 2%, and there may be more than
14 that by some states; but the difference between actually in
15 the home and available is actually 1 or 2%, I believe.

16 MR. DUNKEL: Well, there is a difference, and
17 most people usually track -- when they are talking about
18 subscribership, they track how many people or what percent
19 have telephone service in the unit.

20 MR. POAG: Well, the FCC prints both of them.

21 MR. DUNKEL: That's correct.

22 MR. POAG: Yeah. They are about that far
23 (indicates) apart on the page, if I remember.

24 COMMISSIONER JACOBS: Has anybody looked at,
25 compared those two slides of, i.e., change in rates versus

1 change in subscribership? I guess that is what you are
2 telling us, is that while there have been moderate changes
3 in rates in those states there have been significant
4 increases in subscribership levels; is that in essence what
5 we are coming away with?

6 MR. POAG: Well, actually, I don't think the
7 rates have increased in those states since 1989, or there
8 haven't significant changes in the rates up or down.

9 COMMISSIONER JACOBS: Right.

10 MR. POAG: Because they had those higher rates
11 back in 1989. Their rates were at these approximate same
12 levels at that time frame. And basically what we are
13 seeing is that even though they had those higher rates,
14 their subscription levels or take -- or percent of
15 households with service available is about the same as in
16 Florida. The exception being that in North Carolina you've
17 got a little bit higher and in Tennessee, 2.4% higher.

18 Now I will tell you this: Tennessee, according to
19 the Sprint Long Distance Company, is where I could get the
20 data, has lower long distance rates than these other
21 states.

22 COMMISSIONER DEASON: You're talking about
23 intrastate long distance rates are lower in Tennessee than
24 in Florida?

25 MR. POAG: Yes, sir. Yes, sir, intrastate long

1 distance, right.

2 COMMISSIONER DEASON: How does their local
3 calling scopes compare to Florida?

4 MR. POAG: Generally speaking, the local calling
5 scopes are not going -- I haven't looked specifically,
6 but generally speaking, when I was collecting data, one of
7 the things that I asked for was that they provide me with a
8 number of access lines in the local calling area. What I
9 found was is that it got to be kind of difficult because of
10 independent companies and things like that, so I didn't get
11 real reliable data, so I didn't try to use it. But
12 generally speaking, their local calling areas are smaller
13 than the local calling areas in Florida.

14 Trying to put all of these things together and
15 bringing the United States into it or the national average,
16 the national average rate for residential local service is
17 \$13.94; per capita income on the national basis, 22
18 thousand; subscribership of service -- I tried to keep with
19 Mr. Dunkel's point; I tried to remember to put "available"
20 up on most of my charts to make that clarification, I guess
21 I didn't on this one -- but 95%. Look at the southeast
22 Sunbelt states, the average 14.64; 20k per capita income;
23 94% subscribership. Florida, Sprint's local service rates,
24 BellSouth, General Telephone, all of them lower than the
25 southeast, the national average, higher per capita income,

1 about the same subscribership level. The basic premise is
2 that the rates in Florida can be increased, be affordable
3 and not impact subscribership.

4 COMMISSIONER GARCIA: Couldn't you also draw the
5 same corollary that the rate -- that this is an inflexible
6 service that is necessary for people; therefore, you are
7 going to have that penetration rate regardless of a
8 fluctuation in the price.

9 MR. POAG: Well, it's basically, yes, it's an
10 inelastic service; but what I'm really saying is that if
11 you change the price of the local service but you reduce
12 the price of other services, reducing the price of other
13 services, may add more value such that you could actually
14 increase penetration even though, if you did just a price
15 increase alone, you would have some people that would
16 discontinue service.

17 COMMISSIONER JACOBS: Does the other data argue
18 at least neutral to that, perhaps even against that
19 proposition? Because in those other states they had those
20 rates, those high rates over time.

21 MR. POAG: Yeah, it -- Well, I don't know that it
22 argues against it. It sort of suggests that they are just
23 not going to drop off.

24 COMMISSIONER JACOBS: Right. It's neutral.

25 MR. POAG: Or that there is not going to be any

1 significant impact. I can't stand here and say that there
2 won't be any impact. I mean, obviously, I believe in the
3 price elasticity theory even though I probably couldn't
4 explain it very well.

5 COMMISSIONER DEASON: What about, your
6 availability or your subscribership, what is that? Is it
7 availability?

8 MR. POAG: Yes, sir, it's availability. I can
9 give you the households with service too, and I don't
10 remember the numbers off the top of my head, but it would
11 be 1 or 2% difference from what the numbers I'm showing you
12 are. And I'm kind of -- Somebody asked --

13 COMMISSIONER DEASON: That's okay. I guess my,
14 the real question I have concerns, is there any data
15 concerning the fact that there are probably now households
16 with multiple lines such that one measure of penetration
17 would actually be over a hundred percent? If you take in
18 the number of lines that are actually in service and divide
19 that by the number of households you probably would have an
20 index over a hun -- conceivably over a hundred because
21 there are so many people that have two access lines per
22 household.

23 MR. POAG: Yes, sir, that is exactly correct;
24 and that, in fact, is what happened. Before the FCC
25 started using this reporting method, they were using the

1 method that you are talking about; and what happened is
2 they actually got to where they were showing, yeah, we had
3 a hundred percent penetration or we had 105% penetration
4 because you had more access lines than households as a
5 result of the second line. That's when they went to the
6 method of including the penetration -- the determination of
7 penetration through the census bureau.

8 COMMISSIONER DEASON: Well, for those
9 customers -- would you agree though that for those
10 customers that have more than one access line, that that
11 second line, that there is more flexibility there and that
12 if rates get too high, then those lines would probably drop
13 off? Now I know that wouldn't affect your measure of
14 subscribership or whatever, but that would have an effect
15 upon revenues to the company for those second lines, would
16 it not?

17 MR. POAG: Yes, sir. Yeah, I would very
18 definitely agree with that.

19 COMMISSIONER DEASON: You're not proposing a
20 different rate between the first and second line, are you?
21 I know that -- Ignoring access and what the FCC is doing.
22 I'm talking about for Florida you're saying there needs to
23 be an increase and that it needs to be the same increase
24 regardless of whether it's a first or second line.

25 MR. POAG: Yeah, if there are -- if we can show

1 that there may be some other marketing or cost-based
2 reasons of why there ought to be a difference, then it
3 might be different. It might be just a marketing tool. I
4 know that some of the cable folks are marketing a second
5 line with not a lot more additional charge for that.

6 COMMISSIONER DEASON: Does the second line,
7 incremental cost of a second line vary from incremental
8 cost of providing a first line to a new residence?

9 MR. POAG: It depends on how you -- the
10 assumptions that you put into your cost study, quite
11 frankly. Generally speaking, there is not a significant
12 difference in the two. If there is a difference in the
13 two, it would probably have more to do with the drop in the
14 network access -- or the network interface device on the
15 side of the house.

16 COMMISSIONER DEASON: So it's conceivable that a
17 second line to an existing residence that already has
18 telephone service, that that incremental cost could be less
19 than providing a new line to a newly constructed home.

20 MR. POAG: Yes, sir, and I'm going to say that as
21 a qualified yes. And, again, I'm going to say that it
22 depends on what assumptions you put into the study of the
23 first line and what kind of a fill factor analysis you made
24 when you were determining what that drop and what that NID
25 would be used for.

1 COMMISSIONER DEASON: But you don't think there
2 would be a significant difference?

3 MR. POAG: No, sir. Mr. Dickerson would probably
4 be the better person to address that question to.

5 MR. BECK: Ben, I thought I heard you suggest
6 that the higher local rates in other southeastern states is
7 offset by the value for other services. Was I right on
8 that? Because I was looking for a comparison of --

9 MR. POAG: When I was talking to Mr. Garcia, I
10 wasn't referring to the other states. I was referring to
11 Florida.

12 MR. BECK: Have you done a comparison of vertical
13 service prices in other southeastern states to Florida.

14 MR. POAG: Not a detailed analysis, no. I have
15 looked at some of the tariffs, but I haven't done a
16 detailed analysis.

17 MR. BECK: Sprint says that the custom calling
18 service and so forth are very high margin services; is that
19 right?

20 MR. POAG: Yes, sir.

21 MR. BECK: And you've had certain flexibility in
22 pricing those services since 1995?

23 MR. POAG: Yes, sir.

24 MR. BECK: You've generally increased the prices
25 for those services since '95, haven't you?

1 MR. POAG: Yes, sir.

2 MR. BECK: Why is that?

3 MR. POAG: To generate revenues.

4 MR. BECK: Thank you.

5 MR. FRANK: Mr. Poag, my name is David Frank. I
6 represent AARP.

7 MR. POAG: Yes, sir.

8 MR. FRANK: Just a real quick question. Your
9 presentation on affordability seems to focus on
10 penetration, but isn't it true that the legislature is
11 looking at more than that? In other words, they are not
12 just worried will people -- if you raise the rate, will
13 people drop their phones? Aren't they also looking at
14 fairness? Isn't fair one of the components of the study?
15 Which data would you point to, or how is Sprint looking at
16 the fairness analysis?

17 MR. POAG: Well, I tell you what, I've got some
18 slides coming up on that. Do you mind if I just kind of go
19 into that, okay? I think the --

20 MR. FRANK: Yeah, thank you.

21 MR. POAG: Okay. Yeah, in fact, I kind of lost
22 my place. Not yet. I've got to go one more thing first,
23 okay? But you could think about this as being fair, okay,
24 because, if we look at the affordability issue, in 1978 in
25 the Apopka exchange, that was the old Florida Telephone

1 Company at that time. But the individual line rate was
2 \$14.85. We had two-party service that was available for
3 \$11.65, and at that time the CPI, all goods and services, I
4 believe, was 67.1 in October of '78. Now I -- This 14.85
5 included inside wire. It included your telephone set, and
6 there was no additional charge for directory assistance.
7 So what I did was I backed out the value of those from that
8 14.85 based on prices I had back at that time for the set
9 and the inside wire maintenance when it first came on line;
10 and then for the DA, I took average DA charges today per
11 customer and backed that out. But when I make those adjust
12 for inside wire, CPE, and directory assistance, the phone
13 we come up with a CPI adjusted rate for the Apopka change
14 of \$32.13. And you say, well, wait a minute. Well, they
15 had the option to go two party. Well, even if you look at
16 the two-party line, in real dollar terms, at that time that
17 was equivalent to \$24.34.

18 So if that was a fair rate at that time, or an
19 affordable rate, or a reasonable rate at that time in terms
20 of the income, okay, you know, what is a fair and
21 reasonable rate today? And the current rate, again, my
22 13.73, and that doesn't have the touchtone in it because
23 that didn't have touchtone in it; but we're basically
24 saying that in real dollar terms that that service is
25 somewhere between 10 and \$18 less today than it was in

1 1978. So we've basically seen the price of telephone
2 service in real dollar terms substantially decrease.

3 For all practical purposes, we have not had any
4 price increases in local telephone rates in Florida for 15
5 or 20 years. There are some minor exceptions.

6 COMMISSIONER DEASON: Mr. Poag, well, what about
7 the -- I know you are using CPI -- what about the --
8 Ignore that measure. What about the cost of providing
9 telephone service between 1978 and 1998? What index would
10 that show?

11 MR. POAG: I don't know what that would be, and
12 are you going to the point that the cost is less today?

13 COMMISSIONER DEASON: Well, I don't know. I mean
14 you are using CPI. My question is, what would it show if
15 you had cost data in '78 and compared that to today's 1998
16 cost, what would be the difference, or would it actually be
17 a negative number as opposed to a positive?

18 MR. POAG: Yeah, I really do not know. I haven't
19 looked at that that recently, and maybe I can research it
20 and find out. But historically, over the years, the
21 investment per access line has been, I believe, around
22 about a couple of thousand dollars; and I don't know
23 that -- The incremental investment each year, you take
24 your capital investments each year and divide by the gain
25 and access lines. I don't think that number has changed

1 significantly. Now it doesn't get to expenses, but the
2 point is there is still significant investments today per
3 access line.

4 COMMISSIONER DEASON: But it's still about two
5 thousand dollars?

6 MR. POAG: Subject to --

7 COMMISSIONER DEASON: On average?

8 MR. POAG: Let me check that. I mean I haven't
9 looked at those numbers in probably a year or more.

10 COMMISSIONER DEASON: But everything else,
11 according to CPI, has increased substantially, but the cost
12 of providing telephone service, at least as opposed to
13 initial investment per additional access line, has held
14 steady?

15 MR. POAG: Steady or maybe declining some, yeah.

16 The affordability conclusions, if you look at
17 Florida income versus the other states, look at the rates
18 in the other states, the southeast and the nation, look at
19 subscribership levels, look at historical rates, look at
20 increases in the value of service, my personal opinion is
21 that the affordable rate is something greater than 20
22 bucks; and I'll qualify that. I'll say for medium- and
23 high-income customers.

24 COMMISSIONER GARCIA: That would obviously be
25 with corresponding reductions to other services as you

1 stipulated throughout your presentation?

2 MR. POAG: Yes, sir.

3 Now if 20 dollars is affordable for the medium
4 high income, you know, what is a fair and reasonable
5 recommendation, or what is a fair and reasonable
6 recommendation for the non-Lifeline customers? And I would
7 say -- and this is just a straw man. Nobody has, you know,
8 suggested what that number ought to be, but I think going
9 to the -- what is fair and what is reasonable, historically
10 in Florida, we have phased in rate changes, and I'm
11 suggesting that we phase in some rate changes over three
12 years at a maximum of two dollars per year, okay? I would
13 say that a fair, a fair rate would be the average, the
14 average, not the highest rate, of what is in these other
15 states, or about 15 or \$16; and if we do it at two dollars
16 a year, we'll get there in the year 2003. Now that is
17 assuming that we have something that happens in the next
18 legislature, and that towards the end of 1999 or the first
19 of the year 2000 some action is taken.

20 After 2003, allow pricing flexibility of up to 6%
21 a year up to an affordable level. Monitor your
22 subscription levels. What is deemed to be above an
23 affordable level, establish universal service for high cost
24 and low income. Reduce rates for toll and non-basic
25 services on a revenue-neutral basis, your point.

1 COMMISSIONER JACOBS: Earlier you had indicated
2 perhaps that subsidies were misplaced or structured
3 incorrectly. Is that -- that last statement there, is that
4 the remedy you would propose to rectify that, or are you
5 anticipating that subsidies will continue to exist?

6 MR. POAG: Yeah, I think under this plan you
7 begin to phase out some of the subsidies. What I'm
8 suggesting is that there are a lot of customers that are
9 out there today that are paying on average the \$14.23 that
10 can well afford -- you know, they are paying, you know, 30
11 bucks a month for cable TV, they are paying \$50 or \$60 or
12 \$70 for a wireless telephone, then why should they be
13 subsidized for their basic service?

14 COMMISSIONER JACOBS: So, basically, your
15 recommendation would be to basically phase them out?

16 MR. POAG: Yes, sir.

17 MR. OCHSHORN: Mr. Poag, I have a few questions
18 about this. These recommendations that you're making, are
19 you making them on behalf of Sprint?

20 MR. POAG: Yes, these are not recommendations by
21 any other company. I'm not representing any other company
22 in this.

23 MR. OCHSHORN: Okay. But what I'm getting at is,
24 they are the position of your company as opposed to your
25 own views?

1 MR. POAG: Yes. Yes.

2 MR. OCHSHORN: And these --

3 MR. POAG: I mean this is a straw-man position,
4 yeah. Actually we probably have another position that
5 would be a little stronger than this.

6 MR. OCHSHORN: Right. I --

7 MR. POAG: But this is a very fair and a very
8 reasonable position.

9 MR. OCHSHORN: Right. I understand this is this
10 week's position.

11 Another question I had was, are these
12 recommendations based on the factors that you've discussed
13 this morning, that is, affordability, value of service, or
14 do they also take into account cost?

15 MR. POAG: Well, these are primarily not just
16 based on -- it does take into consideration cost, but it's
17 primarily driven by what is affordable and what the value
18 of the service is.

19 MR. OCHSHORN: Okay.

20 MR. POAG: Yeah. I mean now if the cost were a
21 lower number, then we wouldn't -- if the cost were a lot
22 lower number, we wouldn't be here probably making these
23 kind of recommendations.

24 MR. OCHSHORN: Okay. And your cost is based on
25 allocating the local loop cost primarily to basic service,

1 correct?

2 MR. POAG: Well, the costs are the cost. The
3 cost of the local basic service, is the cost of basic
4 service. It's not allocated.

5 MR. OCHSHORN: Well, yeah, but the way that your
6 company is figuring cost is allocating most of the cost of
7 the local network to basic services as opposed to vertical
8 services or intraLATA or whatever.

9 MR. POAG: Just those components that are
10 necessary to provide the residential basic service.

11 MR. OCHSHORN: Okay. And a last question that I
12 have is, is Sprint arguing that phone rates for basic
13 service should be based on subscribers' income?

14 MR. POAG: No. Generally, no. We are suggesting
15 that for -- and I haven't talked about the Lifeline portion
16 of the presentation yet, okay?

17 MR. OCHSHORN: Right.

18 MR. POAG. I've got a section on Lifeline that I
19 want to talk, and so we haven't gotten to that. So, yes,
20 there is a recommendation regarding a Lifeline customer,
21 that there be different rates.

22 MR. OCHSHORN: Right. The reason I asked that is
23 you made a number of arguments that people's income has
24 gone up over the last 20 years.

25 MR. POAG: Those were facts. Those weren't

1 arguments.

2 MR. OCHSHORN: Well, I meant that in a lawyer
3 sense.

4 MR. POAG: I know you did.

5 MR. OCHSHORN: That is what you are basing your
6 case on. And then you also mention in terms of justifying
7 both your allocation of cost in the local loop and Sprint's
8 overall position that there is an unfairness because some
9 people with more money are paying less while other people
10 who earn less are paying more. Is that the basic equitable
11 justification that Sprint puts forward for raising basic
12 rates?

13 MR. POAG: Yeah. Well, you know, when I first
14 started out, I put six problems up there. Now you've
15 identified one of them. Okay, there are five more, and
16 they are in the handout.

17 COMMISSIONER GARCIA: Let me go through your
18 straw man real quick. Three-year maximum, \$2 per year, who
19 determines that? Is it just \$2 per year and then the last
20 year when you get to -- the last figure would get to the
21 15, or would you have the Commission do that, monitor that
22 \$2 or in-between figure for a three-year period? Would you
23 have the Commission implement that, or how would you do
24 that? I understand what you're saying.

25 MR. POAG: I guess my position on it is that the

1 question--

2 COMMISSIONER GARCIA: It's two dollars, \$2 and
3 then the last year, whatever --

4 MR. POAG: Right, whatever it gets to take you to
5 15.

6 COMMISSIONER GARCIA: You wouldn't require the
7 Commission to do that. Then where it says, "Up to an
8 affordable level," obviously you've determined an
9 affordable level is \$20. That would mean that on year 2003
10 you would then take a 6% increase until you reach \$20, or
11 by 2003 your affordable level would have climbed so it
12 would be your determination of affordable, or would this
13 Commission do a study on what is affordable in 2003 and
14 then determine that 6%, or that 6% would be left to your
15 discretion to do as a --

16 MR. POAG: No, this Commission would determine
17 the affordable level, and they would do that as part of the
18 universal service, as part of a universal proceeding.

19 COMMISSIONER GARCIA: 6% on the yearly increase?

20 MR. POAG: No, they would, they would -- Forget
21 the 6%. Keep in mind --

22 COMMISSIONER GARCIA: No, I understand the
23 universal service, let's leave that out of it. We are
24 talking about an increase of, at your rate, of almost \$68
25 after -- on a yearly level when you get to 2003 at \$2 a

1 year for three years on a yearly basis; but what I'm
2 talking about -- and that's going to, obviously, differ
3 because the last year won't be the full amount. But you're
4 saying that after 2003 allow pricing flexibility up to 6%.
5 When you say allow pricing flexibility, is that allow
6 pricing flexibility to the company to determine what is
7 affordable, or this Commission would make a study on what
8 is affordable and you would try to approach that at 6%
9 increments until you reached affordable?

10 MR. POAG: Yes, sir.

11 COMMISSIONER GARCIA: Okay.

12 MR. POAG: Let me give you an example in here.
13 Okay, today we are a combination of the former Centel and
14 the former United Companies. We've got one rate schedule
15 for the United customers. We've got another rate schedule
16 for the Centel customers. I would like to have some
17 flexibility to move those rate schedules more in line with
18 each other, okay, just for administrative purposes.

19 Now what you are going to find too is that --

20 COMMISSIONER GARCIA: For administrative
21 purposes. Would you think about that we should fold in,
22 for example, your touchtone into your basic service now
23 that we are looking at this as an issue and just increase
24 it at basic rate on that touchtone issue?

25 MR. POAG: Yeah, I have no problem with rolling

1 that in. Yeah, the only reason it's still a separate
2 charge for us is because we didn't have a proceeding before
3 this Commission at the time the trend was to start rolling
4 it in, okay?

5 COMMISSIONER JACOBS: Do you have any information
6 which reveals to what extent your service territory is
7 changing with regard to density?

8 MR. POAG: No, sir. It's clearly getting more
9 dense, and I think that's where you are seeing some of
10 the -- some of the cost declining, is the fact that the
11 more dense it is, the more efficient it is to provide the
12 services.

13 COMMISSIONER JACOBS: Okay. How will we factor
14 that into this, into this rate schedule?

15 MR. POAG: I don't think that you should factor
16 that into the rate schedule. I think that what you
17 really -- what you really want to do is let the market
18 begin to determine what the rates will be. Now what I'm
19 saying is that, yes, we haven't developed that competition
20 yet, and we are not going to develop it in the a lot of
21 areas if we don't do something on the prices. But if you
22 put in motion the fact that over time you are going to
23 allow prices for residential services in these other areas
24 to increase, then the competitors, if they know that is
25 going to happen, can then begin to think about serving

1 those markets. And to the extent that they begin to think
2 about serving those markets, you will begin to see more
3 competition in those markets, and the competition then
4 needs to be able to determine what the prices will be; and
5 yes, competition will drive prices down, but competition
6 won't drive prices down when they are already below cost.

7 COMMISSIONER JACOBS: Is there an artificial
8 price point here? Because you started off at a figure that
9 may be shifting. You started off with a \$20 figure which
10 we assumed to be --

11 MR. POAG: Yeah. Yes, sir, I'm sorry. I'm just
12 basically saying that as far as the affordability, what you
13 can do without impacting subscribership, is it's a \$20 plus
14 number. It's a \$20 plus number, if you do these other
15 things.

16 COMMISSIONER JACOBS: I buy that.

17 MR. POAG: And the evidence from the other states
18 proves that.

19 COMMISSIONER JACOBS: Let's say I buy
20 wholeheartedly that --

21 MR. POAG: Thank you. Where is my bag? I'm out
22 of here.

23 COMMISSIONER JACOBS: Let's say I buy
24 wholeheartedly that \$20 is an affordable figure, that 90%
25 of the people in Florida can pay that figure, okay? But

1 the point is, we are trying to drive this market towards
2 competition.

3 MR. POAG: Yes, sir.

4 COMMISSIONER JACOBS: And if we continue to look
5 at affordability and not try and factor in where costs are
6 headed, or do we have an accurate price?

7 MR. POAG: Okay. All right, I see where you are
8 going now. All right. Okay. And this is only -- Okay,
9 this, this -- And this is only part of it. The other
10 piece of it is down here, okay? You are going to do the
11 cost for the universal service, and if you really want to
12 see the competition come to these low-dense, high-cost
13 areas, then you are going to have to put an explicit fund
14 out there and make it available to all potential
15 competitors in that marketplace, and that's what's going --
16 You can't -- This by itself isn't going to get you where
17 you want to be with fostering competition. And I heard
18 somebody -- I think Ed Paschall at one of the hearings
19 said, well, you haven't got competition in these other
20 states. Well, you don't a universal service fund in those
21 other states either. And the cost in those other states
22 are still higher than the rates they've got in place out
23 there.

24 COMMISSIONER GARCIA: I want to go to your last
25 points, reduce rates for access, toll and non-basic

1 services. You're talking about on a revenue-neutral basis,
2 so for every \$2 we see an increase, we are going to see a
3 corollary corresponding decrease to other customer -- to
4 other customers for those \$2?

5 MR. POAG: Yes, sir. Now, obviously, that's my
6 position. We've got to go through the legislation and all
7 that kind of stuff; but, yes.

8 COMMISSIONER GARCIA: But you would probably want
9 us to advocate this. If it's in there, and if you were
10 talking about this kind of increase, you are saying that
11 this should be revenue neutral. So what you're saying is
12 that that subsidy that is being collected on one side, we
13 are going to redistribute it and will simply go somewhere
14 else, but it will still be -- it will be a pass-through, it
15 won't be a revenue. And would you think that that should
16 be a pass-through on an equal basis, or should you be able
17 to as a pass-through to business to meet competition, or
18 should it be revenue neutral to all classes?

19 MR. POAG: No, I think it needs to be a
20 commitment to do a pass-through. When we start talking
21 about doing non-basic services, non-basic services are the
22 predominant supplier -- or subscriber to non-basic
23 services, the caller IDs and the call waiting are the
24 residential customers, okay?

25 COMMISSIONER GARCIA: And I would assume that

1 when you -- And intraLATA rates?

2 MR. POAG: Yes, sir.

3 COMMISSIONER GARCIA: Reduction.

4 MR. POAG: Yeah, and talk about access and toll,
5 your business customers, especially your big business
6 customers, are the ones that are putting in the dedicated
7 facilities, and they are bypassing a lot of the access
8 charges already, okay?

9 COMMISSIONER DEASON: Should there be
10 verification of the revenue neutrality?

11 MR. POAG: Yes, sir.

12 COMMISSIONER GARCIA: And I assume this
13 Commission would handle those proceedings.

14 MR. POAG: Yes, sir, unless you just want me to
15 do it.

16 COMMISSIONER DEASON: What about -- how do you
17 calculate in your revenue neutrality analysis, how do you
18 calculate in the fact that there is probably going to be
19 stimulation as a result of reducing non-basic services?
20 For example, if you reduce -- by increasing basic service
21 \$2 a month, it's your position that is going to have none
22 or very little impact on your penetration rates, but when
23 you --

24 MR. POAG: I would agree with you on that.

25 COMMISSIONER DEASON: Okay. Now but when you

1 reduce -- when you reduce a non-basic service, for example,
2 call waiting, do you factor in the fact that by having a
3 reduced rate there is going to be more people subscribing
4 to that and your revenue -- While you reduce the rate for
5 those customers who already have it, sure that's a hit, but
6 then probably there is going to be customers to subscribe
7 to that who formerly did not subscribe because of the rate.
8 Do you factor in that revenue enhancement in your
9 neutrality analysis?

10 MR. POAG: There could be some adjustment for
11 that. I will say this too though, okay, that already to
12 the extent that you are going to reduce the prices of two
13 services that are growing faster than your access line
14 service, you are going to take care of some of that in
15 that. Okay, the other thing is that you are still looking
16 at the customer's total bill, and if you are increasing
17 this, then they may decide that they are going to get rid
18 of the call waiting; so you've got to look at it from
19 basically a total bill perspective. But I don't
20 disagree -- I don't know what that would be. If it's a
21 reasonable number, you know, clearly something that we can
22 deal with; but I think if you are going to take that into
23 consideration, then you ought to look at, you know, what
24 you are going to lose on the growth as well.

25 MR. BECK: Ben, could I ask you, on your straw

1 man proposal, the 15.62 average that you are looking at --

2 MR. POAG: Yes, sir.

3 MR. BECK: -- we looked at the other states in
4 the southeast that are higher than that average, like
5 Mississippi at 17.95 and Alabama at 16.30. Are they having
6 increased residential competition because of those higher
7 rates?

8 MR. POAG: I don't know. I had heard someone
9 indicate that they hadn't, and I addressed that a few
10 minutes ago.

11 MR. BECK: About Ed Paschall's comment?

12 MR. POAG: Basically -- Yes. Basically, those
13 other states have higher costs than Florida, okay? Now to
14 the extent that there is not a universal service fund out
15 there yet, okay, that's a factor that may be impeding
16 competition, okay, because you don't have that implicit
17 universal service out there, which is going to draw these
18 folks to the high-cost area. Do they have competition?
19 Yes. Do they have more than Florida? I don't know.

20 MR. BECK: Is there some witness from local
21 companies that is going to address that, whether those
22 higher rates have spurred competition?

23 MR. POAG: I don't know if anybody addresses that
24 or not.

25 MR. BECK: Let me ask you one other question

1 about your straw-man proposal. You do not include a
2 proposal to reduce business rates in your proposal. Why is
3 that?

4 MR. POAG: I hadn't thought about it, to tell you
5 the truth; but beyond that, I would say that, yes, there
6 are some business rates that need to be reduced, and that's
7 primarily probably in the PBX rates. And let me -- Just
8 let me finish, Charlie, before you go away, okay? In our
9 situation, in our situation, not only are our residential
10 local service rates very low, some of our business rates,
11 single line business rates are also very low and I don't
12 see, given the cost data that we have on them, that there
13 would be any significant cost reductions in them. Where I
14 might see some cost reductions is in the PBX trunks and in
15 the business rotary. I don't think I would see anything in
16 any of the CENTREX rates. Those rates are fairly
17 competitive and fairly low. So, yes, for those two
18 categories of services which make up a relatively small
19 percentage of the total access lines, I'd see some
20 reductions.

21 I forgot where I am. Okay, what are the
22 reasonable rates for low-income customers, i.e., those that
23 qualify for Lifeline service? I would just like to review
24 Lifeline services for just a few minutes. I knew you
25 wouldn't be able to read this, so in the handouts, there

1 are copies of this that are at the back of the handouts,
2 but basically just want to mention that there are six
3 programs in Florida: The Medicaid, Temporary Aid to Needy
4 Families, Supplemental Social Security income, Food Stamps,
5 low-income home energy, and federal public housing.

6 Now I believe -- going back, I believe a
7 Supplemental Social Security income or one of the other
8 ones is available at up to 130% of the poverty level.
9 Where is it up there? Okay, excuse me, Food Stamps, but
10 you go up to 130% of the poverty level, so let's take a
11 look at what that means in terms of income, and these are
12 the federal poverty guidelines for 1998 looking at a family
13 unit size of one through eight. We see that the federal
14 poverty level is 8 to 27 thousand, and I have just added
15 30% to get to that, and that shows that to be eligible for
16 Food Stamps which makes you eligible for Lifeline, you can
17 have income as an individual of \$10,465; or if you a
18 household of eight up to \$35,000.

19 Looking at the housing assistance program, the
20 federal housing assistance program. You have two basic
21 plans here. One is what they call the very low income, and
22 these are folks that, as I understand it, make less than
23 50% of the median income in the household, and they are
24 eligible then for free rent and assistance on their
25 utilities. Now on the other side is what they call just

1 the low income, and these are folks -- and these
2 guidelines, by the way, they do make adjustments for
3 special circumstances, so I'm giving you just the order of
4 magnitude. But in this category, they make up to 80
5 percent of the median income in the area, and these things
6 are kind of like area specific. But, basically, in that
7 situation, a one-person household of 25,700 or up to 48,450
8 can qualify for Lifeline service.

9 Now the next slide. We look at what low-income
10 household subscribership is throughout the United States,
11 and this is not just Lifeline customers, this is just what
12 is classified as low income -- or what I'm classifying as
13 low income, my definition here is from the FCC driven
14 numbers of less than five thousand dollars. You see that
15 we've got an 80.8% take rate. Five thousand to 75 hundred
16 dollars, 85.9% penetration level, and 75 hundred to 10
17 thousand, gives you almost a 90% subscription level.

18 Now we just saw that in our prior data that
19 anybody that qualifies, 10 thousand up to 48 thousand
20 dollars can get Lifeline service. Now look at Lifeline
21 rates, and I picked the individual cities throughout the
22 southeast. The average of the southeast is \$9.21. The
23 national average is \$9.48. Our rate in Winter Park, which
24 is the highest rate is \$3.23 for Lifeline. These are the
25 rates in the other states.

1 Now Commissioner Deason, or somebody asked me
2 earlier about what was the take rate in the other states.
3 I don't remember what it was individually by state, and I
4 will tell you Louisiana did not have Lifeline in 1997. But
5 the highest take rate of any of those states, I believe was
6 about 7% and that was in one state. I believe BellSouth in
7 Florida is somewhere around 6%. And by the way, when I
8 give you these percentages, I am giving you BellSouth, not
9 for the entire state data because those are the folks that
10 I use for my data. The rest of the states had Lifeline
11 take rates that were probably, you know, half to two or 3%,
12 and I have that information, and I can make it available to
13 you.

14 MR. DUNKEL: I have one question. A few minutes
15 ago you showed the take rate for Lifeline customers.
16 Again, is that the unit take rate or the availability rate?

17 MR. POAG: I'm going to assume that is the
18 availability because I think I stayed consistent, but I'm
19 not positive.

20 MR. DUNKEL: So, again, that's not -- those
21 customers do not necessarily have telephone service, but
22 they might have a neighbor that would let them use
23 telephone service or something like that?

24 MR. POAG: Well, they could have a neighbor, or
25 if it was an apartment complex, you know, one in the

1 hallway or something of that nature, yeah.

2 MR. DUNKEL: Thank you.

3 MR. POAG: My conclusion is that when you look at
4 the items that the legislature asked us to look at, a fair
5 and reasonable rate is much greater than the current rates
6 in Florida. I based most of my conclusion on the
7 subscribership levels in the other states and what their
8 rates are and the value of service in Florida. And in
9 closing I'm just going to put that other slide back up
10 because basically I think this is the empirical evidence
11 that demonstrates more than anything else that we can do a
12 much better job in Florida of maintaining subscribership,
13 and by the same token, pricing our service more in line
14 with the economic cost, foster the competition, better
15 allocation of resources, and keep people on the network.
16 Thank you.

17 MR. OCHSHORN: Mr. Poag, I have a question. Are
18 you prepared to discuss the results of the Florida Public
19 Service Commission survey that was done in the past few
20 months?

21 MR. POAG: No.

22 MR. OCHSHORN: No. Is there somebody in your
23 company who can?

24 MR. POAG: I think Mr. Perry with General
25 Telephone is going to do that.

1 MR. OCHSHORN: Okay. The reason I asked is that
2 in the 696 docket one of the phone company representatives
3 in the prefiled testimony goes on for pages and pages about
4 how the findings in the survey can't be relied upon, and
5 those findings showed that a substantial number of people
6 would discontinue their basic service if it was raised as
7 little as \$2 --

8 MR. POAG: Yeah, I think it's --

9 MR. OCHSHORN: -- a month.

10 MR. POAG: I think it's pretty clear from this
11 slide.

12 MR. OCHSHORN: As long as you don't consider
13 changes in income over that time or whether that's an
14 accurate reflection of number of phones in people's houses.

15 MR. POAG: Income in Florida is higher than these
16 other states, rates are lower than these other states, and
17 there is not a significant difference in penetration
18 levels. When those rates -- when those rates in
19 Mississippi went to \$19, they didn't lose 2% or 5% of their
20 customer base, their base increased.

21 MR. OCHSHORN: Okay. Well, we've each said our
22 interpretation, so that's fine.

23 MR. POAG: There is not a whole lot of
24 interpretation to this.

25 MR. FRANK: Mr. Poag, first I would like to

1 commend you on actually putting up a straw man and having
2 the courage, you and Sprint to have the courage to just put
3 forth your proposal and your thoughts on the specifics.
4 I've heard at least one executive from another company
5 dance around the issue and assert that they really aren't
6 looking for a rate increase in this procedure, but my --
7 And I think you can understand the problem some of us have
8 with just the general premise. If you look at it on the
9 surface, your proposal basically is that you would like to
10 raise the basic residential rate in order to foster
11 competition on a revenue-neutral basis to get no gain out
12 of it just so you can eventually lose some of your business
13 to the competitors or give up some of your business.
14 Superficially it doesn't have a good -- it doesn't make
15 business sense, and I think some folks are having trouble
16 with the general premise.

17 But let me ask you this specifically: We talked
18 about -- Commissioner Deason talked about the elastic
19 measures, charges, like the verticals that if you reduce
20 the price of those, the volume would increase. I think we
21 all agree that's something -- an economic principle that
22 it's going to happen.

23 MR. POAG: Let's stick with those economic
24 principles, I like those.

25 MR. FRANK: Okay. All right. If that's true,

1 going to have competition in the market, let's get the
2 prices right. Let's have competition where people are
3 competing for the right reasons.

4 MR. OCHSHORN: Mr. Poag, there was a written
5 comment filed in this special project by the Florida
6 Competitive Carriers Association.

7 MR. POAG: Mr. Gillan, is that who it is?

8 MR. OCHSHORN: I think he was the individual.
9 This is an association of carriers who, I guess, would
10 compete with Sprint. And in their comment, they request
11 that rates not be readjusted until there actually is
12 competition and that they would expect that competitors
13 would mimic existing rates in order to attract customers
14 through getting their basic service. Do you have a
15 response to that?

16 MR. POAG: Yeah, my mommy always told me to
17 consider the source.

18 MR. OCHSHORN: Well, the source is the Florida
19 Competitive Carriers Association.

20 MR. POAG: Mr. Gillan is an economist, I believe,
21 and I --

22 COMMISSIONER GARCIA: You guys do me a favor and
23 not speak over each other. I'm sure it's bad for our
24 transcriber because it's bad for myself, so --

25 MR. POAG: Yeah, I just think it's -- Mr. Gillan

1 MR. TUDOR: Mr. Poag, Richard Tudor.

2 MR. POAG: Yes, sir.

3 MR. TUDOR: In one of your earlier charts you
4 showed a cost for residential service of 26 plus dollars
5 and a revenue of \$14. Could you tell me or send to us
6 later what that basic residential revenue stream would be
7 if you included the non-basic services, not toll, but, you
8 know, the call waiting and the custom calling features,
9 what that number would be?

10 MR. POAG: Yes, sir, we can. Yeah, I think
11 it's -- Yeah we can do that. Yeah, I was trying to
12 think, most of it is probably is in what we already filed,
13 but it may not have included all of the features, but we
14 can do that.

15 MR. TUDOR: And the cost number, how much would
16 it increase if you were looking at the cost of those
17 features?

18 MR. POAG: Yes, sir.

19 MR. TUDOR: Okay. Thanks.

20 MR. POAG: Thank you.

21 MS. MARSH: We are going to take a 15-minute
22 break, and we do need to keep it to 15 minutes because we
23 do need to break at 12 o'clock sharp today.

24 Let me remind everybody that is going to need
25 equipment for your presentations to please get with me,

1 during the break if you can or as soon as possible, so we
2 can get that stuff arranged. Thanks.

3 (BRIEF RECESS TAKEN)

4 MS. MARSH: We need to get started again. If
5 everybody would take their places please.

6 We are going to go ahead and start. Tom McCabe
7 is the next speaker, and he is up there and ready, so, Tom,
8 go ahead.

9 MR. McCABE: My name is Tom McCabe, and I'm
10 employed by TDS Telecom, and the comments that I'm offering
11 today are on behalf of all the small LECs operating in
12 Florida. Those would include AllTell, Frontier, GTC, Vista
13 United, Northeast, TDS Telecom-Quincy and ITS
14 Telecommunications Systems.

15 Basically the issues that we are talking about
16 today have a great importance to small LECs, and that
17 really all focuses on universal service. The
18 Telecommunications Act of 1996 outlines in Section 254,
19 requirements essential to the preservation of universal
20 service. Under this law congress intended that the
21 federal/state joint board and the Federal Communications
22 Commission base universal service policies on specific
23 policies outlined in the Act. Small LECs believe that the
24 first three principles are intertwined in the issues before
25 the Public Service Commission today. These principles

1 are: Quality service should be available at just,
2 reasonable and affordable rates; access to advanced
3 telecommunications and information services should be
4 provided in all regions of the nation; and consumers in all
5 regions of the nation, including low-income consumers,
6 those in rural, insular and high-cost areas should have
7 access to telecommunications and information services,
8 including interexchange service, advanced
9 telecommunications, and information services that are
10 reasonably comparable. And that's very important to the
11 small LECs, is that those rates be reasonably comparable to
12 the services provided in urban areas and that are available
13 at rates that are reasonably comparable to the rates
14 charged for similar services in urban areas.

15 Basically, the majority of our comments follow in
16 line with what Mr. Poag just discussed today. I mean all
17 those issues that are faced by the large LECs are faced by
18 us, and rather than going in through, you know, all of the
19 things that were provided in our report, I just want to
20 kind of touch on some differences from the small LEC
21 perspective.

22 In some of the comments that I have seen, there
23 has been references to the idea that the historical
24 residual pricing framework that existed in the past will
25 exist today. I think that I remember seeing reference to a

1 docket back in 1986 which, from my conclusion in those
2 comments, was that the Commission has already determined
3 that local, toll, access, all those rates were reasonable.
4 Well, a lot has changed since 1986, and a lot of those
5 impacts have come to small LECs.

6 Under the Telecommunications Act we have not seen
7 the level of competition that one would hope to expect, and
8 quite frankly, I'm not sure that we ever will. I can't
9 imagine that somebody is going to want to go ahead and plow
10 cable and facilities into an area in which they can get
11 \$7.45 for local service.

12 The issue of price is a factor in terms of
13 investment decisions and what companies can expect in terms
14 of a reasonable return. We have looked at expanding
15 outside of our local territory. We have had opportunities
16 in which we have been approached by some developers in
17 which they came and said would you be interested in looking
18 at providing service, and we have evaluated those, but we
19 cannot evaluate those based on \$9. We cannot look at it
20 from the standpoint of investing two or three million
21 dollars to go in and serve maybe three or four hundred
22 customers and say we can do that with the idea that we hope
23 to get all that back in interLATA -- through toll and
24 through ancillary services. I mean that is not a business
25 decision that we are willing to make, and we certainly

1 don't have the financial resources with the size of our
2 company that we would be willing to risk that.

3 COMMISSIONER DEASON: Tom, is it because those
4 revenue sources would not be sufficient, or those revenue
5 sources would be at risk of being lost even though you have
6 the investment committed?

7 MR. McCABE: When we looked at it it was kind of
8 both. I mean, granted, that the services such as your
9 class features can, someone can come back in and reprice
10 them lower in order to compete, but we kind of look at it
11 more from the standpoint of toll. I mean we have -- you
12 know, obviously there are several large interexchange
13 carriers. We are not at the level that we believe that we
14 can compete head to head with those carriers. So just from
15 name recognition alone, we can do that on price; but, you
16 know, from name recognition alone, it creates a lot of
17 uncertainty in terms of what we may -- what we believe we
18 may be able to get. So our focus tends to go towards what
19 are we going to get back on that investment in terms of the
20 plant that we put in the ground to those customers
21 purchasing dial tone and not somebody that then has access
22 to purchase those other services from other carriers.

23 COMMISSIONER JACOBS: Do you know if you're able
24 to achieve the same kind of contributions to your profit
25 margin from the ancillary services as was projected by

1 Sprint?

2 MR. McCABE: I'll touch quickly on that. The
3 small LECs were not able to produce TSLRIC studies for this
4 proceeding. Quincy had looked into doing that, and we had
5 an estimate of about \$30,000, and at that time it would
6 have only been for basic service. It would not have been
7 for the other ancillary services in terms of what this
8 TSLRIC study would have shown. But I think if you go ahead
9 and you look at some of the differences in the cost -- in
10 the components of small LECs, probably the biggest thing
11 that impacts small LECs is density.

12 As you can see on page 7 of our comments, I
13 believe -- actually, I believe TDS -- I'm sorry, yes, TDS
14 has the largest customers, access lines per square mile of
15 all of the small LECs and that's 31. In comparison to the
16 three large LECs, we are looking at 314 for BellSouth, 472
17 for GTE, and 135 for Sprint. So from the standpoint of the
18 cost of the basic loop, while the TSLRIC studies that have
19 been produced by the companies, we would probably think
20 that those would be a starting point in terms of where our
21 TSLRIC rates would be, and then you'd probably factor up
22 from there.

23 Now as for --

24 COMMISSIONER JACOBS: I'm sorry, what would that
25 rate -- Is that on this table?

1 MR. McCABE: No, like I said, we did not produce
2 those.

3 COMMISSIONER JACOBS: Oh, I see.

4 MR. McCABE: But if you were to go ahead and you
5 look at the highest rate that has been provided, like
6 \$31 --

7 COMMISSIONER JACOBS: I got you.

8 MR. McCABE: -- we would probably say that is a
9 starting point, and then you could probably consider that
10 it would be somewhat higher than that.

11 COMMISSIONER JACOBS: Okay.

12 MR. McCABE: As far as the ancillary services,
13 such as your vertical services, we would probably -- I
14 think it would be reasonable to conclude that those rates
15 do provide sizable contribution to us.

16 The other thing I wanted to mention, you know,
17 although we haven't seen, you know, the level of local
18 competition, we have seen a lot of competition in other
19 areas; and a lot of those revenues that we received went to
20 supporting basic as well as the company's overall rate of
21 return. We've seen bypass, intraLATA presubscription,
22 wireless competition, and competition from pay telephone
23 service providers. And now all those things -- We are
24 not opposing any of them. I mean from the standpoint that
25 we could sit here and argue we don't think that is a good

1 thing from our company's standpoint, we believe it is a
2 good thing for consumers. I mean from Quincy's standpoint,
3 we introduced -- we implemented intraLATA presubscription
4 December of 1996. Since that time, we have lost, looking
5 at our August revenue from toll, annualizing that over the
6 year, we will have lost an average of 120 thousand dollars
7 a year from toll. Now it's benefitted the customer, but
8 it's harmed the company, and those toll revenues were part
9 of the residual pricing that was done in the past in terms
10 of achieving the company's overall rate of return.

11 So we think that there is a need to go ahead and
12 do some rate rebalancing. We also think that that rate
13 rebalancing will enable us to look into other things. We
14 look at the Telecommunications Act from the standpoint of
15 comparable rates, and we look at that as the whole range of
16 telecommunications services. Our business rates in Quincy
17 are \$15 higher than the business rates in Tallahassee.

18 We would probably -- we would argue that that
19 basically is in conflict with the Communications Act that
20 rates in urban areas are -- that rates in rural areas are
21 comparable to rates in urban areas. So one of our goals
22 through a rate rebalancing situation would be try to and
23 bring some of those business rates down.

24 From a legislative standpoint, we kind of -- our
25 main goal is to kind of stay out of the way and not get in

1 anybody's harm, at the same time make sure we don't get
2 trampled in the process; and we have been successful at
3 that. I mean the large, you know, access reforms have been
4 before the legislature for the past two years and, you
5 know, we have received concessions on the part of the
6 interexchange carriers that I believe back in '96 we were
7 looking at going to BellSouth's intrastate rate, which our
8 calculation showed that that would be about a \$5 impact on
9 our residential subscribers.

10 Now because of the size of the access revenues
11 that we have, the large interexchange carriers didn't feel
12 that that was something that they really cared a whole lot
13 about. While they believed that access rates should be
14 reduced for everybody, they are willing to make that
15 compromise and say, hey, you know, we can exclude out the
16 small LECs from this process.

17 Well, that works fine from the standpoint, but I
18 think it doesn't move in a direction that we need to go.
19 So that's why, you know, we are involved in this process.
20 We don't want to go back to the legislature and say,
21 everything that you are doing today, please don't do that
22 to the rural LECs. We want to be involved in that process.

23 Access reform, we can look at it two ways: One,
24 if you reduce access rates, that will possibly encourage
25 more people, more interexchange carriers to come in and

1 take away our intraLATA customers. So from that
2 standpoint, it impacts our toll revenues; but at the same
3 time, our customers are demanding to have those types of
4 opportunities.

5 In Quincy's standpoint we have very limited
6 interexchange competition. Now I'm not here asking for
7 anyone to come in and take my toll customers, but we've had
8 customers saying -- we've had carriers, in our opinion, and
9 throughout the country in terms of rural areas because of
10 the way access rates are, they don't want to go into high
11 cost rural areas where access rates are extremely high --
12 Florida is a bit lower than a lot of other rural areas --
13 and go in and compete for those toll customers. It doesn't
14 do them any good to be offering ten cents a minutes and
15 paying access rates at 15 cents a minute. That's not the
16 case in Florida for the rural companies. I think we are
17 around six, eight, cents for the most part, but it does
18 create disincentives for people to come in. In fact, we
19 had one interexchange carrier that came in, issued us an
20 ASR for intraLATA presubscription but limited it to
21 government accounts. Yet we have got customers who have
22 asked, How come we can't get access from that individual?
23 So we think in terms of, you know, a rate rebalancing
24 process we can adjust our access rates, at the same time
25 encourage intraLATA competition, and at the same time

1 protect our revenue sources and our revenue streams.

2 Another issue is if you look at -- even if we
3 don't have people coming into our market, the rates that we
4 are currently charging for toll are much higher than the
5 rates that people can get elsewhere. Last night I got a
6 call, and I was offered ten cents a minute all day and five
7 cents on Sundays. A lot of customers in rural areas cannot
8 get that type of an offer because people do not want to
9 come and serve those areas with access rates being high.
10 So that's just, you know one part of, you know, a whole
11 picture of things that are --

12 COMMISSIONER DEASON: Are you saying that if you
13 had lived in Quincy you would not have gotten that call and
14 provided you with that rate, offering you that rate?

15 MR. McCABE: From that interexchange carrier I
16 would have, but I would not necessarily have gotten that
17 call from others offering that same rate. In order to --

18 COMMISSIONER DEASON: You're saying the
19 opportunities for rural customers in terms of competition,
20 toll competition is limited?

21 MR. McCABE: Yes.

22 COMMISSIONER DEASON: And that's because of high
23 access charges?

24 MR. McCABE: That's part of it. And customer --
25 And business decisions. I mean it may be that it may cost

1 more to try and get those customers than they believe that
2 the revenues are going to be there to generate regardless
3 of what those access rates are. I mean they may perceive
4 that calling patterns would be low and, therefore, even if
5 you had an access rate of a penny, it may not make that
6 business decision.

7 We would also look at the ability to do rate
8 rebalancing to take a look at our toll rates. Like I said,
9 I think our initial minute is 14 cents in the first rate
10 band, the second rate band is the same, and then I think it
11 goes to 22 cents. Rate rebalancing would allow us to
12 reduce some of those toll rates in order -- and then we
13 would be able to offer those services and those rates to
14 our customers. They may be comparable to what they can get
15 in an urban area.

16 When we look at affordability, it's our view that
17 you need to look at the entire picture. I mean
18 affordability shouldn't be looked at as just the lowest
19 common denominator. We believe that you need to look at
20 just and reasonable rates in that context. The rate needs
21 to be just and reasonable in order to encourage companies
22 to invest in that infrastructure in those rural areas.
23 It's quite possible -- I mean from a small LEC's
24 standpoint, we have limited resources and limited capital,
25 and we are going to take those revenues, those capital

1 dollars that we have available to us and invest in those
2 areas in which we know we are going to receive our greatest
3 return. And that may mean that some areas will not get the
4 investment because it's going to be put somewhere else. So
5 when we look at it from Quincy's standpoint, we want to
6 ensure that the prices that we are charging in the long run
7 are going to provide the incentives for us to invest,
8 whether that's from taking into account the potential
9 losses that we have in toll, and so I don't think that the
10 residual price making that occurred in the past exists any
11 more today.

12 You know, the idea that competition for the sake
13 of competition is bad, well, you can't limit it to one
14 source of telecommunication product. You can't sit there
15 and say, We think it's wonderful in rural areas to have
16 competition in everything, but we don't want to see
17 competition come in the local market because it's not
18 sustainable. At the same time, though, you are going to
19 drive away the competition. You would have to eliminate
20 the competition in the other markets in order to maintain
21 those revenue flows in terms of keeping the local rates
22 where they are today.

23 I think the lowest local rate in Florida is
24 probably one of the St. Joe companies which is in the \$7
25 range. Quincy has the highest local exchange rate,

1 \$12.70. And again, you know, we look at the issue, again,
2 about comparability. We agree -- we believe that rates
3 from other services are subsidizing local. When you look
4 at a neighboring community such as Tallahassee, well,
5 Sprint has an enormous array of customers in which they are
6 deriving subsidies from, and those subsidies are spread out
7 and can keep the local rate at a lower level. We have a
8 lot fewer customers that are purchasing those ancillary
9 services and providing a level of contribution in which our
10 rate, in terms of getting our overall rate of return, those
11 local rates have to be higher than what you would see
12 possibly over in Tallahassee because we don't have as many
13 discretionary services and revenues coming from that. So
14 in that respect, our local rates are now higher than
15 Tallahassee, but the rates in Tallahassee are being -- have
16 greater subsidies attached to those; so, again, you know,
17 we are missing the comparability issue.

18 From the standpoint of low income, I'll be the
19 first to admit that we have a lot of low-income consumers
20 that reside in rural areas; and we believe that, you know,
21 this Commission has a responsibility from the legislature
22 to ensure that those people stay on the network.

23 A big concern for us is the Commission has been
24 working diligently to encourage companies to put more
25 people onto Lifeline, and we are not opposed to that. The

1 problem that we see though is today that 3.50 is not
2 funded. If you have a large percentage of your rural
3 customers that qualify as poor and there is no funding for
4 that, that puts an enormous strain on companies, and if you
5 look at the -- if you look at the Florida Statistical
6 Abstract, I believe Gadsden County, 30% of the population
7 qualifies as poor. Do we have 30% of our customers on
8 Lifeline? No. Can I from a business standpoint go out and
9 say, yeah, I want to go ahead and get these 30% of my
10 customers onto Lifeline and not have funding? We'll be out
11 of business. I mean we just will not be able to be a
12 profitable company, and if we are not a profitable company,
13 I would imagine we would try to find somebody else that
14 would want to take it. And so I think that it's really
15 important that the issue of low-income customers is
16 addressed and that a funding mechanism is put into place,
17 and I think that will help a lot of the issues in terms of
18 affordability and protect a lot of those people that cannot
19 afford it today.

20 COMMISSIONER JACOBS: What parameters would you
21 suggest for that, just income?

22 MR. McCABE: At this point in time I think that
23 the requirements of a Lifeline that are laid out by the FCC
24 and this Commission are sufficient at this time, and I
25 don't think that the Commission should be expanding that

1 until there is, you know, clear evidence that it needs to
2 because that will only increase the level of funding that
3 is needed. The more you expand Lifeline the more funding
4 that's going to be required.

5 I guess the other thing I wanted to touch on in
6 terms of, you know, the reasonableness of rates, you know,
7 it has to do with, you know, encouraging infrastructure
8 investment. And if you look at the Act, the Act is, you
9 know, goes ahead and points out the need for advanced
10 telecommunications service -- access to advanced
11 telecommunications services to be available in rural areas.
12 And with the rates set at levels that we believe are
13 sustainable and provide some certainty in the future in
14 terms of revenue streams, that will only encourage
15 investment. And if you want to go back and look at, you
16 know, competition investment in infrastructure from
17 competitors, I do not believe that there is one person in
18 here today that would say they would go in and provide dial
19 tone service at \$7.45 in rural areas.

20 The big difference between rural and urban, we
21 are in the business of providing residential dial tone.
22 The ancillary services are just features that people demand
23 or want from us. We are not in -- you know, our network
24 isn't designed in looking at, you know, attracting business
25 customers. Our B1 customers -- our B1 customers are more

1 like residential customers. They are really mom-and-pop
2 stores that have a local community presence, and the rates
3 that they are being charged in some areas are significantly
4 higher. So I mean when we talk about cost allocation, I'm
5 not even going to get into that. There are a lot more
6 people much more qualified than I am, but we do support the
7 comments that have been offered by GTE and BellSouth and
8 Sprint on that issue, but we are in the business of
9 providing residential dial tone really.

10 COMMISSIONER JACOBS: I know you probably can't
11 speak to the price level where competition would evolve,
12 but wouldn't it have to be that there would have to be some
13 contribution from vertical services in order for there to
14 be meaningful attraction of competitors in rural areas? If
15 they come in, not only are they going to have get their
16 basic rate, but they are going to want to see some
17 contribution from those other services?

18 MR. McCABE: Certainly.

19 COMMISSIONER JACOBS: So the basic POTS customer
20 is probably not going to be the focus of those competitive
21 efforts is what you're saying?

22 MR. McCABE: From competition in a residential
23 market in rural areas, I don't believe that the basket of
24 goods between local rates at \$7.75 and some ancillary
25 services that may amount to \$5 is going to attract people

1 to come into that market. Now I think when you go a step
2 further, when you start looking at universal funding
3 service in high cost areas, that will aid in individuals
4 coming into rural markets.

5 COMMISSIONER JACOBS: Okay.

6 COMMISSIONER DEASON: Are you finished? Because
7 my question can wait until you're finished.

8 MR. McCABE: Yeah, I think I'm finished because I
9 think, you know, most of the questions -- you know, Ben
10 addressed so many of the issues that we support. I mean I
11 think when you look at affordability, you look at other
12 services that, comparable services that people are
13 purchasing. One thing that we found very interesting is
14 that expenditure levels, based on the FCC's 1997 trend
15 report, showed that telephone expenditures per household is
16 roughly around \$62, which equates to about a 2.2%
17 expenditure of the household income. Less than 1% of that
18 is attributed to basic service. And when we look at basic
19 service, I mean we tend to look at that as what is the
20 necessity, the ability for people to contact, for use of
21 emergency services, contact, you know, their communities of
22 interest and things of that nature. Granted, toll is a
23 necessity from the standpoint of how we have envisioned the
24 tele -- how the world has changed and how it's become much
25 more mobile, but we don't really think of that as what

1 Universal Service Act is all about in terms of trying to
2 ensure that people are connected to the network. The Act
3 only requires access to toll services. It does not require
4 that toll services be made affordable. Competition has
5 made toll services affordable.

6 I guess that's -- And so then when I think, you
7 know, you look at Internet service, cable television, I
8 mean people were paying a considerable amount of their
9 household expenditures on services that we would consider
10 as non-essential; and so I don't think that we need to be
11 in a situation of saying, well, we need to subsidize
12 essential services in order to free up disposable income to
13 non-essential services. I mean dad always said if you
14 can't afford steak, eat hamburger. Well, if you find that
15 telephone service is a necessity, well, maybe then you have
16 to do without Internet if you can't afford both.

17 As far as, you know, comparable rates in other
18 areas, we've seen -- there is really nothing further that I
19 have to add on that, although, you know, this process that
20 we are talking about today isn't new in Florida, and it's
21 occurring all over the place. I mean in Georgia right now
22 we are in the process -- we have three companies up there,
23 and we are in the process of rate rebalancing there; and
24 that has to do with reductions in access rates. That's all
25 the comments I have.

1 COMMISSIONER DEASON: My question, I guess, is a
2 simple one; and that is, where, if anywhere, do you differ
3 from Sprint, BellSouth and GTE in the sense that you oppose
4 a position that they are advocating in this proceeding?

5 MR. McCABE: We do not oppose any of the
6 positions that they are advocating in terms of rate
7 rebalancing. There have been some references in terms of
8 rates for local service should be more reflective of the
9 cost incurred, and we agree with that to an extent; but the
10 cost for rural companies is much greater than that of urban
11 areas. So we do not -- So then we focus back on the issue
12 of comparability.

13 We certainly wouldn't want to see the Commission
14 going ahead and saying, okay, we have determined the level
15 of affordability is much higher than what we are probably
16 thinking in our minds, and in rural areas, because the cost
17 is much higher, we are going to set local rates in rural
18 areas at a higher level than the rates are in urban areas.
19 What we would like to see is whatever the Commission does,
20 that we move in that same direction.

21 COMMISSIONER DEASON: Then you advocate a
22 universal service fund?

23 MR. McCABE: Definitely.

24 MR. PASCHALL: Ed Paschall with AARP. I have a
25 question here that I would -- I have been sort of searching

1 for an answer to, and I wonder if you have any ideas along
2 that line. Over in Gadsden County you have an average
3 income of about \$13,712 over there, and you have about 28%
4 of the people below the poverty level. You've got about 44
5 thousand people there in the county at all, and now how can
6 you come up with the single affordable rate that would be
7 usable statewide whenever you must also consider that you
8 have Palm Beach County with about 32 thousand people in it
9 considering 980 thousand people and only about 9.3% of
10 those are below the poverty level; so do you have any
11 suggestions along that line?

12 MR. McCABE: We agree that, you know, income
13 levels should be a consideration for the Commission, but I
14 think -- you know, we are looking at it from the
15 standpoint of the entire basket of goods that consumers
16 will be able to purchase in Gadsden County. We are looking
17 at it from the standpoint that, yes, they may pay more in
18 basic rates. Access rates will come down, that hopefully
19 we'll encourage more entrant into the toll business.
20 Customers will then have an opportunity to purchase their
21 toll at 10 cents a minute, compared to having to pay the
22 rate that was residually set for Quincy, I don't know how
23 long back, of about 24 cents a minute. So we think that
24 those -- In conjunction, I mean when you look at the
25 entire basket, is where you need to look at in terms of

1 affordability and not just simply the fact that customers
2 would be paying more for local service.

3 COMMISSIONER GARCIA: But just how essential is
4 lowering access to those rural areas? I mean what do that
5 level of income -- Why do they need those type of toll
6 services?

7 MR. McCABE: We look at it from a company
8 standpoint. Today, like I said, our toll rates are
9 exceptionally high. At the same time we have to impute our
10 access costs in terms of setting our toll rates. Well, if
11 our access rates are high, we can't bring our toll rates
12 down a whole lot. If we can't bring our toll rates down,
13 we can't compete with the few interexchange carriers that
14 have chosen to come into our territory. If we can't
15 compete with those, those that go out and solicit those
16 customers, you know, a lot of them have gone after --
17 targeted our business customers. We can't match that the
18 way the pricing structure is today, and we are losing
19 those, and in a sense -- in effect we end up losing the
20 revenue associated with it.

21 COMMISSIONER JACOBS: We heard a lot from people
22 in rural areas about the scope of their calling areas, and
23 it kind of led me to believe that that is an important
24 enough issue that it could factor into the whole
25 competitive arena, i.e., that companies could wade into

1 this business simply -- not only on price but on calling
2 scope.

3 MR. McCABE: That's true, but I don't -- I can't
4 speak on behalf of all the small companies because I don't
5 know the extent of their calling area; but from my
6 experience, I mean this Commission has done a real good job
7 of addressing community of interest. You know, Quincy does
8 have local calling into the Tallahassee area. Granted,
9 there would be some people that would want to have calling
10 somewhere else; but as far as the ability to call their
11 doctors, schools, things of that nature, you have within
12 Gadsden County itself. But at the same time, and from our
13 perspective, there was a lot of calling that went over to
14 Tallahassee. There is a lot of business done over.
15 Opportunities are somewhat limited. It creates an issue
16 that required customers' bills to be higher from toll. So
17 the Commission took those steps and expanded that local
18 calling area, and from our standpoint we think that that
19 calling area is sufficient to meet the needs of our
20 customers today.

21 COMMISSIONER JACOBS: But let's say another
22 company other than Quincy, because I agree that it probably
23 is an example where something is very effective has been
24 done, but let's say there is a company that has a high toll
25 rate, getting a lot of revenue from that, and their

1 competition is going to occur not only from the local rate
2 price but somebody coming in and competing on their calling
3 scope area. What would be the impact to the consumers
4 there? Ultimately you would think that they would get,
5 that would be a -- that the price, the overall price would
6 go down.

7 MR. McCABE: Yes.

8 COMMISSIONER JACOBS: Okay.

9 MR. McCABE: Yes.

10 COMMISSIONER JACOBS: And one of the things I
11 noticed in examples of other states where they have been
12 doing rebalancing, most of those prices are rates -- I
13 guess let me ask this question, those rates are not
14 approaching the rates that we discussed earlier the rates
15 in the states that you cited have done rebalancing. They
16 don't approach the \$31 or above that we had talked about
17 earlier.

18 If one of the small LECs were to go to a level
19 that doesn't reach some of those levels we talked about,
20 i.e., they are still not coming up to where their costs are
21 justified, aren't they going to begin to look at some of
22 those other areas such as, you know, how to keep toll
23 revenue, your calling scope plans and that sort of thing?

24 MR. McCABE: Yes.

25 COMMISSIONER JACOBS: Okay.

1 MR. McCABE: Yes, but I also think there in terms
2 of -- I gather from your question what you're referring to
3 is competitors coming into that area?

4 COMMISSIONER JACOBS: Yeah. Yeah.

5 MR. McCABE: What will it be that is going to
6 attract them?

7 COMMISSIONER JACOBS: Yeah.

8 MR. McCABE: I really think it's going to boil
9 down to universal service funding is what is going to
10 attract people into rural market.

11 COMMISSIONER JACOBS: And how that is set.

12 MR. McCABE: And how that is set. I think if you
13 were to -- I mean everybody -- Capital resources are
14 limited for everybody, so you are going to go ahead and you
15 are going to spend those dollars in areas in which you have
16 the greatest return, and it will be out in the conceivable
17 future probably before you are going to see it out in rural
18 areas. Now we may have some niche players coming in here
19 and there. We did get -- I think every small LEC has
20 received a request to do resale. The rules and
21 requirements for resale, residential resale is somewhat
22 different for rural companies under the Act, so we haven't
23 heard back from that company.

24 COMMISSIONER JACOBS: Okay.

25 COMMISSIONER DEASON: What's your position on

1 Mr. Poag's straw man proposal?

2 MR. McCABE: We support that straw man's
3 proposal. I mean we believe that you can go ahead and have
4 some modest rate increases. We think that it should be,
5 you know, transitioned over time. We certainly wouldn't
6 expect a flash cut. At the same time, those corresponding
7 offsets would occur over time. You know, we look at it as
8 a revenue-neutral issue. There are some differences though
9 in terms of some of the rural companies, or at least from
10 my company's perspective, that looking at, you know, rate
11 case issues. You know, as I mentioned, I mean we have had
12 a lot of revenue erosion. Surveillance reports that we
13 filed with the Commission, they are not great. You know,
14 we would really like to see everyone's rates going to some
15 type of a benchmark rate so that when our local rates, if
16 we were to come in here tomorrow for a rate case and you
17 determined that we have a revenue requirement of say five
18 hundred thousand dollars, the majority of that, where are
19 we going to get it from? For the most part it's going to
20 come from residential. We already have a \$35 business
21 rate, so at the same time our -- because of our revenue
22 losses, we are going to be back here looking to increase
23 local rates which, you know, we don't want to do that to
24 our consumers either. You know, we end up being the bad
25 guys of the world, but it's a matter of replacing revenues.

1 COMMISSIONER DEASON: But you do agree that what
2 we are doing here in terms of rate rebalancing is a
3 revenue-neutral proposition, you are not in here seeking a
4 revenue enhancement as a result of this?

5 MR. McCABE: No, we are not. Thank you.

6 MS. MARSH: We are going to break for lunch, and
7 we'll start back at one o'clock. The speakers this
8 afternoon, please get with me as to what your equipment
9 needs are. A couple of you did say something, but it's
10 gone completely out of my head, so please let me know
11 before you leave today for lunch what it is you need as far
12 as an easel or anything like that; and we'll start back at
13 one o'clock.

14 (WHEREUPON, THE AFTERNOON SESSION IS CONTAINED IN
15 VOLUME II WITHOUT OMISSION)

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