

ORIGINAL

SUPPLEMENTAL COMMENTS TO
THE FLORIDA PUBLIC SERVICE COMMISSION
SPECIAL PROJECT 980000A-SP

F. Ben Poag

NOVEMBER 13, 1998

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FFSOP RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SUPPLEMENTAL COMMENTS OF F. BEN POAG

ON BEHALF OF SPRINT-FLORIDA, INC.

SPECIAL PROJECT 980000A-SP

NOVEMBER 13, 1998

Introduction:

The purpose of Section 2 of Chapter 98-277 is stated in subsection (1),
"... that charges for intrastate switched access and other services may be
set above costs and may be providing an implicit subsidy of residential
basic local telecommunications service rates..."

Sub-section 2(a) requires the Commission to report its conclusions as to
the fair and reasonable residence basic rate considering affordability, the
value of service, comparable residential basic rates in other states and
the cost of providing residential basic service.

charges or zone usage measurement (ZUM) charges are applicable up to sixteen miles and toll charges over sixteen miles.

Mr. Ochshorn's data also included an \$11.71 rate for New York. This rate came from FCC data for Rochester, N.Y. (see Attachment 3 - Frontier Telephone) which did not include the fact that there is a mandatory (non-optional) EAS charge of \$1.25 which brings the total rate to \$12.96. With the EAS additive, there are about 425,000 access lines in the Rochester exchange local calling area. In contrast, Sprint's Winter Park exchange rate with Touchtone is \$11.23, \$1.73 lower than Frontier's Rochester exchange rate, and has a local calling area with approximately 840,000 access lines.

The Texas \$8.80 rate quoted by Mr. Ochshorn is a Southwestern Bell rate group 3 (see Attachment 4 - Southwestern Bell tariff) which has local calling area access line limits of 30,001 to 60,000. This is more comparable to Sprint's Cape Haze and Dade City (Rate group 2) exchanges' rate of \$8.22 with Touchtone. However, it is not an

The Illinois rates quoted by Mr. Ochshorn are higher than Sprint's rates and are not addressed in detail since the rates quoted were replaced in 1996 with mandatory measured service rates and are not comparable to Florida's flat rate local exchange services.

Thus, when put in proper context, the states that Mr. Ochshorn alleges have comparable residential rates to Florida, are not comparable. In fact, when the rates and local calling areas are actually put on a comparable basis, the data validates the fact that Florida's residence basic local service rates for comparable service are lower than the rates in other states, including the states used in Mr. Ochshorn's Table 2.

Value of Service:

The value of residence basic local service in Florida is greater today than at any time in the past. This increased value is attributable to 1) larger local calling area in terms of additional extended area service routes and growth in access lines within exchanges, 2) declining toll prices, 3) the availability of complementary non-basic services, e.g., caller I.D., and 4)

fact, Sprint agrees that there should be alternatives available to low income households. However, alternatives already exist in the form of Lifeline service and message rate service, e.g., SmallTalk in Sprint's service area. But pricing of basic service to the general body of ratepayers should not be driven by trying to protect the low-income segment of the population. Those low-income residents should receive targeted subsidies, while the general body of residential customers should have prices that reflect value, affordability, comparable rates in other states, and cost.

With regard to the general body of residential basic local service subscribers, current basic local service rates in Florida are unrealistically low in terms of value, affordability and comparability. The empirical data conclusively demonstrate that rates in Florida are lower than the rates in other states, that higher basic local rates will not negatively impact households with service, and that the value of basic service far exceeds the price. In real dollar terms, Florida's residence basic service charges are substantially lower today than they were twenty years ago (see

Fourth, if a customer does not purchase enough toll and/or non-basic services to recover the total cost of the loop and the other services, those cost must be recovered from other customers in the prices they pay for toll and non-basic services. (This point is illustrated by the actual data presented by Jim Sichter in Docket 980696-TL - see Attachment 7.

(Excerpt of prefiled rebuttal testimony of James W. Sichter, pages 5-9.)

Fifth, customers who are not economically disadvantaged can clearly afford to pay a larger portion of the cost of the loop dedicated to their use.

Sixth, providing subsidies to customers that do not need to be subsidized has the perverse effect of increasing the size of the funding mechanism and is inconsistent with the intent of the Telecommunications Act of 1996 to target subsidies.

Seventh, a stand alone cost study, if one could be done properly at all for a multi-product firm, is not necessary to determine if a cost subsidy

exists. The Commission did not deem such a rarely used, obscure and theoretically cost methodology to be prepared by any of the ILEC's in this proceeding or any other proceedings in Florida.

Conclusion:

We have an opportunity to begin the process of establishing more economically based prices for telecommunications in Florida. We need to take advantage of the opportunity. It would be illogical to believe that residence basic local service prices can continue to be capped (or minimally increased) and continue to be subsidized in an increasingly competitive marketplace where competitors are targeting the profitable customers that are the source of the subsidies. It is time to move to more economic pricing of services to bring the benefits of competition to a broader base of customers (not just the low cost high margin customers) and more efficiently allocate resources.



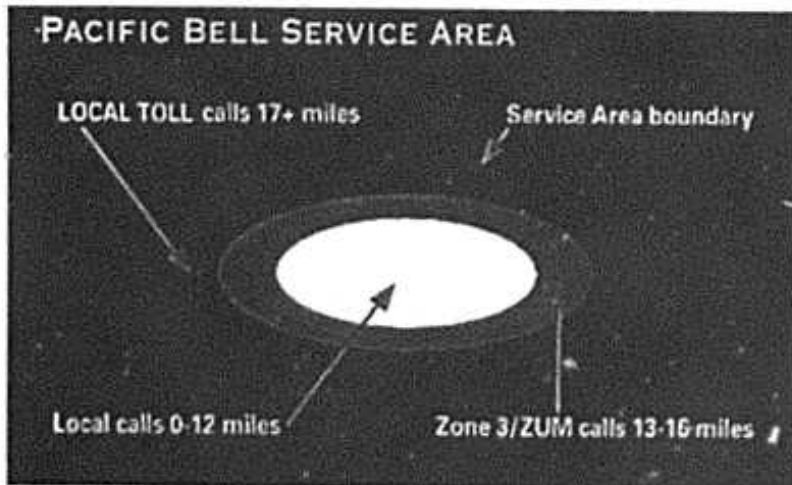
Custom Calling Services

What is Local Toll?

*Local Toll** calls are toll calls made within your Service Area. California is divided into ten Service Areas.



What is Local Toll? Calls within each area, up to about 12 miles**, are local calls. In metropolitan areas, calls between 13 and 16 miles are Zone Usage Measurement (ZUM) Zone 3 calls. All other calls within each Service Area are now referred to as *Local Toll* calls. In non-ZUM areas *Local Toll* calls start at 13 miles.





Flat Rate Service

Benefits and Features

Pacific Bell Flat Rate Service gives you unlimited local calling. You can make as many calls as you like and you can talk for as long as you like to friends, family and colleagues in your local calling area, which includes neighborhoods up to about 12 miles from your home.

How Flat Rate Service Works

Measured Rate Service is one of Pacific Bell's basic service plans. It allows you to make local calls and gives you access to other Pacific Bell calling areas.

With Flat Rate Service, you pay the same each month no matter how much you call within your local area.

For calls made outside of the local area, charges are based upon Zone Usage Measurement (ZUM), or how far away you call. Charges for these calls vary according to the time of day.

Is Flat Rate Service Right for You?

Flat Rate Service works best for people who make lots of local calls. If you typically make more than two local calls each day, then Flat Rate is probably right for you.

If you make very few local calls, you may want to consider Measured Rate Service. If you have a low-income household, you may qualify for Universal Lifeline Service.

If you have more than one telephone line in your home, you might consider how they are used and possibly select Measured Rate for one line and Flat Rate for the other.

Changing to Flat Rate Service

If you already have Measured Rate Service, you may request a change to Flat Rate Service. The changeover takes effect on the day you request the change, and the charge will appear on your next bill. See Flat Rate Pricing.

If you currently have Universal Lifeline Service, there is no charge for changing to Flat Rate Service.

Residence Service Rates Defined

A. Basic Schedule of Residence Rate

Service	Rate Group				9**
	2	3	4	5	
Residence					
Flat Rate Lines					
Individual each	6.23	6.71	7.19	7.91	-11.71†
Message Rated Lines					
Individual—80, each	-	-	-	-	0.11***
Individual—50, each	-	-	-	-	7.98***
Individual—0, each	4.53	4.53	4.53	4.53	1.58
Lifeline*					
Basic*	1.00	1.00	1.00	1.00	1.00

Message Units

Messages above allowances for Message Rated Lines are charged at a rate of 8.3 cents for each additional outgoing call. Calls placed to "974" or "**100" public announcement services are not part of message call allowances and are billed separately.

Locations by Groups

GROUP 2	GROUP 4	GROUP 9**
Cohocton	LeRoy	Avon
Nunda	Mt. Morris	Bergen
	Naples	Brockport
	Pavilion	Caledonia
GROUP 3		Canandaigua
Atlanta		Churchville
Castle-Gainesville/ Silver Springs		East Rochester-Pittsford
Dansville		Fairport/Perinton
Leicester		Geneseo
Perry	GROUP 5	Hamlin
Springwater	Wyoming	Hemlock
Warsaw		Henrietta
Wayland		Honeoye Falls/Lima
		Lyonia
		Rochester
		Rush
		Scottsville
		Victor
		Webster
		West Webster

† EAS surcharge applies in addition to rate (see paragraph C).

* For more information, see Customer Rights and Responsibilities, found at the back of the White Pages.

** No monthly allowance for local calls. Message units are charged at the rate of 8.3 cents per call.

*** Rochester Metropolitan Service Area.

**** This service is grandfathered as of 1/1/96. Only customers of record as of 1/1/96 may have this service.

B. One-Time Charges

Service Charges:	
Service Order Charge	\$33.32
Charge to Change or Add Features	11.02
Additional Line Charge (when ordered in combination with another access line)	16.00
Premises Visit Charge	17.75

C. Non-Adjacent Extended Area Service

A monthly surcharge of \$1.25 will apply to those exchanges that are provided with flat rate, non-adjacent Extended Area Service (EAS).

D. State Revenue Taxes

Rates and charges that apply to the provision of telephone service are subject to New York State Revenue taxes. The surcharge percentage that applies to monthly local service is 4.60%.* IntraLata tolls are subject to a 4.15%* surcharge.

E. Local Utility Gross Revenue Taxes

Rates and charges that apply to the provision of telephone service may be subject to gross revenue taxes imposed by certain cities and villages.

The surcharge percentage applies to monthly local rates and charges. Surcharge percentages are adjusted on short notice to reflect changes in taxes.

F. Customer Access Line Charge

An interstate customer access line charge applies to all residential customers and appears as a separate line on your statement. Residential customers may qualify for a program (established by the Federal Communications Commission and Frontier) that could eliminate the access charge and reduce service connection charges.

The Customer Access Line Charge will be waived for Residential customers who qualify for Lifeline Service programs, as described in Customer Rights and Responsibilities, found at the back of the White Pages.

*Subject to change dependent on NYS Public Service Commission Order.

The information on this page is subject to change.

For ZIP code information, please refer to pages immediately following the White Pages Plus section.

President - Texas Division
 Southwestern Bell Telephone Company
 Dallas, Texas
 Issued: February 26, 1998
 Effective: March 27, 1998

LOCAL EXCHANGE TARIFF
 Section: 1
 Sheet: 20
 Revision: 6
 Replacing: 5

LOCAL EXCHANGE SERVICE

Special Project 980000A-SP
 Sprint-Florida, Inc./FBP
 Attachment 4
 Page 2 of 2

- 3. Rates (Cont'd)
- 3.1 Rate Schedules (Cont'd)
- 3.1.2 Business Service (6)

The rates shown below are for Local Exchange Access Service.

Description	RATE GROUP									USOC
	1	2	3	4	5	6	7	8	9	
1-Party, each	\$19.15	\$19.60	\$20.65	\$21.30	\$22.00	\$23.10	\$25.25	\$28.25		1FB 1LB 1FL++ LFX LAS ELG ARD LNU
1-Party, each (5)	10.30	10.55	11.10	11.45	11.85	12.45	----	----		4FT
Multi-Line Bunting	22.65	23.20	24.45	25.15	26.05	27.35	30.10	33.55		1FH 1MH 1NL 1KL 1KP 77E 78E
One-Element Measured, 1-Party (1)	12.30	12.60	13.25	13.65	14.10	14.80	16.50	18.45		
Message Rate Option (1)										1MB 1MC 1MH 1MK VE7MA
Reserve Line Option (7)	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	12L
FBX Trunk	28.95	29.65	31.25	32.20	33.25	35.20	39.95	44.65		TFB++ W7Y TRT++ THC TUB03 TFG++ LBE TFC TFI TFU T9L VE7
Hotel/Motel Measured Trunk (3)(4)	19.15	19.60	20.65	21.30	22.00	23.10	25.25	28.25		THB++ THI THJ THU THS

(See Sheet 21 for Footnotes)

BELL ATLANTIC -
PENNSYLVANIA, INC.Pennsylvania
Exchange AreasPa. P.U.C.-No. 180A
4th Revised Sheet 18C
Canceling 3rd Revised Sheet 18C
Special Project 980000A-SP
Sprint-Florida, Inc./FBP
Attachment 5-Page 2 of 6

D. UNLIMITED USAGE PACKAGE LOCAL CALLING AREAS (Cont'd)

<u>Exchange Area</u>	<u>Unlimited Usage Package Local Calling Areas</u> Include All Stations Bearing The Central Office Designations of the Exchanges and Zones Listed	
Mount Carmel	Ashland Elysburg Kulpmont	Mount Carmel Shamokin
Mount Gretna	Anville Lebanon	Mount Gretna Palmyra
Mount Jewett	Bradford	Mount Jewett Kane
Mount Pleasant Local Area	Connellsville Greensburg Kecksburg (Citizens Tel. Co. of Kecksburg)	Mount Pleasant Scottdale Youngwood
Metropolitan Area Plus	All stations included in Local Area preceding plus the Pittsburgh Exchange and all other Zones of the Pittsburgh Suburban Exchange.	
Mount Pocono	Cresco Lords Valley Mount Pocono	Newfoundland Stroudsburg
Mount Union	Huntingdon McConnellstown (Sprint United)	Mount Union
Nanticoke	Kingston Mountaintop Nanticoke Nuangola (Commonwealth Tel. Co.)	Plymouth Wilkes-Barre
Nazareth	Allentown Bath Bethlehem	Catasauqua Easton Nazareth
Nesquehoning	Jim Thorpe Lansford (ALLTEL Pennsylvania, Inc.)	Lehighton Nesquehoning
New Castle	Bessemer Ellwood City New Bedford (GTE North) New Castle New Wilmington (GTE North)	Plain Grove (Sprint United) Princeton (GTE North) Volant (Sprint United) Wampum
New Florence	Bolivar Johnstown (GTE North)	New Florence

ISSUED SEPTEMBER 2, 1998

EFFECTIVE SEPTEMBER 7, 1998

In compliance with the Opinion and Order of the Pennsylvania Public Utility Commission in Docket No. P-00950921.

BELL ATLANTIC -
PENNSYLVANIA, INC.

Pennsylvania
Exchange Areas

Pa. P.U.C.-No. 180A
Section 1
Third Revised Sheet 16A
Canceling Second Revised Sheet 16A

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

Special Project 980000A-SP
Sprint-Florida, Inc./FBP
Attachment 5-Page 4 of 6

C. RATES (Cont'd)

1. EXCHANGE SERVICE RATE COMPONENTS (Cont'd)

c. Exchange Service Dir'l Tone Line and Local Usage Option Rate Schedule

<u>By Weighted Line Rate Group</u> <u>Usage Packages (1)</u>	<u>Monthly Rate</u>		
	<u>A, B, or C</u>	<u>D or E</u>	<u>F or G</u>
Extended Area Unlimited Option	\$6.00	\$7.45	\$9.20
Local Area Unlimited Option	3.80	5.20	6.85
Local Area Standard Usage Option	2.60	2.60	2.60
Budget Usage Option	-	-	-
<u>Hometown-Plus Usage Option</u>			
	<u>Monthly Rate</u>		
- Home Exchange plus one Toll Exchange	\$5.50		
- Home Exchange plus two Toll Exchanges	7.65		
- Home Exchange plus one Local and one Toll Exchange	7.65		
<u>Monthly Allowance</u>			
Budget Usage Option	\$.25		
Local Area Standard Usage Option	4.00		
<u>Monthly Rate</u>			
Metropolitan Area Unlimited	\$36.50		
Metropolitan Area Unlimited Plus	\$40.00(D)		

NOTE:

(1) Available as specified in B.2. preceding.

BELL ATLANTIC -
PENNSYLVANIA, INC.

Philadelphia
Exchange Area

Pa. P.U.C.-No. 182
Preface to Section 1
First Revised Sheet 1
Canceling Original Sheet 1

DIAL TONE LINE CELL INFORMATION

Special Project 980000A-SP
Sprint-Florida, Inc./FBP
Attachment 5-Page 6 of 6

Dial Tone Line Cell Classification:

For the purposes of determining an Exchange Area Dial Tone Line monthly rate, the Exchange Areas are classified into one of four (4) Dial Tone Line Cells. The Cell classifications are determined by the following criteria.

Dial Tone Line Cell

Classification Criteria

- 1 All Philadelphia and Pittsburgh City Exchange Areas or Zones with working pairs per square mile greater than 9,000.
- 2 All remaining Philadelphia and Pittsburgh City Exchange Areas or Zones.
- 3 All Philadelphia and Pittsburgh Suburban Exchange Areas or Zones with more than 500 working pairs per square mile.
- 4 All remaining Exchange Areas.

(C)

Dial Tone Line Reclassification

When an annual review indicates that the number of working pairs per square mile of an Exchange Area or Zone has exceeded or fallen below the above Dial Tone Line Cell criteria for two (2) consecutive study periods, the Exchange Area will be reclassified. Notice of the reclassification of the Exchange Area Dial Tone Line Cell shall be given by filing revised tariffs with the Commission.

(C)

1 service would be unprofitable to serve; conversely, heavy users of toll and vertical
2 features—services that are priced substantially above cost—would be very profitable to serve
3 And the reality is that consumers do, in fact, vary widely in their use of telephone services
4 While most residential customers don't generate total revenues sufficient to cover the costs of
5 serving them, others are highly profitable to serve. The latter customers, of course, are very
6 attractive to new entrants; and indeed, competition can be expected to drive the prices to this
7 set of customers down towards cost, thereby eroding the source of subsidies for those
8 customers who do not generate enough revenues to cover the cost of serving them. Looking
9 only at average revenues masks or ignores what is the core issue: the wide variance in
10 revenues and profitability of individual customers—a variance that is the direct product of the
11 wide variance in profitability of individual services that is produced by the existing rate
12 structure.

13

14 **Q. Do you have evidence as to the variances in revenues generated by Sprint residential**
15 **customers in Florida?**

16

17 **A.** Yes. Sprint conducted an analysis of the revenues generated by a sample of 2,750 of its
18 residential customers in the service areas of what was then United of Florida from September
19 1996. The revenues included in the analysis were local service charges (including the
20 interstate SLC), features, intraLATA toll, and state and interstate access (originating and
21 terminating). The toll and access revenues were updated using July 1997 intraLATA toll and
22 access rates. The results of the study are summarized in the following table.

23

24

1 are today the source of subsidies to support universal service, the inequities of the current
2 rate structure, and its unsustainability in a competitive market, are made readily apparent by
3 the revenue distribution data contained in the table above.
4

5 **Q. How would Mr. Gillan's and Mr. Gueppe's proposals thwart the development of a fully**
6 **competitive local exchange market for residential customers in Florida?**

7
8 **A.** As discussed above, some subset of residential customers are heavy users of toll and vertical
9 features, and would represent an attractive market to a facility based competitor. However,
10 the vast majority of residential customers yield revenues that would make them unprofitable
11 or marginally profitable for a new entrant to serve. This is clearly demonstrated in the
12 following table, which is based on a comparison of the total revenues generated by a
13 customer with the costs of serving that customer. For this analysis, I used the BCPM costs,
14 averaged at the wire center level, filed by Sprint in this proceeding to determine local service
15 costs. Since the BCPM costs used in this study do not include any of the additional costs
16 associated with toll/access and features, I used conservative estimates of the forward-looking
17 costs for each of these discretionary features.
18
19
20
21
22
23
24

1 to a facility-based competitor. However, the primary conclusion to be drawn from this
2 evidence is that the residential segment of the market is, under existing rate structures, simply
3 not attractive to a facility-based entrant. In light of this data, the almost total absence of
4 facility-based competition in the residential segment in this country should come as no
5 surprise. And unless the legislature and the Commission take steps to restructure rates and/or
6 universal service funding to make the residential marketplace economically attractive to serve,
7 there will never be vibrant facility-based competition in this segment of the market.

8
9 **Q. What is Sprint's recommended approach?**

10
11 **A.** Sprint would recommend, first, that the Commission quantify the existing level of subsidy to
12 residential local exchange service, calculated as the difference between the residential basic
13 service rate and the cost of providing the service. Second, Sprint advocates the elimination of
14 existing implicit subsidies, and particularly the subsidy contributions embedded in access
15 charges. To some degree, this could be accomplished through rate rebalancing—i.e.,
16 increasing residential local service rates to cost levels. However, Sprint also recognizes that
17 full cost-based rates for residential basic service, especially in high cost areas, could jeopardize
18 the goal of universal service. Therefore, Sprint recommends that the Commission determine a
19 maximum affordable rate standard for basic residential service; to the extent that the cost of
20 providing that service in a particular area exceeds that rate, the difference would be funded
21 through an explicit, competitively neutral universal service fund. Sprint's plan would be
22 revenue neutral. Any revenues generated by local service rate increases or new universal
23 service funding would be offset, dollar for dollar, in reductions in existing implicit subsidies.
24 Any subsidies provided through the new universal service fund would be portable, thereby
25 increasing the incentives of new entrants to serve residential customers in higher cost areas