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BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY OF JOHN A. RUSCILLI  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 030869-TL  
AUGUST 27, 2003

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS ADDRESS.

A. My name is John A. Ruscilli. I am employed by BellSouth as Senior Director – Policy Implementation and Regulatory Compliance for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I attended the University of Alabama in Birmingham where I earned a Bachelor of Science Degree in 1979 and a Master of Business Administration in 1982. After graduation I began employment with South Central Bell as an Account Executive in Marketing, transferring to AT&T in 1983. I joined BellSouth in late 1984 as an analyst in Market Research, and in late 1985 moved into the Pricing and Economics organization with various responsibilities for business case analysis, tariffing, demand analysis and price

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1 regulation. In July 1997, I became Director of Regulatory and Legislative  
2 Affairs for BellSouth Long Distance, Inc., with responsibilities that included  
3 obtaining the necessary certificates of public convenience and necessity,  
4 testifying, Federal Communications Commission ("FCC") and state regulatory  
5 support, federal and state compliance reporting and tariffing for all 50 states  
6 and the FCC. I assumed my current position in July 2000.

7

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

9

10 A. The purpose of my testimony is to introduce BellSouth's proposal for  
11 implementing Section 364.164 of Florida's Tele-Competition Innovation and  
12 Infrastructure Enhancement Act which was signed into law on May 23, 2003.  
13 BellSouth proposes to rebalance rates in a revenue neutral manner through  
14 decreases in intrastate switched access charges with corresponding rate  
15 increases for basic services.

16

17 Q. PLEASE IDENTIFY THE OTHER BELLSOUTH WITNESSES FILING  
18 DIRECT TESTIMONY AND THE TOPICS EACH WILL ADDRESS.

19

20 A. In addition to my testimony, BellSouth presents the direct testimony of four  
21 other witnesses. Mr. Jerry Hendrix discusses, among other things, the timing  
22 and process by which BellSouth will achieve parity between its intrastate and  
23 interstate switched network access rates. The testimony of Mr. Steve Bigelow  
24 presents the new revenue category and pricing units used by BellSouth in this  
25 filing. Ms. Daonne Caldwell sponsors cost studies that demonstrate that basic

1 local service rates are receiving an economic subsidy from other services. Dr.  
2 William Taylor comments on economic issues arising from Section 364.164.  
3 In addition to these four witnesses, BellSouth, along with Verizon and Sprint,  
4 are sponsoring the testimony of Dr. Kenneth Gordon. Dr. Gordon provides an  
5 economic and policy analysis of the proposed rate plans as they relate to the  
6 considerations laid out in Section 364.164. At the conclusion of this  
7 proceeding, BellSouth believes the Commission will find that BellSouth's  
8 proposal creates a more attractive local exchange market, is beneficial to  
9 residential consumers, and enhances the opportunity for market entry by  
10 Competitive Local Exchange Carriers ("CLECs") in Florida.

11

12 Q. CAN YOU GENERALLY DESCRIBE SECTION 364.164?

13

14 A. Certainly. Section 364.164 establishes a process by which incumbent local  
15 exchange carriers ("ILECs"), such as BellSouth, are able to reduce intrastate  
16 switched access charges and recover any revenue losses resulting from such  
17 reductions by "rebalancing" other rates. This will be accomplished by  
18 implementing "a revenue category mechanism consisting of basic local  
19 telecommunications service revenues and intrastate switched network access  
20 revenues to achieve revenue neutrality." Essentially, Section 364.164 provides  
21 that each local exchange telecommunications company may petition the  
22 Commission to remove implicit support to basic local service rates by reducing  
23 its intrastate switched network access rates.

24

25 Q. PLEASE DEFINE RATE REBALANCING.

1

2 A. Rate rebalancing refers to the process of lowering rates for one class of  
3 customers that are paying rates in excess of the cost of serving that class of  
4 customers, while, at the same time, raising the rates charged to another class of  
5 customers so that the rates paid by such customers more closely reflect the cost  
6 of serving such customers. The net effect of these decreases/increases is  
7 required, in this particular case, to be revenue neutral for the carrier.

8

9 Q. WHAT SHOULD THE COMMISSION CONSIDER IN GRANTING A  
10 PETITION UNDER SECTION 364.164?

11

12 A. In reaching its decision to grant any petition filed pursuant to Section 364.164,  
13 the Commission should consider whether the petition will:

14 a) Remove current support for basic local telecommunications  
15 services that prevents the creation of a more attractive competitive  
16 local exchange market for the benefit of residential consumers.

17 b) Induce enhanced market entry.

18 c) Require intrastate switched network access rate reductions to  
19 parity over a period of not less than 2 years or more than 4 years.

20 d) Be revenue neutral within the defined revenue category.

21

22 Q. PLEASE DESCRIBE GENERALLY BELLSOUTH'S PROPOSAL TO  
23 ATTAIN INTRASTATE SWITCHED ACCESS RATE PARITY WITH  
24 INTERSTATE SWITCHED ACCESS RATES IN EFFECT JANUARY 1,  
25 2003.

1

2 A. As discussed in greater detail by BellSouth witness Mr. Jerry Hendrix,  
3 BellSouth proposes to lower its intrastate switched network access rates to the  
4 interstate switched network access rates in effect as of January 1, 2003 over a  
5 two year period. The proposal includes reducing the intrastate switched  
6 network access rate in equal increments effective on January 1, 2004 and  
7 January 1, 2005. The switched access revenue reductions will be offset by  
8 increases in certain basic local exchange service rates.

9

10 Q. BEFORE DISCUSSING THE DETAILS OF BELLSOUTH'S PROPOSAL,  
11 PLEASE EXPLAIN THE VARIABLES THAT UNDERLIE THE  
12 PROPOSAL.

13

14 A. There are two significant variables that underlie BellSouth's proposal: 1) the  
15 methodology by which switched access reductions are calculated; and 2) the  
16 level of demand that will be used to calculate switched access reductions and  
17 basic local increases for both increments of the two-year plan. As described in  
18 the testimony of Mr. Hendrix, the Commission is being presented with two  
19 methodologies from which to choose for determining the level of switched  
20 access reductions: 1) mirroring of all recurring intrastate switched access rate  
21 elements with interstate rate elements; and 2) applying a composite rate  
22 calculated in the same manner as the typical network composite reported to the  
23 Commission on an annual basis in the Florida Access and Toll Report. The two  
24 methodologies yield different results as explained by Mr. Hendrix. Should the  
25 Commission choose the mirroring methodology, the total amount of switched

1 access reductions that will be offset by local service increases in two  
2 increments will be \$136.4 million. Should the Commission choose to use the  
3 typical network composite methodology, the total amount of switched access  
4 reductions that will be offset by local service increases in two increments will  
5 be \$125.2 million. Shortly, I will describe the specific services that will be  
6 increased and their associated revenues under each of the two methodologies.

7  
8 The second variable involves the level of demand to be used in calculating  
9 revenues to be offset. Because BellSouth's proposal to offset switched access  
10 revenue reductions with local service revenue increases is based on the best  
11 available information of current demand, rate adjustments are subject to  
12 change over the life of the plan. BellSouth's proposal today is based upon the  
13 past twelve (12) months of demand as of June 2003. However, before the first  
14 increment of the proposal is implemented, updated demand figures will be  
15 used to determine the actual rate element changes that will become effective  
16 January 1, 2004. Similarly, prior to implementing rate changes to be effective  
17 January 1, 2005, the most current 12 months of demand will be used to  
18 determine the actual rate change amounts.

19  
20 Q. PLEASE DESCRIBE BELL SOUTH'S PROPOSAL TO OFFSET THE  
21 REVENUE REDUCTIONS ASSOCIATED WITH THE SWITCHED  
22 ACCESS RATE REDUCTIONS UNDER THE MIRRORING  
23 METHODOLOGY.

24  
25

1 A. Should the Commission elect to implement switched access reductions using  
2 the mirroring methodology, switched access revenues in the amount of \$136.4  
3 million will be offset by the following local service increases. BellSouth  
4 proposes to increase single-line basic residential local service rates (IFRs),  
5 adjust single-line business basic local service rates (IFBs) and increase certain  
6 non-recurring charges. Specifically, BellSouth proposes an average single-line  
7 residential basic local service line rate increase of \$1.93 across all rate groups  
8 effective January 1, 2004, and a second increase of \$1.93 across all rate  
9 groups, effective January 1, 2005. In addition, BellSouth proposes to adjust  
10 single-line business rates as follows: Rate Groups 1-3 will increase to \$25.00  
11 over two increments; Rate Groups 4-6 and X1 will increase to \$28.00 over two  
12 increments; and Rate Groups 7-11 and X2-X4 will be adjusted to the current  
13 Rate Group 12 rate of \$30.20, also in two increments. For Rate Groups X2  
14 and X3 this adjustment will result in a lower rate. The first increment,  
15 effective January 1, 2004, will increase rates by no more than \$1.75 and the  
16 balance, if any, will be effective January 1, 2005. BellSouth's proposal also  
17 includes increases in nonrecurring service ordering charges. Increases in  
18 nonrecurring charges are consistent with Section 364.164(2) requiring that  
19 "[a]n adjustment in rates may not be offset entirely by the company's basic  
20 monthly recurring rate." The following chart reflects the rate and revenue  
21 adjustments associated with the mirroring methodology.

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<b>MIRRORING METHODOLOGY</b>				
	<b>Rate Adjustments</b>		<b>Basic Service Revenue</b>	<b>Switched Access Revenue</b>
<b>Service</b>	<b>1/1/04</b>	<b>1/1/05</b>		
<b>IFR</b>	\$1.93	\$1.93	\$118.9M	
<b>IFB</b>	Rate & RG Adjustments	Rate & RG Adjustments	\$2.1 M	
<b>Non-Rec.</b>	Multiple Elements	--	\$15.3M	
<b>Sw. Acc Rate</b>	(\$0.009845)	(\$0.009845)		(\$136.4 M)
<b>Total</b>			<b>\$136.3 M</b>	<b>(\$136.4 M)</b>

See Exhibit SB-2 attached to the testimony of BellSouth witness Mr. Steve Bigelow to view more specifically the priceout associated with the mirroring methodology. See also Exhibit JAR-1 to my testimony to view the impact of BellSouth's proposal on basic service rates.

Q. PLEASE DESCRIBE BELLSOUTH'S PROPOSAL TO OFFSET THE REVENUE REDUCTIONS ASSOCIATED WITH THE SWITCHED ACCESS RATE REDUCTIONS UNDER THE TYPICAL NETWORK COMPOSITE METHODOLOGY.

A. Should the Commission elect to implement switched access reductions using the typical network composite methodology, switched access revenues in the amount of \$125.2 million will be offset by the following local service increases. Similar to the mirroring methodology, BellSouth also proposes to increase single-line residential local service rates, adjust single-line business



1 basic local service rates and increase certain non-recurring charges.  
 2 Specifically, BellSouth proposes an average single-line residential basic local  
 3 service line increase of \$1.75 across all rate groups effective January 1, 2004,  
 4 and a second increase of \$1.75 across all rate groups, effective January 1,  
 5 2005. BellSouth also proposes to adjust single-line business rates in the same  
 6 manner described under the mirroring methodology. BellSouth's proposal also  
 7 includes increases in nonrecurring service ordering charges. The following  
 8 chart reflects the rate and revenue adjustments associated with the typical  
 9 network composite methodology.

<b>TYPICAL NETWORK COMPOSITE METHODOLOGY</b>				
	<b>Rate Adjustments</b>		<b>Basic Service Revenue</b>	<b>Switched Access Revenue</b>
<b>Service</b>	<b>1/1/04</b>	<b>1/1/05</b>		
<b>1FR</b>	\$1.75	\$1.75	\$107.8M	
<b>1FB</b>	Rate & RG Adjustments	Rate & RG Adjustments	\$2.1 M	
<b>Non-Rec.</b>	Multiple Elements	--	\$15.3M	
<b>Sw. Acc Rate</b>	(\$0.0090357)	(\$0.0090357)		(\$125.2 M)
<b>Total</b>			<b>\$125.2 M</b>	<b>(\$125.2 M)</b>

18  
 19 See Exhibit SB-1 attached to the testimony of BellSouth witness Mr. Steve  
 20 Bigelow to view more specifically the priceout associated with the typical  
 21 network composite methodology. See also Exhibit JAR-1 attached to my  
 22 testimony to view the impact of BellSouth's proposal on basic service rates.  
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 24  
 25

1 Q. ALTHOUGH BELLSOUTH PROPOSES INCREASING CERTAIN LOCAL  
2 EXCHANGE RATES, SHOULD CUSTOMERS EXPECT BENEFITS IN  
3 THE WAY OF REDUCED LONG DISTANCE RATES?

4  
5 A. Yes. Although BellSouth's proposal includes increases in certain local  
6 exchange service rates, Section 364.163(2) provides that these same customers  
7 can be the recipients of lower long distance rates. Section 364.163(2) requires  
8 that telecommunications companies whose rates are reduced due to  
9 adjustments in intrastate switched access must decrease their long distance  
10 revenues by passing along such reductions to both residential and business  
11 customers. Therefore, to the extent that customers are using long distance  
12 services provided by telecommunications companies that pay BellSouth  
13 switched access charges, BellSouth's proposal will result in lower long  
14 distance rates for these customers.

15  
16 Q. WILL BELLSOUTH'S PROPOSED INCREASES IN RESIDENTIAL  
17 SERVICE RATES IMPACT CURRENT LIFELINE RATES?

18  
19 A. No. BellSouth's proposed increases will not impact Lifeline service rates. The  
20 recent Florida legislation establishes additional requirements to protect and  
21 promote Lifeline participation. Subsection (3) of Section 364.10, Florida  
22 Statutes, requires that LECs authorized by the Commission to rebalance rates  
23 pursuant to Section 364.164 must provide Lifeline service to any otherwise  
24 eligible customer or potential customer who meets an income eligibility test at  
25 125 percent or less of the federal poverty income guidelines for Lifeline

1 customers. In addition, LECs must provide each state and federal agency  
2 providing Lifeline benefits with brochures, pamphlets, or other material that  
3 inform consumers of their eligibility for Lifeline. Further, as clearly stated in  
4 Section 364.10(3)(c) “[a]ny local exchange telecommunications company  
5 customer receiving Lifeline benefits shall not be subject to any residential  
6 basic local telecommunications service rate increases authorized by s. 364.164  
7 until the local exchange telecommunications company reaches parity as  
8 defined in s. 364.164(5) or until the customer no longer qualifies for the  
9 Lifeline benefits established by this section or s. 364.105, or unless otherwise  
10 determined by the commission upon petition by a local exchange  
11 telecommunications company.” As an added element of security for current  
12 Lifeline rates, BellSouth voluntarily agrees that customers receiving Lifeline  
13 service will not be subject to any residential basic local service rate increases  
14 for a period of four years effective September 1, 2003, which is the effective  
15 date established for Section 364.10.

16

17 Q. REGARDING THE SPECIFICS OF BELLSOUTH’S PROPOSAL, WHY  
18 DOES BELLSOUTH PROPOSE TO RAISE ONLY RESIDENTIAL AND  
19 SINGLE-LINE BUSINESS RECURRING RATES?

20

21 A. First, Section 364.164 was explicitly designed to remove support for basic  
22 telecommunications services (residential and single-line business services) by  
23 offsetting basic services increases with reductions in intrastate switched access.  
24 Specifically, upon the Commission granting a local exchange  
25 telecommunications company’s petition, Section 364.164(2) of Florida Statutes

1           authorizes the local exchange telecommunications company “to immediately  
2           implement a revenue category mechanism consisting of basic local  
3           telecommunications service revenues and intrastate switched network access  
4           revenues to achieve revenue neutrality.” Therefore, this section envisions  
5           increases in basic local exchange rates as an offset to reductions in intrastate  
6           switched access rates. Second, many of BellSouth’s basic local service rates in  
7           the state of Florida are being subsidized by other services, including intrastate  
8           switched access rates. In a competitive local service environment, it is  
9           especially imperative that services cover their own costs and subsidies be  
10          removed to the extent possible. It is only through this process that Florida  
11          consumers will see the competitive choices envisioned by the  
12          Telecommunications Act of 1996 (the “1996 Act”).

13

14 Q.       WHY IS BELL SOUTH RAISING RATES IN ALL OF ITS RESIDENTIAL  
15       LOCAL EXCHANGE RATE GROUPS?

16

17 A.       BellSouth is proposing to raise, by the same amount, the rates in all residential  
18       rate groups because the rates in all residential rate groups currently fail to  
19       cover their underlying cost. The testimony of BellSouth witness Ms. Caldwell  
20       explains in detail the current cost characteristics of basic exchange service.  
21       Naturally, because it costs more to provide service in rural areas versus urban  
22       areas, it will take longer for rates in the rural rate groups to reach the level of  
23       their underlying costs than rates in urban rate groups. However, BellSouth is  
24       attempting to minimize the rate impact to these more rural customers by  
25       proposing to increase their rates at the same level as urban rate groups.

1           Although this process will not reverse the current situation where the least-cost  
2           urban customers pay the highest rates and the highest-cost rural customers pay  
3           the lowest rates, it moves rates in a direction that will create greater  
4           competitive choice for all residential customers.

5  
6 Q.       COULDN'T BELL SOUTH SIMPLY RAISE BUSINESS RATES AND  
7       LEAVE RESIDENTIAL RATES AT CURRENT LEVELS?

8  
9 A.       No. Business rates, in the majority of cases, already cover their underlying  
10       costs as demonstrated in the testimony and exhibits of Ms. Caldwell. Because  
11       business rates already cover their costs, there is a significant level of business  
12       competition in Florida. In his testimony, Dr. Taylor cites statistics from the  
13       FCC's most recent Local Competition Report to demonstrate the level of local  
14       exchange competition in the state of Florida for all local exchange companies.  
15       Dr. Taylor also describes unevenness in the progress of business versus  
16       residential competition. In addition, BellSouth specific data shows that  
17       business competition is moving briskly compared to residential competition.  
18       For instance, employing the same methodology that was used to demonstrate  
19       the level of local competition in BellSouth's FCC long distance application,  
20       and updated as of June 2003, data shows that CLECs are serving 13.3% of  
21       total residence lines and 34.3% of total business lines in BellSouth's territory  
22       in Florida. Importantly, increased competition for residential services will  
23       only occur by adjusting residential rates to more closely align with their  
24       underlying costs. By making residential rates less dependent on artificial  
25       subsidies and more closely aligned with their underlying costs, competitors

1 will find the residential market a more attractive market in which to compete,  
2 just as they have found the business market attractive.

3

4 Q. WHY DOESN'T BELLSOUTH SIMPLY PROPOSE TO INCREASE THE  
5 RATES IN LARGER URBAN AREAS AND LEAVE RURAL  
6 CUSTOMERS' RATES AT CURRENT LEVELS?

7

8 A. Raising urban rates without also raising rural rates would only exacerbate the  
9 current situation where the lowest cost customers are charged the highest rates,  
10 and the highest cost customers are charged the lowest rates. Maintaining such  
11 an imbalance only ensures that rural customers will not receive the full benefits  
12 of a competitive marketplace. In order to achieve the goal of Section 364.164  
13 and remove current support for basic local telecommunications services, it is  
14 necessary to adjust rates in such a way as to remove the most subsidy possible,  
15 but in a reasonable manner. Although the greatest subsidy exists in rural rates,  
16 in order to minimize the impact on rural customers, BellSouth proposes to raise  
17 all residential rates by the same amount.

18

19 Q. DOES BELLSOUTH'S PROPOSAL ADDRESS THE FOUR POINTS THE  
20 COMMISSION SHOULD CONSIDER UNDER SECTION 364.164?

21

22 A. Yes, definitely. BellSouth's proposal is designed to be consistent with the four  
23 considerations outlined in Section 364.164. BellSouth's proposal makes a  
24 major stride toward "remov[ing] current support for basic local  
25 telecommunications services that prevents the creation of a more attractive

1 competitive local exchange market for the benefit of residential consumers.”  
2 As evidenced in the testimony and exhibits sponsored by Ms. Caldwell,  
3 BellSouth’s proposed rate adjustments will more closely align these rates with  
4 their underlying costs. As Dr. Taylor and Dr. Gordon describe, more closely  
5 aligning residential rates with their relevant costs should “induce enhanced  
6 market entry.” Further, BellSouth’s proposal to reduce its intrastate switched  
7 access rates to parity with interstate switched access rates over two years is  
8 consistent with Section 364.164’s requirement that parity be reached “over a  
9 period of not less than 2 years or more than 4 years.” Finally, BellSouth’s  
10 proposal is designed to be “revenue neutral within the defined revenue  
11 category.” Decreases in intrastate switched access rates will be offset by rate  
12 adjustments in basic local exchange rates. Clearly, BellSouth’s proposal is  
13 consistent with the considerations outlined in Section 364.164.

14

15 Q. WHY IS REMOVAL OF SUPPORT FOR BASIC LOCAL  
16 TELECOMMUNICATIONS SERVICES GOOD POLICY?

17

18 A. Removal of the current support is good policy for several reasons. First,  
19 Section 364.164 reflects the approach taken by Congress in the 1996 Act and  
20 the subsequent orders of the FCC in making implicit subsidies explicit.  
21 Second, the current system of subsidies cannot be sustained in a competitive  
22 environment. New entrants target the subsidy-paying market (business, urban)  
23 in order to achieve the higher margins inherent in subsidy-paying services, and  
24 are declining to enter the subsidy-receiving markets (residential, rural). Since  
25 the CLECs have been successful in attacking these subsidy-paying markets, the

1 support used to benefit residential and higher-cost rural areas is being siphoned  
2 out of the system. This creates pressure toward higher rates for the intended  
3 beneficiaries of the subsidy. Third, maintaining a system of implicit subsidies  
4 deprives residential and rural customers of potential competitive choices. For  
5 these reasons, the current system of subsidies is inconsistent with the pro-  
6 competitive policies inherent in the current telecommunications law, and,  
7 absent political considerations, impels the adoption of rate rebalancing and rate  
8 rationalization policies.

9

10 Q. HAS CONGRESS AND THE FCC ADDRESSED REMOVAL OF IMPLICIT  
11 SUPPORT FROM LOCAL EXCHANGE SERVICE RATES?

12

13 A. Yes. As a key goal of the 1996 Act, Congress was clear in its intention and  
14 desire that implicit subsidies be eliminated in the competitive local exchange  
15 market. In addressing universal service under Section 254 of the 1996 Act,  
16 Congress requires the FCC and the States to ensure that universal service is  
17 available at rates that are just, reasonable and affordable and that any Federal  
18 universal service support should be explicit and sufficient to meet universal  
19 service goals. Further, a state may adopt regulations to preserve and enhance  
20 universal service only to the extent that such regulations adopt specific,  
21 predictable and sufficient mechanisms.

22

23 The FCC also addresses the issue of explicit versus implicit universal service  
24 support in its rules and regulations implementing the 1996 Act. More recently,  
25 as a key factor in its CALLS Order, the FCC addressed head-on the problem of



1 maintaining subsidies in local rates in a competitive environment.

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This “patchwork quilt” of implicit support helped keep rates largely affordable in a monopoly environment where incumbent LECs could be guaranteed an opportunity to earn returns from certain services and customers that are sufficient to support the high cost of providing other services to other customers. The new competitive environment envisioned by the 1996 Act, however, threatens to undermine this implicit support structure over the long run. The 1996 Act removed barriers to entry in the local market, generating competitive pressures that may make it difficult for incumbent LECs to maintain access charges above economic cost. Thus, where existing rules require an incumbent LEC to set access charges above cost for a high-volume user, a competing provider of local service can lease unbundled network elements at cost, or construct new facilities, thereby undercutting the incumbent’s access charges. As competition develops, incumbent LECs may be forced to lower their access charges or lose market share, in either case jeopardizing the source of revenue that, in the past, has permitted the incumbent LEC to offer service to other customers, particularly those in high-cost areas, at below-cost prices. Incumbent LECs have been claiming that this process has already made more than trivial inroads on their high-volume customer base.<sup>1</sup>  
[footnotes deleted]

In adopting the CALLS Proposal the FCC noted that “[t]he CALLS Proposal is a reasonable approach for moving toward the Commission’s goals of using competition to bring about cost-based rates, and removing implicit subsidies without jeopardizing universal service.”<sup>2</sup> The Florida Legislature, the United States Congress and the FCC have all recognized the necessity to remove implicit subsidies. BellSouth’s proposal for implementing Section 364.164, Florida Statutes is consistent with this goal.

<sup>1</sup> *In the Matter of Access Charge Reform, et al.*, CC Docket No. 96-262, et al., *Sixth Report and Order in CC Docket No. 96-262 and 94-1, Report and Order in CC Docket No. 99-249 and Eleventh Report and Order in CC Docket No. 96-45*, 15 FCC Rcd 12962, 12972, ¶ 24 (2000) (“CALLS Order”).

<sup>2</sup> *CALLS Order, 15 FCC Rcd at 12977*, ¶ 36.

1

2 Q. HOW WILL REMOVAL OF LOCAL SERVICE SUPPORT ENHANCE  
3 MARKET ENTRY?

4

5 A. It is clearly true that there will never be competitive alternatives for customers  
6 who are receiving service at a price below the relevant cost of providing that  
7 service. However, as the price of service to these customers is raised to, and  
8 eventually above its relevant costs, such customers become more attractive to  
9 competitors. A cynic might observe that a customer receiving service at a  
10 below cost rate might be more than willing to keep that rate and have no  
11 competitors vying for the customer's service, rather than having an increased  
12 rate and competitive alternative. Unfortunately, that is no longer an option for  
13 customers. We now have federal and state policies that advocate competition  
14 in every aspect of our business, and conditions have been created by the  
15 federal and state governments that make it impossible, in the long run, to  
16 continue the social policy of subsidizing residential customers. Given that, the  
17 steps that BellSouth proposes, which will ultimately serve to make residential  
18 customers more attractive to competitors, will obviously and inevitably induce  
19 other competitors to more broadly enter the local exchange markets in Florida.  
20 Dr. Taylor and Dr. Gordon discuss this in more detail in their testimony, but  
21 the simple truth of the matter is that the situation is as simple as I have stated.  
22 Raising local exchange prices to end users makes those end users more  
23 attractive to competitors. As long as competition in telecommunications is the  
24 national and state policy, such changes are inevitable, and should be  
25

1           approached rationally and with the objective of doing this as efficiently and  
2           quickly as possible.

3

4 Q.     PLEASE SUMMARIZE YOUR TESTIMONY?

5

6 A.     The Florida Legislature has recently enacted new legislation. Section 364.164,  
7           when implemented, will help accomplish the national and state goal of  
8           removing implicit subsidies that support basic local exchange service, and  
9           thereby create a more competitive local exchange market. BellSouth proposes  
10          two methodologies for calculating the intrastate switched access revenues to be  
11          reduced; the mirroring methodology and the typical network composite  
12          methodology. BellSouth proposes a set of basic local exchange rate  
13          adjustments that will occur under each of the two methodologies. Importantly,  
14          both methodologies accomplish the goal of moving toward removal of implicit  
15          subsidies. BellSouth's proposal is entirely consistent with Section 364.164,  
16          Florida Statutes. Upon the Commission's selection of one of the two methods  
17          for calculating switched access revenue reductions, BellSouth will implement  
18          the first increment of its proposed two-year plan effective January 1, 2004 and  
19          the second increment effective January 1, 2005.

20

21 Q.     DOES THIS CONCLUDE YOUR TESTIMONY?

22

23 A.     Yes.

24

25 (#496599)

Basic Local Service Recurring Rate Changes Using Mirroring Methodology

Rate Group	Current Res. Rate	Res. Rate Effective 1/1/04	Res. Rate Effective 1/1/05	Current Single Line Bus. Rate	SL Bus. Rate Effective 1/1/04	SL Bus. Rate Effective 1/1/05
1	\$7.57	\$9.50	\$11.43	\$20.55	\$22.30	\$25.00
2	\$7.98	\$9.91	\$11.84	\$21.58	\$23.33	\$25.00
3	\$8.39	\$10.32	\$12.25	\$22.72	\$24.47	\$25.00
4	\$8.71	\$10.64	\$12.57	\$23.76	\$25.51	\$28.00
5	\$9.12	\$11.05	\$12.98	\$24.75	\$26.50	\$28.00
6	\$9.49	\$11.42	\$13.35	\$25.84	\$27.59	\$28.00
7	\$9.85	\$11.78	\$13.71	\$26.72	\$28.47	\$30.20
8	\$10.16	\$12.09	\$14.02	\$27.61	\$29.36	\$30.20
9	\$10.42	\$12.35	\$14.28	\$28.43	\$30.18	\$30.20
10	\$10.68	\$12.61	\$14.54	\$29.05	\$30.20	\$30.20
11	\$10.83	\$12.76	\$14.69	\$29.68	\$30.20	\$30.20
12	\$11.04	\$12.97	\$14.90	\$30.20	\$30.20	\$30.20
X1	\$8.83	\$10.76	\$12.69	\$23.86	\$25.61	\$28.00
X2	\$11.41	\$13.34	\$15.27	\$30.93	\$30.20	\$30.20
X3	\$11.86	\$13.79	\$15.72	\$32.31	\$30.20	\$30.20
X4	\$10.83	\$12.76	\$14.69	\$29.68	\$30.20	\$30.20

## Basic Local Service Recurring Rate Changes Using Typical Network Composite Methodology

Rate Group	Current Res. Rate	Res. Rate Effective 1/1/04	Res. Rate Effective 1/1/05	Current Single Line Bus. Rate	SL Bus. Rate Effective 1/1/04	SL Bus. Rate Effective 1/1/05
1	\$7.57	\$9.32	\$11.07	\$20.55	\$22.30	\$25.00
2	\$7.98	\$9.73	\$11.48	\$21.58	\$23.33	\$25.00
3	\$8.39	\$10.14	\$11.89	\$22.72	\$24.47	\$25.00
4	\$8.71	\$10.46	\$12.21	\$23.76	\$25.51	\$28.00
5	\$9.12	\$10.87	\$12.62	\$24.75	\$26.50	\$28.00
6	\$9.49	\$11.24	\$12.99	\$25.84	\$27.59	\$28.00
7	\$9.85	\$11.60	\$13.35	\$26.72	\$28.47	\$30.20
8	\$10.16	\$11.91	\$13.66	\$27.61	\$29.36	\$30.20
9	\$10.42	\$12.17	\$13.92	\$28.43	\$30.18	\$30.20
10	\$10.68	\$12.43	\$14.18	\$29.05	\$30.20	\$30.20
11	\$10.83	\$12.58	\$14.33	\$29.68	\$30.20	\$30.20
12	\$11.04	\$12.79	\$14.54	\$30.20	\$30.20	\$30.20
X1	\$8.83	\$10.58	\$12.33	\$23.86	\$25.61	\$28.00
X2	\$11.41	\$13.16	\$14.91	\$30.93	\$30.20	\$30.20
X3	\$11.86	\$13.61	\$15.36	\$32.31	\$30.20	\$30.20
X4	\$10.83	\$12.58	\$14.33	\$29.68	\$30.20	\$30.20

## Nonrecurring Rate Changes

<u>Service Description</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
<b>Line Connection Charge</b>		
Res - 1st Line	\$40.88	\$46.50
Res - Addl Line	\$12.05	\$14.00
Bus SL - 1st	\$56.24	\$65.00
<b>Line Change Charge</b>		
Res - 1st Line	\$23.50	\$28.12
Res - Addl Line	\$11.00	\$14.95
Bus SL - 1st	\$38.16	\$42.00
<b>Secondary Service Charge</b>		
Res - Per Customer Request	\$10.00	\$10.00
Bus SL - Per Customer Request	\$19.00	\$19.00
<b>Premises Work Charge</b>		
Res. - 1st 15 Min.	\$25.00	\$25.00
Res. - Addl 15 Min.	\$9.00	\$9.00
Bus SL - 1st 15 Min.	\$28.00	\$28.00
Bus SL - Addl 15 Min.	\$9.00	\$9.00