

ORIGINAL

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SPEAKER



November 19, 2003

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

Re: Docket Nos. 030961-TI

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are original and 15 copies of the Direct Testimony of Blon C. Ostrander.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Charles J. Beck
Interim Public Counsel

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cc: All parties of record

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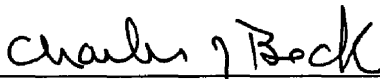
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FPSC-COMMISSION CLERK

DOCKET NO. 030961-TI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing Direct Testimony of Bion C. Ostrander has been furnished by U.S. Mail, hand-delivery and/or overnight delivery to the following parties on this 19th day of November, 2003.



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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: FLOW-THROUGH OF LEC SWITCHED ACCESS BEANSIONS BY
KCS, PURSUANT TO SECTION 364.10(1)(2) FLORIDA STATUTES.

DOCKET NO. 2003-7

DIRECT TESTIMONY OF
ERIC C. OSTRANDER

ON BEHALF OF
THE OFFICE OF PUBLIC COUNSEL (OPC)

NOVEMBER 19, 2003

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**IN RE: FLOW-THROUGH OF LEC SWITCHED ACCESS REDUCTIONS BY
IXCS, PURSUANT TO SECTION 364.163 (2), FLORIDA STATUTES.**

DOCKET NO. 030961-TI

**DIRECT TESTIMONY OF
BION C. OSTRANDER**

**ON BEHALF OF
THE OFFICE OF PUBLIC COUNSEL (OPC)**

NOVEMBER 19, 2003

I. CREDENTIALS:

1

2 **Q. WOULD YOU STATE YOUR NAME, TITLE AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Bion C. Ostrander. I am the President of Ostrander
5 Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka,
6 Kansas.

7

8 **Q. WHO ARE YOU REPRESENTING IN THIS PROCEEDING?**

9 A. I am testifying on behalf of the Office of Public Counsel ("OPC").

10

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND**
12 **PROFESSIONAL EXPERIENCE?**

13 A. I am an independent regulatory consultant and a practicing Certified
14 Public Accountant, with a specialization in telecommunications financial,
15 costing, and policy issues. I have over twenty-four years of regulatory and
16 accounting experience. I previously served as the Chief of
17 Telecommunications for the Kansas Corporation Commission ("KCC" or
18 "Commission") from 1986 to 1990, when I left to start my own consulting
19 firm. During that time, and prior to 1986, I also addressed cases and
20 issues related to electric and gas utilities on behalf of the KCC. In
21 addition, I have worked for national and regional accounting firms,
22 including Deloitte, Haskin and Sells (now Deloitte & Touche).

1

2 **Q. WHAT TYPE OF ISSUES HAVE YOU ADDRESSED?**

3 A. My experience includes addressing issues related to reviews of revenue
4 requirements, alternative regulation/price cap plans, 271 applications,
5 management audits, audit of universal service fund and audits of relay
6 centers for the speech and hearing impaired. I have addressed a broad
7 range of telecommunication and regulatory issues related to accounting,
8 rate design, costing, FCC separations, quality of service, universal
9 service, affordable local service, Lifeline, affiliate interest, cost allocation
10 manuals ("CAM"), cross-subsidization, competition policy, UNE cost
11 studies, universal service cost studies, depreciation, slamming policy,
12 infrastructure development, access charge restructure and other matters.
13 Please see Exhibit BCO-1 for more detailed information regarding my
14 education background and professional experience.

15

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC
17 SERVICE COMMISSION ("COMMISSION" OR "PSC")?**

18 A. No. However, Exhibit BCO-1 shows that I have testified in numerous
19 jurisdictions on various telecommunications policy issues.

20

21 ***II. PURPOSE AND SUMMARY OF TESTIMONY FINDINGS:***

22

23 **Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to address the flow-through of BellSouth,
2 Verizon, and Sprint-Florida switched access reductions to Florida
3 intrastate long distance/toll rates. I will address issues six to ten as set
4 forth by the Florida Public Service Commission ("FPSC") in its November
5 10, 2003, order in this proceeding and related consolidated dockets. I will
6 also address other issues that are relevant.

7

8 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

9 A. **Issue Six** - For the matters addressed under "Issue 6", I primarily agree
10 with Staff's earlier recommendations. However, I do add further specificity
11 and clarification to the type of information that IXCs should provide to the
12 FPSC, both in advance of its tariff filing and at the completion of its long
13 distance rate reductions. For example, for those IXCs that have to provide
14 information to the FPSC, I require:
15 1) a calculation of the long distance rate reduction by specific service for
16 residential and business customers;
17 2) a calculation of the average revenue per minute for residential and
18 business customers; and
19 3) a calculation showing the amount and percent of long distance
20 revenues applicable to residential and business customers; and 4)
21 provide justification for any long distance rate reductions that are
22 included with "bundled services."

23

1 **Issue 7** - All long distance reductions should be flowed-through to
2 customers at the time that increases in basic local rates take place, there
3 should not be a lag of time.

4
5 **Issue 8** - IXC's should be required to cap and maintain their long distance
6 rate reductions for a period of three years after parity is achieved, as
7 required by Section 364.163(1). Parity is not achieved until the final
8 phase-in of all intrastate switched access reductions are flowed-through
9 from ILECs to IXC's, so long distance rate reductions would remain in
10 place for three years beyond this period. If IXC's do not maintain their long
11 distance reductions for the required period, then they should: 1) be
12 required to re-implement long distance reductions for at least three more
13 years; 2) provide additional long distance reductions or refunds related to
14 "interest" calculated over the period that rate reductions were not in effect,
15 and; 3) be subject to additional penalties available to the FPSC.

16
17 **Issue 9** – Since residential customers are bearing a significant portion of
18 the increases in basic local rate increases, they should receive a
19 proportionate offsetting benefit in long distance rates.

20
21 **Issue 10** – All residential and business customers should experience a
22 reduction in rates, unless they don't use long distance service much, or if

1 they subscribe to one of the smaller IXCs that won't be required to flow-
2 through the rate reductions.

3

4 **Q. WHY ARE YOU BEGINNING WITH ISSUE SIX OF THE FPSC'S**
5 **NOVEMBER 10, 2003, ORDER IN THIS DOCKET?**

6 A. This flow-through docket has been consolidated with the rate rebalancing
7 dockets for which I have already filed direct testimony. Issues one to five
8 of the FPSC's November 10th order are applicable to the rate rebalancing
9 docket and have already been addressed in prior OPC testimony by Dr.
10 Gabel or myself.

11

12 ***III. ISSUE SIX OF THE FPSC ORDER – WHICH IXCS SHOULD BE***
13 ***REQUIRED TO FILE TARIFFS TO FLOW-THROUGH ACCESS***
14 ***REDUCTIONS, AND WHAT INFORMATION SHOULD BE***
15 ***INCLUDED IN THESE TARIFFS?***

16

17 **Q. WHICH IXCS SHOULD BE REQUIRED TO FILE TARIFFS TO FLOW-**
18 **THROUGH BELLSOUTH'S, VERIZON'S, AND SPRINT-FLORIDA'S**
19 **SWITCHED ACCESS REDUCTIONS?**

20 A. I agree with Staff's previous recommendation on this matter, which was
21 included in an October 22, 2003, memorandum to the Director of the
22 Division of the Commission Clerk & Administrative Services. All IXCs
23 should be required to file tariffs and flow-through the impacts of access

1 reductions, except for those IXCs whose intrastate access expense
2 reduction is \$100 or less per month. Those IXCs which are not required to
3 flow-through should attest to such, via a letter filed with the Commission. I
4 believe that these thresholds recommended by Staff are reasonable, and
5 will tend to ensure that most of the access reductions are subject to being
6 flowed-through to long distance rates, yet not burdening smaller IXCs
7 whose rate reductions may be immaterial.

8
9 **Q. WHAT SHOULD BE INCLUDED IN THE TARIFF FILINGS OF THOSE**
10 **CARRIERS THAT WILL BE REDUCING THEIR LONG DISTANCE**
11 **RATES?**

12 A. I agree with Staff's previous recommendation on this matter which creates
13 three different filing requirements for:

- 14 1) IXCs that paid \$1 million or more in intrastate switched access
15 charges, versus;
- 16 2) IXCs that paid less than \$1 million in intrastate switched access
17 charges; and
- 18 3) IXCs whose intrastate switched access expense reduction is \$100 or
19 less per month.

20
21 In addition, I have made refinements to Staff's recommendations to
22 identify "specific" information that should be provided in the tariff filings.
23 My proposed refinements are consistent with Staff's recommendations;

1 they just add some further clarification to Staff's filing requirements. This
2 further clarification will help insure that consistent information is filed by all
3 carriers, and this can help eliminate future discovery and other problems.
4 My recommendations will simplify the monitoring process by Staff and
5 other parties. But most importantly, these refinements will help ensure
6 that rate reductions are fairly and equitably flowed-through to customers.

7

8 **Q. WHAT FILING REQUIREMENTS DO YOU RECOMMEND FOR THE**
9 **IXCS THAT PAID \$1 MILLION OR MORE IN INTRASTATE SWITCHED**
10 **ACCESS CHARGES?**

11 A. The following should be provided with the tariff filings, and as a refinement
12 to Staff's recommendation, this information should be provided in
13 electronic format at the time of the filing:

14

15 1) A calculation of the dollar benefit associated with the ILEC's
16 intrastate switched access rate reductions should be provided, as
17 recommended by Staff.

18 a) It is not clear to me how the "benefit" differs from the amount of
19 long distance rate reductions to be shown by IXCs, as required
20 by Staff's recommendation in item (2) below. However, if there
21 is a difference, I believe that Staff's recommendation should be
22 more specific and require a calculation of the dollar benefit
23 separately for residential and business customers, and by type

1 of service (i.e., MTS, reduction of recurring monthly rates,
2 various calling plans, etc.).

3 b) Also, eliminating the provision of a certain long distance service
4 should not be counted as part of the “benefit” or “revenue
5 reduction” implemented by the IXC, and any impacts from this
6 type of situation should be identified by the IXC.

7

8 2) Separate demonstrations that residential and business long
9 distance rates have been reduced and the estimated annualized
10 revenue effect for both residential and business customers,
11 including a description of how those estimates were made, as
12 recommended by Staff.

13 a) I believe that Staff’s recommendation should be more specific
14 and require a calculation of the long distance rate reduction of
15 residential and business customers by type of service (i.e.,
16 MTS, reduction of recurring monthly rates, various calling plans,
17 long distance in bundled services of IXCs, etc.).

18 b) Also, the IXC should provide a calculation showing the average
19 revenue per minute for residential and business customers
20 before the rate reductions, and the estimated average revenue
21 per minute with rate reductions.

22 c) Finally, the IXC should be required to show the current amount
23 and percent of long distance revenues received from residential

1 customers versus business customers. This should be required
2 in order to help address “Issue 9” raised by the FPSC, which
3 asks how long distance rate reductions should be allocated
4 between residential and business customers. This information
5 will help determine whether there is a reasonable and equitable
6 allocation of long distance rate reductions between residential
7 and business customers.

8
9 3) A demonstration that all reductions have been flowed through, as
10 required by Staff’s recommendation.

11 a) Staff’s recommendation should be more specific and require
12 that “actual” information now be substituted for the “estimated”
13 information that was required in previous items (1) and (2), and
14 all subparts. This includes actual rate reductions for residential
15 and business customers, actual rate reductions by type of
16 service, and the actual average revenue per minute for
17 residential and business customers for the rate reduction
18 periods.

19 b) Also, the IXCs should identify all “new” rate plans that they
20 introduced for residential and business customers, and the
21 revenue impact of these plans. This requirement will help
22 address whether the access charge reductions actually
23 encouraged or resulted in any new or innovative services.

1 c) The IXC should be required to show the final actual amount and
2 percent of long distance rate reductions received by residential
3 customers versus business customers. This can be compared
4 to any previous FPSC requirements addressed under "Issue 9",
5 which asks how long distance rate reductions should be
6 allocated between residential and business customers.

7 d) Finally, one issue which has not been raised to date, is how to
8 address long distance rate reductions included in bundled
9 services. This issue may only be applicable if the IXC is offering
10 the bundled service, versus another affiliate that is a CLEC or
11 other entity. If an IXC is permitted to use these flow-through
12 dollars to reduce "bundled services", they should be required to
13 show that the long distance portion of the bundled service was
14 the beneficiary of the flow-through (and that flow-through dollars
15 were not used for other services in the bundle, such as
16 internet/DSL, cellular, local, value-added services, and others).

17
18 **Q. WHAT FILING REQUIREMENTS DO YOU RECOMMEND FOR THE**
19 **IXCS THAT PAID LESS THAN \$1 MILLION IN INTRASTATE**
20 **SWITCHED ACCESS CHARGES?**

21 **A.** The following should be provided by these IXCs:
22

1 1) A letter certifying that they paid less than \$1 million in intrastate
2 switched access charges in 2002 and that they have complied with
3 each of the flow-through requirements as specified in Section
4 364.163(2) of the Florida statutes, as required by Staff's
5 recommendation.

6 a) In addition, these IXCs should be able to provide minimal
7 information that is fairly easy to calculate. These IXC should
8 provide the average revenue per minute for residential and
9 business both before and after the rate reductions.

10

11 **Q. WHAT FILING REQUIREMENTS DO YOU RECOMMEND FOR THE**
12 **IXCS WHOSE INTRASTATE SWITCHED ACCESS EXPENSE**
13 **REDUCTION IS \$100 OR LESS PER MONTH?**

14 A. I have no refinements to Staff's recommendation for these IXCs. Staff's
15 recommendation requires that these IXCs file a letter with the FPSC
16 attesting that their intrastate switched access expense reduction is \$100
17 or less per month, as recommended by Staff. I believe that filing a letter
18 with the FPSC is an adequate monitoring provision for these carriers. This
19 will allow the FPSC, other parties, and the public, to know which IXCs will
20 not be reducing their long distance rates due to the access reductions.
21 This will be helpful in case there is some dispute regarding whether a
22 particular IXC falls over or under the filing threshold of less than \$100 per
23 month in intrastate access expense reductions.

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**IV. ISSUE SEVEN OF THE FPSC ORDER – SHOULD IXCS BE
REQUIRED TO FLOW-THROUGH RATE REDUCTIONS
SIMULTANEOUS WITH ILEC ACCESS RATE REDUCTIONS?**

**Q. SHOULD THE IXCS BE REQUIRED TO FLOW-THROUGH LONG
DISTANCE RATE REDUCTIONS, VIA THE TARIFFS, SIMULTANEOUS
WITH THE APPROVED ILEC ACCESS RATE REDUCTIONS?**

A. Yes. There should not be any lag in time between increases in ILEC local rates and IXC long distance rate reductions. The timing should be the same to ensure that the negative impacts of local rate increases are at least offset by some reductions in long distance rates. If IXCs delay their long distance rate reductions, this means that ILEC customers that are receiving increases in local rates will have permanently lost any incremental benefit from long distance rate reductions. If IXCs are not prepared to implement long distance reductions, then ILEC increases in local rates should also be delayed.

**V. ISSUE EIGHT OF THE FPSC ORDER – HOW LONG SHOULD
THE IXC LONG DISTANCE RATE REDUCTIONS LAST?**

1 Q. FOR EACH ACCESS RATE REDUCTION THAT AN IXC RECEIVES,
2 HOW LONG SHOULD THE ASSOCIATED LONG DISTANCE RATE
3 REDUCTION LAST?

4 A. The IXCs should be required to cap and maintain their long distance rate
5 reductions for a period of three years after parity is achieved, as required
6 by Section 364.163(1). The IXCs could reduce their long distance rates in
7 greater amounts than the access rate reductions over this period, but they
8 could not increase their rates because of the "cap", as required by Section
9 364.163(1). Parity is not achieved until the final phase-in of all intrastate
10 switched access reductions are flowed-through from ILECs to IXCs. This
11 means that after the final flow-through of phased-in access reductions to
12 IXCs is achieved, the long distance rate reductions would be in place for
13 three more years.

14
15 Sprint proposes to implement its basic local rate increases in three phases
16 over a two-year period, with the final residential increase of \$1.16/month
17 to take place in 2006. This means that IXCs receiving reductions in
18 intrastate switched access rates from Sprint, would be required to
19 maintain the related long distance rate reductions for a period from 2006
20 through the same month in 2009.

21
22 However, if the Sprint basic local rate increases (and related access
23 reductions) are phased-in over a three to four-year period (especially due

1 to the significant amount of the rate increases¹), as supported by the OPC,
2 this means that long distance rate reductions would be maintained for
3 three years after the final phase-in of access reduction flow-through is
4 passed through to IXC's by Sprint.

5
6 BellSouth and Verizon are implementing their basic local rate increases in
7 three phases over a two-year period, with the final residential increases to
8 take place in 2006. This means that IXC's receiving reductions in intrastate
9 switched access rates from BellSouth and Verizon, would be required to
10 maintain the related long distance rate reductions for a period from 2006
11 through the same month in 2009.

12
13 **Q. THIS ISSUE IS NOT SPECIFICALLY RAISED BY THE FPSC, BUT**
14 **WHAT SHOULD HAPPEN IF IXCS DO NOT MAINTAIN THEIR LONG**
15 **DISTANCE RATE REDUCTIONS FOR THE REQUIRED PERIOD?**

16 A. If IXC's do not maintain long distance reductions for the required
17 period, then the following should occur as a remedy:

18
19 1) IXC's should be required to re-implement the impact of long
20 distance rate reductions for at least three years beyond the
21 point when they failed to maintain compliance.

22

¹ Sprint's proposed total average residential local rate increase is \$6.86/month, compared to \$4.73/month for Verizon and \$3.86/month for BellSouth.

1 2) The IXCs should be required to implement additional long
2 distance rate reductions, or refunds², based on “interest”
3 calculated for the period that long distance rate reductions
4 were not in place. It is not fair that residential basic local
5 customers would still be paying increased basic local rates
6 to the ILEC, while the IXC receives a windfall benefit by not
7 implementing the required portion of the access flow-through
8 in long distance rates. Also, the penalty should be severe
9 enough to help ensure that IXCs maintain compliance with
10 long distance reductions over the required period.

11
12 3) Finally, the FPSC should implement any additional penalties or
13 sanctions which are available, including “per day” or “per incident”
14 monetary fines that may be available.

15
16 **VI. ISSUE NINE OF THE FPSC ORDER – HOW SHOULD IXC LONG**
17 **DISTANCE RATE REDUCTIONS BE ALLOCATED BETWEEN**
18 **RESIDENTIAL AND BUSINESS CUSTOMERS?**

19
20 **Q. HOW SHOULD IXC LONG DISTANCE RATE REDUCTIONS BE**
21 **ALLOCATED BETWEEN RESIDENTIAL AND BUSINESS**
22 **CUSTOMERS?**

² Long distance rate reductions are favored over refunds since long distance customers are more transient and shift from carrier-to-carrier with more frequency, so it would be difficult to match the

1 A. Since residential basic local customers are receiving most of the proposed
2 increases in basic local rates, they should receive a proportionate amount
3 of the long distance rate reductions.³

4

5 **VII. ISSUE TEN OF THE FPSC ORDER – WILL ALL RESIDENTIAL**
6 **AND BUSINESS CUSTOMERS EXPERIENCE A REDUCTION IN**
7 **THEIR LONG DISTANCE BILLS?**

8

9 **Q. WILL ALL RESIDENTIAL AND BUSINESS CUSTOMERS EXPERIENCE**
10 **A REDUCTION IN THEIR LONG DISTANCE BILLS. IF NOT, WHICH**
11 **RESIDENTIAL AND BUSINESS CUSTOMERS WILL NOT**
12 **EXPERIENCE A REDUCTION IN THEIR BILLS?**

13 A. Based upon my comments related to “Issue 10”, all residential and
14 business customers should experience a rate reduction unless: a) the
15 customer subscribes to one of the small IXCs that pays less than \$100 per
16 month in access expense and is not required to flow-through access
17 reductions; or b) the customer does not make much, or any, long distance
18 calls for the period that long distance rate reductions will be in effect.

19

20 Customers of all calling plans, including MTS, should experience some
21 rate reduction as long as the plan includes usage by “average” residential

long distance rate refund with the specific customer that should have received the refund.

³ However, my direct testimony in the rate rebalancing case shows that the increase in basic local service rates for the average residential customer will not be offset by long distance rate reductions.

1 customers.” The “average residential user” of long distance service
2 should be the primary beneficiary of these long distance rate reductions
3 which should not be unduly restricted to large residential and business toll
4 users.

5

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A. Yes.**

8