

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Verizon Florida Inc. to Reform Its)
Intrastate Network Access and Basic Local)
Telecommunications Rates in Accordance with)
Florida Statutes, Section 364.164)
_____)

Docket No. 030867-TL

**REBUTTAL TESTIMONY OF
ORVILLE D. FULP
ON BEHALF OF
VERIZON FLORIDA INC.**

November 19, 2003

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I.

INTRODUCTION AND OVERVIEW OF REBUTTAL TESTIMONY

Q. PLEASE STATE YOUR NAME, EMPLOYER AND TITLE, AND BUSINESS ADDRESS.

A. My name is Orville D. Fulp. I am employed by Verizon as Director-Regulatory. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

Q. ARE YOU THE SAME ORVILLE D. FULP WHO SUBMITTED DIRECT TESTIMONY ON BEHALF OF VERIZON IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to issues raised by Citizens witness Ostrander, AT&T witness Fonteix, and AARP's witness Cooper regarding:

- The inclusion of the PICC in Verizon's parity calculation;
- The adequacy of protection for Lifeline customers; and
- The propriety of updating Verizon's plan prior to each incremental increase in rates using the most recent 12-months' actual pricing units.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. PICC: Verizon properly included the PICC in its parity calculation because the PICC is a component of the access charges that IXCs pay at the federal level. Excluding the PICC from Verizon's interstate access rate

1 would result in higher basic local rate increases than those currently set
2 forth in Verizon's rate rebalancing plan.

3
4 Lifeline: Concerns that Verizon will cease providing affordable service to
5 Lifeline customers once its intra and interstate rates are in parity are
6 unfounded. First, Lifeline customers will continue to receive the \$13.50
7 rate reduction off of Verizon's basic local rates even after Verizon reaches
8 parity. Second, Verizon is dedicated to providing reasonably priced
9 service to low-income customers, and Verizon has no plans to increase
10 Lifeline rates once parity is achieved. Third, Verizon is willing to work with
11 the Commission, other carriers and consumer groups to develop a
12 sustainable, industry-wide funding mechanism to ensure the continued
13 affordability of Lifeline service.

14
15 Updates: Verizon's proposal for updating units complies with the Act. The
16 Act expressly requires Verizon to update its plan prior to each incremental
17 increase in rates using the most recent 12-months' actual pricing units.

18
19 **II.**

20 **THE PICC IS PROPERLY INCLUDED IN**
21 **VERIZON'S INTERSTATE ACCESS RATE**

22 **Q. MESSRS. OSTRANDER (PAGE 43, LINE 7 – PAGE 47, LINE 10) AND**
23 **FONTIEX (PAGE 10, LINES 1– 20) ARGUE THAT THE PICC SHOULD**
24 **NOT BE INCLUDED IN VERIZON'S INTERSTATE ACCESS RATE. DO**
25 **YOU AGREE?**

1 A. No. The PICC should be included in Verizon's parity calculation because
2 the PICC is a component of the interstate access rate that IXCs currently
3 pay to Verizon. As stated in my direct testimony, the interstate access rate
4 is comprised of both traffic sensitive (TS) and non-traffic sensitive (NTS)
5 rate elements. The PICC is an NTS rate element and is therefore
6 appropriately included in Verizon's interstate access rate.

7

8 **Q. WHAT WOULD HAPPEN TO BASIC LOCAL RATES UNDER**
9 **VERIZON'S RATE REBALANCING PLAN IF THE PICC WERE**
10 **EXCLUDED FROM THE PARITY CALCULATION?**

11 A. To preserve revenue neutrality, basic rates would have to be increased
12 more than originally proposed. Excluding the PICC would reduce the
13 interstate access rate employed in Verizon's rate rebalancing plan. To
14 bring the intrastate access rate in parity with this reduced interstate access
15 rate, Verizon would have to reduce its composite intrastate access rate by
16 a greater amount than originally proposed. This rate reduction would
17 result in a greater reduction in intrastate access revenues, necessitating a
18 greater increase in basic local revenues – and thus basic local rates – to
19 produce a revenue neutral offset.

20

21 **Q. HAVE YOU CALCULATED THE IMPACT OF EXCLUDING THE PICC**
22 **FROM THE PARITY CALCULATION?**

23 A. Yes. Verizon would have to reduce its access revenues by \$12,679,052
24 more than originally proposed, and Verizon would have to increase its
25 basic local revenues by a corresponding amount. In order to increase

1 basic local revenues by this amount, Verizon would have to increase basic
2 local rates by \$0.86 more than originally proposed.

3

4 **Q. MR. OSTRANDER (PAGE 43, LINES 7– 22) CLAIMS THAT VERIZON IS**
5 **ATTEMPTING TO RECOVER AN “ADDITIONAL” \$12.9 MILLION BY**
6 **INCLUDING THE PICC IN ITS INTERSTATE RATE. DO YOU AGREE?**

7 A. No. Mr. Ostrander fails to comprehend that any reduction in intrastate
8 access revenues must be offset by a corresponding increase. Because
9 Verizon’s rate rebalancing plan must be revenue neutral, including the
10 PICC in Verizon’s interstate access rate does not result in the recovery of
11 “additional” revenues. Rather, as stated above, including the PICC in
12 Verizon’s interstate access rate (1) appropriately captures the NTS
13 component of Verizon’s interstate access charges; and (2) results in lower
14 basic rates than would exist if the PICC were excluded from the interstate
15 rate.

16

17 **Q. MESSRS. OSTRANDER (PAGE 44, LINES 13–15) CONTENDS THAT**
18 **THE PICC IS RECOVERED FROM END USERS AND NOT IXCS. IS**
19 **THIS CORRECT?**

20 A. No. The PICC is assessed predominately to IXCs, which are permitted to
21 flow through this charge to end-users but may also recover it through
22 market prices. The PICC is only assessed directly to an end user when
23 the end user does not designate an IXC as its primary interexchange
24 carrier.

25

1 Q. MR. OSTRANDER (PAGE 46, LINES 2–6) SUGGESTS THAT IT IS
2 INAPPROPRIATE TO RECOVER PICC REVENUES AT THE STATE
3 LEVEL. DO YOU AGREE?

4 A. No. Mr. Ostrander's suggestion reflects a misunderstanding of the issue.
5 The PICC appropriately enters into Verizon's parity calculation because it
6 is a part of the interstate access charge, and the Act permits Verizon to
7 bring its intrastate access charge into parity with its interstate access
8 charge. Verizon's intrastate access charge will continue to reflect only
9 charges that have been authorized under this Commission's jurisdiction –
10 both today (at their current levels), and after Verizon's proposal is
11 implemented (when those charges will be adjusted to parity with the
12 interstate access charges).

13
14 Mr. Ostrander's confusion may have arisen because this Commission
15 never implemented intrastate access reform, as did the FCC. NTS
16 charges, which would have been incorporated into an intrastate PICC if
17 rates had been reformed in the same manner as FCC access charges, still
18 reside in the intrastate end office switching and transport rate elements
19 that are properly collected today under this Commission's authorization.

20
21 Q. MR. FONTEIX (PAGE 9, LINES 10-21) CLAIMS THAT BECAUSE
22 VERIZON'S RATE PROPOSAL DOES NOT ELIMINATE THE
23 TERMINATING CARRIER COMMON LINE (CCL) CHARGE, THE
24 PROPOSED INTRASTATE ACCESS RATES DO NOT EQUAL AND ARE
25 NOT AT PARITY WITH THE INTERSTATE ACCESS RATES. DO YOU

1 **AGREE?**

2 A. No. Contrary to Mr. Fonteix's contentions, the intrastate access rate
3 structure does not have to be identical to the interstate access rate
4 structure to achieve parity as required by the Act. As I explained in my
5 direct testimony, Verizon brought its intrastate access rates into parity with
6 its interstate access rates using an average revenue per minute (ARPM)
7 calculation of the kind this Commission has previously approved for
8 determining parity. See *In re Switched Access Charges*, Docket No.
9 960910-TP, Order No. PSC-96-1265-FOF-TP (October 8, 1996) and *In re:*
10 *Flow-Through Of 1998 LEC Switched Access Reductions by IXCs*
11 *Pursuant to Section 364.163(6), F.S.*, Docket No. 980459-TP, Order No.
12 PSC-98-0795-FOF-TP (June 8, 1998). Although the structures of these
13 rates are different, the ARPM approach produces equal composite intra
14 and interstate rates. Of course, given the revenues that were available for
15 offset, Verizon eliminated the originating CCL and reduced the terminating
16 CCL to the extent it could after implementing the other components of the
17 rebalancing plan.

18

19 **Q. DOES MR. FONTEIX OVERLOOK ADDITIONAL REASONS WHY**
20 **FLORIDA JURISDICTIONAL ACCESS CHARGES SHOULD NOT**
21 **MIRROR THE INTERSTATE RATES AND STRUCTURE AT THIS TIME?**

22 A. Yes. There are additional reasons that militate against mirroring the intra
23 and interstate rate structures. First, the current interstate rate and rate
24 structure, established in the FCC's CALLS Order, are scheduled to be
25 reevaluated and potentially changed in 2005. It does not make sense to

1 establish a complicated new rate structure in this proceeding – one that
2 would involve establishing new rate components for transport, end office
3 switching (EOS), and an intrastate PICC – only to have that structure
4 altered or replaced in 2005. Second, the proposed ARPM calculation
5 yields the same result as a mirroring approach.

6

7 **Q. MR. FONTEIX CONTENDS THAT INCLUDING THE PICC IN THE ARPM**
8 **RESULTS IN RECOVERING BUSINESS LINE REVENUE FROM BOTH**
9 **BUSINESS AND RESIDENTIAL CUSTOMERS. PLEASE COMMENT.**

10 A. A parity calculation must include all interstate access charge revenues, as
11 I have explained. How the LEC collects the appropriate level of access
12 charges between the inter and intrastate jurisdictions is another question.

13

14 Given Verizon's proposed access reductions, IXCs have numerous options
15 for flow through to end users, and it is within the IXCs' purview to
16 determine how to apportion those reductions.

17

18 Finally, as I stated above, if the PICC is not considered in determining the
19 composite interstate access rate, \$12,679,052 million in revenue recovery
20 will instead fall to Verizon's basic business and residence customers, thus
21 resulting in basic rates that are higher than those currently provided in the
22 Company's plan.

23

24 **Q. MR. FONTEIX (PAGE 10, LINE 23 – PAGE 11, LINE 7) ARGUES THAT**
25 **VERIZON IMPROPERLY CALCULATED THE PICC, EFFECTIVELY**

1 **DOUBLING THE COMPANY’S PROPOSED INTRASTATE ACCESS**
2 **RATES. IS THIS CORRECT?**

3 A. No. Mr. Fonteix misunderstands the calculation used to determine the
4 PICC component of the interstate ARPM. This calculation establishes an
5 ARPM for interstate access charges and an equivalent ARPM for intrastate
6 access charges. The difference in these ARPMs multiplied by the
7 intrastate units yields the required decrease in revenues for intrastate
8 access rates to reach parity with interstate rates. In other words, dollars in
9 equals dollars out. Because the PICC is based on intrastate business
10 access lines, it is appropriate to use the intrastate MOU demand to
11 calculate the PICC equivalent ARPM. To do otherwise, as Mr. Fonteix
12 urges, would significantly understate the interstate ARPM, resulting in
13 larger increases to basic local rates. Stated otherwise, the amount of
14 revenue generated by the PICC in the interstate jurisdiction (\$12.7 million)
15 must be the same amount of revenue generated in the intrastate
16 jurisdiction. Thus, Verizon has not “doubled” its intrastate access rates, as
17 Mr. Fonteix contends. To the contrary, Verizon has brought the intrastate
18 ARPM into parity with the interstate ARPM, as required by the statute.

19
20 **Q. HAVE OTHER STATE COMMISSIONS INCLUDED THE PICC IN THE**
21 **INTERSTATE RATE CALCULATION?**

22 A. Yes. In six of the seven Verizon states that have ordered mirroring of
23 intrastate rates with interstate rates (Connecticut, Illinois, Indiana, Maine,
24 Michigan and Wisconsin), the PICC was included in the interstate
25 structure. In the seventh state (Ohio), which mirrored interstate transport

1 and switching rates, the Commission retained a CCL rate element that
2 captured the revenues that would have been captured by a state PICC.

3
4 In several Verizon states that reduced intrastate access rates (Maryland,
5 Pennsylvania, Virginia and West Virginia), NTS CCL rate elements were
6 introduced that kept the rates above the federal TS ARPM plus PICC
7 ARPM.

8
9 No state Commission has ever ordered Verizon to reduce its interstate
10 access revenues below Federal TS ARPM plus NTS PICC ARPM.

11
12 The foregoing makes clear that Verizon's proposal is consistent with the
13 treatment of the CCL and PICC in other jurisdictions.

14
15 **III.**

16 **LIFELINE CUSTOMERS ARE PROTECTED UNDER THE ACT**
17 **Q. DR. COOPER (PAGE 32, LINE 18 – PAGE 34, LINE 22) COMPLAINS**
18 **THAT VERIZON'S PLAN PROVIDES ONLY TEMPORARY**
19 **PROTECTION FOR LIFELINE CUSTOMERS BECAUSE LIFELINE**
20 **RATES CAN BE INCREASED ONCE PARITY IS ACHIEVED. PLEASE**
21 **RESPOND.**

22 **A.** As an initial matter, Lifeline customers will continue to receive the \$13.50
23 rate reduction off of Verizon's basic local rates even after Verizon reaches
24 parity. Moreover, Verizon is committed to providing affordable service to
25 low-income customers, and Verizon has no plans to increase Lifeline rates

1 once parity is achieved. Providing affordable service to low-income
2 customers, however, is an issue that confronts the entire industry, not just
3 Verizon. The Commission and the industry should therefore develop an
4 industry-wide, competitively neutral funding mechanism for the Lifeline
5 program to promote competition and to ensure the continued viability of the
6 Lifeline program. In furtherance of this goal, Verizon is willing to work with
7 Citizens, AARP and other consumer groups, to help develop legislation
8 that will ensure ongoing, competitively neutral funding for Lifeline.

9
10 **IV.**

11 **VERIZON'S PROPOSAL TO**

12 **UPDATE UNITS COMPLIES WITH THE ACT**

13 **Q. MR. OSTRANDER (PAGE 47, LINES 15–17) ALLEGES THAT THE**
14 **STATUTE IS UNCLEAR REGARDING THE REQUIREMENT TO**
15 **UPDATE UNITS IN EACH PHASE OF THE REBALANCING PROCESS.**
16 **DO YOU AGREE?**

17 **A.** No. The statute is very clear on the subject of updating units.
18 Section 364.164(3) expressly provides that “[a]ny filing under this section
19 must be based on the company’s most recent 12 months’ pricing units in
20 accordance with subsection (7) for any service included in the revenue
21 category established under this section.” (Emphasis added.) Moreover,
22 Section 364.164(7) states that the “calculation of revenue for each service
23 to be received after implementation of rate adjustments must be made by
24 multiplying the rate to be applicable for each service by the most recent 12
25 months’ actual pricing units for each service with the category, without any

1 adjustments to the number of pricing units.” (Emphasis added.)
2 Accordingly, it is erroneous to contend that the statute is unclear.

3

4 **Q. DESPITE THE CLEAR MEANING OF THE ACT, MR. OSTRANDER**
5 **(PAGE 48, LINES 13–15) EXPRESSES CONCERN THAT UPDATED**
6 **UNITS, AS REQUIRED BY THE ACT, WILL BE DETRIMENTAL TO**
7 **LOCAL EXCHANGE CUSTOMERS. PLEASE RESPOND.**

8 A. Mr. Ostrander is confused about how the update process will work. He
9 states on page 48, lines 3-5, that “... the LEC’s ‘update’ is intended to be
10 used to seek additional rate increases, since access volumes are declining
11 and local lines may be lost to competitors.” The fact that intrastate access
12 volumes and basic local service lines are changing over time is precisely
13 the reason that it is appropriate to update to the most recent units (both
14 access and local) at each rate adjustment phase. The updating of units
15 simply realigns the switched access and basic local line volumes at each
16 phase of the rebalancing process, thus ensuring that as volumes on both
17 sides of the equation change, the appropriate rate adjustments are
18 implemented. This in no way “guarantees a LEC in a growing competitive
19 market that its revenues lost to competitors will be rewarded by rebalanced
20 increases to local rates,” as Mr. Ostrander contends on page 49 of his
21 testimony. To the contrary, depending on the rate of decrease in intrastate
22 access volumes versus the rate of decline in basic local line volumes, the
23 rate increases to basic local rates could be more or less than those
24 proposed by the Company. No one knows, including Mr. Ostrander, how
25 the relative unit volumes will change over the next few years. This is

1 precisely the reason the Legislature incorporated the updating requirement
2 in the statute.

3
4 Finally, to treat each phase of the rebalancing as a complete new “stand-
5 alone” filing, as Mr. Ostrander suggests (page 48, line 5 - page 49, line 1),
6 is clearly unnecessary and not envisioned by the statute. The Legislature
7 would not have included the updating provision in the statute if it had
8 instead intended for the Commission to undertake a full-scale review at
9 each phase of the rebalancing process.

10

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

12 **A. Yes.**

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