

ORIGINAL

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PRESIDENT



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JOHNNIE BYRD

SPEAKER



November 26, 2003

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

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Re: Docket No. 030961-T1

Dear Ms. Bayo:

Enclosed for filing in the above-referenced dockets is the original and 15 copies of the Redacted Rebuttal Testimony of Bion C. Ostrander.

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

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Sincerely,

Charles J. Beck
Deputy Public Counsel

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Enclosures

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12084 NOV 26 '03

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

**REDACTED REBUTTAL TESTIMONY OF
BION C. OSTRANDER**

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

NOVEMBER 26, 2003

DOCUMENT FILED DATE

2003 NOV 26 8

FLORIDA PUBLIC SERVICE COMMISSION CLERK

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

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

6
7 Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS
8 PROCEEDING ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL?

9 A. Yes, I filed direct testimony on November 19, 2003.
10

11 Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR REBUTTAL
12 TESTIMONY?

13 A. I will rebut certain issues raised by various parties regarding issue
14 numbers six to ten as set forth in the Florida Public Service Commission's
15 ("FPSC" or "Commission") November 10th order. I will rebut the direct
16 testimony of Mr. Kapka, on behalf of Sprint Communications Company
17 L.P., which will be referred to as Sprint Long Distance Company ("Sprint
18 LD"), Mr. Broten, for Bell Atlantic Communications, Inc. d/b/a Verizon Long
19 Distance, NYNEX Long Distance Company d/b/a Verizon Enterprise
20 Solutions ("VES"), and Verizon Select Services, Inc ("VSSI"), (hereinafter,
21 collectively referred to as "Verizon LD"), Mr. Henson, for BellSouth Long
22 Distance ("BellSouth LD"), Mr. Guepe, for AT&T Communications of the

1 Southern States, LLC (“AT&T”), and Mr. Dunbar, on behalf of MCI
2 WorldCom Communications, Inc. (“MCI”).

3

4 **Q. WOULD YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?**

5 A. I will summarize these matters by “issue”:

6

7 **Issue 6** - The carriers appear to favor a more informal approach of
8 discussing potential long distance rate reductions and impacts with Staff
9 and avoiding an audit trail and the specific filing requirements that I
10 propose (which are consistent with Staff’s recommendation). The
11 Commission should adopt my specific filing requirements for IXCs, so that
12 actual rate reductions can be monitored and compared to expected
13 amounts to ensure that all long distance rate reductions are properly and
14 timely implemented.

15 **Issue 7** – Certain IXCs propose to file tariffs up to 60 days after the
16 effective date of ILEC tariffs. Other IXCs propose advance notice of up to
17 60 days in order to try and coordinate simultaneous filings with ILECs.
18 Any lag between IXC and ILEC filings would result in a permanent loss of
19 long distance rate reductions for customers and should be avoided. If
20 there is some lag, it should be no more than 15 days. In the alternative,
21 IXCs and ILECs should be given at least 60 to 90 days notice of when
22 both IXC and ILEC tariffs will be effective on a simultaneous basis. This

1 advance notice will allow all carriers adequate time to provide tariffs to
2 Staff for review, change their billing, and carry out other planning.

3 **Issue 8** - Certain IXC's do not believe that rate reductions should be
4 mandated for any specific time period. Sprint LD believes that IXC's
5 should be required to maintain long distance rate reductions for all three
6 years of the access reductions, plus one additional year. Section
7 364.163(1) requires that after ILEC access rates are reduced to or below
8 parity, then intrastate switched access rates will remain capped for 3
9 years. Consistent with Section 364.163(1), the IXC's should be
10 encouraged to cap and maintain their long distance rate reductions for a
11 period of three years after parity is achieved. Parity is not achieved until
12 the final phase-in of all intrastate switched access reductions are flowed-
13 through from ILECs to IXC's.

14 **Issue 9** - The percentage split between long distance rate reductions for
15 residential and business customers is set forth at Rebuttal Exhibit BCO-1,
16 for those carriers that provided information. Most carriers either do not
17 provide information, xx xxxx xxxxxxxx xx xxxxxxxx x xxxxx xxxxxxxxxxxx xx
18 xxxx xxxxxxxx xxxxxxxxxxxx xx xxxxxxxxxxxx xxxxxxxx. I am aware that
19 Section 364.163 of the statute does not specify how IXC's should allocate
20 long distance rate reductions between residential and business
21 customers. However, I believe that IXC's should be encouraged to reduce
22 residential and business rates in a reasonable and equitable manner.
23 Since residential local rates are receiving most of the proposed increases

1 by ILECs, these residential customers should receive a proportionate
2 amount of the long distance rate reductions. None of the IXCs (which
3 provided information) proposed to reduce long distance rates in this
4 manner, xxxxxxxx xxxxxxxxxxxx xx xxxx xxxxxxx xxxx xxx xxxxxx xxxx.

5 **Issue 10** - I am extremely disappointed in the proposals of the carriers.
6 xxxx xxxx xxxx xxx, xx xxx, xxxxxx xxxxxxxxxxxxxx xx xxxx xxxxxxxxxxxxxx xxx
7 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxx xxx xxx xxxxxxxxxxx xxxxxxxxxxxxxx xxx xxxx
8 xxxx xxxx. xxxx, xxx, xxx xxxxxxx xx xxxxxxx xx xxxxxxxxxxx xxxxxxxxxxxxxx xxx
9 xxxxxxxxxxxxxx xx xxxxxx xx xxxxxxxxxxxxxx xxxxxxxx xxxxxx, xxxxxxx xxx xxxx xxxx
10 xx xxx xxxxxxxxxxx xxxxxxxx xxxx. About 93% of the Verizon revenue
11 increase will be placed on residential local service customers, yet x
12 xxxxxxxxxxxxxx xxxxxxxx xx xxxx xxxxxxxxxxx xxxxxxxxxxxxxx xxxx xxx xxxxxxxx xxx
13 xxxx xxxxxxxxxxx xxxx xxxxxxxxxxxxxx xxxxxxxx xxxx xxxxxxx xxx xxx xxxxxx. xxxx
14 xxxxxxxx xx xx xxx xxxx x xxxxxxxxxxx xxxxxxxx xx xxxxxxxxxxx xxxxxxxxxxxxxx xx
15 xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx xxx xxxxxx xxx xxxx xx xxxx xxxxxxxxxxxxxx.

16 I continue to believe that most residential customers should experience
17 some sort of long distance rate reduction unless: a) the customer
18 subscribes to one of the small IXCs that pays less than \$100 per month in
19 access expense and is not required to flow-through access reductions; or
20 b) the customer does not make much, or any, long distance calls for the
21 period that long distance rate reductions will be in effect.

22
23

1 ***I. ISSUE SIX OF THE FPSC ORDER – WHICH IXCS SHOULD BE***
2 ***REQUIRED TO FILE TARIFFS TO FLOW-THROUGH ACCESS***
3 ***REDUCTIONS, AND WHAT INFORMATION SHOULD BE***
4 ***INCLUDED IN THESE TARIFFS?***

5
6 **Q. DO YOU HAVE CONCERNS WITH STATEMENTS OF OTHER PARTIES**
7 **REGARDING ISSUE SIX?**

8 A. It would appear that all parties agree that a flow-through of access
9 reductions by IXCs is necessary, and there is no disagreement on this
10 issue. Mr. Guepe, on behalf of AT&T, indicates that in order to insure
11 “competitive neutrality”, any flow through conditions must be applied to all
12 IXCs and no companies should have an exemption (except he agrees
13 there may be a deminimis threshold for those IXCs for which the flow
14 through is immaterial). (page 3, lines 20 to 25). I concur with Mr. Guepe’s
15 remarks.

16
17 Mr. Henson, on behalf of BellSouth LD, does not take a specific position
18 on this issue. (page 3, lines 16 to 20).

19
20 Most of the parties’ positions appear consistent with my testimony (and my
21 position is consistent with Staff’s prior position), although they are not as
22 specific. For example, Mr. Kapka, of Sprint, believes that any IXC with

1 over \$1 million in annual switched access expense should be required to
2 file tariffs, and this is consistent with my position.

3

4 **Q. CAN YOU EXPLAIN THE ISSUE OF "RESELLERS" RAISED BY MR.**
5 **BROTEN OF VERIZON LD?**

6 A. Yes. Mr. Broten indicates that IXC resellers should not be required to
7 reduce prices to its customers, unless it receives a reduction in the prices
8 it is charged by its facilities-based supplier. He indicates that many IXCs
9 resell service and the access charges flow directly to the facility-based
10 carrier, and not the reseller. This is because resellers of long distance
11 service typically contract with facilities-based providers for service, and
12 these agreements may not obligate the facilities-based carrier to pass
13 through access reductions that it receives. Mr. Broten indicates that when
14 Verizon LD, VES or VSSI resell long distance services of an affiliate, that
15 these resellers will pass through these reductions to their customers.
16 (page 3, lines 3 to 23).

17

18 **Q. DO YOU AGREE WITH MR. BROTEN'S POSITION ON TREATMENT**
19 **OF RESELLERS?**

20 A. Yes, generally I agree, subject to some confirmation on this issue.
21 However, I wish to emphasize certain conditions which should apply to
22 resellers. All resellers that are reselling the long distance of an affiliate
23 (such as a facilities-based affiliate, or others) should be required to flow-

1 through all long distance reductions to their customers (unless they meet
2 the deminimis threshold set out in my direct testimony). This condition
3 should be required between all affiliates, to make sure that affiliates have
4 not established an arbitrary (or sham) agreement between them with the
5 intent of avoiding the flow-through of access charges to customers.

6
7 The only condition where a reseller should not be required to flow-through
8 access reductions to its customers is when a facilities-based carrier has a
9 specific agreement with a non-affiliated reseller which prevents the flow-
10 through of access reductions (i.e., prevents the reduction in prices
11 charged by the facilities-based supplier to the reseller) to the reseller.

12

13 **Q. DO YOU HAVE CONCERNS WITH SPRINT'S POSITION REGARDING**
14 **THE INFORMATION THAT SHOULD BE INCLUDED IN THE TARIFF**
15 **FILINGS OF THOSE CARRIERS THAT WILL BE REDUCING THEIR**
16 **LONG DISTANCE RATES?**

17 **A.** Yes. Mr. Kapka, on behalf of Sprint LD, states that the Commission
18 should not attempt to set some uniform requirement for all carriers, but
19 that each carrier should meet with Staff and explain the particular
20 approach that carrier intends to take considering that carrier's competitive
21 market. Mr. Kapka indicates that this approach was taken in the 1998
22 access reductions, and it was beneficial because it did not mandate
23 specific price reductions to specific individual customers and it also

1 ensured that IXC confidentiality was maintained (since Staff was the only
2 other party involved in these discussions). (page 5, lines 22 to 25, and
3 page 6, lines 1 to 14).

4

5 **Q. WHAT ARE YOUR CONCERNS WITH MR. KAPKA'S PROPOSAL?**

6 A. Mr. Kapka's proposal to eliminate uniform filing requirements would make
7 it difficult to monitor rate reductions, so it would not be possible to
8 determine when, and if, the proper amount of reductions were
9 implemented by the carrier. Mr. Kapka's approach would not leave an
10 audit or paper trail, and the IXCs, Staff, and other parties would not be
11 able to test compliance after-the-fact.

12

13 Consistent with Staff's position, I believe that the IXCs should be required
14 to provide specific information so that Staff and other parties will be in a
15 better position to:

- 16 1) test and review the calculations and proposals of IXCs;
17 2) monitor and compare proposed reductions to final reductions to
18 make sure that the entire amount of the flow-through takes place;
19 3) ensure that all IXCs submit the same type of information for review
20 to make sure that all calculations and assumptions are consistent
21 and do not vary among the carriers (although the specific proposals
22 between the IXCs may vary); and

1 4) implement rate reductions as soon as possible and save
2 implementation time by letting the IXC's know up-front what type of
3 information is expected to be provided.

4
5 I am not opposed to each IXC having some flexibility regarding the
6 specific rate structure to implement, and the specific filing requirements
7 are not intended to impede this flexibility. My direct testimony provides
8 additional clarity to Staff's proposal regarding the type of information that
9 should be provided by IXC's.¹ After this specific information has been
10 made available for review by the IXC's, then I am not opposed to the IXC's
11 having further discussions with Staff or other parties regarding specific
12 pricing and competitive needs or concerns.

13
14 **Q. DO YOU HAVE THE SAME CONCERNS WITH OTHER CARRIERS**
15 **THAT PROPOSE DIFFERENT FILING REQUIREMENTS THAN THOSE**
16 **SUPPORTED BY YOU AND STAFF?**

17 A. Yes. Other carriers may support less detail in their tariff filings, but I
18 believe the integrity of the tariff filings are supported by the filing
19 requirements that I recommend.

20

¹ Direct testimony of Bion Ostrander, in this proceeding, page 8 through page 12.

1 **II. ISSUE SEVEN OF THE FPSC ORDER – SHOULD IXCS BE**
2 **REQUIRED TO FLOW-THROUGH RATE REDUCTIONS**
3 **SIMULTANEOUS WITH ILEC ACCESS RATE REDUCTIONS?**
4

5 **Q. WHAT POSITIONS DO THE CARRIERS TAKE ON THIS ISSUE OF**
6 **COORDINATING TARIFF FILINGS BETWEEN ILECS AND IXCS?**

7 **A.** Mr. Henson, on behalf of BellSouth LD, believes that IXCs should be
8 required to file tariffs within a reasonable time after the effective date of
9 ILEC filings, not to exceed fifteen (15) days. (p. 4, lines 15 to 17).

10
11 Mr. Guepe, for AT&T, indicates that IXCs need sufficient time to calculate
12 their savings and to prepare tariff filings, so he suggests that IXCs be
13 allowed to implement tariffs within 60 days from the ILEC's filing date. In
14 the alternative, if the Commission requires a simultaneous effective date
15 between IXC and ILEC tariffs, then Mr. Guepe proposes that ILEC access
16 tariff revisions be filed 60 days in advance of the effective date for IXCs to
17 allow adequate time for analysis and tariff completion by IXCs (p. 5,
18 lines 14 to 20).

19
20 Mr. Kapka, for Sprint LD, recommends that IXCs have 60 days after the
21 effective date of ILEC tariffs, in order to meet with Staff and for Staff to
22 review the proposed changes of IXCs. (p. 7, lines 3 to 10).

23

1 Mr. Broten, for Verizon LD, indicates that IXCs should implement their
2 tariffs "as soon as possible" after the approved ILEC access rate
3 reductions. (p. 4, lines 5 to 8).

4
5 Mr. Dunbar, for MCI, indicates he would support simultaneous filings with
6 ILECs if they are given at least 60 days to implement the rate changes.
7 (p. 5, lines 4 to 5).

8

9 **Q. WHAT COMMENTS DO YOU HAVE ON THE CARRIERS' POSITIONS**
10 **REGARDING IMPLEMENTATION OF TARIFFS?**

11 A. There should not be any lag in time between increases in ILEC local rates
12 and IXC long distance rate reductions, to ensure that the negative impacts
13 of local rate increases are at least offset by some reductions in long
14 distance rates (assuming that increases in basic local rates are
15 implemented, which the OPC does not support). However, if some lag is
16 necessary between IXC tariffs and ILEC tariffs, this should be no more
17 than the 15 day lag addressed by Mr. Henson of BellSouth LD.

18

19 If possible, IXCs and ILECs should be given at least 60 to 90 days notice
20 of when both the ILEC and IXC tariffs will be implemented at the same
21 time - - which is similar to the proposal of Mr. Dunbar and the alternative
22 proposal of Mr. Guepe. This notice of time should allow sufficient time for
23 the IXCs to submit tariff information and calculations for review by Staff

1 and other parties, and it should allow these Staff and other parties at least
2 30 days review time of the IXC tariffs (assuming there are no problems
3 with the IXC tariff filings).

4
5 If IXCs delay their long distance rate reductions, this means that ILEC
6 customers that are receiving increases in local rates will have permanently
7 lost any incremental benefit from long distance rate reductions. If the
8 IXCs implement their tariffs more than 15 days after ILEC tariffs are
9 implemented, then IXCs should be required to calculate additional one-
10 time refunds or additional rate reductions to account for long distance rate
11 reductions that were delayed to customers during this intervening time
12 period.

13
14 ***III. ISSUE EIGHT OF THE FPSC ORDER – HOW LONG SHOULD***
15 ***THE IXC LONG DISTANCE RATE REDUCTIONS LAST?***

16
17 **Q. WHAT POSITIONS DO THE CARRIERS TAKE ON THE ISSUE OF THE**
18 **TIME PERIOD FOR LONG DISTANCE RATE REDUCTIONS?**

19
20 **A.** Mr. Kapka, on behalf of Sprint LD, believes that IXCs should be required
21 to flow-through and maintain long distance price reductions for all three
22 years of the access reductions, plus one additional year. During this
23 period, he indicates that IXCs should have the flexibility to change prices

1 for individual products and/or introduce new products. He believes that
2 monitoring of the average revenue per minute annually through the period
3 of access reductions, and for one additional year, will ensure that
4 customers receive the benefits of access reductions. (p. 7, lines 1 to 25).

5

6 Mr. Broten, on behalf of Verizon LD, states that the Verizon long distance
7 affiliates will flow through the access reductions year over year for three
8 years, and then Verizon should be free to change its long distance rates
9 as it desires. (p. 5, lines 1 to 6).

10

11 Mr. Guepe, for AT&T, does not believe that any requirements for a length
12 of time should be imposed for long distance price reductions, since this
13 could place IXCs at a disadvantage from a competitive standpoint. He
14 indicates that if the Commission imposes a period of time, this will be the
15 first time such a mandate has been imposed. Mr. Guepe indicates that
16 over the past years long distance competition has continually driven down
17 IXC prices and there is no reason to believe this trend would not continue.
18 (p. 6, lines 11 to 24).

19

20 Mr. Henson, for BellSouth LD, states that because of the highly
21 competitive long distance market in Florida, it is not necessary to impose a
22 minimum time period for price reductions related to access flow-through.
23 He indicates that once access charges are flowed through to both

1 residential and business customers, the intense level of competition will
2 ensure that carriers do not rate their rates thereafter in an effort to absorb
3 the access charge savings. Mr. Henson states that carriers need to retain
4 flexibility to change their prices on individual services in order to respond
5 to going-in rates of other IXC's, and to respond to other changes in the
6 market. (p. 5, lines 10 to 13, and page 6, lines 5 to 20).

7

8 Mr. Dunbar, for MCI, states that the marketplace should and will decide
9 this issue. (p. 5, lines 12 to 13).

10

11 **Q. WHAT IS YOUR RESPONSE TO THE CARRIER'S POSITION ON THE**
12 **TIME PERIOD FOR LONG DISTANCE RATE REDUCTIONS?**

13 A. Section 364.163(1) requires that after ILEC access rates are reduced to or
14 below parity, then intrastate switched access rates will remain capped for
15 3 years. Consistent with Section 364.163(1), the IXCs should be
16 encouraged to cap and maintain their long distance rate reductions for a
17 period of three years after parity is achieved. Parity is not achieved until
18 the final phase-in of all intrastate switched access reductions are flowed-
19 through from ILECs to IXCs. This means that after the final flow-through
20 of phased-in access reductions to IXCs is achieved, the long distance rate
21 reductions would be in place for three more years. It makes sense to
22 synchronize the same time frames for ILEC access reductions and IXC
23 long distance rate reductions.

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The Sprint LD proposal comes the closest to my recommendation. Mr. Kapka only proposes that long distance rate reductions be in place “one” year after parity is reached in the third increment of the two year phase-in. Sprint LD, and all other carriers, should maintain long distance rate reductions for three years after parity is achieved, and parity is not achieved until the third increment of the two-year flow-through. This means that Sprint’s proposal is still two years shy of my recommendation that requires long distance rate reductions to be in place for three years after parity is achieved. Of course, if the Commission extends the flow-through for a period longer than that proposed by the ILECs (the three increments over a two-year period), then the three-year period for long distance rate reductions still begins at the time of the final access flow-through.

Mr. Guepe and Mr. Henson propose that no required time frame be imposed for long distance rate reductions, so these proposals are the most opposite of my recommendation. I believe it is reasonable to construe that the statute was intended to achieve some level of trade-off between various issues such as increases in basic local rates and reductions in long distance rates for similar periods. The one-sided arrangement proposed by IXCs would result in increases in basic local rates without commitments by IXCs to reduce long distance rates. This

1 serves as a potential windfall benefit to IXCs, and a detriment to
2 residential consumers faced with permanent increases in basic local rates
3 and the prospect of short-term long distance rate reductions.

4
5 **Q. DO YOU AGREE WITH MR. HENSON, THAT A MINIMUM TIME FRAME**
6 **FOR RATE REDUCTIONS IS NOT REASONABLE, SINCE IXCS MAY**
7 **NEED TO RESPOND TO GOING-IN RATES OF OTHER IXCS?**

8 A. No. I believe that long distance rate reductions should be required for a
9 certain timeframe as I propose. However, if an IXC needs to respond to a
10 going-in rate proposal of another IXC, then I am not opposed to some
11 flexibility to deal with these issues on a case-by-case basis. However,
12 these situations should be coordinated with Staff and other parties which
13 are providing oversight.

14
15 ***IV. ISSUE NINE OF THE FPSC ORDER – HOW SHOULD IXC LONG***
16 ***DISTANCE RATE REDUCTIONS BE ALLOCATED BETWEEN***
17 ***RESIDENTIAL AND BUSINESS CUSTOMERS?***

18
19 **Q. WHAT POSITIONS DO CARRIERS TAKE ON THE ISSUE OF**
20 **ALLOCATION OF LONG DISTANCE RATE REDUCTIONS BETWEEN**
21 **RESIDENTIAL AND BUSINESS CUSTOMERS?**

22

1 A. Mr. Broten for Verizon LD (p. 5, lines 12 to 20), Mr. Kapka of Sprint LD (p.
2 9, lines 1 to 17), Mr. Dunbar of MCI (p. 5, lines 21 to 23), and Mr. Henson
3 of BellSouth LD (p. 7, lines 20 to 22, and p. 8, lines 1 to 5), all appear to
4 propose the same or similar method to pass through a pro rata share long
5 distance rate reductions to both residential and business customers. This
6 method is based on the relative proportion of access minutes associated
7 with these customers.

8
9 Mr. Broten, Mr. Kapka, and Mr. Dunbar, provide the estimated percentage
10 of the amount of long distance rate reductions that will be applicable to
11 residential and business customers. However, x xxxxxxxxxxx xxxxx xx xxx
12 xxxxxxxxxxxxxxxxxxx xxxxx xxx xx xxxxxxxxxxxxxxxxxxxxxxxxxxx xxx xxx xxxxxxxx
13 xxxxxxxxxxx xxxxxxxx, xx xxxx xxxxx xxx xxxxx xxxx xxxxxxxxxxx xxxx
14 xxxxxxxxxxx xxxxxxx xx xxxxx xxxxxxx xxx. This estimated pro rate split of
15 long distance rate reductions between residential and business customers
16 is shown at Confidential Rebuttal Exhibit BCO-1, and compared to the
17 percentage of basic local increases for residential and business customers
18 of the ILECs.

19
20 xxx xxxxxx xxxxx xxxxxxx xxxxx x xxxxxxxxxxx xxxxxxxxxxx xxx xxx xxxxxxxx
21 xxxxxxxxxxx xxxxxxx xx xxxxxxxxxxx xxxxxxxxxxx xx xxx xxxxx xxxxx xxx
22 xxxxx xxx xxxxxxx x xxxxx xxxxx xxxxxxx xxxxxxxxxxx xxx xxxxxxx xxxxx
23 xx. xxxxx. xxx xxxxx xxxxxxx xx xx xxxx xxxxxxxxxxx xx xxx xxxxxxx xxxxx

1 xxxxxx xx xxxx xxxxxxxxxxx xxxxx xxxxxxx xxxxxxx xxxxxxxxxxxxxx xxx xxxxxxxxx
2 xxxxxxxx xxxxx xx xxxxxxxxxxx xxxxxxx xxxxx xxxx. Mr. Guepe indicates that
3 an IXC should be able to reduce rates based on the make-up of its
4 particular customer base, which appears to be consistent with the method
5 of the other IXCs. However, he qualifies this statement by indicating that
6 an IXC should be able to reduce residential or business rates at its
7 discretion in order to increase its market share in a particular market. (p.
8 7, lines 9 to 16).

9
10 Mr. Henson, of BellSouth LD, does not provide the estimated split of long
11 distance reductions applicable to residential or business customers.

12
13 **Q. WHAT IS YOUR RESPONSE TO THE CARRIERS' POSITION ON THE**
14 **METHOD FOR ALLOCATING LONG DISTANCE RATE REDUCTIONS**
15 **BETWEEN RESIDENCE AND BUSINESS CUSTOMERS?**

16 A. I am aware that Section 364.163 of the statute does not specify how IXCs
17 should allocate long distance rate reductions between residential and
18 business customers. However, I believe that IXCs should be encouraged
19 to reduce residential and business rates in a reasonable and equitable
20 manner. Since residential local rates are receiving most of the proposed
21 increases by ILECs, these residential customers should receive a
22 proportionate amount of the long distance rate reductions. xxxxxxxx xx xxx

1 xxxx xxxxxx xxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxx xx xxxxxx xxxx xxxxxxxx
2 xxxxx xxxxxx xxxxxxxxx xxxxxxxx xxxxxx xxxx xxxxxxx xxxx xxx xxxxxx xxxx.

3
4 Confidential Rebuttal Exhibit BCO-1 provides a comparison of the
5 proposed ILEC split between residential and business local rate increases,
6 compared to the proposed IXC split between residential and business long
7 distance rate reductions (for those three IXCs which provided information).
8 The proposed ILEC split of local rate increases is public information, but
9 the proposed IXC split of long distance rate reductions is considered
10 confidential. No detailed calculations were generally available regarding
11 the residential/business split for long distance rate reductions.

12
13 The information at Rebuttal Exhibit BCO-1 shows the following:

- 14 1) Verizon LD proposes that residential long distance rates receive
15 xxx of the long distance rate reduction, and that business long
16 distance rates receive xxx of the reduction. In comparison, the
17 ILECs of Verizon, Sprint and BellSouth propose that residential
18 local rates receive 86% to 93% (Verizon is 93%) of the proposed
19 local rate increase, and that business local rates recover the
20 remaining percentage. xx xxxxx xxxxx, xxx xxxxxxx xxxxx xxx xxxx
21 xxxxxxxx xxxxxxxxxxx xxxxxxx xx xx xxxxxxxxxxx xxx xxxxxxx xx xxx
22 xxxxx xxx xx xx xxxx xxxxxxxxxxx. xxxxxxx,xxxx xxxxxxxxxxx xxxxx xxx
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7 xxx xxxxx xxx xxxxxxx xx xxx xxx xx xxxxxxx xxxxxxxxxxxxxx xxx
8 xxxxxxxx xx xxxxxxxxxxx xx xxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx
9 xxxxx xxxxx xx xxxxxxx xxxxxx xxx xxxxxxxxxxx.

2) Sprint LD proposes that residential long distance rates receive xxx
of the long distance rate reduction, and that business long distance
rates be reduced by the remaining percentage. In comparison, the
ILECs of Verizon, Sprint and BellSouth propose that residential
local rates receive 86% to 93% (Sprint is 86%) of the proposed
local rate increase, and that business local rates recover the
remaining percentage. xxxxxxxxxxx xxxxxxx xxx xxxxxxxxxxxxxx xxx
xxxxxxxx xxxxxxxxxxx xxxxxxx x xxxxxxxxxxxxxx xxxxx xxxxx xx xxx
xxxxxxxx xxx xxxxxxxxxxx xx xxxxxxxxxxx xx xxx xxxxxxx xxxxxx
xx xxxxxxxxxxx xxxxx xxxxx xx xxxxxxx xxxxxxx xxx xxxxxx. OPC
believes that the percentage of long distance rate reductions
allocated to Sprint LD residential customers should be increased

1 significantly, to bring this amount more in line with the proposed
2 increases in local rates of the ILECs.

3
4 3) MCI proposes that residential long distance rates receive xxx of the
5 long distance rate reduction, and that business long distance rates
6 be reduced by the remaining percentage. In comparison, the
7 ILECs of Verizon, Sprint and BellSouth propose that residential
8 local rates receive 86% to 93% of the proposed local rate increase.
9 xxx xxx xxxxxxxxxxxxxx xxxxx xxxxxxxxxxx xxxxx xxxxxxxxxxx xxxxx xxx xxxxx
10 xxxxxxxxxxx xx xxx xxxxxxxxxxxxxx xx xxx xxxxxxxxxxx xxxxx xxxxxx, xxx xxx
11 xxxxx xxx xxxxxxxxxxxxxx xxxxxxx xxxxx. xxxxxxxxxxx, xxx xxxxxxx xx
12 xxxxxxxxxxx xxxxx xxxxxx xxxxxxxxxxxxxx xx xxxxxxxxxxxxxx xxxxxxx xxxxxx.
13 xxx xxxxxxxxxxx xxxxx xxxxxxxxxxxxxx xxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx
14 xxxxxxxxxxxxxx xxxxxx xxxxxx xx xxxxxxxxxxxxxx xxxxx xxxxxxxxxxx xxx
15 xxxxxxxxxxx xxx xxx xxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxx xxxxxxx xx
16 xxxxxxx, xxxxxx xxxxxxxxxxx. OPC believes that the percentage of
17 long distance rate reductions allocated to MCI residential
18 customers should be increased significantly, to bring this amount
19 more in line with the proposed increases in local rates of the ILECs.

20
21 AT&T stated that in the first year it would reduce xxxxx xxxxxxxxxxx
22 xxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx
23 xxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx

1 XXXXXXXXX X XXXXXXXX XXXXXXXX XXXXXX XXXXXXXXXXXX XXXXXXXXXXXX
2 XXXXXXXXXXXXX XXXXXXXXXXXXX XX XXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX
3 XXXXXXXXXXXXX XXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX
4 XXXXXXXXXXXXXXXXXX XXXX XXXXXX XXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX
5 XXXXXXXXXXXXXXXXXX XXXXXX XXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX
6 XXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXX XXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX
7 XXXXXXXXXXXXXXXXX XXXXXXXXXXX XXX XXX XXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX
8 XXXXXXXXXX XXXXXXXXXXX XXXXXXXXXXX XXXXXXXXXXX XXXX XXXXXXXX
9 XXXXX XXXXX XXXXXXXX X XXXXXXXXXXX XXXXXXXX XXXXXXXX X XXXXXXX
10 XXXXXXXX XXXXXXXX XX XXXXXXXX XXXXXXXXXXX XXXXX XXXXX XX X XXX X
11 xxxxxxx. This would bring them in line with the proposed split
12 between residential and business local rate increases of Verizon,
13 Sprint and BellSouth.

14
15 BellSouth LD did not provide any estimates for the proposed split
16 between residential and business long distance rate reductions..
17 BellSouth LD should be encouraged to allocate 86% to 93% of the
18 long distance rate reduction to residential customers. This would
19 bring them in line with the proposed split between residential and
20 business local rate increases of Verizon, Sprint and BellSouth.

21
22 **Q. IF RESIDENTIAL LOCAL RATE CUSTOMERS RECEIVE A**
23 **SIGNIFICANT PORTION OF THE LOCAL RATE INCREASE, IN**

1 **COMPARISON TO THE PROPOSED LONG DISTANCE RATE**
2 **REDUCTIONS, DOES THIS ACHIEVE REVENUE NEUTRALITY FOR**
3 **THESE CUSTOMERS?**

4 A. No. If residential local customers receive most of the local rate increases,
5 and receive very little of the long distance rate reductions, then this tends
6 to reinforce my position that residential customers will not benefit from rate
7 rebalancing and basic local rate increases will exceed long distance rate
8 reductions. This would support my conclusion at Exhibit BCO-2 included
9 with my direct testimony in the rate rebalancing case, which indicates that
10 residential local rate increases will exceed long distance rate reductions.

11 In fact, with the IXCs now providing their proposed split for residential long
12 distance rate reductions, it appears that xxx xxxxxxxx xxxxxxxxxxx xxxxxxxxxxx
13 xxxxxxxxxxxx xxxx xxxxxxxx x xxxxxxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx
14 xxxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxxx.

16 Xx xxxxxxxx xxx xxxxxxxx xxxxxxx x xxxxxx xxxxxxxxxxx xxxxxxxxxxx
17 xxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx x xxx xxxxxxxxxxxx xxx
18 xxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx
19 xxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxx
20 xxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxx xxxxxxxx xxxxxxxxxxx xxxxxxxx
21 xxxxxxxx xxxxxxxx xxxx xxxx xxxxxxxxxxx xxxxxx.

1 **V. ISSUE TEN OF THE FPSC ORDER – WILL ALL RESIDENTIAL**
2 **AND BUSINESS CUSTOMERS EXPERIENCE A REDUCTION IN**
3 **THEIR LONG DISTANCE BILLS?**

4
5 **Q. WHAT POSITIONS DO THE CARRIERS TAKE ON THE ISSUE OF**
6 **WHETHER ALL RESIDENTIAL AND BUSINESS CUSTOMERS WILL**
7 **EXPERIENCE A REDUCTION IN THEIR LONG DISTANCE BILLS?**

8 **A.** Mr. Henson, for BellSouth LD, indicates that not all customers will
9 experience a long distance rate reduction, since some companies may
10 reduce rates on one set of toll calling plans and other companies may
11 reduce other rates. Customers can switch between plans to select those
12 which provide the most benefit. (p. 8, lines 11 to 20).

13
14 Mr. Broten, for Verizon LD, indicates that the company will reduce rates on
15 some, but not all residential plans. He provides a confidential percentage
16 of residential customers that will experience long distance rate reductions
17 for “several plans”, and this is addressed later. (p. 6, lines 1 to 11).

18
19 Mr. Guepe, for AT&T, indicates that all AT&T residential customers paying
20 the in-state connection fee/PICC (which is presumed to be about \$1.90)
21 will experience a rate reduction (p. 10, lines 5 to 9), but not every
22 customer will see a long distance rate reduction. (p. 11, lines 1 and 2). It
23 appears that AT&T will phase-out the entire PICC by July 2006, xxx xx xx

1 xxxx xxxxxx xxx xxxxxxxixxxxxxxxxxxxxxxxx xxx xx xxxxxxxx xx xxxxxx. Mr.
2 Guepe indicates that all classes of business customers will receive
3 reductions, but xx xxxx xxx xxxxxxxxxxx xxx xxxxxxxxxxx xxx xxx xxxxxxxxxxx
4 xxxxxxxxxxx xxxxxx xxx xxx xxx xxx xxxxxxxxxxx.

5
6 Mr. Dunbar, for MCI, indicates that all residential customers currently
7 paying the in-state recovery fee/PICC (which is presumed to be about
8 \$1.90) will receive a rate reduction. MCI will phase-out the PICC, and
9 eliminate it by July 1, 2006, and MCI will reduce the PICC by at least one-
10 third in each year. Also, MCI will reduce rates for other residential
11 customers, but has not determined how it will do so at this time. (p. 6,
12 lines 22 and 23, page 7, lines 1 to 6).

13
14 Mr. Kapka, for Sprint LD, indicates that all customers paying an in-state
15 connection fee/PICC of \$1.99 will see a rate reduction. He does not
16 address any other specific residential rate reductions.

17
18 **Q. WHAT IS YOUR RESPONSE TO THE CARRIER'S POSITION ON**
19 **WHETHER ALL RESIDENCE AND BUSINESS CUSTOMERS WILL**
20 **EXPERIENCE A LONG DISTANCE RATE REDUCTION?**

21 A. I am extremely disappointed in the proposals of the carriers. They make
22 very few, if any, solid commitments to rate reductions for residential
23 customers (except for the mandated reduction in the PICC by year 2006).

1 The carriers cite to extensive competition in long distance, but xxx xxxxxx
2 xxxxxxxxxxx xxx xxxxxxx xxxxxxx xxx xxx xxx xxxxxxxxxxx xxxxxxx
3 xxxxxxxxxxx xx xxx xxxxxx xxx xxx xxx xxxxxxxxxxxxxx xxxxxxx.

4
5 Xxxxx xxxxxxx xxxxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxx
6 xxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx
7 xxxxxxxxxxxxxx xxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx
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13 xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx
14 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx
15 xxxxxxxxxxxxxx xxxxxxxxxx xxxxxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx
16 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx.

17
18 Mr. Broten, for Verizon LD, indicates that the company will xxx xxx
19 xxxxxxx xxxxxxxxxxx xxxxxxx xxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxx
20 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxx
21 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx
22 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxx
23 xxxxxxxxxxxxxx xxxxxxxxxx xxx xxxxx x while experiencing local rate increases

1 of about \$57 annually. This appears to be far from a favorable outcome of
2 so-called benefits of "competition", produced by the ILECs and IXC's in this
3 proceeding.

4
5 About 93% of the Verizon revenue increase will be placed on residential
6 local service customers, yet xxxxx xxxxxxxx xxxxxxxx xxxxxx xxxxxxxx
7 xxxxxxx xxxxxxxxxxxxxx xxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx
8 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx
9 xxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx
10 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx
11 xxxxxxxxxxxxxx.

12
13 I continue to believe that most residential customers should experience
14 some sort of long distance rate reduction unless: a) the customer
15 subscribes to one of the small IXC's that pays less than \$100 per month in
16 access expense and is not required to flow-through access reductions; or
17 b) the customer does not make much, or any, long distance calls for the
18 period that long distance rate reductions will be in effect. Because of the
19 size of the access reductions, residential customers should receive an
20 equitable amount of long distance rate reductions beyond that currently
21 proposed by the carriers.

22

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

1 A. Yes.

2

**PUBLIC - COMPARISON OF ILEC RESIDENTIAL AND BUSINESS LOCAL RATE INCREASES
 COMPARED TO IXC PROPOSED SPLIT FOR RESIDENTIAL AND BUSINESS LONG DISTANCE RATE REDUCTIONS**

Line	Company	PUBLIC ILEC Proposed		CONFIDENTIAL IXC Proposed				IXC Source
		Local Rate Increase Split		Long Distance Rate Reduction Split				
		Res. %	Bus. %	Res. %	Res. \$	Bus. %	Bus. \$	
1	Verizon (1)	93%	7%	Confid. Confid. Not provided	First Year	Confid. Confid. Not provided	First Year	Brotten - p. 5, lines 16, 17 Kapka - p. 9, line 9
2	Sprint (2)	86%	14%					
3	BellSouth (3)	87%	13%					
4	MCI			Confid.		Confid.		Dunbar - p. 6, line 1 Guepe - p. 9, line 18, 21
5	AT&T			Confid.	Confid.	Confid.	Confid.	

ILEC Source:	Rate Increase	% Resid. Increase
(1) - Verizon local rate increase: Direct testimony of Mr. Fulp, page 16, lines 12 & 9.		
Residential local rate increase	\$70.9 m	93%
Business local rate increase	\$5.3 m	
Total residential & business	\$76.2 m	
(2) - Sprint local rate increase: Direct testimony of Mr. Felz, Exhibit JMF-12.		
Residential local rate increase	\$122.9 m	86%
Business local rate increase	\$19.2 m	
Total residential & business	\$142.1 m	
(3) - BellSouth local rate increase: Direct testimony of Mr. Ruscilli, p. 8 & 9.		
Mirroring method:		
Res. local recurring increase	\$118.9 m	87% (a)
Bus. local + misc. resid.	\$17.4 m	
Total residential and business	\$136.3 m	
Typical method:		
Res. local recurring increase	\$107.8 m	86% (a)
Bus. local + misc. resid.	\$17.4 m	
Total residential & business	\$125.2 m	
(a) - Percentage residential increase is conservative since it does not include increase in nonrecurring residential rates, so 87% is used.		