

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION BY VERIZON FLORIDA INC.
TO REFORM INTRASTATE NETWORK ACCESS
AND BASIC LOCAL TELECOMMUNICATIONS
RATES IN ACCORDANCE WITH SECTION
364.164, FLORIDA STATUTES.

DOCKET NO. 030867-TL

PETITION BY SPRINT-FLORIDA,
INCORPORATED TO REDUCE INTRASTATE
SWITCHED NETWORK ACCESS RATES TO
INTERSTATE PARITY IN REVENUE-NEUTRAL
MANNER PURSUANT TO SECTION
364.164(1), FLORIDA STATUTES.

DOCKET NO. 030868-TL

PETITION FOR IMPLEMENTATION OF
SECTION 364.164, FLORIDA STATUTES,
BY REBALANCING RATES IN A
REVENUE-NEUTRAL MANNER THROUGH
DECREASES IN INTRASTATE SWITCHED
ACCESS CHARGES WITH OFFSETTING
RATE ADJUSTMENTS FOR BASIC SERVICES,
BY BELLSOUTH TELECOMMUNICATIONS, INC.

DOCKET NO. 030869-TL

FLOW-THROUGH OF LEC SWITCHED
ACCESS REDUCTIONS BY IXCs,
PURSUANT TO SECTION
364.163(2), FLORIDA STATUTES.

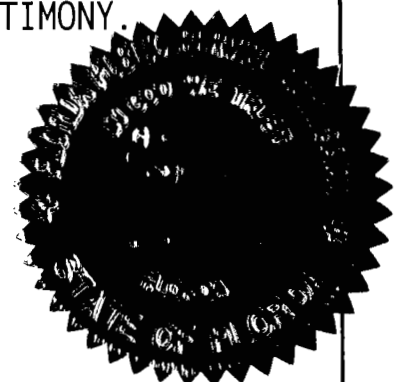
DOCKET NO. 030961-TI

ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE
A CONVENIENCE COPY ONLY AND ARE NOT
THE OFFICIAL TRANSCRIPT OF THE HEARING,
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 3

PAGES 220 THROUGH 345

PROCEEDINGS: HEARING



1 BEFORE: CHAIRMAN LILA A. JABER
2 COMMISSIONER J. TERRY DEASON
3 COMMISSIONER BRAULIO L. BAEZ
4 COMMISSIONER RUDOLPH "RUDY" BRADLEY
5 COMMISSIONER CHARLES M. DAVIDSON

6 DATE: Wednesday, December 10, 2003

7 TIME: Commenced at 11:29 a.m.

8 PLACE: Betty Easley Conference Center
9 Room 148
4075 Esplanade Way
Tallahassee, Florida

10 REPORTED BY: TRICIA DeMARTE, RPR
11 Official FPSC Reporter
12 (850) 413-6736

13 APPEARANCES: (As heretofore noted.)
14
15
16
17
18
19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X
WITNESSES

NAME:	PAGE NO.
KENNETH GORDON	
Continued Cross Examination by Mr. Keating	224
JOHN A. RUSCILLI	
Direct Examination by Ms. White	260
Prefiled Revised Direct Testimony Inserted	265
Prefiled Rebuttal Testimony Inserted	285
Cross Examination by Mr. Mann	312
Cross Examination by Mr. Twomey	330
CERTIFICATE OF REPORTER	345

EXHIBITS

	NUMBER:		ID.	ADMTD.
1				
2				
3	45			260
4	46			260
5	47	JAR-1	262	
6	48	(Confidential) Florida Access Basic Rebalancing Legislation Presentation		
7			326	
8	49	BellSouth's Regulatory Assessment Fee Return		
9			327	
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

P R O C E E D I N G S

(Transcript continues in sequence from Volume 2.)

KENNETH GORDON

continues his testimony under oath from Volume 2:

CONTINUED CROSS EXAMINATION

BY MS. KEATING:

Q And how about access charges? Would that be a cost they would consider?

A They would be charging access costs. If they wished, they would. I think they would, yes.

Q They would still be paying access charges as well?

A We're talking about the CLEC, aren't we?

Q We're talking about their costs, not the revenue equation at this point.

A I'm not sure what access cost you're referring to.

Q Let me ask you this. A UNE-P-based CLEC would also factor risk into the cash flow equation; isn't that correct?

A Risk generally, I suppose.

Q Okay. And would you agree that the CLEC would likely consider risks such as the range and variation of the take rate?

A Of take rate?

Q Yes.

A I guess that's a fact that would certainly be a factor to consider in entering.

1 Q How about revenue per customer?

2 A That really comes down to the total revenue if you're
3 just looking at the average revenue per customer. I think they
4 might be more interested in how different subgroups' revenues
5 might vary.

6 Q Let me ask you then to turn to your rebuttal
7 testimony, and this is on Page 17, Lines through 11 through 20.

8 A Yeah, give me a second.

9 Q And here you're explaining, if I read this correct,
10 that if rates aren't rebalanced and driven to cost-based
11 levels, revenues from other services will have to support
12 residential basic service; is that correct?

13 A Which line are you looking at?

14 Q Lines 11 through 20.

15 A Let me please read them. Yes, what's your question?

16 Q Okay. You've emphasized in this passage that the
17 revenues from other services are, however, a temporary and
18 uncertain tool, and that the risk of providing services is
19 higher if services are subsidized; is that correct?

20 A I think that's right.

21 Q Okay. Are you --

22 A The reason being that when competitive forces begin
23 to be felt in the supporting services, then the revenues
24 available tend to dry up unless some intervention, perhaps
25 regulatory intervention such as the introduction of access

1 charges for long distance -- in the case of long distance
2 competition is built in in order to preserve those revenues.

3 Q Well, what I'm wondering is, are you suggesting that
4 if rates are not rebalanced, ILECs may eventually have to seek
5 increases in local rates anyway due to competition eroding the
6 services that are presently providing the subsidies?

7 A I think there is that danger because competition is
8 driven not in the uniform or simple way. New technologies come
9 along; new strategies are developed; new ways to make an end
10 run around access charges will eventually be discovered, voice
11 over Internet protocol being one that comes to mind, wireless
12 being another. As those methods of providing communications
13 service take hold and grow, the attempt to hold up a revenue
14 flow through some device such as an access charge becomes more
15 and more difficult. Now, it doesn't collapse overnight, but it
16 becomes more and more difficult and at some point may collapse.
17 And, in my view, that won't be a very orderly thing when it
18 happens.

19 My recommendation as is obvious from my testimony is
20 that this problem be taken in hand now and the process begun to
21 get rid of those cross-subsidies. Ultimately, a system of
22 cross-subsidies is inconsistent with thorough billing
23 competition at every level. That's what competition does. It
24 rings out cross-subsidies.

25 Q Okay. Finally, I have a series of questions I want

1 to ask you about how the cash flow equation for a UNE-P-based
2 CLEC would change if the ILECs' petitions are granted. Okay?

3 A I'll try. I'm not a cash flow expert.

4 Q Well, we'll try these and see how far we get. For
5 these questions, I'm going to differentiate between a CLEC that
6 provides only local service and a CLEC that provides only
7 bundled and long distance service. Okay?

8 A Okay.

9 Q First, let's just talk about the CLEC that provides
10 only local service. If the ILECs' petitions are granted, would
11 you agree that the CLECs' revenue from basic service would
12 probably go up?

13 A They should. They'll be able to serve a broader --
14 they should be able to serve a broader market.

15 Q That'd also be because --

16 A That doesn't prove, by the way, that their revenues
17 will go up. They probably will, but I don't think -- at least
18 not their net revenues.

19 Q Another reason though would also likely be, wouldn't
20 it, that because the market rate for basic service would go up?

21 A Yes. That's the point of these petitions.

22 Q Nonbasic revenue, though, that probably wouldn't
23 change, would it?

24 A Hard to say. I guess you've moved into the case
25 where the CLEC isn't just providing basic but it's doing other

1 stuff as well, I take it. Do I understand that correctly?

2 Q Yes.

3 A Well, if you have more customers for basic, then
4 you'll probably have more customers for the various vertical
5 services as well, and so those revenues would probably go up.
6 They don't have to logically, but they probably will.

7 Q All right. Now, access charge revenue, that probably
8 would go up, wouldn't it?

9 A Yes, I guess so.

10 Q Because --

11 A Yes is the answer.

12 Q -- the volume would go up?

13 A Pardon?

14 Q Because the volume would go up?

15 A I would expect that, assuming -- that would, of
16 course, also depend on their pricing policy for access because
17 it's really up to them what they charge for access.

18 Q How about originating access rates? Would those go
19 down?

20 A I don't know. In the bundled case, it would be hard
21 to identify what any particular service is being charged. It's
22 largely a matter -- the utility would have -- the company, not
23 the utility, the company would have an opportunity to move that
24 around in whatever way it saw fit.

25 Q Well, if the ILECs' rates are going down, wouldn't

1 there be some competitive pressure on the CLECs for their rates
2 to go down as well?

3 A For the overall rate, there would be competitive
4 pressure, absolutely.

5 Q But the terminating access rates, they wouldn't
6 change, would they?

7 A Well, generally speaking, you have more freedom in
8 controlling your terminating access charges. People kind of
9 have to use you if they're delivering a long distance call to
10 one of your customers. In the long run whether that would
11 become competitive, more competitive, I would have to think
12 about that. But generally, there's more freedom in pricing in
13 terminating than there is in originating.

14 Q I'm sorry. I couldn't hear the end of that.

15 A Than there is in originating.

16 Q So overall, do you think access charge revenue would
17 likely increase or decrease?

18 A Overall, do I think CLECs' revenues would increase if
19 they were rebalancing? Is that your question?

20 Q Overall, would access charge revenue increase or
21 decrease for the CLECs?

22 A I don't know.

23 Q How about the cost portion of the cash flow equation?
24 Would that likely change?

25 A The what portion?

1 Q The cost portion of the CLECs' cash flow equation.
2 Would their costs really change if the ILECs' petitions are
3 granted?

4 A Well, UNE-P wouldn't change by your hypothesis. I
5 don't see a cost change there.

6 Q How would the risk factor change?

7 A I'm sorry. I'm having a little bit of trouble
8 hearing you.

9 Q How would the risk factor change for the UNE-P-based
10 CLEC?

11 CHAIRMAN JABER: Your question was, how would it
12 change?

13 MS. KEATING: Yes.

14 CHAIRMAN JABER: Beth, speak right into the
15 microphone.

16 MS. KEATING: I apologize, Madam Chairman.

17 THE WITNESS: I heard the question. I'm just not
18 sure I know definitively how the risk would change. I'm not
19 sure I know the answer to that.

20 BY MS. KEATING:

21 Q Let me ask it this way. Do you think there would be
22 any change in the risk factor for their equation?

23 A If what happened?

24 Q If the ILECs' petitions are granted.

25 A No. I think if this is a change, it's going to be to

1 reduce it probably by widening the scope of their market.

2 Q And overall, would the cash flow equation become more
3 favorable for entry by the UNE-P-based CLEC?

4 A I generally think that rebalancing will make life
5 better for people who want to enter, yes.

6 Q Now, how about for a CLEC that provides bundled local
7 and long distance? If the petitions are granted, do you agree
8 that the bundled rate in Sprint's territory will go up?

9 A I don't know what the bundled rate will do, but the
10 same phenomenon will occur that has occurred in the last case
11 we discussed. The economic prospects will improve. I see no
12 reason why the vertical services should be better off or worse
13 off as a prospect for any particular customer. But, yes, it
14 would make entry more attractive.

15 MS. KEATING: If I could have a moment, Madam
16 Chairman. We may not have very many more.

17 Thank you, Dr. Gordon. I believe that's all we have.

18 CHAIRMAN JABER: Commissioners, do you have
19 questions? Commissioner Davidson.

20 COMMISSIONER DAVIDSON: Thank you, Chairman.
21 Dr. Gordon, I have a series of questions.

22 THE WITNESS: I can't see who I'm speaking to.

23 CHAIRMAN JABER: It's Commissioner Davidson over
24 here.

25 COMMISSIONER DAVIDSON: Commissioner Davidson.

1 THE WITNESS: Oh, okay. I'm sorry. I was looking so
2 carefully along here.

3 CHAIRMAN JABER: This is the stage where the
4 Commissioners get to ask questions.

5 COMMISSIONER DAVIDSON: If you would turn, please, to
6 Page 5 of your amended direct testimony.

7 THE WITNESS: Okay.

8 COMMISSIONER DAVIDSON: In summary format, I direct
9 you to Line 4. If you could just provide a summary of the
10 basis for your conclusion for the statement that residential
11 basic local services are priced below the cost the companies
12 incur to provide the services.

13 THE WITNESS: Yes. Where I say the companies
14 submitted forward-looking direct cost evidence?

15 COMMISSIONER DAVIDSON: Yes, sir.

16 THE WITNESS: It's based on an examination of that
17 evidence, which, of course, I haven't memorized, in comparison
18 with that data to the actual prices that are being charged at
19 the present time in Florida. And the prices come in well below
20 those forward-looking cost figures that the company has and its
21 other witnesses have generated but which I have examined.

22 COMMISSIONER DAVIDSON: Did you face a similar type
23 of circumstances when you went through rate rebalancing in
24 Massachusetts?

25 THE WITNESS: We knew that the prices that were being

1 charged were substantially below forward-looking costs, so
2 although I will say they probably weren't calculated in quite
3 as sophisticated a way back in the early '90s than is being
4 done today, but we had confidence, a lot of confidence that our
5 prices were way out of line with cost.

6 COMMISSIONER DAVIDSON: If you could turn to
7 Page 11 of your amended direct testimony, Table 1.

8 THE WITNESS: Yes.

9 COMMISSIONER DAVIDSON: In comparing the national
10 average to the local charges in different rate groups across
11 companies, are you confident that the chart is comparing apples
12 to apples?

13 THE WITNESS: It may not be perfectly apples to
14 apples. I believe the attempt was to make it that way, but
15 whether it succeeded, I'm not going to attest at the moment.
16 It's a comparison of prices only, first of all. And so buried
17 under there may be variations in costs that also depart from
18 the national average for Florida. And I don't know what those
19 would be. The table doesn't show them. So this is a rough
20 kind of comparison that simply shows that Florida's averages
21 broken down across the three ILECs and across a high and a low
22 rate group and an average, unweighted average lie below the
23 national average which just simply suggests that Florida is
24 down below that. And I don't want to draw a stronger
25 conclusion than that. I would take that as a warning, as a

1 warning caution for further investigation, not for final
2 conclusion.

3 COMMISSIONER DAVIDSON: Are you confident within
4 those numbers that the fourteen-fifty-five does not include
5 surcharges and additional items that aren't included in the
6 rate groups across companies?

7 THE WITNESS: Well, I know that the attempt
8 here is -- certain things are excluded: Federal and state
9 subscriber line charges, Touch-Tone, 911 and the like. I don't
10 know specifically. I don't recall specifically if the one you
11 just mentioned --

12 COMMISSIONER DAVIDSON: Well, my concern would be,
13 for example, and you touched on some of that, that the
14 fourteen-fifty-five did not include universal service fund
15 charges, E911 charges, et cetera, such that --

16 THE WITNESS: And yours did -- And the fear that
17 yours did. And without checking, I can't answer the question.
18 I'd have to go back to the original data.

19 COMMISSIONER DAVIDSON: Taking you back to Page 5 of
20 your testimony for a moment, Line 4. In the long run, from an
21 economic theory perspective, what would be the predicted
22 economic consequences of firms providing residential basic
23 local services priced at or low the cost companies incur to
24 provide those services assuming for this question that
25 statement to be true?

1 THE WITNESS: What would be the long-run consequences
2 of this subcost pricing?

3 COMMISSIONER DAVIDSON: From an economic theory
4 standpoint, yes, sir.

5 THE WITNESS: I think it would have the effect of
6 discouraging entry into that area and more broadly discouraging
7 investment whether by new entrants or by incumbents in that
8 area. It wouldn't be an area where you would look to be
9 engaged in as much innovative activity unless you believe that
10 by starving someone you can force them to be innovative.
11 That's a questionable proposition, but it might work, I
12 suppose, somewhere.

13 CHAIRMAN JABER: It works good for me.

14 THE WITNESS: I'm sorry?

15 CHAIRMAN JABER: It works good for me. When we
16 starve parties, they are incented to act quickly. But I don't
17 know that that's economic --

18 THE WITNESS: To act quickly, perhaps. I'm not sure
19 whether you can succeed in being innovative. So in other
20 words, I think it -- it would have also the effect if you're
21 going to keep the economic unit whole, you would have to raise
22 the moneys from someplace else. So it means overpricing
23 something in order that you can underprice, and that would have
24 its own efficiency problems. And that, of course, historically
25 was the long distance local case where long distance was

1 extremely overpriced relative to the forward-looking cost of
2 providing it. And it had the effect of severely dampening use
3 of long distance. As long distance prices have come down
4 partly as a result of competition, partly as a result of
5 reductions in access charges, the calling volumes have gone up
6 enormously.

7 COMMISSIONER DAVIDSON: Throughout your testimony,
8 Dr. Gordon, and throughout lots of witnesses' testimony, and
9 you hear in the industry often the term economic subsidy to
10 refer to the scenario by which access charges subsidize what
11 some claim to be artificially low local exchange rates, in your
12 opinion as an expert, but if you can use lay terms, what is
13 that economic subsidy? What's the basis of the subsidy? How
14 did it come about?

15 THE WITNESS: How did it come about? There's a long
16 history, and I'm not sure how much of the history you want me
17 to recount. But historically, we had one company, AT&T, which
18 provided both local and long distance service, and in the
19 period before divestiture costs were divided up, to use lay
20 terms, relatively freely. You could decide how much you wanted
21 to charge for local, how much you wanted to charge for long
22 distance. You didn't have to pay too much attention to what
23 the costs of either were so long as you got your sums right in
24 the end, and that was a sustainable system because it was a
25 monopoly system. Nobody could come and compete against the

1 areas that were being overcharged and take the business away.
2 So they were protected against that. And that provided the
3 impetus initially for MCI, historically, to come in and try to
4 find a way to make an end run around that.

5 That led to a legal provision being made. AT&T
6 objected to that, of course. A legal provision was made for
7 making -- to have new entrants like MCI make payments in lieu
8 of the moneys that AT&T used to get just from its own services.
9 For the historically minded, that was called ENFIA, exchange
10 network facilities for interstate access, a long, hard slog at
11 the Federal Communications Commission. After divestiture, that
12 was converted into access charges again to sustain the revenue
13 flows that supported the lower prices for local service.

14 So it's had a history of support. And it's always
15 meant that long distance service is overpriced relative to what
16 its forward-looking costs are. It's still overpriced. It's
17 getting better. It's gotten a lot better, in fact. And
18 actions have been taken at the state level and important
19 actions by the FCC at the federal level. The creation of
20 subscriber line charges at the federal level is essentially --
21 is evidence of an attempt to, quote, rebalance, unquote,
22 although they don't use that language.

23 COMMISSIONER DAVIDSON: How does the economic
24 subsidy, assuming for the purpose of this question it exists,
25 how does the economic subsidy impact the dynamic of competition

1 in the local market?

2 THE WITNESS: I think it distorts it. It leads
3 people to seek out people who only -- people who are especially
4 profitable to serve, especially low cost to serve. It also
5 leads people or mainly people to try and compete against the
6 services that are supporting it, that are overpriced, whereas
7 they wouldn't perhaps if those services were not overpriced.
8 So it distorts the pattern of competition.

9 COMMISSIONER DAVIDSON: How does the subsidy, again
10 assuming it exists for purposes of this question, how does the
11 subsidy impact the process of competition in the long distance
12 market?

13 THE WITNESS: Well, it means long distance service is
14 overpriced if that is the service that is supplying the money
15 for the local subsidy, and it is, for the most part. It's not
16 the only one, but it is a major one. And so it has an effect
17 on consumers of long distance service simply through
18 overpricing. And as those prices come down through the process
19 such as the one we're talking about here, that provides
20 benefits. People who didn't make long distance calls begin to
21 make a few, and people who only made a few begin to make more.
22 And it's fairly well established that there is some elasticity
23 in that demand curve for making long distance calls. People
24 will be responsive to price. And that's the source of the
25 welfare gains that I was talking about in reference to the \$2.5

1 to \$7 billion. It's basically subsidized prices cut that off.

2 If the toll prices are overpriced, then there will be
3 less calling and that constitutes a loss to society. And
4 there's no reason to have it. It's a very expensive way to
5 achieve the goal is Crandall's and Waverman's point. If you
6 really want to have universal service and you think it's a
7 problem, you know, a policy problem that should be addressed,
8 better that the payments should be made directly in some
9 fashion than by distorting the entire price structure, which is
10 the mechanism we've used to date.

11 COMMISSIONER DAVIDSON: Dr. Gordon, in 2003 the
12 Commission completed its 2003 annual report on competition
13 which for the record has been identified by the Chairman as
14 Exhibit 15. While you may not have that in front of you --

15 THE WITNESS: I don't have it in front of me, but I
16 have seen it.

17 COMMISSIONER DAVIDSON: I'm going to read a couple of
18 comments and ask you if you agree or disagree with the
19 statements made therein. At Page 24 of the report, the
20 statement is made that traditional wire line providers such as
21 ILECs and CLECs continue to compete for market share but are
22 also facing an influx of nontraditional competitors entering
23 the local market using alternatives such as wireless,
24 satellite, and broadband technologies. Do you agree or
25 disagree with that statement?

1 THE WITNESS: The statistics in that report suggests
2 strongly that that's the case.

3 COMMISSIONER DAVIDSON: At Page 26, the report states
4 that today's communications market is increasingly
5 characterized by competing and rapidly evolving new
6 technologies, new business models, and greater consumer choice.
7 Other providers of communications services, including providers
8 of cable, DSL, satellite, VOIP, fixed wireless, and WiFi
9 technologies, are competing for market share. Do you agree or
10 disagree with that statement?

11 THE WITNESS: No, I agree that they are in the
12 market.

13 COMMISSIONER DAVIDSON: In this environment would a
14 service provider likely be able to charge monopoly prices or
15 recover monopoly profits on an enduring basis?

16 THE WITNESS: I think not on an enduring basis.

17 COMMISSIONER DAVIDSON: Compared to the local wire
18 line market, has the wireless industry been more or less
19 regulated, in your view?

20 THE WITNESS: Less.

21 COMMISSIONER DAVIDSON: How has this less regulation,
22 in your view, impacted consumer welfare?

23 THE WITNESS: I think very positively. It's hard to
24 imagine anything spreading and becoming widely used as rapidly
25 as wireless has become. It's a genuine success story, I think.

1 COMMISSIONER DAVIDSON: At Page 29 of the 2003
2 competition report, the report states that while only a small
3 percentage of wireless customers have actually cancelled their
4 subscription to wire line telephone service, there is much
5 evidence that consumers are substituting wireless for
6 traditional wire line communications, and the report cites to
7 the FCC's July 2003 report and analysis of competitive market
8 conditions. The report goes on to state that wireless service
9 is significantly changing the way consumers communicate and is
10 becoming a close substitute to traditional wire line service.
11 Do you agree or disagree with those statements?

12 THE WITNESS: Well, certainly there is some
13 substitution taking place. I think it remains to be seen
14 how -- the extent to which wireless will completely supplant
15 wire line connections. There still are quality issues, and
16 there may be some convenience and practical issues there, but
17 there's no question that some people have done it. It tends to
18 be younger people than me, anyway, doing that, but I think that
19 it'll certainly move in that direction.

20 How fundamental it will be and when people who are
21 making do with wireless now set up permanent households and
22 have families, they may also become wire line customers. I
23 don't think -- certainly there's some substitutability, but
24 there's probably room for both of them, it certainly seems to
25 be.

1 COMMISSIONER DAVIDSON: I want to take you back to
2 Page 5 of your amended direct testimony, your assertion that
3 residential basic local services are priced below cost the
4 companies incur to provide the services, at Lines 4 and 5. If
5 that statement is accurate, what impact would that likely have
6 on a competitor such as Knology that would like to enter the
7 local market?

8 THE WITNESS: Well, I don't have to speculate because
9 Knology has said how they feel about it. It makes their life
10 more difficult as a potential competitor, which is what
11 economic theory would predict and what experience in other
12 jurisdictions would suggest.

13 COMMISSIONER DAVIDSON: I have anecdotically
14 personally heard from a number of the competitors of the LECs,
15 indeed fierce rivals, enemies, I mean, companies that really
16 sort of go at it, and they have said to me that if somehow the
17 market could get closer to the cost of providing basic service,
18 they would enter the market. They wouldn't necessarily try and
19 always pursue, for example, UNE-P strategy. They may try and
20 invest in some facilities. They may start with UNE-P and move
21 to facilities. I've heard that claim repeatedly. And without
22 asking you to repeat all of your testimony, what's the gist of
23 that argument?

24 And I'll follow that up with, have you seen in other
25 states that have gone through rate rebalancing other

1 competitors coming into the market?

2 THE WITNESS: Let me answer the last question first.
3 The answer is, yes, we have. I think it has to qualify as
4 anecdotal evidence because when you look at any one state to
5 try and see what's happened, if you see entry and they have
6 rebalanced, certainly that's a nice association to see and it's
7 one you'd expect, but you don't know whether it was other
8 things also that were happening that did the lion's share of
9 the work. So, yes, anecdotally I think there is.

10 In connection with some work I did a few years ago, I
11 took a very close work at Maine's market. This is after I was
12 no longer a Commissioner. And we saw a lot of evidence of
13 local competition, and it was related to the rebalancing in
14 part. I prefer to look at statistical studies that look at a
15 broader range -- have a broader range of variation such as the
16 Ros-McDermott study. They are colleagues of mine, by the way.
17 But the article was published in a refereed journal and is
18 informative as far as it goes. And the reason I like the
19 empirical studies of that sort better is that they try to get a
20 handle on those other things that might be causing it, so you
21 can really feel you have isolated the effective rebalancing.
22 You can't be confident of that when you look at a single case
23 or a before or after -- even a before or after scenario in a
24 single state, while helpful, perhaps, is difficult to draw
25 strong inferences from.

1 So the answer is I think that there is evidence, that
2 the consequences of having rates be either subsidized or
3 supported or both is that these markets are less attractive,
4 and you won't get the entry. I hope that answers your
5 question.

6 COMMISSIONER DAVIDSON: It does. I have one final
7 question. If the Commission at some -- if the Commission
8 agreed with the economic theory of rate rebalancing but during
9 a transition to a purely competitive market wanted to make sure
10 that economically disadvantaged consumers in the state were
11 protected, how would you suggest and we go about that from sort
12 of a rational economic perspective, given that perhaps both are
13 goals, we want to send accurate price signals, remove any
14 economic subsidy, but we want to protect the economically
15 disadvantaged consumers who may not be the five of us up here
16 but there may be lots of individuals in the state that despite
17 the rationality of it all we want to make sure are protected?

18 THE WITNESS: That's always a tough question when
19 you're making a pure economic argument because we're now
20 talking about income redistribution, welfare policies to
21 support poor citizens among us. And the quick economic answer
22 is don't mess up the bigger price system for everybody in order
23 to do that for some. Crandall and Waverman look at that
24 question. They say, there are some benefits. I mean, the
25 distorted prices have had a very modest universal service

1 impact, but it's not completely zero. So there's been some,
2 quote, benefit. It's on the order, as I recall, of about a
3 half a billion dollars. That's pretty small if you assume
4 midpoint roughly of my estimates of five. That's ten times --
5 that's costs ten times the benefits. That seems like going at
6 it the hard way.

7 Now, I do understand why low income advocates pursue
8 this kind of an issue in this kind of a forum. It's a forum.
9 And their responsibility, I think, is to pursue every avenue
10 they can find, and the reason, of course, is that they can't
11 simply go to the Legislature and ask for the money.

12 An ideal solution from my perspective would something
13 analogous to the LIHEAT program, low income heating assistance
14 program, which is basically a money program. There is a
15 Congressional appropriation. States could do a similar one if
16 they wished, and the money is apportioned to people who qualify
17 on whatever basis. And the beauty of that is that the funds
18 are raised through taxes, which while distorting in some sense
19 are less distorting than what we have now in the telephone
20 industry.

21 So the answer is you try to make direct assistance
22 available whether it's through vouchers, through cash, through
23 a discount program funded publicly but administered by a
24 company. You can imagine various ways of doing it. But
25 twisting the price structure is what the problem is. As I said

1 a little while ago, that was something that was sustainable
2 when you had a monopoly, but we have opted for competition both
3 at the local level and at the toll level. And if you're going
4 to do that and mean it, you have to face the fact of getting
5 rid of these subsidies at some point, and I'd say the sooner,
6 the better.

7 CHAIRMAN JABER: Commissioners, do you have any other
8 questions? Commissioner Bradley.

9 COMMISSIONER BRADLEY: Yeah. And I know you've been
10 testifying for quite a while now, and I know you've probably
11 covered most of these, at least I've heard you mention
12 snippets, but I'm trying to get some specific examples and some
13 direct examples. Address the concept of rate rebalancing and
14 bundling.

15 THE WITNESS: Rate rebalancing and bundling?

16 COMMISSIONER BRADLEY: Yes. Do you see a connection
17 between the two?

18 THE WITNESS: To be honest with you, I don't see the
19 close nexus between bundling because I see access and basic
20 local telephone service as a separate service, something that
21 entrants and some customers are interested in by itself. And
22 because it's a fundamental underpinning of everything else,
23 it's important that one get that right whether a particular
24 provider offers bundled service or unbundled service. And
25 probably they'll offer both because there are customers who

1 don't want to buy the full panoply of things that might be
2 bundled. So I don't think they have to be tied, although they
3 clearly -- the issues are found together.

4 COMMISSIONER BRADLEY: One other question. What do
5 you view as being the overall benefit to the consumer as it
6 relates to -- well, what are the overall benefits that rate
7 rebalancing will bring about to the consumer, in your opinion?

8 THE WITNESS: There are two big ones. One, getting
9 the price right. It gets rid of that waste that I was talking
10 about. And economists love that kind of an argument. It's
11 kind of a static argument, but it gets rid of a lot of
12 underutilization of long distance and that's a good thing.
13 More important dynamically, I think, is that it enables
14 competition to move forward more effectively and just as
15 importantly on an efficient basis, not on an inefficient basis.

16 People will come in, compete. That will create a
17 more dynamic industry. That's the philosophy that underlies
18 policies over competition in both long distance and where it's
19 been adopted now everywhere because of the federal law local.
20 But here in Florida that decision was made back before 1996,
21 that that was a way to go with competition at the local level.

22 COMMISSIONER BRADLEY: Thank you.

23 THE WITNESS: And it's because the argument is really
24 by analogy with most of the rest of the economy. Most of our
25 economy functions that way, and it's a pretty dynamic economy.

1 Why can't local telecommunications be part of that too? And I
2 think that's the basis. I mean, long distance was successful.
3 It was thought at the time of the divestiture that local was a
4 natural monopoly, or at least many people thought it was still a
5 natural monopoly. Technology has quickly given lie to that,
6 and now we're in a different world. So that's where the
7 benefits will come from. And I can't tell you what the
8 benefits of tomorrow's innovation are going to be. It will be
9 a surprise to all of us. But I don't think it's very uncertain
10 that there will be benefits along those lines, and I think
11 dynamically is where the biggest benefits will come.

12 COMMISSIONER BRADLEY: One other question. In the
13 states that you are aware of who have gone through the process
14 of rate rebalancing, what has the basic outcome been?

15 THE WITNESS: I'm sorry. What was your last part --

16 COMMISSIONER BRADLEY: In the states that you are
17 aware of that has implemented rate rebalancing, what, in your
18 opinion, is the basic outcome?

19 THE WITNESS: What the benefits have been? Well, I
20 think in Massachusetts, which I have, you know, some direct
21 knowledge of, we saw quite quickly after -- there was a
22 process, by the way, that went over several years. As the
23 process began to take hold, we saw quite a bit more interest by
24 CLECs in residential customers than had been the case before.
25 Now, admittedly, it was still relatively urbanized residential

1 customers. It wasn't out in western Massachusetts, but it was
2 noticeable.

3 Now, you may argue that something else was going on
4 to cause that, but we thought we saw a before and after kind of
5 association. We've seen more competitors coming in in Maine.
6 Although not heavily targeting the residential market, they at
7 least target it somewhat; whereas, they didn't at all before.
8 It was strictly a business directed operation. So those are
9 two that I kind of know from direct personal experience. But
10 people who have looked at what's happened in Illinois and, oh,
11 Heaven knows, a whole bunch of them, Pennsylvania, a whole
12 bunch of them.

13 COMMISSIONER BRADLEY: Okay. Now, I'm going to ask
14 the same question I asked earlier but in general terms. Have
15 you been able to identify any specific benefits that came about
16 as a result of rate rebalancing in these particular states to
17 the consumer?

18 THE WITNESS: I think the more widespread
19 availability of a new service is really what I would count.

20 COMMISSIONER BRADLEY: Of new services?

21 THE WITNESS: Well, of new services and by new
22 providers. They market in different ways, they try to offer
23 different packages, and that increases the range of choice that
24 customers have.

25 COMMISSIONER BRADLEY: Okay. Thank you.

1 CHAIRMAN JABER: I want to pick up, Dr. Gordon, where
2 Commissioner Bradley just left off. On Page 41 of your
3 testimony, you cite the Massachusetts as an example, and you
4 outline that the rate rebalancing was a transition period
5 between 1990 and 1994. I'm wondering if you have a similar
6 statistic that indicates to me the number of access lines
7 served by competitors. In other words, I want to see -- I see
8 the increase in local rates from 1990 to 1994. To accept your
9 testimony, I'm reading into this, there must have been an
10 increase in the number of access lines served by competitors.

11 THE WITNESS: I believe there was, although I didn't
12 pull those statistics together for this.

13 CHAIRMAN JABER: Can you represent to me that there
14 was? And if so, you know --

15 THE WITNESS: Oh, the CLEC industry has been
16 relatively healthy in recent years in Massachusetts, but I
17 don't have the number for you.

18 CHAIRMAN JABER: What I'm looking for is the
19 apples-to-apples comparison where you started increasing local
20 rates in 1990 through 1994. Is there a comparable chart that
21 shows me the increase in CLEC -- in competitors and it's not
22 just limited to CLEC but in competitors serving access lines?

23 THE WITNESS: I don't know if those statistics are
24 available. We could certainly look for them.

25 CHAIRMAN JABER: Can you represent to me that there

1 was an increase or no change?

2 THE WITNESS: Yes, it is my belief that there was.

3 CHAIRMAN JABER: And is your belief based on
4 something that you saw?

5 THE WITNESS: Based on discussions with people who
6 are still working at the Massachusetts Commission and in
7 particular a person who just left the Chairmanship. You know,
8 we've had conversations about it because we're both interested
9 in the topic and he represents to me. That's pure hearsay, of
10 course, from point of view of this hearing. But I believe it
11 to be the case.

12 CHAIRMAN JABER: You're not aware of any chart that I
13 could quickly go to and look for that information in this
14 hearing?

15 THE WITNESS: No, I'm not -- that you can just go
16 look up, no.

17 CHAIRMAN JABER: On Page 38 -- and I'm sorry for the
18 delay. I can't even read my own handwriting. On Page 38,
19 Lines 4 and 5, you say, "Previous research has demonstrated
20 that customers generally do not disconnect their phone service
21 when prices for basic local service increase." I'm assuming
22 that at some price level that statement is just not true.

23 THE WITNESS: Clearly if you raise it enough, you
24 could drive people off. I mean, that's true. You can stop the
25 consumption of almost anything by raising its price high

1 enough --

2 CHAIRMAN JABER: And how do you know --

3 THE WITNESS: -- but within the range of changes that
4 have been recorded and studied, you don't see a big drop-off.
5 People are very hard to get off the network.

6 CHAIRMAN JABER: Now, obviously this is -- you're the
7 first witness and this is the first day of the hearing.
8 Recognizing that, is it your testimony that if the ILEC
9 petitions are granted, that those increases will not result in
10 that price level that would warrant customers disconnecting
11 their phone service?

12 THE WITNESS: It is my opinion, you know, just based
13 on my own expertise and background that that is the case, yes.
14 That belief is also buoyed by studying empirical work
15 summarized in the book that's referenced in Footnote 26 that
16 also supports that and as well as the studies -- a number of
17 studies that have been done for regulatory proceedings having
18 to do with mostly universal service.

19 CHAIRMAN JABER: And that's really why I asked those
20 questions. In terms of reconciling the need to make sure that
21 phone service remains affordable and available to all
22 Americans, what is it I could look to, and no disrespect to
23 your expertise and your own review, but what is it I can look
24 to to achieve a comfort level that -- to know that I haven't
25 perhaps reached that price level where customers start

1 disconnecting their phone service?

2 THE WITNESS: Sure. I think there are a variety of
3 ways you can do it. One is to take a systematic look at
4 academic type work that's been done, examining basically the
5 elasticity of demand for access, which in every study that I
6 have seen is exceedingly low. It's not literally zero but it's
7 low. The second thing I would look at is examples of
8 particular states that have rebalanced and see if they have
9 encountered a problem.

10 Maine rebalanced not so long ago. Our penetration
11 rate is 98 percent. I think we're the highest in the nation.
12 And it didn't quiver when we rebalanced rates. I believe the
13 same effect is true in Massachusetts where there was
14 rebalancing. And I don't know about Illinois and Pennsylvania
15 off the top of my head. I would be very surprised to see a
16 significant impact or a measurable impact there. But I think
17 you can begin to generate some comfort by surveying those. And
18 I've mentioned a couple in my testimony.

19 CHAIRMAN JABER: And are the studies themselves that
20 you would suggest I look at, are they in the record? Are they
21 prefiled in this proceeding?

22 THE WITNESS: We didn't prefile, at least I didn't,
23 all the demand studies that are presented, for example, in
24 Lester Taylor's book. It would have been an enormous
25 prefiling.

1 CHAIRMAN JABER: Okay.

2 THE WITNESS: But they're there to be referenced out
3 of the testimony.

4 CHAIRMAN JABER: All right. My next question is
5 really just for the purpose of making sure this number is in
6 the record in the event it's appropriate. Do you know what the
7 federal poverty income level is?

8 THE WITNESS: I don't offhand. That changes over
9 time, I believe.

10 CHAIRMAN JABER: On Page 17, Lines 16 through 20 --

11 THE WITNESS: Which lines, please?

12 CHAIRMAN JABER: Page 17.

13 THE WITNESS: Yeah, I have the page.

14 CHAIRMAN JABER: Okay. Lines 16 through 20, it's
15 your testimony that you really don't believe customers would
16 experience a significant change in the bill because it's your
17 understanding with the new law that the access charge
18 reductions and the local rate increases would be, and I use the
19 word "matched" loosely, matched with long distance reduction
20 flow-throughs.

21 THE WITNESS: I think there would be some. And I
22 also think that the level of increase that you're talking about
23 is a relatively small percentage of a typical total telephone
24 bill. But I don't want to be seen as suggesting that revenue
25 neutrality would somehow mean that your bill for local goes up

1 this much and your bill for toll goes down the same amount.
2 That's not what revenue neutrality means. Revenue neutrality
3 is for the company revenue neutrality. We don't have bill
4 neutrality as a requirement. If we did, rebalancing rates
5 would kind of be defined out of existence which is not the goal
6 of the proceeding, I believe.

7 CHAIRMAN JABER: Well, my question was, is your
8 statement true that the reduction and elimination of in-state
9 connection fees would result in customers not experiencing a
10 significant change in the bill, is that statement true only if
11 all of those things happen simultaneously?

12 THE WITNESS: Only if, for example, toll prices come
13 down and so forth?

14 CHAIRMAN JABER: Yes.

15 THE WITNESS: I think even if toll prices don't come
16 down right away, I don't know why they wouldn't under your
17 laws, but it still wouldn't be a catastrophic increase in the
18 bill, I don't think. We're talking about between a dollar and
19 two dollars on \$40, and that's not a very big percentage.

20 CHAIRMAN JABER: Okay. I think then the scope of
21 your statement has just changed, so let me explore that with
22 you a little bit. I understood your statement to be that
23 because of all of those things being true, that there would be
24 flow-throughs as a result of the long distance decreases,
25 competitive environment increasing, and, yes, perhaps local

1 rates increasing, that customers shouldn't see a significant
2 change in their bill. That's the way I interpreted your
3 statement initially.

4 THE WITNESS: Yeah. What I -- Line 17, if you look
5 at it, it says, "Customers might not even experience." Some
6 might not. And it would depend on their particular calling
7 patterns. I think the thrust of that paragraph is to suggest
8 broadly, not necessarily precisely service to service, that the
9 effects here are not large.

10 CHAIRMAN JABER: Well, what customers would not see
11 an increase in their bill if we grant the ILECs' petition.

12 THE WITNESS: Somebody who does use a lot of long
13 distance. Somebody who did use, you know, a considerable
14 amount of long distance might see that prices go down enough to
15 not see it.

16 CHAIRMAN JABER: So then you are looking at
17 simultaneous changes and taking that into consideration. They
18 are not trick questions, Dr. Gordon. What I'm trying to
19 understand is, if we grant the ILECs' petition, you make the
20 statement that customers shouldn't see a significant change in
21 the bill, and my question to you is, that is only true if all
22 of the changes happen simultaneously. Do you agree with that?

23 THE WITNESS: I agree -- the scenario that you've
24 laid out, I agree. I think the market doesn't -- no market
25 works that fast. It's going to take a while to flow through

1 charges, to get tariffs rewritten and the like. And so it
2 won't happen literally simultaneously. I think, however, that
3 the benefits of additional choice as new firms come in, that
4 will clearly take place only over time. The benefits of new
5 services being offered all will go into the calculation here.

6 CHAIRMAN JABER: Okay. And finally, on that point,
7 if it is your testimony that the changes don't have to happen
8 simultaneously, you do agree with me that every customer will
9 experience some increase in local rates if we grant the ILECs'
10 petition? And again, it's not a trick question. It is what it
11 is.

12 THE WITNESS: If you grant the petitions, the whole
13 idea is to increase the local rates. So, yes, people will see
14 higher local rates.

15 CHAIRMAN JABER: Commissioners, do you have any other
16 questions? Commissioner Bradley.

17 COMMISSIONER BRADLEY: Yeah, just two other
18 questions. Is it my understanding based upon your testimony
19 that you strongly believe, and correct me if I'm wrong, that
20 rate rebalancing will result in increased competition for
21 residential customers?

22 THE WITNESS: Yes, I do believe it will. And in
23 fact, that's a major reason why I've supported rebalancing for
24 a long, long time.

25 COMMISSIONER BRADLEY: Okay. One of the concerns

1 that we have heard, and we've had numerous customer meetings,
2 one of the concerns that has surfaced and it surfaced again
3 this morning is the issue of quality of service. In the states
4 where we've had increased competition among the residential
5 customers as a result of deregulation, what has the impact been
6 upon the quality of service issues as it relates to those
7 customers of those states in general? Has the quality of the
8 service increased or has it suffered?

9 THE WITNESS: You're asking a question, frankly, that
10 I didn't prepare myself to answer. My expectation -- this is a
11 surmise -- is there would be certainly more variability. To
12 the extent that competitive firms weren't subject to regulatory
13 oversight, there might be some reduction in quality. It
14 certainly would be a greater variance. But I don't have any
15 statistics on that. There may be other witnesses, you know, in
16 this process who may speak to that. I don't recall. But
17 quality certainly is something you have to look at as it
18 becomes competitive.

19 On the other hand, as consumers have more choices, if
20 somebody does offer poor quality, people are more likely to
21 move away from them, of course, unless that person charges a
22 low price for low quality.

23 COMMISSIONER BRADLEY: Okay. And I heard
24 Commissioner Jaber speak to this issue or ask a question about
25 it. Let's talk about -- and I'm assuming that the states that

1 you have experience with did have Lifeline programs, and I know
2 they had universal service available to hard-to-serve
3 customers. What was the impact upon those two groups of
4 customers?

5 THE WITNESS: In Massachusetts?

6 COMMISSIONER BRADLEY: Uh-huh.

7 THE WITNESS: The universal service program, of
8 course, was in place. And the Lifeline type -- one was called
9 Lifeline, and I forget what the name of the other one was, it
10 focusses on connection. Maybe that's Lifeline. Those remained
11 in place and functioning. There was no drop-off that was
12 noticed in Massachusetts in that group. I'm not saying
13 nobody -- I'm not, of course, saying that no one person ever
14 left the system, but it was not statistically noticeable.

15 COMMISSIONER BRADLEY: Was there any notice of the
16 impact upon the elderly?

17 THE WITNESS: I don't know that specifically. And I
18 don't know whether the Commission in Massachusetts has studied
19 that question.

20 COMMISSIONER BRADLEY: Thank you.

21 CHAIRMAN JABER: Commissioners, any other questions?
22 Redirect, Mr. Fons.

23 MR. FONS: No redirect, Chairman.

24 CHAIRMAN JABER: Dr. Gordon, thank you for your
25 testimony.

1 THE WITNESS: Thank you.

2 (Witness excused.)

3 CHAIRMAN JABER: And, Mr. Fons, we've got composite
4 Exhibit 45, without objection, is admitted into the record.

5 Exhibit 46, without objection, is admitted into the record.

6 (Exhibits 45 and 46 admitted into the record.)

7 CHAIRMAN JABER: BellSouth, call your next witness.

8 MS. WHITE: Yes. BellSouth calls John Ruscilli.

9 JOHN A. RUSCILLI

10 was called as a witness on behalf of BellSouth
11 Telecommunications, Inc. and, having been duly sworn, testified
12 as follows:

13 DIRECT EXAMINATION

14 BY MS. WHITE:

15 Q Mr. Ruscilli, would you please state your name and
16 address for the record.

17 A My name is John Ruscilli. I work at 675 West
18 Peachtree Street, Atlanta, Georgia.

19 Q By whom are you employed and in what capacity?

20 A I work for BellSouth Telecommunications and I'm
21 senior director in its regulatory department.

22 Q And have you caused to be filed in this case amended
23 direct, revised direct testimony consisting of 20 pages?

24 A That's correct.

25 Q Do you have any changes to that testimony?

1 A Just one.

2 Q Would you please tell us about that change?

3 A Yes, ma'am. On Page 4 on Line 13, please change the
4 would "should" to "shall." That's all.

5 Q With that change, Mr. Ruscilli, if I were to ask you
6 the questions that are contained in your direct testimony
7 today, would your answers be the same?

8 A Yes, they would.

9 MS. WHITE: I'd ask the direct testimony of
10 Mr. Ruscilli be moved into the record as though read from the
11 stand.

12 CHAIRMAN JABER: The prefiled revised direct
13 testimony of John A. Ruscilli shall be inserted into the record
14 as though read.

15 BY MS. WHITE:

16 Q And, Mr. Ruscilli, you had one exhibit to your direct
17 testimony; is that correct?

18 A That's correct.

19 Q And that was labeled JAR-1?

20 A Yes, ma'am.

21 Q Do you have any changes to that exhibit?

22 A No, ma'am.

23 MS. WHITE: I would ask that the exhibit attached to
24 Mr. Ruscilli's revised direct testimony be numbered as the next
25 exhibit.

1 CHAIRMAN JABER: JAR-1 will be identified as
2 Exhibit 47.

3 (Exhibit 47 marked for identification.)

4 BY MS. WHITE:

5 Q And, Mr. Ruscilli, did you also cause to be prefiled
6 in this docket rebuttal testimony consisting of 23 pages?

7 A Yes, ma'am, I did.

8 Q Do you have any substantive changes to that
9 testimony?

10 A Yes, ma'am, just a few. On Page 5, Line 24, strike
11 the word "non-packaged." It actually extends down to Line 25.

12 Q I'm sorry. Could you repeat that one more time?

13 A Yes, ma'am. On Page 5, Line 24, at the end of that
14 line, strike the word "non-packaged." It also continues into
15 Line 25.

16 Q Okay. Do you have any other changes?

17 A Yes, ma'am, two more. On Page 7, Line 16, strike the
18 word "MCI." And lastly, on Page 13, Line 15, please strike the
19 word "non-packaged" again.

20 Q And with those changes, Mr. Ruscilli, if I were to
21 ask you the questions contained in your rebuttal testimony
22 today with those changes, would your answers be the same?

23 A Yes, ma'am.

24 MS. WHITE: And, Chairman Jaber, just for purposes of
25 knowing where we stand with the confidential information,

1 there's one piece of Mr. Ruscilli's rebuttal testimony that is
2 confidential. It's on Page 10, Lines 14 and 16. There's one
3 number on each line and that is confidential. It's my
4 understanding all the parties have a copy of that confidential
5 portion.

6 CHAIRMAN JABER: Okay. Thank you.

7 BY MS. WHITE:

8 Q I would ask that Mr. Ruscilli's -- no, Mr. Ruscilli
9 did not have any exhibits to his rebuttal testimony, did you?

10 A No, Mr. Ruscilli did not.

11 MS. WHITE: Okay. Thank you. And one more thing
12 before I ask Mr. Ruscilli to give his summary. In his rebuttal
13 testimony on Page 17, there's a footnote to wherein he
14 references the report of the Florida Public Service Commission
15 given on February 15th, 1999, concerning the fair and
16 reasonable rates, and I would ask the Commission to take
17 official notice of that report. We were trying to get copies.
18 If we don't have them here now, we will make sure that we get
19 them in case anybody needs that.

20 CHAIRMAN JABER: Let me insert his prefiled rebuttal
21 testimony into the record as though read.

22 And, staff, remind me, on reports of the Commission,
23 is the law the same as orders of the Commission? I can -- no
24 need to officially recognize documents of this agency?

25 MS. BANKS: It's my understanding that's correct,

1 Chairman Jaber.

2 MS. WHITE: Okay.

3 CHAIRMAN JABER: Seeing no objection, Ms. White, and
4 it is my understanding it's a document produced by this agency,
5 and I don't think there's a need to officially recognize it.
6 Parties can refer to it.

7 MS. WHITE: That's fine, Chairman Jaber. I just
8 wanted to make sure.

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REVISED DIRECT TESTIMONY OF JOHN A. RUSCILLI
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 030869-TL
5 SEPTEMBER 30, 2003
6
7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH
8 TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR
9 BUSINESS ADDRESS.
10
11 A. My name is John A. Ruscilli. I am employed by BellSouth as Senior Director
12 – Policy Implementation and Regulatory Compliance for the nine-state
13 BellSouth region. My business address is 675 West Peachtree Street, Atlanta,
14 Georgia 30375.
15
16 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND
17 AND EXPERIENCE.
18
19 A. I attended the University of Alabama in Birmingham where I earned a
20 Bachelor of Science Degree in 1979 and a Master of Business Administration
21 in 1982. After graduation I began employment with South Central Bell as an
22 Account Executive in Marketing, transferring to AT&T in 1983. I joined
23 BellSouth in late 1984 as an analyst in Market Research, and in late 1985
24 moved into the Pricing and Economics organization with various
25 responsibilities for business case analysis, tariffing, demand analysis and price

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 REVISED TESTIMONY?

9

10 A. The purpose of my revised 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 revised testimony, BellSouth presents the 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. Mr. Steve Bigelow presents the new
24 revenue category and pricing units used by BellSouth in this filing. Ms.
25 Daonne Caldwell sponsors cost studies that demonstrate that basic local

1 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~~^{shall} 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 BELL SOUTH'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 in not
5 less than a twenty-four (24) month period. The proposal includes reducing the
6 intrastate switched network access rate in three increments effective first
7 quarter 2004 (1Q04), first quarter 2005 (1Q05), and first quarter 2006 (1Q06)¹.
8 The switched access revenue reductions will be offset by increases in certain
9 basic local exchange service rates.

10

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

14

15 A. There are two significant variables that underlie BellSouth's proposal: 1) the
16 methodology by which switched access reductions are calculated; and 2) the
17 level of demand that will be used to calculate switched access reductions and
18 basic local increases for each increment of the plan. As described by Mr.
19 Hendrix, the Commission is being presented with two methodologies from
20 which to choose for determining the level of switched access reductions: 1)
21 mirroring of all recurring intrastate switched access rate elements with
22 interstate rate elements; and 2) applying a composite rate calculated in the
23 same manner as the typical network composite reported to the Commission on

24

25 ¹ Pursuant to § 364.164(2), Florida Statutes, the effective date of proposed rate changes will be 45 days after filing applicable tariffs.

1 an annual basis in the Florida Access and Toll Report. The two methodologies
2 yield different results as explained by Mr. Hendrix. Should the Commission
3 choose the mirroring methodology, the total amount of switched access
4 reductions that will be offset by local service increases in three increments will
5 be \$136.4 million. Should the Commission choose to use the typical network
6 composite methodology, the total amount of switched access reductions that
7 will be offset by local service increases in three increments will be \$125.2
8 million. Under both methodologies, the first increment will equal 40% of the
9 total switched access reduction, the second increment will equal 35% of the
10 total reduction and the third increment will equal the remaining 25% of the
11 total reduction. Shortly, I will describe the specific services that will be
12 increased and their associated revenues under each of the two methodologies.

13
14 The second variable involves the level of demand to be used in calculating
15 revenues to be offset. Because BellSouth's proposal to offset switched access
16 revenue reductions with local service revenue increases is based on the best
17 available information of current demand, rate adjustments are subject to
18 change over the life of the plan. BellSouth's proposal today is based upon the
19 past twelve (12) months of demand as of June 2003. However, before the first
20 increment of the proposal is implemented, updated demand figures will be
21 used to determine the actual rate element changes that will become effective
22 1Q04. Similarly, prior to implementing rate changes to be effective 1Q05 and
23 1Q06, the most current 12 months of demand will be used to determine the
24 actual rate change amounts.

25

1 Q. PLEASE DESCRIBE BELLSOUTH'S PROPOSAL TO OFFSET THE
2 REVENUE REDUCTIONS ASSOCIATED WITH THE SWITCHED
3 ACCESS RATE REDUCTIONS UNDER THE MIRRORING
4 METHODOLOGY.

5
6 A. Should the Commission elect to implement switched access reductions using
7 the mirroring methodology, switched access revenues in the amount of \$136.4
8 million will be offset by the following local service increases. BellSouth
9 proposes to increase single-line basic residential local service rates (1FRs),
10 adjust single-line business basic local service rates (1FBs) and increase certain
11 non-recurring charges. Specifically, BellSouth proposes an average single-line
12 residential basic local service line rate increase of \$1.39 across all rate groups
13 effective 1Q04, a second increase of \$1.38 across all rate groups, effective
14 1Q05 and a third increase of \$1.09 across all rate groups, effective 1Q06. In
15 addition, BellSouth proposes to adjust single-line business rates as follows:
16 Rate Groups 1-3 will increase to \$25.00 over two equal increments; Rate
17 Groups 4-6 and Rate Code X1 will increase to \$28.00 over two equal
18 increments; and Rate Groups 7-11 and Rate Codes X2-X4 will be adjusted to
19 the current Rate Group 12 rate of \$30.20, also in two equal increments. For
20 Rate Codes X2 and X3 this adjustment will result in a lower rate. The first
21 increment will become effective 1Q04, and the second increment will become
22 effective 1Q05. BellSouth's proposal also includes increases in nonrecurring
23 service ordering charges over three increments. Increases in nonrecurring
24 charges are consistent with Section 364.164(2) requiring that "[a]n adjustment
25 in rates may not be offset entirely by the company's basic monthly recurring

1 rate.” The following chart reflects the rate and revenue adjustments associated
 2 with the mirroring methodology.

MIRRORING METHODOLOGY					
	Rate or Revenue Adjustments			Basic Service Revenue	Switched Access Revenue
Service	1Q04	1Q05	1Q06		
IFR	\$1.39	\$1.38	\$1.09	\$118.85M	
1FB	Rate & RG Changes	Rate & RG Changes		\$1.16M	
Non- Rec.	Multiple Elements	Multiple Elements	Multiple Elements	\$16.29M	
Sw. Ac.	(\$54.58M)	(\$47.75M)	(\$34.11M)		(\$136.4 M)
Total				\$136.3 M	(\$136.4 M)

11
 12 See Exhibit SB-2 attached to the revised testimony of BellSouth witness Mr.
 13 Steve Bigelow to view more specifically the priceout associated with the
 14 mirroring methodology and see the revised testimony of Mr. Jerry Hendrix for
 15 specifics regarding switched access rate reductions. See also Revised Exhibit
 16 JAR-1 attached to my testimony to view the impact of BellSouth’s proposal on
 17 basic service rates.

18
 19 Q. PLEASE DESCRIBE BELLSOUTH’S PROPOSAL TO OFFSET THE
 20 REVENUE REDUCTIONS ASSOCIATED WITH THE SWITCHED
 21 ACCESS RATE REDUCTIONS UNDER THE TYPICAL NETWORK
 22 COMPOSITE METHODOLOGY.

23
 24
 25

1 A. Should the Commission elect to implement switched access reductions using
 2 the typical network composite methodology, switched access revenues in the
 3 amount of \$125.2 million will be offset by the following local service
 4 increases. Similar to the mirroring methodology, BellSouth also proposes to
 5 increase single-line residential local service rates, adjust single-line business
 6 basic local service rates and increase certain non-recurring charges.
 7 Specifically, BellSouth proposes an average single-line residential basic local
 8 service line increase of \$1.25 across all rate groups effective 1Q04, a second
 9 increase of \$1.25 across all rate groups, effective 1Q05 and a third increase of
 10 \$1.00 across all rate groups effective 1Q06. Further, BellSouth proposes to
 11 adjust single-line business rates in the same manner described under the
 12 mirroring methodology. BellSouth's proposal also includes increases in
 13 nonrecurring service ordering charges in three increments. The following chart
 14 reflects the rate and revenue adjustments associated with the typical network
 15 composite methodology.

TYPICAL NETWORK COMPOSITE METHODOLOGY					
Rate or Revenue Adjustments				Basic Service Revenue	Switched Access Revenue
Service	1Q04	1Q05	1Q06		
IFR	\$1.25	\$1.25	\$1.00	\$107.77M	
IFB	Rate & RG Changes	Rate & RG Changes		\$1.16M	
Non-Rec.	Multiple Elements	Multiple Elements	Multiple Elements	\$16.29M	
Sw. Ac.	(\$50.09M)	(\$43.83M)	(\$31.31M)		(\$125.2 M)
Total				\$125.2 M	(\$125.2 M)

1 See Exhibit SB-1 attached to the revised testimony of BellSouth witness Mr.
2 Steve Bigelow to view more specifically the priceout associated with the
3 typical network composite methodology and see the revised testimony of Mr.
4 Jerry Hendrix for the specifics regarding switched access rate reductions. See
5 also Revised Exhibit JAR-1 attached to my testimony to view the impact of
6 BellSouth's proposal on basic service rates.

7

8 Q. ALTHOUGH BELLSOUTH PROPOSES INCREASING CERTAIN LOCAL
9 EXCHANGE SERVICE RATES, SHOULD CUSTOMERS EXPECT
10 BENEFITS IN THE WAY OF REDUCED LONG DISTANCE RATES?

11

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

22

23 Q. WILL BELLSOUTH'S PROPOSED INCREASES IN RESIDENTIAL
24 SERVICE RATES IMPACT CURRENT LIFELINE RATES?

25

1 A. No. BellSouth's proposed increases will not impact Lifeline service rates. The
2 recent Florida legislation establishes additional requirements to protect and
3 promote Lifeline participation. Subsection (3) of Section 364.10, Florida
4 Statutes, requires that LECs authorized by the Commission to rebalance rates
5 pursuant to Section 364.164 must provide Lifeline service to any otherwise
6 eligible customer or potential customer who meets an income eligibility test at
7 125 percent or less of the federal poverty income guidelines for Lifeline
8 customers. In addition, LECs must provide each state and federal agency
9 providing Lifeline benefits with brochures, pamphlets, or other material that
10 inform consumers of their eligibility for Lifeline. Further, as clearly stated in
11 Section 364.10(3)(c) "[a]ny local exchange telecommunications company
12 customer receiving Lifeline benefits shall not be subject to any residential
13 basic local telecommunications service rate increases authorized by s. 364.164
14 until the local exchange telecommunications company reaches parity as
15 defined in s. 364.164(5) or until the customer no longer qualifies for the
16 Lifeline benefits established by this section or s. 364.105, or unless otherwise
17 determined by the commission upon petition by a local exchange
18 telecommunications company." As an added element of security for current
19 Lifeline rates, BellSouth voluntarily agrees that customers receiving Lifeline
20 service will not be subject to any residential basic local service rate increases
21 for a period of four years effective September 1, 2003, which is the effective
22 date established for Section 364.10.

23

24

25

1 Q. REGARDING THE SPECIFICS OF BELLSOUTH'S PROPOSAL, WHY
2 DOES BELLSOUTH PROPOSE TO RAISE ONLY RESIDENTIAL AND
3 SINGLE-LINE BUSINESS RECURRING RATES?
4

5 A. First, Section 364.164 was explicitly designed to remove support for basic
6 telecommunications services (residential and single-line business services) by
7 offsetting basic services increases with reductions in intrastate switched access.
8 Specifically, upon the Commission granting a local exchange
9 telecommunications company's petition, Section 364.164(2) of Florida Statutes
10 authorizes the local exchange telecommunications company "to immediately
11 implement a revenue category mechanism consisting of basic local
12 telecommunications service revenues and intrastate switched network access
13 revenues to achieve revenue neutrality." Therefore, this section envisions
14 increases in basic local exchange rates as an offset to reductions in intrastate
15 switched access rates. Second, many of BellSouth's basic local service rates in
16 the state of Florida are being subsidized by other services, including intrastate
17 switched access rates. In a competitive local service environment, it is
18 especially imperative that services cover their own costs and subsidies be
19 removed to the extent possible. It is only through this process that Florida
20 consumers will see the competitive choices envisioned by the
21 Telecommunications Act of 1996 (the "1996 Act").
22

23 Q. WHY IS BELLSOUTH RAISING RATES IN ALL OF ITS RESIDENTIAL
24 LOCAL EXCHANGE RATE GROUPS?
25

1 A. BellSouth is proposing to raise, by the same amount, the rates in all residential
2 rate groups because the rates in all residential rate groups currently fail to
3 cover their underlying cost. The testimony of BellSouth witness Ms. Caldwell
4 explains in detail the current cost characteristics of basic exchange service.
5 Naturally, because it costs more to provide service in rural areas versus urban
6 areas, it will take longer for rates in the rural rate groups to reach the level of
7 their underlying costs than rates in urban rate groups. However, BellSouth is
8 attempting to minimize the rate impact to these more rural customers by
9 proposing to increase their rates at the same level as urban rate groups.
10 Although this process will not reverse the current situation where the least-cost
11 urban customers pay the highest rates and the highest-cost rural customers pay
12 the lowest rates, it moves rates in a direction that will create greater
13 competitive choice for all residential customers.

14

15 Q. COULDN'T BELLSOUTH SIMPLY RAISE BUSINESS RATES AND
16 LEAVE RESIDENTIAL RATES AT CURRENT LEVELS?

17

18 A. No. Business rates, in the majority of cases, already cover their underlying
19 costs as demonstrated in the testimony and exhibits of Ms. Caldwell. Because
20 business rates already cover their costs, there is a significant level of business
21 competition in Florida. In his testimony, Dr. Taylor cites statistics from the
22 FCC's most recent Local Competition Report to demonstrate the level of local
23 exchange competition in the state of Florida for all local exchange companies.
24 Dr. Taylor also describes unevenness in the progress of business versus
25 residential competition. In addition, BellSouth specific data shows that

1 business competition is moving briskly compared to residential competition.
2 For instance, employing the same methodology that was used to demonstrate
3 the level of local competition in BellSouth's FCC long distance application,
4 and updated as of June 2003, data shows that CLECs are serving 13.3% of
5 total residence lines and 34.3% of total business lines in BellSouth's territory
6 in Florida. Importantly, increased competition for residential services will
7 only occur by adjusting residential rates to more closely align with their
8 underlying costs. By making residential rates less dependent on artificial
9 subsidies and more closely aligned with their underlying costs, competitors
10 will find the residential market a more attractive market in which to compete,
11 just as they have found the business market attractive.

12

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

16

17 A. Raising urban rates without also raising rural rates would only exacerbate the
18 current situation where the lowest cost customers are charged the highest rates,
19 and the highest cost customers are charged the lowest rates. Maintaining such
20 an imbalance only ensures that rural customers will not receive the full benefits
21 of a competitive marketplace. In order to achieve the goal of Section 364.164
22 and remove current support for basic local telecommunications services, it is
23 necessary to adjust rates in such a way as to remove the most subsidy possible,
24 but in a reasonable manner. Although the greatest subsidy exists in rural rates,

25

1 in order to minimize the impact on rural customers, BellSouth proposes to raise
2 all residential rates by the same amount.

3

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

6

7 A. Yes, definitely. BellSouth's proposal is designed to be consistent with the four
8 considerations outlined in Section 364.164. BellSouth's proposal makes a
9 major stride toward "remov[ing] current support for basic local
10 telecommunications services that prevents the creation of a more attractive
11 competitive local exchange market for the benefit of residential consumers."
12 As evidenced in the testimony and exhibits sponsored by Ms. Caldwell,
13 BellSouth's proposed rate adjustments will more closely align these rates with
14 their underlying costs. As Dr. Taylor and Dr. Gordon describe, more closely
15 aligning residential rates with their relevant costs should "induce enhanced
16 market entry." Further, BellSouth's proposal to reduce its intrastate switched
17 access rates to parity with interstate switched access rates in three increments
18 in not less than twenty-four (24) months is consistent with Section 364.164's
19 requirement that parity be reached "over a period of not less than 2 years or
20 more than 4 years." Finally, BellSouth's proposal is designed to be "revenue
21 neutral within the defined revenue category." Decreases in intrastate switched
22 access rates will be offset by rate adjustments in basic local exchange rates.
23 Clearly, BellSouth's proposal is consistent with the considerations outlined in
24 Section 364.164.

25

1 Q. WHY IS REMOVAL OF SUPPORT FOR BASIC LOCAL
2 TELECOMMUNICATIONS SERVICES GOOD POLICY?

3

4 A. Removal of the current support is good policy for several reasons. First,
5 Section 364.164 reflects the approach taken by Congress in the 1996 Act and
6 the subsequent orders of the FCC in making implicit subsidies explicit.
7 Second, the current system of subsidies cannot be sustained in a competitive
8 environment. New entrants target the subsidy-paying market (business, urban)
9 in order to achieve the higher margins inherent in subsidy-paying services, and
10 are declining to enter the subsidy-receiving markets (residential, rural). Since
11 the CLECs have been successful in attacking these subsidy-paying markets, the
12 support used to benefit residential and higher-cost rural areas is being siphoned
13 out of the system. This creates pressure toward higher rates for the intended
14 beneficiaries of the subsidy. Third, maintaining a system of implicit subsidies
15 deprives residential and rural customers of potential competitive choices. For
16 these reasons, the current system of subsidies is inconsistent with the pro-
17 competitive policies inherent in the current telecommunications law, and,
18 absent political considerations, impels the adoption of rate rebalancing and rate
19 rationalization policies.

20

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

23

24 A. Yes. As a key goal of the 1996 Act, Congress was clear in its intention and
25 desire that implicit subsidies be eliminated in the competitive local exchange

1 market. In addressing universal service under Section 254 of the 1996 Act,
2 Congress requires the FCC and the States to ensure that universal service is
3 available at rates that are just, reasonable and affordable and that any Federal
4 universal service support should be explicit and sufficient to meet universal
5 service goals. Further, a state may adopt regulations to preserve and enhance
6 universal service only to the extent that such regulations adopt specific,
7 predictable and sufficient mechanisms.

8
9 The FCC also addresses the issue of explicit versus implicit universal service
10 support in its rules and regulations implementing the 1996 Act. More recently,
11 as a key factor in its CALLS Order, the FCC addressed head-on the problem of
12 maintaining subsidies in local rates in a competitive environment.

13
14 This “patchwork quilt” of implicit support helped keep rates largely
15 affordable in a monopoly environment where incumbent LECs could be
16 guaranteed an opportunity to earn returns from certain services and
17 customers that are sufficient to support the high cost of providing other
18 services to other customers. The new competitive environment
19 envisioned by the 1996 Act, however, threatens to undermine this
20 implicit support structure over the long run. The 1996 Act removed
21 barriers to entry in the local market, generating competitive pressures
22 that may make it difficult for incumbent LECs to maintain access
23 charges above economic cost. Thus, where existing rules require an
24 incumbent LEC to set access charges above cost for a high-volume
25 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

1 more than trivial inroads on their high-volume customer base.²
 [footnotes deleted]

2

3 In adopting the CALLS Proposal the FCC noted that “[t]he CALLS Proposal is
 4 a reasonable approach for moving toward the Commission’s goals of using
 5 competition to bring about cost-based rates, and removing implicit subsidies
 6 without jeopardizing universal service.”³ The Florida Legislature, the United
 7 States Congress and the FCC have all recognized the necessity to remove
 8 implicit subsidies. BellSouth’s proposal for implementing Section 364.164,
 9 Florida Statutes is consistent with this goal.

10

11 Q. HOW WILL REMOVAL OF LOCAL SERVICE SUPPORT ENHANCE
 12 MARKET ENTRY?

13

14 A. It is clearly true that there will never be competitive alternatives for customers
 15 who are receiving service at a price below the relevant cost of providing that
 16 service. However, as the price of service to these customers is raised to, and
 17 eventually above its relevant costs, such customers become more attractive to
 18 competitors. A cynic might observe that a customer receiving service at a
 19 below cost rate might be more than willing to keep that rate and have no
 20 competitors vying for the customer’s service, rather than having an increased
 21 rate and competitive alternative. Unfortunately, that is no longer an option for
 22 customers. We now have federal and state policies that advocate competition

23

24 ² *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”).

25

³ *CALLS Order*, 15 FCC Rcd at 12977, ¶ 36.

1 in every aspect of our business, and conditions have been created by the
2 federal and state governments that make it impossible, in the long run, to
3 continue the social policy of subsidizing residential customers. Given that, the
4 steps that BellSouth proposes, which will ultimately serve to make residential
5 customers more attractive to competitors, will obviously and inevitably induce
6 other competitors to more broadly enter the local exchange markets in Florida.
7 Dr. Taylor and Dr. Gordon discuss this in more detail in their testimony, but
8 the simple truth of the matter is that the situation is as simple as I have stated.
9 Raising local exchange prices to end users makes those end users more
10 attractive to competitors. As long as competition in telecommunications is the
11 national and state policy, such changes are inevitable, and should be
12 approached rationally and with the objective of doing this as efficiently and
13 quickly as possible.

14

15 Q. PLEASE SUMMARIZE YOUR TESTIMONY?

16

17 A. The Florida Legislature has recently enacted new legislation. Section 364.164,
18 when implemented, will help accomplish the national and state goal of
19 removing implicit subsidies that support basic local exchange service, and
20 thereby create a more competitive local exchange market. BellSouth proposes
21 two methodologies for calculating the intrastate switched access revenues to be
22 reduced; the mirroring methodology and the typical network composite
23 methodology. BellSouth proposes a set of basic local exchange rate
24 adjustments that will occur under each of the two methodologies. Importantly,
25 both methodologies accomplish the goal of moving toward removal of implicit

1 subsidies. BellSouth's proposal is entirely consistent with Section 364.164,
2 Florida Statutes. Upon the Commission's selection of one of the two methods
3 for calculating switched access revenue reductions, BellSouth will implement
4 the first increment of revenue neutral reductions and increases effective 1Q04,
5 the second increment effective 1Q05 and the third increment effective 1Q06.

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8

9 A. Yes.

10

11 (#506984)

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY OF JOHN A. RUSCILLI
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 030867-TL, 030868-TL, 030869-TL, & 030961-TI
5 NOVEMBER 19, 2003
6

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

10

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

15

16 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

17

18 A. Yes. I filed revised direct testimony in this docket on September 30, 2003.

19

20 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

21

22 A. The purpose of my rebuttal testimony is to respond to portions of the testimony
23 filed by witnesses on October 31, 2003. First, I respond briefly to the
24 testimony of Dr. John W. Mayo on behalf of AT&T of the Southern States,
25 LLC ("AT&T") and MCI WorldCom Communications, Inc. ("MCI"), Mr.

1 Wayne Fonteix on behalf of AT&T and Mr. Felix L. Boccucci, Jr. on behalf of
2 Knology of Florida, Inc. I respond in more detail to the testimony of witnesses
3 Dr. David J. Gabel and Mr. Bion C. Ostrander on behalf of the Office of Public
4 Counsel (OPC) and Dr. Mark N. Cooper on behalf of AARP. In addition, I
5 briefly discuss the testimony of Staff witness Mr. Gregory L. Shafer.

6

7 Q. DO YOU HAVE ANY COMMENTS REGARDING THE TESTIMONY OF
8 THE WITNESSES SPONSORED BY AT&T, MCI AND KNOLOGY?

9

10 A. Yes. Generally speaking, BellSouth supports the testimony of these witnesses
11 and encourages the Florida Public Service Commission (“Commission”) to
12 give particular weight to those comments that describe the increased incentive
13 Section 364.164 of Florida’s Tele-Competition Innovation and Infrastructure
14 Enhancement Act (“Act”), which became law on May 23, 2003, provides to
15 companies to compete for residential customers in Florida. AT&T’s witness
16 Mr. Fonteix, at page 7, states that since passage of the Act, AT&T has entered
17 the local residential service market in Florida and attributes this entry to the
18 legislative provisions that allow for the support in basic service rates to be
19 reduced. This is significant considering AT&T could have entered the market
20 as early as 1996, but has chosen at this time to do so.

21

22 Similarly, Mr. Boccucci, at page 3 of his testimony, states that the new law
23 “will enhance the competitive choices available to Florida citizens.” As an
24 example, Mr. Boccucci states that shortly after passage of the law, Knology
25 entered into an agreement with Verizon Media Ventures, Inc. that will provide

1 opportunity to market voice, video and data services to approximately 275,000
2 homes and businesses. These local service competitors provide positive
3 evidence that elimination of the support to basic service rates as well as
4 reduction of switched access charges will induce additional entry and
5 competition into Florida's local service markets.

6

7 Q. DO YOU AGREE WITH ALL ASPECTS OF THESE WITNESSES
8 TESTIMONY?

9

10 A. Not entirely. Although BellSouth generally agrees with AT&T's, MCI's and
11 Knology's testimony, BellSouth takes exception to certain statements made by
12 Dr. Mayo and Mr. Fonteix. First, BellSouth takes exception to the
13 unsupported and speculative allegations of non-price discriminatory conduct
14 mentioned in Dr. Mayo's testimony at pages 18-19. His allegations lack any
15 evidence whatsoever and are not the subject of this case. Second, I refer to
16 pages 2-3 of Mr. Fonteix's testimony. Although Mr. Fonteix clearly
17 acknowledges that local exchange service rates are subsidized, he suggests that
18 the "subsidy allows incumbent providers to subject their competitors to an anti-
19 competitive price squeeze." In reality, the subsidy in basic service rates is a
20 result of social pricing, which BellSouth has advocated for many years must
21 end. Mr. Fonteix seems to suggest that several decades ago ILECs established
22 this support just so they could leverage an anti-competitive price squeeze to
23 thwart competition in 2003.

24

25

1 Q. DO YOU HAVE ANY COMMENTS REGARDING THE TESTIMONY OF
2 DR. GABEL AND MR. OSTRANDER SPONSORED BY OPC?

3

4 A. Yes, I have several comments. Although Dr. Banerjee, Dr. Gordon and Mr.
5 Shell rebut the majority of Dr. Gabel's testimony, I wish to respond to certain
6 of his statements. After addressing Dr. Gabel's testimony, I will respond to
7 numerous points contained in Mr. Ostrander's testimony.

8

9 Q. AT PAGE 7, DR. GABEL ATTEMPTS TO ARGUE THAT THE
10 LEGISLATURE SOMEHOW EXPECTS THAT TOTAL REVENUES
11 SHOULD BE USED IN DETERMINING WHETHER OR NOT A SUBSIDY
12 EXISTS IN BASIC LOCAL SERVICE. IS HIS ARGUMENT CONSISTENT
13 WITH THE WORDING OF SECTION 364.164?

14

15 A. No. Dr. Gabel's statement that any rate rebalancing "implicitly acknowledges
16 that ILECs look at the entire revenue package" is totally unsupported. Section
17 364.164 describes rebalancing of intrastate switched access revenues with
18 basic local telecommunications service revenues on a revenue neutral basis.
19 Basic local telecommunications service as defined by Section 364.02(1) means
20 voice-grade, flat-rate residential, and flat-rate single-line business local
21 exchange services. The Statute is clear; revenue neutral rate rebalancing is to
22 occur between switched access revenues and basic local service revenues.
23 Nowhere in Section 364.164 or elsewhere in the Statute is there reference to
24 other services being considered.

25

1 Q. IN DISCUSSING COMPLEMENTARY SERVICES AT PAGES 64-65, DR.
2 GABEL ATTEMPTS TO COMPARE THE PROVISION OF BASIC LOCAL
3 SERVICE TO RAZORS AND COMPUTER PRINTERS. IS THIS A
4 REASONABLE COMPARISON?

5
6 A. Absolutely not. Dr. Gabel describes how Gillette sells its razors at a low price
7 but makes substantial profit on replacement blades. He further explains that
8 printer manufacturers market their printers at low up front prices in order to
9 lock in customers who must purchase expensive ink cartridges that only fit the
10 specific printer purchased. Dr. Gabel's comparison simply doesn't wash.
11 First, and most importantly, basic local service is a standalone product.
12 Although there are complementary services a customer could purchase, there is
13 no requirement that they do so. To the extent that any customer in BellSouth's
14 territory wants only basic local service, BellSouth provides that service at a
15 below cost rate that has been controlled by government regulation. Unlike dull
16 razor blades and empty ink cartridges, our customers never run out of dial tone.
17
18 Second, unlike Gillette and the printer manufacturer, BellSouth cannot enter
19 and exit markets at will based on profitability or any other criteria. BellSouth
20 must respond to any reasonable request for service, even if the customer only
21 requests below cost basic local service. Gillette and the printer manufacturer
22 are guaranteed complementary service revenues, but BellSouth has no such
23 guarantee. And this is no small issue in Florida. In fact, if you look just at the
24 line and complementary vertical features, a full 39% of BellSouth's ~~non-~~
25 ~~packaged~~ residence lines in Florida are just basic local service with no features.

1 Particularly given the low rates for basic residence service in Florida, the
2 opportunity to sell complementary features or bundles to this group of
3 customers is small.

4

5 Q. MUCH OF MR. OSTRANDER'S TESTIMONY RELIES ON THE PREMISE
6 THAT SECTION 364.164 REQUIRES THAT BELLSOUTH'S PROPOSAL
7 RESULT IN TANGIBLE NET BENEFITS TO RESIDENTIAL
8 CUSTOMERS. IS HIS PREMISE CORRECT?

9

10 A. No. Mr. Ostrander relies on an erroneous premise, and as such, much of Mr.
11 Ostrander's testimony is irrelevant. There is nothing in Section 364.164 that
12 requires such an outcome. For all of Mr. Ostrander's protests about legislative
13 intent, the Legislature could easily have included language requiring net
14 tangible benefits to residential customers if they believed it was appropriate.
15 However, the Statute contains no such language. The requirement of Section
16 364.164 is that support for basic service rates be removed. The Statute
17 presumes, and rightfully so, that removal of support will create a more
18 competitive local market which will be to the benefit of residential customers.
19 Section 364.164 establishes a process by which ILECs are able to reduce
20 switched access revenues and recover any revenue losses by increasing basic
21 local rates. In other words, the reductions and increases are to be revenue
22 neutral. The type of net tangible benefits that Mr. Ostrander describes can
23 hardly be the outcome when the goal is revenue neutrality. The benefits
24 accruing to residential customers as envisioned by the Statute are clearly in the
25 new choices of providers and services that additional competition will bring as

1 well as in the pass-through of access reductions in the form of reduced toll
2 rates.

3

4 Q. AT PAGES 5-6 MR. OSTRANDER LISTS FIVE AREAS WHERE HE SAYS
5 THAT THE ILEC PROPOSALS CANNOT PROVE A NET BENEFIT TO
6 RESIDENTIAL CUSTOMERS. FOR THE FIRST AREA, AT PAGES 9-10,
7 MR. OSTRANDER COMPLAINS THAT BELLSOUTH'S PROPOSAL
8 WILL NOT ENHANCE COMPETITION. PLEASE RESPOND.

9

10 A. As explained above, net benefits are not a requirement of the statute.
11 However, a natural outcome of removing support from basic local service will
12 be to move prices closer to market-based levels. As discussed in Dr.
13 Banerjee's testimony, by moving prices closer to market-based levels,
14 competitors will be induced to market to those customers formerly protected
15 by below cost pricing. Further, Mr. Ostrander's testimony is belied by the
16 testimony of AT&T, ~~MCI~~ and Knology. These competitors state without
17 reservation that the prospect of removing the support in local service rates has
18 clearly caused them to be more aggressive in the residential market in Florida.

19

20 Q. IN HIS SECOND AREA, MR. OSTRANDER ARGUES THAT LOCAL
21 RATE INCREASES EXCEED TOLL RATE REDUCTIONS FOR THE
22 AVERAGE CUSTOMER. PLEASE COMMENT.

23

24 A. Shortly I will address certain of Mr. Ostrander's assumptions regarding his
25 analysis. However, here I wish to point out that Section 364.164 does not

1 require revenue neutrality between basic service revenues and toll revenues.
2 Instead, it requires revenue neutrality between basic service revenues and
3 switched access revenues. BellSouth can only ensure that switched access
4 revenue reductions are revenue neutral with increased local service revenues.
5 BellSouth does not control the interexchange carriers' ("IXC") toll prices in
6 the state of Florida. As provided for in the Statute, the Commission will
7 ensure that switched access reductions will be passed through to toll customers
8 in the form of reduced toll prices.

9

10 Q. IN THE THIRD AREA DESCRIBED IN PAGES 40-41, MR. OSTRANDER
11 DEMANDS THAT ILECS PROVE THAT THEIR PROPOSALS WILL
12 RESULT IN NEW OR UNIQUE SERVICE INTRODUCTIONS. IS THERE
13 SUCH A REQUIREMENT?

14

15 A. No. Although the natural result of additional competition will be the
16 introduction of new services and service bundles to the benefit of residential
17 customers, there is no specific requirement contained in the Statute. Mr.
18 Ostrander also suggests that these new services should be "unique to Florida
19 and not available in other states." There is no such requirement contained in
20 the Statute.

21

22 Q. IN HIS FOURTH AREA, COVERED IN PAGES 38-40, MR. OSTRANDER
23 ARGUES THAT BELL SOUTH'S PROPOSAL WILL PRODUCE NO
24 UNIQUELY ASSOCIATED BENEFITS OF CAPITAL INVESTMENT.
25 PLEASE COMMENT.

1

2 A. The Statute contains no reference to increased capital investment. However,
3 the testimony of Mr. Boccucci does support the contention that the ILEC
4 proposals will enhance competitive choices for Florida customers. Naturally,
5 increased competition will mean new capital investment will be attracted to
6 Florida. Mr. Boccucci states at page 2 of his testimony that Knology believes
7 that "364.164 creates the framework to promote facility-based local exchange
8 competition." Facilities-based competition requires capital investment.

9

10 Q. FIFTH, AND FINALLY, MR. OSTRANDER, INVENTS A CRITERIA OF
11 THE LEGISLATION THAT PROPOSALS MUST INSURE SERVICE
12 QUALITY IMPROVEMENT. PLEASE COMMENT?

13

14 A. Not only is there no such requirement in the Statute, the entire idea is
15 completely inconsistent with a competitive local service market. In a
16 competitive market, service quality does not need to be regulated or mandated.
17 The market itself will dictate good service quality. If a customer is not
18 satisfied with the service provided by their current service provider, they will
19 choose another service provider. Any carrier that provides poor service cannot
20 expect to retain and certainly cannot expect to increase its market share. Good
21 service quality is another positive outcome of a highly competitive market.

22

23 Q. EARLIER YOU MENTIONED YOU HAD COMMENTS REGARDING MR.
24 OSTRANDER'S TESTIMONY WHERE HE PURPORTS TO CONDUCT A

25

1 TOLL ANALYSIS TO SHOW THAT TOLL REDUCTIONS DO NOT
2 OFFSET LOCAL SERVICE INCREASES. PLEASE ELABORATE.

3

4 A. As I noted earlier, there is no requirement that local service increases be offset
5 by toll reductions. There is only a requirement that decreases in switched
6 access revenues be offset by increases in local service revenues. Beyond this
7 fundamental problem with Mr. Ostrander's argument, there are other problems
8 with his analysis. First, Mr. Ostrander uses the FCC's Trends in Telephone
9 Service Report dated August 2003 to come up with 44 minutes¹ of nationwide
10 average intrastate toll minutes by residential customers in a month. However,
11 Mr. Ostrander has in his possession an EXCEL spreadsheet provided by
12 BellSouth in response to Production of Documents ("POD") # 3 in OPC's First
13 Set of Interrogatories and PODs, showing the actual intrastate toll usage for
14 residential customers in Florida of **begin proprietary** [REDACTED] **end proprietary**
15 minutes per month. Even after Mr. Ostrander doubles the 44 minutes to 88
16 minutes, the intrastate toll usage in his analysis is still **begin proprietary** [REDACTED]
17 **end proprietary** below the actual usage in Florida.

18

19 Although he correctly excludes interstate minutes from his calculation, he fails
20 to do so in another area of his analysis. Interestingly, he cites to the same FCC
21 report at page 30 to show that the nationwide average toll rate is 8 cents per
22 minute. Mr. Ostrander attempts to argue that with a low average toll rate of 8

23

24 ¹ Although Table 14.2 of the FCC's August 2003 *Trends in Telephone Service Report* is titled "Average
25 Residential Monthly Toll Calls", Mr. Ostrander has apparently recognized that previous versions of the
report, i.e. May 2002 indicate that Table 14.2 is actually the average residential monthly toll minutes,
not toll calls.

1 cents per minute, it would be very difficult for IXCs to lower this rate to make
2 toll rate reductions cover increases in local rates. However, the 8 cents used in
3 Mr. Ostrander's analysis (found in Table 13.4 of the FCC's Report), represents
4 interstate revenues, not intrastate revenues. With intrastate access charges
5 considerably higher than interstate charges, it is reasonable to assume that
6 intrastate per minute revenues would be higher than interstate revenues. The
7 point is Mr. Ostrander excludes interstate minutes where it helps his case and
8 includes interstate revenues when it helps his case, which casts doubt on the
9 credibility of his analysis.

10

11 Q. AT PAGES 33-34, MR. OSTRANDER ARGUES THAT ANY TOLL
12 REDUCTIONS THAT RESULT FROM THE ILECS' PROPOSALS CAN
13 EASILY BE TAKEN AWAY AT A LATER TIME. PLEASE COMMENT.

14

15 A. While it is true that, theoretically, IXC toll reductions occurring due to the
16 ILECs' proposals could be reversed at a later date, such an event is unlikely to
17 occur. Mr. Ostrander completely ignores the dynamics of a competitive
18 marketplace. In a highly competitive market such as the toll market,
19 competitors are constantly attempting to reduce their cost in order to be more
20 competitive. The higher priced competitor would quickly lose market share
21 to the lower priced competitors. Long distance, like gasoline, is of similar
22 quality no matter who provides the product. The public will quickly find the
23 lowest gas prices just as they will quickly find the lowest long distance prices
24 or lowest package deal.

25

1 Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING THE
2 TESTIMONY OF DR. MARK COOPER, WITNESS FOR AARP?

3

4 A. Yes. Dr. Cooper, like Mr. Ostrander, supports the faulty premise that Section
5 364.164 requires that residence customers receive net tangible benefits from
6 implementation of the ILECs' proposals. For example, at page 14, Dr. Cooper
7 states that residence customers should receive "actual net financial benefits in
8 the form of lower overall monthly bills through offsetting reductions in
9 intrastate toll rates required by the new law." He, like Mr. Ostrander, is
10 incorrect and totally misses the point of Section 364.164. This section is all
11 about the ability of ILECs to remove the support from basic service through
12 offsets in switched access revenues.

13

14 Dr. Cooper also relies heavily on another faulty premise; that competition must
15 be proven to result from increases in residence and single-line business rates.
16 Beginning at page 12, Dr. Cooper bases his premise on what he perceives as
17 legislative intent. However, once again, had the Legislature intended that
18 competition must be proven to result from the ILECs proposals, language to
19 that effect would have been included in Section 364.164. Instead, the
20 Legislature concluded that pricing subsidies inhibit competition while pricing
21 based on market conditions induces entry and stimulates competition. The
22 Legislature reasonably concluded that, as evidenced by the language of the
23 Statute, supporting a service prevents the creation of a more attractive local
24 market. Removal of that support, therefore, eliminates an artificial barrier to
25 competition and the resulting increase in competitive choices will be beneficial

1 to residence customers. The fact remains, as Mr. Shell demonstrates, that
2 residential service is priced below its relevant cost, a condition that cannot be
3 allowed to continue if a truly competitive local service market is the goal. Dr.
4 Cooper and the AARP cannot simply wish away the cost evidence presented in
5 this case.

6

7 Q. BEGINNING AT PAGE 28, DR. COOPER ARGUES THAT BECAUSE
8 COMPETITORS OFFER BUNDLES OF SERVICES, IT IS IRRELEVANT
9 THAT BASIC SERVICE IS PRICED BELOW COST. DO YOU AGREE?

10

11 A. No. While it is true that most competitors offer bundles of services versus
12 basic service only, Dr. Cooper fails to recognize the importance of pricing
13 basic service above cost. By increasing the price of basic service to a more
14 market-based level, the bundles that competitors offer will become more
15 attractive. As noted earlier, currently 39% of ~~non-packaged~~ residence lines in
16 Florida are receiving basic local service only with no features. Raising the
17 price of basic service to cover its cost will induce competitors to more
18 aggressively market their services to these customers and a customer that is
19 paying a market rate for basic service is more likely to consider other service
20 options.

21

22 Q. DR. COOPER COMPLAINS AT PAGES 30-31 THAT THE MAJORITY OF
23 REVENUE INCREASES IN THE ILECS' PROPOSALS ARE ON
24 RESIDENCE SERVICE; THAT MULTI-LINE BUSINESS AND BIG

25

1 BUSINESS CUSTOMERS WILL EXPERIENCE NO RATE INCREASES
2 AT ALL. PLEASE COMMENT.

3

4 A. Dr. Cooper is correct that the majority of revenue increases will apply to
5 residential customers, and for good reason. The Statute calls for the removal
6 of the support in basic service and, with the one exception of single-line
7 business rates in Rate Group 2, it is only residence service where the support
8 resides. Historically it has been primarily switched access service and business
9 services that have contributed to the support in basic service rates; therefore, it
10 would be nonsensical to raise business rates in order to eliminate the support in
11 residence service rates.

12

13 As explained in my revised direct testimony, the support resides in basic
14 service rates and is more pronounced in the more rural rate groups. However,
15 to be sensitive to the potential rate increases that could affect the most rural
16 customers, BellSouth proposes that all residential rate groups be increased by
17 the same amount. Although this proposal does not move rural rates to cover
18 their cost, it does move in the right direction without creating rate shock. Dr.
19 Cooper's proposal would only exacerbate the current situation where residence
20 rates, particularly in rural areas, are already far from covering their costs. Such
21 a philosophy only shifts the support rather than removing it as required by the
22 Statute.

23

24 Q. IN A SIMILAR VEIN, AT PAGE 32, DR. COOPER SUGGESTS THAT
25 "THE COMMISSION SHOULD REQUIRE THAT THE INCREASE IN

1 BASIC RATES BE ALLOCATED IN PROPORTION TO ACCESS
2 MINUTES OF USE BETWEEN THE CLASSES.” SHOULD THE
3 COMMISSION CONSIDER HIS SUGGESTION?
4

5 A. No. The support in basic local service rates did not evolve based on the
6 allocation of access minutes of use between the classes and should not be
7 removed on that basis. Dr. Cooper’s proposals to apply rate increases to
8 business and to allocate increases based on access minutes of use would simply
9 result in shifting the support around and not removing it as called for by
10 Section 364.164. Dr. Banerjee also addresses Dr. Cooper on this point from an
11 economic perspective.
12

13 Q. DR. COOPER, CONTINUES ON PAGE 32 BY EXPRESSING CONCERN
14 THAT HIS CLIENTS, OLDER FLORIDIANS, ARE LIKELY TO BE
15 HARDEST HIT BY RATE REBALANCING BECAUSE THEY MAKE
16 FEWER LONG DISTANCE CALLS. PLEASE COMMENT.
17

18 A. First, as noted previously, there is no direct relationship in Section 364.164
19 between basic rate increases and toll reductions, particularly for purposes of
20 the ILECs’ rebalancing proposals. The Commission, however, as noted in its
21 Order # PSC-03-1240-PCO-TL, dated November 4, 2003, will be addressing
22 the issues surrounding toll reductions by consolidating this proceeding with
23 Docket No. 030961-TI (Flow-through of LEC Switched Access Reductions by
24 IXC’s, Pursuant to Section 364.163(2), Florida Statutes).
25

1 Next, BellSouth is sensitive to the needs of older Floridians as well as that
 2 segment of the population that can least afford increases in services such as
 3 telephone, gas, electric, etc. The Lifeline and Link Up programs are designed
 4 to provide assistance to those in need. However, being an older Floridian does
 5 not automatically mean that raising basic service rates to market levels will
 6 cause a hardship. To demonstrate this point, following is Figure 1 that
 7 compares Florida's citizens, aged 65 and older, to other states in BellSouth's
 8 region. Not surprisingly, Florida has the largest percentage of persons 65 years
 9 and older of any BellSouth state, representing 17.6% of the general Florida
 10 population. However, of that 17.6%, only 8.4% are considered to be below the
 11 poverty level compared to the other states that range between 10.3% and
 12 17.7% in poverty.

13

14 **Figure 1**

State	% 65 + of Population	% 65 + In Poverty	RG 1 Res. Rate	RG 12 Res. Rate
FL	17.6	8.4	\$7.57	\$11.04
AL	13.0	15.3	\$14.60	\$16.30
GA	9.6	10.3	\$12.50	\$17.45
KY	12.5	13.3	\$15.20	\$18.40
LA	11.6	16.8	\$10.97	\$12.64
MS	12.1	17.7	\$14.79	\$19.01
NC	12.0	12.7	\$10.96	\$13.91
SC	12.1	12.6	\$12.70	\$15.40
TN	12.4	15.2	\$7.55	\$12.15

15
16
17
18
19
20 Source of Age 65 + Data: US Census Bureau, Census 2000 Sample Data File. Extracted from Table compiled by the US Administration on Aging. Service rates are from BellSouth's GSST.

21 This data is far more significant when viewed in the context of the basic
 22 residence service rates compared across the nine BellSouth states. The data is
 23 clear; Florida's older citizens not only pay less for residence telephone service
 24 than their age group in other states, but they are also more financially capable
 25 of paying those rates than their counterparts in other states. Even with the

1 \$3.89 monthly increases proposed in three annual increments under
2 BellSouth's mirroring methodology, Florida's local residence service rates will
3 be \$11.46 in the lowest rate group and \$14.93 in the highest rate group.
4 Florida's rates will still be the 4th lowest in the region, and this assumes no
5 increases in rates in the other states.

6

7 Q. IS THERE COMMISSION DATA AVAILABLE THAT SUPPORTS THE
8 AFFORDABILITY OF THE BASIC SERVICE INCREASES CONTAINED
9 IN BELLSOUTH'S PROPOSAL?

10

11 A. Yes. This Commission has published data that indicates that the increases in
12 basic service rates contained in BellSouth's proposal are fair and reasonable
13 and would not "compromise the affordability of residential basic local service
14 for the vast majority of customers."² More specifically, the Commission
15 concluded that "Price regulated companies should be allowed to increase
16 residential and single line business basic local rates by an amount not to exceed
17 \$5 per month, as part of a Commission-verified revenue-neutral rate
18 rebalancing plan. Any such monthly rate increase should be phased in over a
19 three to five year period at not more than \$2 per year."³ BellSouth's proposal
20 to increase basic service rates in a revenue neutral manner with switched
21 access reductions is consistent with the Commission's conclusions.

22

23 ² See, *Report of the Florida Public Service Commission on the Relationships Among the Costs and*
24 *Charges Associated with Providing Basic Local Service, Intrastate Access, and other Services Provided*
by Local Exchange Companies, in Compliance with Chapter 98-277, Section 2(1), Laws of Florida
25 *AND The Conclusions of the Florida Public Service Commission as to the Fair and Reasonable Florida*
Residential Basic Local Telecommunications Service Rate, in Compliance with Chapter 98-277, Section
2(2)(A), Laws of Florida; dated February 15, 1999, page 125.

³ *Id*

1

2 Q. DR. COOPER EXPRESSES CONCERN THAT LIFELINE RATES ARE
3 ONLY "TEMPORARILY" PROTECTED FROM INCREASES UNDER THE
4 ILECS' PROPOSALS. PLEASE COMMENT.

5

6 A. First, Section 364.164 expanded Lifeline support to eligible customers who
7 meet an income eligibility test of 125% or less of federal poverty income
8 guidelines. Second, Section 364.10(3)(c) specifies that an ILEC cannot
9 increase Lifeline rates until the ILEC reaches parity with interstate switched
10 access rates, or until the customer no longer qualifies or unless otherwise
11 determined by the Commission. Beyond that requirement, BellSouth's
12 proposal contains a voluntary provision that would protect against Lifeline
13 increases for four years. However, at page 33, in an unbelievable statement,
14 Dr. Cooper states that, "it is questionable whether the law will allow such
15 expansion." The question I would pose to Dr. Cooper is: "Exactly who would
16 oppose such a provision; who would question the law?" BellSouth would
17 certainly not oppose it, not the OPC or the Commission, or I assume, not
18 AARP. In fact, it is highly unlikely that "any" party would question the law on
19 this point.

20

21 Q. WITH RESPECT TO THE 125% LIFELINE INCOME ELIGIBILITY TEST,
22 DURING THE RECENT SERVICE HEARINGS, MR. TWOMEY'S
23 QUESTIONING OF SOME WITNESSES INDICATES THAT AARP
24 BELIEVES THAT EXPANSION OF LIFELINE ELIGIBILITY WOULD

25

1 OCCUR INDEPENDENT OF THE APPROVAL AND IMPLEMENTATION
2 OF BELL SOUTH'S PROPOSAL. IS HE CORRECT?

3

4 A. No, Mr. Twomey is incorrect. Section 364.10(3)(a) of the Statute specifically
5 associates the income eligibility test of 125% or less of the federal poverty
6 income guidelines with implementation of Section 364.164 as follows:

7 "Effective September 1, 2003, any local exchange telecommunications
8 company authorized by the commission to reduce its switched network
9 access rate pursuant to s. 364.164 shall have tariffed and shall provide
10 Lifeline service to any otherwise eligible customer or potential
11 customer who meets an income eligibility test at 125 percent or less of
12 the federal poverty income guidelines for Lifeline customers. Such a
13 test for eligibility must augment, rather than replace, the eligibility
14 standards established by federal law and based on participation in
15 certain low-income assistance programs."

16 It is clear from the language of the Statute, that the 125% income eligibility
17 test is tied explicitly to the terms of Section 364.164. Although this is not an
18 issue with BellSouth, because BellSouth's Lifeline tariff has supported the
19 125% income eligibility test since March 2002, it is important to clarify this
20 point. The citizens of Florida should not be misled by AARP as to the specific
21 Language of the Statute and the clear association the Legislature made between
22 reduction in switched access rates pursuant to Section 364.164 and the Lifeline
23 income eligibility increase to 125%.

24

25

1 Q. AT PAGE 35, DR. COOPER SUGGESTS THAT IF THE COMMISSION
2 GRANTS THE ILECS' PROPOSALS THE COMPANIES "MAY
3 UNILATERALLY DEPRIVE THE COMMISSION OF ITS QUALITY OF
4 SERVICE JURISDICTION ONCE PARITY IS REACHED." DO YOU
5 AGREE?

6

7 A. No, I do not agree. Quality of service standards do not automatically go away
8 when the ILECs' switched access rates reach parity with interstate rates.
9 Section 364.051(6) discusses this situation in detail as follows:

10

11 The company's retail service quality requirements that are not already
12 equal to the service quality requirements imposed upon the competitive
13 local exchange telecommunications companies shall thereafter be no
14 greater than those imposed upon competitive local exchange
15 telecommunications companies unless the commission, within 120 days
16 after the company's election, determines otherwise. In such event, the
17 commission may grant some reductions in service quality requirements in
18 some or all of the company's local calling areas. The commission may
19 not impose retail service quality requirements on competitive local
20 exchange telecommunications companies greater than those existing on
21 January 1, 2003.

22

23 The Statute is clear that service quality standards remain under the control of
24 the Commission. However, the Statute also recognizes that in a fully

25

1 competitive market, service quality standards must be the same for all
2 competitors.

3

4 Q. AT PAGE 30 OF HIS TESTIMONY, DR. COOPER STATES THAT
5 LOWERING UNE PRICES IS ONE OF THE KEYS TO STIMULATING
6 COMPETITION. DO YOU AGREE?

7

8 A. No, I do not agree with Dr. Cooper or with Dr. Gabel who makes a similar
9 point in his testimony at page 40. UNE rates are sufficiently low to attract
10 competitors assuming retail rates are not set at artificially low levels making
11 further entry unattractive. The Commission appears to agree as evidenced by
12 the Annual Report on Competition dated December 2002. At page 33, in
13 discussing UNE-P margins for CLECs, the report states, "It should be
14 emphasized that low margins may be more the result of low local rates than
15 high UNE-P rates. The residential rates in Florida are lower than most other
16 states. Thus, even though UNE rates in Florida may be comparable to other
17 states, ALECS may find the residential market less attractive because of the
18 low local rates."

19

20 Q. DO YOU WISH TO COMMENT ON THE TESTIMONY OF STAFF
21 WITNESS, MR. SHAFER?

22

23 A. Yes, I do. First, the Staff has appropriately confined its analysis of the ILECs'
24 proposals to the provisions set forth in Florida Statutes. Unlike witnesses for
25 OPC and AARP, the Staff relies on the language contained in Section 364.164

1 and other provisions of the Statute without speculating on what individual
2 Legislators might have been thinking or without inventing requirements not
3 contained in the Statute. As such, the Staff's analysis of the ILEC proposals is
4 considerably different from those of OPC and AARP. Following are a few
5 statements contained in Mr. Shafer's testimony that are directly opposed to the
6 views and the testimony of OPC and AARP.

7 Page 7, Lines 5-7: "To the degree that basic local service rates are below cost,
8 that is a significant deterrent to market entry for that particular service."

9 Page 7, Lines 11-13: "There are strong theoretical reasons to believe that the
10 proposed changes to intrastate access charges and basic local service rates will
11 improve the level of competition in many markets."

12 Page 8, Lines 9-15: "Thus, the price of local exchange service is a critical
13 element for competitors to consider when choosing whether to enter a
14 particular market but is not the only factor. The profitability of these other
15 services also plays a role in the market entry decision. This phenomenon also
16 explains why some residential competition persists even in light of the
17 evidence that basic local exchange service on its own is priced below cost on
18 average."

19 Page 8, Lines 20-23: "As a result of the proposed changes, one can reasonably
20 expect that there will be additional market entry, particularly in markets that
21 may have previously been only marginally profitable or slightly unprofitable."

22 Page 10, Line 22 – Page 11, Line 4: "I should note that the petitions are
23 limited to what the incumbent local exchange companies are permitted to do
24 by the statute in terms of the tools at their disposal. I would not view the
25 petitions as deficient on the basis that they do not address factors other than the

1 cost/price relationships of intrastate access charges and basic local exchange
2 service. These issues and factors lie outside the statutory framework and
3 petitioners are not required by the statute to address them.”

4 Page 12, Lines 5-8: “In my opinion achieving parity between intrastate access
5 charges and interstate access charges will lead to more competitively priced
6 bundled service offerings for residential consumers, which will provide
7 benefits to those consumers whose calling patterns match those offerings.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10

11 A. Yes.

12

13 # 512310

14

15

16

17

18

19

20

21

22

23

24

25

1 BY MS. WHITE:

2 Q Mr. Ruscilli, would you please give your summary.

3 A Yes, ma'am. I'm here today to support BellSouth's
4 proposal to rebalance switched access revenue reductions with
5 basic local service revenue increases according to Section
6 364.164 of Florida statutes.

7 The Commission is tasked with reviewing the ILECs'
8 rebalancing proposals, and in reaching its decision the
9 Commission is to consider whether granting the petitions will,
10 one, remove current support for basic local telecommunications
11 services that prevents the creation of a more attractive
12 competitive local exchange market for the benefit of
13 residential customers; two, induce enhanced market entry;
14 three, require intrastate switched network access rate
15 reductions to parity over a period of not less than two years
16 or more than four years; and four, be revenue neutral as
17 defined in Subsection 7 within the revenue category defined in
18 Subsection 2. The revenue category defined in Subsection
19 2 consists of basic local telecommunications service revenues
20 and intrastate switched network access revenues.

21 Basic local telecommunications service as defined by
22 Section 364.02(1) includes only voice-grade flat-rate
23 residential and flat-rate single-line business local exchange
24 services. These are both important points because other
25 parties in this case argue, without support from the statute,

1 that other revenues should be included when looking at the cost
2 of basic local exchange service. They are wrong. The revenue
3 category at issue in this case includes only basic local
4 exchange services and intrastate switched access revenues.

5 BellSouth's proposal is completely consistent with
6 the statute's requirements. As described by Mr. Hendrix of
7 BellSouth, the Commission is being presented with two
8 methodologies from which to choose for determining the level of
9 switched access reductions; one, a mirroring methodology or,
10 two, a typical network methodology. The mirroring methodology
11 results in 136.4 million in switched access revenue reductions
12 while the typical network methodology results in 125.2 million
13 in switched access revenue reductions. Under either
14 methodology, switched access revenues will be reduced in a
15 revenue-neutral manner with basic local service revenue
16 increases in three annual increments.

17 The mirroring methodology would result in local
18 residential service increases for all lines of \$1.39 for the
19 first increment, \$1.38 for the second increment, and \$1.09 for
20 the final increment. By contrast, the typical network
21 composite methodology would result in local residential service
22 increases for all lines of \$1.25 for the first increment, \$1.25
23 for the second increment, and \$1 for the final increment. The
24 increases for single-line businesses and nonrecurring charges
25 would be the same under either methodology.

1 BellSouth proposes to adjust single-line business
2 rates such that Rate Groups 1 through 3 will increase to \$25
3 over two equal increments; Rate Groups 4 through 6 and Rate
4 Code X1 will increase to \$28 over two equal increments; and
5 Rate Groups 7 through 11 and Rate Codes X2 through X4 will be
6 adjusted to the current Rate Group 12 rate of \$30.20 over two
7 equal increments. BellSouth proposes to increase the
8 nonrecurring service ordering charges over three increments.

9 Importantly, BellSouth's proposed increases in
10 residential service will not impact Lifeline recipients. The
11 statute only requires that Lifeline rates not be impacted by
12 rate increases authorized under Section 364.164 until
13 BellSouth's intrastate switched access rates reach parity with
14 its interstate rates. However, BellSouth has voluntarily
15 agreed to extend that period to four years from September 1,
16 2003, which is the effective date established for
17 Section 364.10, which is Lifeline.

18 BellSouth recognizes that its proposal will not
19 result in all basic local exchange services covering their cost
20 as defined in the testimony of BellSouth witness Mr. Shell,
21 however, it will move all basic residential local exchange
22 service rates closer to covering their cost. Although rural
23 rates have farther to go to cover their cost, it is necessary
24 to adjust rates in such a way as to remove the most support
25 possible. BellSouth's proposal accomplishes that goal.

1 Granting BellSouth's petition will, over time, move below cost
2 rates closer towards covering their costs and, therefore,
3 provide more incentive for competitors to compete in all areas.

4 BellSouth's proposal to rebalance intrastate switched
5 access revenue reductions with basic local exchange revenue
6 increases represents a reasonable mechanism for implementing
7 Section 364.164 of the statute. BellSouth's proposal removes
8 current support to the basic local service rates in order to
9 create a more attractive competitive local exchange market for
10 the benefit of residential customers. As described by
11 Dr. Gordon and Dr. Banerjee, enhanced market entry by
12 competitors will occur when support to basic service and
13 intrastate switched access rates are both reduced. BellSouth's
14 proposal will be implemented in three increments over a period
15 of not less than 24 months, and BellSouth's proposal is revenue
16 neutral within the newly defined revenue category. Thank you.
17 That concludes my summary.

18 MS. WHITE: Thank you, Mr. Ruscilli. He's available
19 for cross-examination.

20 CHAIRMAN JABER: AT&T.

21 MR. HATCH: No questions.

22 CHAIRMAN JABER: WorldCom.

23 MS. McNULTY: None for MCI.

24 CHAIRMAN JABER: Mr. Mann.

25 MR. MANN: Yes, ma'am.

CROSS EXAMINATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY MR. MANN:

Q Good evening, Mr. Ruscilli. My name is Rick Mann.

A Good evening, Mr. Mann.

Q I've got a few questions, at least those that you didn't eliminate by your changes. You're the senior director of policy implementation and regulatory compliance; is that correct?

A Yes, sir.

Q Can you tell me generally what your duties are?

A Certainly. I have three organizations inside BellSouth's regulatory department that report to me, and those organizations are responsible -- the first one is our docket management group. And it covers all of the dockets that are set forth by this Commission and the Commissions in the other eight states, including complying with all the filing requirements that we have to have for those dockets. In addition, I have a group that looks at compliance, and that's dealing with basic things like complaints that may have been filed with BellSouth to proceedings before the FCC where we're being audited, as an example, for our 272 biennial audit as a requirement of the Act. As a subset of that group, I have some legislative management people that look at legislation that's being introduced both in the state's and at the federal level that cover the whole swath of whatever legislators would

1 consider in new bills from health to taxes to whatever. And
2 then lastly, I have a group of policy support people that
3 assist me whenever I have to go to a hearing developing
4 testimony and positions.

5 Q Your policy implementation, what does that entail?

6 A Well, this is a good example of it, where we go into
7 a hearing either before this Commission in a case such as this
8 or we're in an arbitration proceeding against one of the CLECs
9 that exist in the state to where we're perhaps arguing a policy
10 issue such as promotions, or most recently here, we had a
11 proceeding on DSL over UNE-P.

12 Q And an example of regulatory compliance, what would
13 you be involved in?

14 A Well, sure. With the FCC, we are in the process of a
15 biennial audit that was required by the Act which looks at the
16 relationship between BellSouth Telecommunications and its
17 272 affiliate, BellSouth Long Distance, and its other
18 affiliates to make sure that we have the proper accounting
19 mechanisms in place, proper procedures in place. And I have an
20 organization that looks at that and fulfills the requirements
21 of that audit and investigation.

22 Q And for this nine-state region of BellSouth, now
23 you're involved in approving tariffs?

24 A No, sir, I do not approve tariffs.

25 Q Not at all. Are you involved in approving rate

1 increases filed in any of those states or all of those states?

2 A No, sir. And again, technically, tariffs are
3 approved by the Commission and rate increases or decreases are
4 approved by the Commission.

5 Q I'm sorry. The -- I'm sorry.

6 A But I'm sort of reading into your question. I do not
7 develop those tariffs if that's what you're wanting to ask me
8 precisely.

9 Q Nor the rate increase filings themselves?

10 A No, sir, but I do get involved when we have price
11 regulation proceedings before the Commissions both in
12 developing price regulation plans and then testifying in those
13 proceedings.

14 Q Now, for this docket before the Florida Commission,
15 were you involved in obtaining approval to file for the access
16 charge reductions?

17 A I filed testimony outlining BellSouth's plan, yes, I
18 did.

19 Q What was your role though in -- the overall role of
20 yourself in those filings?

21 A I provide the testimony that demonstrates overall
22 what the plans will do. Subsequent witnesses that will be put
23 forth, Mr. Hendrix will talk about how the access reductions
24 will be affected; Mr. Shell will talk about the support level
25 that's affected; and Mr. Bigelow, who will be following me

1 also, will talk about how that is priced out per the statute.

2 Q Your role in approving the methodology proposed to
3 pass the rate increase on to residential rather than business
4 customers, was that a minimal role involved in that?

5 A I was involved in that. The statute itself actually
6 outlines how that -- those increases are to be set forth
7 because it's talking about removal of the support for those
8 services, and the only guidance that the statute gives is that
9 it can't all be in residential. It should be some in business
10 and cannot all be on monthly recurring, some which should be in
11 nonrecurring. But I was involved in part of that process.

12 Q Were you involved in the initial filing of BellSouth
13 in August of this year to effect the two rate increases in
14 January '04 and January '05?

15 A I filed testimony in that case, yes, I did -- or in
16 that first part of this case. Excuse me.

17 Q Was that at the instruction of someone other than
18 yourself then, your filing of that testimony?

19 A No. I mean, I filed testimony as part of BellSouth's
20 case, along with the other witnesses, to support the plan we
21 were proposing at that time.

22 Q Okay. Now, on Page 3 of your revised direct
23 testimony, you describe Section 364.164 of the Florida
24 Statutes. Was your interpretation of that statute that
25 BellSouth was required to file for this increase in BLTS?

1 A No. BellSouth had the -- the statute made the
2 provision for BellSouth to make that filing.

3 Q So that was an option for BellSouth?

4 A Yes, but I think commensurate with the policy that
5 has been set forth by that statute itself, which is to
6 encourage competition, to give an impetus behind competition.
7 Filing for this rate rebalancing that we're filing is
8 commensurate with that policy.

9 Q But there was no requirement that BellSouth file at
10 this time; is that correct?

11 A I don't remember a statutory requirement to do so.

12 Q On Page 4 of your direct testimony, you list the four
13 criteria of 364.146.

14 A Yes, sir.

15 Q Is it your testimony that BellSouth has met all of
16 those four requirements?

17 A Yes, sir.

18 Q Now, in your rebuttal testimony, Mr. Ruscilli,
19 Lines 23 through 25 on Page 6, continuing on to Page 7,
20 Lines 1 and 2, you address the benefits accruing to residential
21 customers. You state that the benefits accruing to residential
22 customers as envisioned by the statute are clearly in the new
23 choices of providers. Is that an interpretation of yours of
24 the statute requirements?

25 A Yes, but I think it's a reasonably fair read in

1 English. I mean, the statute says, remove the current support
2 for basic local telecommunications services. Why do you want
3 to do that? It's preventing the creation of a more attractive
4 competitive local exchange market. Well, so what? Well, that
5 will benefit -- that more attractive competitive local exchange
6 market, that will benefit residential consumers. I mean, I'm
7 not an attorney. It's just sort of a plain read of the English
8 there.

9 Q So it's not a legal opinion of yours, is it?

10 A I'm not qualified to issue a legal opinion.

11 Q And you also say that the goal of that statute is
12 revenue neutrality?

13 A Could you point to where you're saying I'm saying the
14 goal?

15 Q Yes, sir. Line 23 on Page 6.

16 A Of my rebuttal, sir?

17 Q Yes, sir. I'm sorry.

18 A Well, that's actually finishing off a discussion that
19 I had where I was talking about Mr. Ostrander. And in this
20 particular case, I don't think the goal of the statute is
21 revenue neutrality. It is one of the requirements of the
22 statute that you have revenue neutrality. The goal of the
23 statute is to improve the competitive position in the
24 marketplace and specifically for the benefit of residential
25 customers.

1 Q So there's no financial advantage to BellSouth, is
2 there, if one of those criteria is revenue neutrality, is
3 there?

4 A No. That's precisely how the statute was set up. We
5 reduce the access charges, place those in a very special bucket
6 of dollars, and the amount that is necessary to reduce those to
7 reach interstate parity, as discussed by Mr. Hendrix, is then
8 offset by the rate increases that you would do on the local
9 exchange side to basic local service.

10 Q I've got a confidential document that I'll have
11 passed out.

12 Now, before we get to that confidential document,
13 Mr. Ruscilli, on Page 3 of your rebuttal testimony, Lines 2 to
14 5, you state that the reduction of switched access charges will
15 induce additional entry in competition into Florida's local
16 service markets; correct?

17 A Yes. That's in part what I'm saying. I'm also
18 saying the elimination of the support to basic services. And I
19 was commenting about Knology's statement that they intend to
20 enter the marketplace.

21 Q Does that mean then that higher BLTS rates will
22 attract more CLECs into the market in Florida, in your opinion?

23 A Yes.

24 Q Do you expect the existing CLECs to increase their
25 market share?

1 A I certainly expect existing CLECs to find that market
2 more attractive and do everything they can to increase that
3 market share.

4 Q Okay. If you'll refer to that confidential document.

5 A Yes.

6 Q On Page 6 of that document, the statement at the very
7 top right side of that page in the larger type --

8 A Yes. And just to make sure I'm on the right page, is
9 this the one that's Bates stamped 067 in the left corner?

10 Q Yes.

11 A Thank you.

12 Q And would you confirm for me that BellSouth does
13 believe that this statement is true?

14 A Yes.

15 Q And referring to the third bullet, that is the third
16 dot --

17 A Okay. Yes, sir.

18 Q -- does BellSouth believe this statement to be true?

19 A Yes.

20 Q And the fourth bullet, that would hold true
21 notwithstanding the filing of BellSouth in this docket,
22 wouldn't it?

23 A That's correct.

24 Q Can you tell me without revealing any confidential
25 information what percentage of BellSouth's residential

1 customers have packaged plans?

2 A We have provided -- I know the percentage and we have
3 provided that in a data request to one of the many data
4 requests, and for the life of me I want to think that that
5 number is proprietary. If someone can give me some guidance
6 whether or not it is. I'm just recalling it, seeing it from
7 memory, and it grayed out which usually means it's a
8 proprietary number.

9 Q Let me turn you to Page 7, if I may, then,
10 Mr. Ruscilli.

11 CHAIRMAN JABER: Of the exhibit, Mr. Mann?

12 MR. MANN: Yes, ma'am, I'm sorry, of the exhibit.

13 BY MR. MANN:

14 Q And the first bullet on the right-hand side under the
15 double bold stripes, is that percentage correct?

16 A My recollection is a somewhat different number than
17 that, just lightly different. But this is my recollection. I
18 don't have the data request in front of me, so I may be
19 confusing the number that I saw on that data request. It is
20 somewhat near this number though.

21 Q Do you recall how somewhat closer that is or nearer
22 that is?

23 A It's within about 10 percent of it.

24 Q Higher or lower?

25 A Lower.

1 Q And referring back to Page 6, the first sentence, and
2 that is below the double line. Is that sentence proprietary,
3 to your knowledge, or your lawyer's knowledge?

4 MS. WHITE: I believe he claimed the whole document
5 is proprietary, so I would say the answer is yes.

6 MR. MANN: Information about competitors is
7 proprietary?

8 MS. WHITE: In this context we asked for protection
9 of the entire document, and I believe it was granted. I'm not
10 100 percent sure.

11 CHAIRMAN JABER: Mr. Mann, if you are referring to
12 the first sentence --

13 MR. MANN: Yes, ma'am.

14 CHAIRMAN JABER: -- under the double line?

15 MR. MANN: Yes, ma'am.

16 CHAIRMAN JABER: Okay. The attorney has represented
17 that it's confidential.

18 MR. MANN: Okay.

19 BY MR. MANN:

20 Q Is it your opinion, Mr. Ruscilli, that that statement
21 is correct?

22 A Yes.

23 CHAIRMAN JABER: Mr. Mann?

24 MR. MANN: Yes, ma'am. I'm having difficulty reading
25 from this secret document. I'm sorry. I apologize, Chairman.

1 CHAIRMAN JABER: No problem. I assume though you've
2 had this document and have had time to develop your
3 cross-examination questions. How about we take a five-minute
4 break and let you get through it quickly when we come back.
5 Five minutes.

6 (Brief recess.)

7 CHAIRMAN JABER: We're going to get back on the
8 record. And, public counsel, Mr. Mann, you were in the process
9 of cross-examination.

10 MR. MANN: Thank you, Chairman Jaber.

11 BY MR. MANN:

12 Q Mr. Ruscilli, back to the secret document.

13 MS. WHITE: And I will object. It's not a secret
14 document, it's a confidential document, and there is a
15 difference.

16 CHAIRMAN JABER: I need to do this with a straight
17 face. Mr. Mann, she brings up a good point. Let's dispense
18 with all of that. We've still have a lot to do, so come on.

19 BY MR. MANN:

20 Q I'm going to ask you a question and hopefully I'm not
21 putting you on the spot here, but answer carefully. Does
22 BellSouth expect to sell more packaged plans or fewer packaged
23 plans as a result of your proposals in this docket?

24 A I'm trying to word this so I don't reveal the
25 contents. I think BellSouth's intent with its packaged plans

1 is to meet head-on whatever its competitors are choosing to
2 offer in their packaged plans to the best of its ability. I
3 hope that's addressing your question without revealing what's
4 in this document.

5 Q All right. Let me turn you to Page 5 of the
6 confidential document, the third bullet down on the right-hand
7 side, and that includes the two indented ones. So it's the
8 second indented bullet.

9 A Yes, sir. Thank you.

10 COMMISSIONER BRADLEY: Which page are you on?

11 CHAIRMAN JABER: Page 5 of the exhibit.

12 MR. MANN: I'm sorry.

13 BY MR. MANN:

14 Q Considering that statement by BellSouth and also
15 considering the statement in the box in the lower right-hand
16 corner of Page 5 of the exhibit, now wouldn't it make sense if
17 BellSouth is increasing basic local rates and considering your
18 answer to my question of you on Page 6 of this confidential
19 document, the exhibit, bullet four, wouldn't one or the other
20 of those responses make sense, either fewer or more packaged
21 plans BellSouth would expect to sell as a result of your
22 proposals here?

23 A Yes.

24 Q And can you tell me which that would be?

25 A Based on what was in this document here, it would be

1 more.

2 Q Okay. Thank you. Do your packaged plans,
3 Mr. Ruscilli, require a customer to commit to staying with
4 BellSouth for a period of time?

5 A In the residential market, I'm not sure that there's
6 term commitments. I haven't looked at those tariffs, and that
7 would be -- a term commitment would be something staying for a
8 period of time. In our business market, we do have term plans
9 where customers commit. Some of the components that may make
10 up a package -- as an example, if you were to purchase a DSL
11 service -- our service is called FastAccess -- it may have a
12 contractual component to it.

13 Q And are some of those multiyear contracts?

14 A I don't know. I think there's a 12-month, but I
15 don't know if there's anything longer than that.

16 Q If a customer buys a packaged plan with a contract, a
17 term contract, is that good or bad for your competitors?

18 A Well, again, the term contract for most of these
19 packaged plans are in the business market. Is that good or bad
20 for our competitors? I don't know. Our competitors offer a
21 variety of packages that compete with us and actually undercut
22 us. So I don't know if it hurts them or helps them.

23 Q Back to Page 5 of this confidential document, the
24 exhibit, the bottom bullet.

25 A Mr. Mann, are you talking the bottom dot bullet on

1 the right-hand side there?

2 Q The bottom dot on the right side, yes, sir,
3 Mr. Ruscilli. I'm sorry.

4 A That's okay. Thank you.

5 Q Does that reflect your plans for the customers in
6 your lower priced rate groups?

7 A I don't think that's actually speaking to a plan. I
8 think that's discussing what options would be available to the
9 company.

10 Q And does that speak to the lower price rate groups?

11 A Yes. And it's consistent with the options that are
12 available to the statute, but it doesn't represent a plan that
13 I'm aware of.

14 Q And on Page 10 of your direct testimony --

15 A One moment, sir.

16 Q Certainly.

17 A Yes, sir.

18 Q -- Lines 8 through 21, you're not making your
19 proposals in this docket, are you, to benefit residential
20 customers? Are your proposals --

21 A I think our proposals are consistent with what the
22 statute says, which is to bring the benefit of competition to
23 residential customers. And what I'm outlining in
24 Lines 8 through 21 is that when we do the part that we're doing
25 with reducing intrastate switched access, that will be passed

1 along to consumers based on the requirements placed on the
2 IXCs.

3 MR. MANN: Commissioner, I never identified or had
4 that identified as an exhibit, that confidential document.

5 CHAIRMAN JABER: Do you want to give me a short
6 title, Mr. Mann?

7 MR. MANN: "Florida Access Basic Rebalancing
8 Legislation, BellSouth."

9 CHAIRMAN JABER: It looks like a presentation though.
10 Would you agree with that?

11 MR. MANN: Yes, ma'am.

12 CHAIRMAN JABER: Ms. White, this was a presentation?

13 MS. WHITE: I believe it was.

14 CHAIRMAN JABER: Okay. "Florida Access Basic
15 Rebalancing Legislation Presentation" is Exhibit 48, and that
16 is a confidential exhibit.

17 (Exhibit 48 marked for identification.)

18 BY MR. MANN:

19 Q Mr. Ruscilli, have you received a copy of the
20 document that I'm handing out, the exhibit now? And I'd like
21 that marked as an exhibit.

22 A Yes, sir, I've received a copy.

23 CHAIRMAN JABER: Okay. Mr. Mann, this is BellSouth's
24 regulatory assessment fee return?

25 MR. MANN: Yes, ma'am.

1 CHAIRMAN JABER: That will be marked as Exhibit 49.

2 MR. MANN: Thank you, Commissioner.

3 (Exhibit 49 marked for identification.)

4 BY MR. MANN:

5 Q Now, this regulatory assessment fee return, are you
6 familiar with these documents, Mr. Ruscilli?

7 A No, sir. It's the first time I've seen a document
8 like this.

9 Q Are you familiar with the fact that BellSouth makes
10 these filings that report the company's revenues to the
11 Commission for purposes of calculating revenue assessment fees?

12 A I am at this moment, yes. This is the first time
13 I've seen this, so -- we do this.

14 Q The report is signed by a company officer in the
15 bottom left corner, and that's Tom Lowman (phonetic), I
16 believe; is that correct?

17 A Mine contains no signature at the bottom of this
18 page.

19 Thank you, sir. I was informed. You gave me a
20 larger version to make it easier for me to read. The signature
21 at the bottom is -- it says Lowman and assuming it's Tom, and I
22 know who Tom is.

23 CHAIRMAN JABER: Mr. Mann, let me make sure the
24 Commissioners are looking at the same thing you are. You said
25 there's a signature on the left-hand side of the document?

1 MR. MANN: Commissioner, I'm sorry. Apparently this
2 was blown up at some point during the week, and the signature
3 itself, the bottom part of it, is missing from the first page.
4 So it would be a two-page document. Let me ask though another
5 question of Mr. Ruscilli about his familiarity with this
6 document before I go any further with it, please.

7 CHAIRMAN JABER: Well, why don't we answer my
8 question first. Are the Commissioners looking at the same
9 document though you are and the witness is?

10 MR. MANN: Oh, yes, ma'am. Yes, ma'am. I just don't
11 know which you were handed.

12 CHAIRMAN JABER: This one.

13 MR. MANN: Okay. Without the signature.

14 CHAIRMAN JABER: Yes.

15 THE WITNESS: May I correct one thing that I was a
16 big imprecise when I answered?

17 CHAIRMAN JABER: Hang on, Mr. Ruscilli. So,
18 Mr. Poucher and Mr. Mann, the only thing missing off of our
19 document is the signature?

20 MR. MANN: Yes, ma'am, the signature, the title of
21 the individual who signed it whose name is printed under the
22 signature, telephone number, et cetera.

23 CHAIRMAN JABER: Commissioner Bradley, that answers
24 your question? Okay.

25 Mr. Ruscilli, you wanted to correct something you

1 said.

2 THE WITNESS: Yes, Madam Chair. He asked me is this
3 was Tom Lowman, an officer of BellSouth, and Tom Lowman is an
4 official, but he is not an elected officer of BellSouth, to be
5 more precise.

6 CHAIRMAN JABER: Okay. Thank you. Mr. Mann, go
7 ahead.

8 MR. MANN: Thank you, Commissioner.

9 BY MR. MANN:

10 Q Looking at the document itself, Mr. Ruscilli, the
11 first section on the left, it indicates that BellSouth reported
12 total local service revenues of \$2.393 billion. That is Item
13 Number 10; correct?

14 A Yes, sir.

15 MS. WHITE: I'm going to object to this line of
16 questioning. Mr. Ruscilli has already said he is not familiar
17 with the regulatory assessment fee return form. It says what
18 it says. The numbers on it are what they are. And I don't
19 think it's appropriate to ask Mr. Ruscilli questions about a
20 form he's not familiar with.

21 CHAIRMAN JABER: Mr. Mann, you're response.

22 MR. MANN: Yes, ma'am. And that's a point well
23 taken. That's why I wanted to find out the familiarity of
24 Mr. Ruscilli.

25 BY MR. MANN:

1 Q Mr. Ruscilli, who --

2 CHAIRMAN JABER: Mr. Mann, the objection is
3 sustained. He's already said several times he's never seen
4 this form. So unless there's a different witness in the
5 proceeding that can answer --

6 MR. MANN: That's what I'd like to ask of him, yes,
7 Commissioner.

8 CHAIRMAN JABER: Well, the objection is sustained. I
9 will allow you to ask him if there's another witness in the
10 proceeding. Okay.

11 MR. MANN: Thank you.

12 BY MR. MANN:

13 Q Mr. Ruscilli, is there another witness in this
14 proceeding for BellSouth who is familiar with this form?

15 A I can't say for certainty. I believe that the other
16 three BellSouth witnesses with me would not have been involved
17 in the preparation of this document though.

18 MR. MANN: Okay, sir. Thank you very much. That's
19 all I have.

20 CHAIRMAN JABER: Ms. Bradley, do you have any
21 questions?

22 MS. BRADLEY: No questions.

23 CHAIRMAN JABER: Mr. Twomey.

24 MR. TWOMEY: Yes, ma'am, just a few.

25 CROSS EXAMINATION

1 BY MR. TWOMEY:

2 Q Good evening.

3 A Good evening, Mr. Twomey.

4 Q Twomey, right. I'm sorry.

5 Sir, you refer in your testimony to two different
6 methodologies by which BellSouth will seek access reductions of
7 either \$136.4 million or \$125.2 million; is that correct?

8 A Yes, sir.

9 Q Do you recognize then that the petition process in
10 these cases is driven by the reduction of access fees charged
11 to the IXCs for -- to reach interstate parity?

12 A Yes, that's what our petition is about.

13 Q Yes, sir. That is -- you -- the amount of money you
14 can raise your local rates is controlled by how much money you
15 can reduce access fees to reach parity; correct?

16 A Yes, in a sense, exactly. You put them a bucket, you
17 determine what's necessary to get you to interstate parity, and
18 then that's the amount that you use to remove the support.

19 Q Okay. If that's true, would you agree that the level
20 of access reduction -- access fee reductions controls the level
21 of alleged local service subsidies that can be eliminated
22 within the company?

23 A No, I wouldn't agree with that statement precisely.
24 The level of access reductions is determined when you take it
25 to parity, that tells you how much you can remove from being

1 revenue neutral with switched access. As demonstrated by the
2 testimony of Mr. Shell, there are still services that are below
3 their cost. So you have not removed all the subsidy.

4 Q I'm sorry. I wasn't clear. Let me try and restate
5 the question. If the Commission were to approve your maximum
6 requested methodology of \$136 million in access fee reductions,
7 then isn't it true that the maximum you could reduce -- or
8 increase your local rates would be that same number,
9 136.4 million?

10 A Yes. That's how you approach revenue neutrality,
11 yes, sir.

12 Q And to the extent that -- as I understand it, it
13 would be your testimony and your company's position that there
14 are more than \$136.4 million in subsidies in residential local
15 rates and single-line business; is that correct?

16 A There will be in residential local rates and I think
17 it takes care of all but one little tick of single-line
18 business. So let me make my response a little bit more
19 precise. There will still be subsidy that is necessary to flow
20 into residential services, not all of them. Some of them will
21 be taken up above or at. But for Rate Groups 1 through 9,
22 there will still be a subsidy that is required to support those
23 services based on the costs provided by Mr. Shell.

24 Q Let me -- I want to be sure I understand that. If
25 you turn to Page 1 of 3 of your Exhibit JAR-1, there's nothing

1 confidential on that page; right?

2 A No, sir, I don't believe.

3 Q Okay.

4 COMMISSIONER BRADLEY: Which page is that?

5 MR. TWOMEY: Commissioner, it's his Exhibit 1,
6 revised Exhibit 1, JAR-1.

7 THE WITNESS: It's attached to my direct.

8 MR. TWOMEY: Page 1 of 3 attached to his direct
9 testimony. It should be right after the last page of testimony
10 text.

11 COMMISSIONER BRADLEY: Go ahead.

12 BY MR. TWOMEY:

13 Q So the current residential rates are shown in the
14 second column there; correct?

15 A Yes. The column that says, "Current residential
16 rates," that's the second column.

17 Q Those are your current rates?

18 A Yes.

19 Q And is it your testimony and your company's position
20 that all those rates are currently subsidized?

21 A Yes. This is really the testimony of Mr. Shell that
22 you're questioning me about. I mean, these rates are in mine,
23 but the subsidy levels are in Mr. Shell's testimony.

24 Q Okay. Did you tell me a minute ago that when you go
25 to the fifth column that's titled, "Residential rates effective

1 the first quarter of '06" that only the first nine rate groups
2 at those levels are still subsidized?

3 A Those first nine, and there may be one or two of the
4 X codes. I'm trying to remember off the top of my head what I
5 read in Mr. Shell's attachment.

6 Q Yes, sir, and I don't mean to delve too much into
7 Mr. Shell's testimony, but this is your exhibit.

8 A Yes.

9 Q Again, I'm curious. So you're saying that in the
10 first quarter of '06 those rates, the fourteen-fifty-four and
11 above for Rate Groups 10 through 12 will cover the local
12 service cost, the cost of providing service?

13 A If I'm recalling correctly from an exhibit to
14 Mr. Shell's testimony, I think it's WSB-1, those will exceed
15 their TSLRIC plus the subscriber line charge. So they would be
16 above that threshold that he's talking about for subsidy.

17 Q Okay. Thank you. Now, if the Commission were to
18 approve the maximum access fee reduction requested of
19 \$136.4 million, is it BellSouth's goal then to be in compliance
20 with the statute to increase competition to the maximum extent
21 possible?

22 A Well, it's BellSouth's goal to remove the support
23 from those services that support is currently being granted to.
24 And BellSouth is doing that to comport with what's in the
25 competition Section 364.164 because that's intended to make a

1 more -- provide an impetus for the competitive market. So,
2 yes, we will do this.

3 Q Let me ask you the question again, and ask you if you
4 would start your answer with a yes or no.

5 A I'm sorry. Yes. sir.

6 Q If the Commission were to approve the maximum access
7 fee reduction being requested of \$136.4 million, is it
8 BellSouth's goal to increase competition to the maximum extent
9 possible?

10 A I guess I'm not understanding your question because
11 in one area you're talking about rates and then another one
12 you're talking about is it BellSouth's goal to increase
13 competition to the maximum, and I'm not making the connection
14 between those two.

15 CHAIRMAN JABER: Mr. Twomey, for whatever it's worth,
16 I didn't understand your question either.

17 MR. TWOMEY: Well, I'm sorry. Let me try and clarify
18 it.

19 BY MR. TWOMEY:

20 Q The question is this, sir. Is it your goal to make
21 as many of your customers attractive to competitors, or is it
22 your goal merely to spread the access fee reductions evenly
23 across your full body of customers?

24 A It's again commensurate with what the statutes have
25 indicated. It's BellSouth's goal to remove the support that's

1 being provided to those customers that are currently being
2 supported by intrastate access. And the approach that
3 BellSouth is taking is to do the same increase across all of
4 its rate groups in moving it towards that target. At the end
5 of the first quarter '06 when the last change occurs, there
6 will still be a number of rate groups that are below that --
7 that are currently being supported.

8 Q Yes, sir. And let's to try and be a little bit more
9 clear. It's true, is it not, that the Legislature in the
10 statute doesn't direct BellSouth how to apply the local rate
11 increases to its various rate groups; correct?

12 A I don't remember -- it's correct, and I don't
13 remember a cite in the statute that speaks to rate groups. But
14 I do remember the statute, and it's indicating you shall remove
15 the support that's in that marketplace, and all of those rate
16 groups have got support in them.

17 Q Yes, sir. Have you been with BellSouth long enough
18 to remember how rate increases or decreases were apportioned by
19 this Commission and the last time there was actually a rate
20 increase ordered?

21 A I've been with BellSouth almost 22 years, and we went
22 to a price regulation model which actually froze rate increases
23 for about, I think, six years, until 2001. And I think that
24 increase was around 11 to 16 cents for customers -- somewhere
25 around there. I'm just recalling this from the top of my head.

1 And it was the first rate increase we'd had since, I think,
2 '83. Subsequent to that, I think we might have had one or two
3 if the threshold to the price regulation plan was met.

4 Q If I were to tell you that at one point this
5 Commission's practice was to increase rates on a percentage
6 basis, the same percentage basis for all rate groups to achieve
7 a certain revenue increase, would you know whether that's true
8 or not?

9 A I wouldn't know whether it's true or not, but I would
10 suggest that that was occurring back before we were price
11 regulated as a company and prior to competition in the local
12 exchange market. So those rates would be set by this
13 Commission on a residual basis.

14 Q Yes, sir. Now, on Page 14 --

15 A Are we in my direct?

16 Q Yes, sir, I'm sorry, your direct testimony. You say
17 that the -- at Line 8, I think you begin essentially that
18 the -- that more closely aligning rates with underlying costs
19 will make customers more attractive to competitors. Is that
20 essentially what I can take from that?

21 A Yes.

22 Q So the more closely you get customers rates to their
23 actual costs necessarily they're more attractive to bringing
24 competition?

25 A Yes, to those customers. That's my testimony and I

1 think of the economist in this case, Banerjee and Gordon, and I
2 think Mayo from AT&T said the same thing in his paper he
3 attached to his exhibit.

4 Q And that thesis, as I understand it, would be that
5 ideally you would bring your local service rates equal to or
6 above costs in order to make those customers most attractive to
7 competitors?

8 A Well, again, the processes you want to bring those
9 customers to cost and that's commensurate with what the
10 Legislature has enacted in its statute. The end result of that
11 is that those customers would then become more attractive to
12 competition.

13 Q Is it your interpretation of the -- or your
14 understanding of the statute that it requires the companies and
15 the Commission to bring rates to cost or just reduce supports
16 or subsidies?

17 A Well, actually, I think what the statute has done is
18 a number of things. And you didn't ask me yes or no, so I'm
19 going to explain my answer here. What the statute has done is
20 said there is support that exists in the residential market,
21 and that's preventing that market from being robust with
22 competition. Let's remove that support. Then the statute
23 turns to the Commission and says, the way you do that is you
24 put in a basket all the access revenues to make it revenue
25 neutral, take those down to interstate parity. And then you

1 allow increases in the local side of the market that balance
2 that out. And it's the intent of the Legislature, at least as
3 I read it, that that's what they want to have happen is that
4 you remove that subsidy from that market.

5 Q Yes, sir. But you have conceded, have you not, that
6 since the level of local rate increases that you can attain is
7 limited by reaching parity in your access fees, you -- in this
8 case, the most you can get from this Commission is
9 \$136.4 million. And when you apply it to your existing rates
10 in the manner that you propose and the page we were looking at,
11 Page 1 of 3, when you get there at the end of these
12 adjustments, you still have -- you haven't eliminated all of
13 your subsidies because you still have nine rate groups that
14 have some level of subsidy; correct?

15 A That's correct. But we have moved those customers in
16 total closer their cost, and this is in the testimony of
17 Dr. Banerjee, that you will see that that, in fact, will make
18 them more attractive to a competitor, the fact that they're
19 getting closer to the cost.

20 Q Yes, sir. I want to ask you, on your exhibit Page
21 1 of 3, would you agree with me that the disparity of the
22 current rates between Rate Groups 1 and 12 are a result --
23 likely result of value of service pricing?

24 A I didn't hear the last three or four words you said.
25 As a result of --

1 Q Yes. sir. Are the difference in the rates, the
2 \$7.57 for Rate Group 1 and the current rate of 11.04 for Rate
3 Group 12, likely the result of value of service pricing?

4 A If I understand value of service pricing to mean that
5 the calling scope of that particular rate group is either
6 larger inside, therefore, it's more valuable, or smaller in
7 size, therefore, it's less valuable relative to another. That
8 would have had some influence on how these rates were set, but
9 not certainly in a vacuum, because the other driving goals
10 behind this is these rates were set residually, as Dr. Gordon
11 in response to one of the Commissioner's questions went through
12 that the analysis of the competitive market. So that is in
13 part how those rates, as far as the differences are, are set up
14 would be based on value of service in part.

15 Q Yes, sir. And isn't it true that Rate Group 1 -- if
16 you know this. Isn't it true that Rate Group 1 would represent
17 your most rural service area in the state with likely the
18 smallest calling scope, whereas Rate Group 12 that would
19 probably represent your most urban with the highest calling
20 scope?

21 A Yes.

22 Q Still on Page 14, Line 21, you say, "In order to
23 achieve the goal of Section 364.164 and remove current support
24 for basic local telecommunications services, it is necessary to
25 adjust rates in such a way as to remove the most subsidy

1 possible, but in a reasonable manner;" correct?

2 A Yes.

3 Q And I want to ask you first, in order to achieve the
4 goal of Section 364.164, which goal do you have reference to in
5 your testimony there?

6 A Remove the current support.

7 Q Okay. And don't you recognize that when you continue
8 in that sentence and say that it's necessary to adjust rates in
9 such a way as to remove the most subsidy possible, but in a
10 reasonable manner, that that manner of selecting the way of
11 raising rates was at the company's election?

12 A Yes, it was, but it was consistent, I think, with the
13 direction that was given by the staff report that I mentioned
14 in my testimony in the footnote on reasonable rates where they
15 basically say that they think rates could be adjusted by \$5, no
16 more than \$2 a year. And we can facilitate moving us towards
17 removing as much subsidy as possible and do it uniformly across
18 the rate groups.

19 Q Okay, sir. And still on Page 14, but at Line 6, you
20 say, "Importantly, increased competition for residential
21 services will only occur by adjusting residential rates to more
22 closely align with their underlying costs." Does that sentence
23 in your testimony recognize that the closer you get a customer
24 group's rates to the underlying costs, the more likely it is to
25 become attractive to competitors?

1 A Yes.

2 Q Okay. Now, would you agree with me that if the
3 company had elected to increase just the residential rates for
4 its various rate groups on a percentage increase to recover the
5 maximum amount of \$136.4 million, that is, on a percentage
6 basis as opposed to the same dollar amount per rate group, that
7 the rate increases for Rate Group 12 would necessarily be
8 higher than for all the other rate groups below it?

9 A Well, yes. If you were to multiply all the rate
10 groups by the same percentage and let's just say, for example,
11 10 percent, then Rate Group 12 being the highest valued rate
12 group as far as price would have a larger dollar increase than
13 would Rate Group 1, yes.

14 Q Yes, sir. And wouldn't it necessarily follow that if
15 you did that, that by the time you got to the column, the
16 first quarter of 2006, that you would have more rates that were
17 not subsidized than you would under this methodology?

18 A I don't know that I can say that. I have not taken
19 that approach in the mathematics to look at it.

20 Q Each of the -- the Rate Group 12 has -- isn't it true
21 that Rate Group 12 has more customers in it than the rate
22 groups that are a smaller number?

23 A Yes.

24 Q By definition?

25 A By definition, yes.

1 Q So wouldn't it be true, whether you know the answer
2 to my question -- my previous question or not, that bringing
3 the rates, ultimate rates when this transition is through so
4 that raising them in a manner so that you have more of the
5 higher rate groups not subsidized would make more of your
6 customers subject to competition?

7 A I guess conceptually it may do that, but it still
8 is -- what you're doing is you're shifting now where you're
9 removing the support from. And you need to remove the support
10 from all those things that are being supported. And you're
11 shifting a greater burden on one group of customers over
12 another group of customers.

13 Q Yes, sir. But does that mean that it's your position
14 or BellSouth's position that the goal of the statute is to
15 reduce subsidies on an equal basis per rate group as opposed to
16 the goal of the statute being to create the most competitive
17 environment?

18 A I think the goal of the statute is precisely what it
19 says in (a). It wants to remove the support, and that support
20 is preventing an attractive competitive market for the
21 residential consumer, and that's the benefit that you'll see.

22 Q Okay. Let me ask you this, if you know it. In the
23 current environment, which of your customers are most subject
24 to current competition pressures, your business customers in
25 urban areas or your business customers in rural areas,

1 single-line business?

2 A I have not looked at the single-line business market
3 exclusively. The business market in general, a little bit more
4 than one out of three customers have already left BellSouth for
5 a competitor. And what we see is if you were just looking at
6 sheer numbers, you'll see those more towards the higher density
7 population areas. But that does not mean that if you've got
8 manufacturing facilities, warehouses, or plants that are large
9 business customers that are in the rural areas that they are
10 not subject to competition. What we have seen and I think what
11 the competition record has been demonstrating over the years is
12 the CLECs will go wherever the money is, excuse my grammar.
13 That's what they do.

14 (Transcript continues in sequence with Volume 4.)

15 - - - - -

16

17

18

19

20

21

22

23

24

25

1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTER

3 COUNTY OF LEON)

4

5 I, TRICIA DeMARTE, RPR, Official Commission Reporter, do
6 hereby certify that the foregoing proceeding was heard at the
7 time and place herein stated.

8

9 IT IS FURTHER CERTIFIED that I stenographically
10 reported the said proceedings; that the same has been
11 transcribed under my direct supervision; and that this
12 transcript constitutes a true transcription of my notes of said
13 proceedings.

14

15 I FURTHER CERTIFY that I am not a relative, employee,
16 attorney or counsel of any of the parties, nor am I a relative
17 or employee of any of the parties' attorneys or counsel
18 connected with the action, nor am I financially interested in
19 the action.

20

DATED THIS 11th DAY OF DECEMBER, 2003.

21

22

Tricia DeMarte

23

TRICIA DeMARTE, RPR
FPSC Official Commission Reporter
(850) 413-6736

24

25