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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

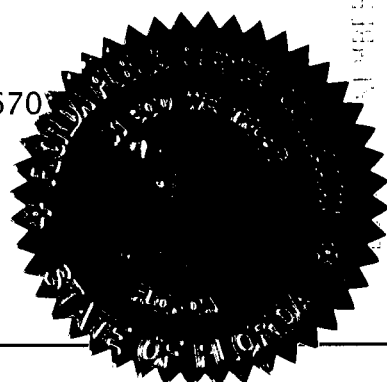
PETITION FOR IMPLEMENTATION OF SECTION 364.164, FLORIDA STATUTES, BY REBALANCING RATES IN A REVENUE-NEUTRAL MANNER THROUGH DECREASES IN INTRASTATE SWITCHED ACCESS CHARGES WITH OFFSETTING RATE ADJUSTMENTS FOR BASIC SERVICES, BY BELLSOUTH TELECOMMUNICATIONS, INC. DOCKET NO. 030869-TL

FLOW-THROUGH OF LEC SWITCHED ACCESS REDUCTIONS BY IXCs, PURSUANT TO SECTION 364.163(2), FLORIDA STATUTES. DOCKET NO. 030961-TI

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VOLUME 6
PAGES 590 THROUGH 670

PROCEEDINGS: HEARING



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

DATE: Thursday, December 11, 2003

TIME: Commenced at 8:40 a.m.

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

REPORTED BY: MARY ALLEN NEEL, RPR

APPEARANCES: (As heretofore noted.)

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I N D E X

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60	ODF-4	600	

P R O C E E D I N G S

(TRANSCRIPT CONTINUES IN SEQUENCE FROM
VOLUME 5.)

CHAIRMAN JABER: Let's get back on the record. Commissioners, yesterday and today I've been approached, and my office has been approached by the media and people that have been just watching the case, monitoring the case. And the question posed to us is, will we be taking a break between the conclusion of this proceeding and a possible bench vote. And, frankly, I always envisioned that we would. What is difficult for me to announce today, because I think it's premature, is when that break might be.

I think as it stands now, I can represent that I do envision taking a break between the conclusion of the proceeding and our vote. And the purpose of that break is twofold, frankly, to give the Commissioners the opportunity to digest the information and think about the decision we have to make, to give our staff the opportunity and sufficient time to make whatever recommendation they're going to make. I don't know how long that break will be. A lot of that depends on how far we get today and tomorrow. I think it's safe to say it will not be

1 less than an hour.

2 So I'll leave it at that. Really, I just
3 can't give out -- I don't know.

4 So with that, Verizon, call your first
5 witness.

6 MR. CHAPKIS: Madam Chair, if I may, before
7 I call my first witness, yesterday you had posed a
8 question to the company as to whether we would be
9 willing to agree to a commitment similar to BellSouth
10 with respect to the Lifeline customers, more
11 specifically, whether we would be willing to continue
12 the protection to the Lifeline customers for two years
13 after parity. And I've consulted with the company,
14 and we are in fact willing to make such a commitment.

15 CHAIRMAN JABER: Thank you, Mr. Chapkis.
16 I appreciate that. And is it exactly -- is it a
17 commitment exactly like the BellSouth commitment? It
18 would be four years starting with -- I think it was
19 September 2003, or --

20 MR. CHAPKIS: Yes. We will make the
21 identical commitment to BellSouth.

22 CHAIRMAN JABER: Okay. Staff, I'm going to
23 need you all to remind us of that, or if there's
24 something more that needs to be done other than the
25 verbal commitment on the record, you all can let us

1 know.

2 And that leaves Sprint. The same question
3 was posed to Sprint, Mr. Fons. And while you don't
4 have to answer now, I would hope, though, that you are
5 thinking about that question.

6 MR. FONTS: We have been thinking of it,
7 Madam Chairman, and Sprint will make the same
8 commitment.

9 CHAIRMAN JABER: Thank you.

10 COMMISSIONER BRADLEY: Madam Chair.

11 CHAIRMAN JABER: Commissioner Bradley.

12 COMMISSIONER BRADLEY: Yes. Just for the
13 record, how does that commitment change the original
14 scenario?

15 CHAIRMAN JABER: Let's ask the parties so
16 that I'm not guessing.

17 Ms. White, your witness yesterday already
18 put in the testimony that the Lifeline -- that the
19 increases in rates, if there are any, would not apply
20 to Lifeline customers for a period not to exceed four
21 years as of September 2003.

22 MS. WHITE: Yes, ma'am.

23 CHAIRMAN JABER: Verizon and Sprint, you
24 want to say what your initial proposal was and explain
25 to us how you've modified?

1 MR. CHAPKIS: This is Richard Chapkis for
2 Verizon.

3 Previously, the statute provided that once
4 the companies reached parity, they could raise the
5 Lifeline rates of the customers if they so wished. Of
6 course, Verizon had no present plans to raise the
7 rates of the Lifeline customers, but they would have
8 been at liberty to do so.

9 With my current commitment, assuming that
10 we had a two-year implementation schedule, the
11 Lifeline protection would be extended for an
12 additional two years. That's the essential
13 difference.

14 COMMISSIONER BRADLEY: Thank you.
15 Mr. Fons?

16 MR. FONTS: Commissioner Bradley, when I was
17 going to put on Sprint's witness, Mr. Felz, we were
18 going to go through this, with the Commission's
19 permission, to tell you exactly where we are, but I
20 think it's the same. We were originally one year more
21 than the three years reaching -- or the three
22 increments to reach parity, so we would put in the
23 additional year. But I'll let Mr. Felz explain that
24 more clearly.

25 COMMISSIONER BRADLEY: Thank you.

1 CHAIRMAN JABER: All right. Mr. Chapkis,
2 go ahead. Mr. Fulp is on the stand.

3 MR. CHAPKIS: Yes. Mr. Fulp was sworn in
4 yesterday.
5 Thereupon,

6 ORVILLE D. FULP
7 was called as a witness on behalf of Verizon Florida
8 Inc. and, having been duly sworn, testified as
9 follows:

10 DIRECT EXAMINATION

11 BY MR. CHAPKIS:

12 Q Mr. Fulp, could you please state your name
13 and address for the record.

14 A My name is Orville D. Fulp. My business
15 address is 600 Hidden Ridge Drive, Irving, Texas
16 75038.

17 Q By whom are you employed, and in what
18 capacity?

19 A I'm employed by Verizon as Director of
20 Regulatory.

21 Q Have you caused to be filed in this case
22 amended direct testimony consisting of 30 pages?

23 A Yes.

24 Q Do you have any changes to that testimony?

25 A No.

1 Q And if I were to ask you the questions
2 contained in that testimony today, would your answers
3 be the same?

4 A Yes.

5 MR. CHAPKIS: I would ask that the
6 testimony be entered into the record as though read
7 from the stand.

8 CHAIRMAN JABER: The prefiled direct
9 testimony of Orville D. Fulp shall be inserted into
10 the record as though read.

11 MR. CHAPKIS: I would just note for the
12 record as well that pages 13, 25, and 26 of that
13 testimony do contain confidential information.

14 BY MR. CHAPKIS:

15 Q Mr. Fulp, did you cause to be filed four
16 exhibits numbered ODF-1 through ODF-4 to be filed as
17 attachments to your amended direct testimony?

18 A Yes.

19 Q And were these exhibits created under your
20 supervision and control?

21 A Yes.

22 Q Do you have any changes to these exhibits?

23 A No.

24 MR. CHAPKIS: Exhibits ODF-1, ODF-2, and
25 ODF-3 are confidential. I would ask that they be

1 marked as Confidential Composite Exhibit -- the next
2 in order.

3 CHAIRMAN JABER: Okay. It's ODF-1 --

4 MR. CHAPKIS: Two and 3.

5 CHAIRMAN JABER: ODF-1 through ODF-3 will
6 be marked as Exhibit 59, and Exhibit 59 is a
7 confidential exhibit.

8 (Exhibit 59 marked for identification.)

9 MR. CHAPKIS: And then I would ask that
10 ODF-4, which is nonconfidential, be marked as Exhibit
11 60.

12 CHAIRMAN JABER: ODF-4 will be marked as
13 Exhibit 60.

14 (Exhibit 60 marked for identification.)

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I.

INTRODUCTION AND WITNESS BACKGROUND

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I have a Bachelor of Arts degree in Economics from the University of California, San Diego, and a Master of Science degree in Economics from the University of Wyoming.

In 1981, I began working at the Illinois Commerce Commission in the Economics and Rates Department as Senior Economist, where I analyzed filings and testified in utility rate proceedings in the areas of pricing, cost of service, and demand analysis. In January of 1984, I transferred to the Policy Analysis and Research Division as Director of the Pricing Program. My responsibilities included developing policy concerning pricing in the telecommunications and energy fields.

In 1985, I joined Contel as Manager-Revenue Requirements/Pricing for the company's eastern region, and was responsible for rate case activity, tariff

1 maintenance, surveillance of regulatory activities, and pricing of local
2 exchange, toll and access services in six states.

3

4 In 1991, I became a Manager-Access Pricing for GTE Telephone
5 Operations, and was responsible for the development of access pricing
6 plans and rates for interstate and intrastate purposes in 40 states. Since
7 that time I have held various positions in GTE and Verizon involving pricing
8 and product management and operations. In December 2001, I assumed
9 my current position of Director -- Regulatory. My current responsibilities
10 include national public policy and pricing matters.

11

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE REGULATORY**
13 **COMMISSIONS?**

14 A. Yes, I have testified on national public policy and pricing matters, including
15 several generic access charge dockets and other pricing related dockets
16 over the last 15 years, on behalf of various Verizon telephone companies
17 before state commissions in California, Florida, Illinois, North Carolina,
18 South Carolina, Georgia, Alabama, Maine, Vermont, New Hampshire,
19 Pennsylvania, and Washington.

20

21

II.

22

OVERVIEW OF TESTIMONY

23 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

24 A. The purpose of my testimony is fourfold. First, I provide an overview of the

1 relevant aspects of the legislation that governs Verizon’s rate rebalancing
2 plan. Second, I provide a detailed explanation of Verizon’s plan. Third, I
3 demonstrate that the plan meets certain criteria in the Act.¹ Fourth, I
4 explain how Verizon will implement its plan.

5
6 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

7 A. – Verizon’s Access Rebalancing Plan results in the removal of support from
8 basic local services through a \$76.2 million reduction in intrastate switched
9 access revenue with a corresponding increase in basic business and
10 residential local (recurring and non-recurring) rates by the same amount.
11 Verizon’s Plan is to be accomplished in three increments over a two-year
12 period and is revenue neutral each year and in total. Upon Commission
13 approval of the Plan, Verizon will file tariffs and give 45 days customer
14 notice of the rate changes to take place in the first year of the Plan.

15
16 **Q. HOW DOES VERIZON’S REVISED RATE REBALANCING PLAN**
17 **DIFFER FROM ITS ORIGINAL RATE REBALANCING PLAN FILED ON**
18 **AUGUST 27, 2003?**

19 A. In its original plan, Verizon sought to reform its intrastate network access
20 and basic local telecommunications rates in two increments – the first at
21 the beginning of year one and the second at the beginning of year two. In
22 its revised plan, Verizon seeks to reform these rates in three increments –
23 the first at the beginning of year one, the second at the beginning of year

¹ Verizon witness Danner demonstrates that Verizon’s rate rebalancing plan meets the

1 two, and the third at the beginning of year three. Verizon also updates its
2 pricing units in its revised plan to include the 12 months ending July 31,
3 2003 -- the most recent 12 months of units available at the time of the
4 revised filing -- to comply with Sections 364.164(3) and (7).

5

6 A more detailed explanation of Verizon's revised rate rebalancing plan is
7 set forth later in my testimony.

8

9 **Q. WHAT OTHER VERIZON WITNESSES ARE SPONSORING TESTIMONY**
10 **IN THIS PROCEEDING?**

11 A. Three other witnesses are sponsoring testimony on behalf of Verizon.
12 Although their testimony speaks for itself, these witnesses and their
13 primary areas of testimony are as follows:

- 14 ■ Dr. Carl Danner explains how Verizon's Plan meets the first two
15 criteria established by the Access Rebalancing legislation which are
16 (1) to move current support for basic local telecommunications
17 services that adversely impact competition for residential customers
18 and (2) how the Plan enhances the competitive market for basic
19 local services. Dr. Danner also discusses economic principles that
20 demonstrate that Verizon's Plan will have beneficial effects on
21 customers and the Florida economy.
- 22 ■ Dr. Kenneth Gordon provides an economic and policy analysis of
23 Verizon's Plan and discusses why he believes that the proposed

remaining criteria that I do not address.

- 1 Plan meets the criteria contained in the legislation.
- 2 ▪ Mr. Evan Leo discusses the state of local telephone competition in
- 3 Verizon's Florida territory including the report he authored entitled
- 4 *Local Competition in Florida*.

5

6

III.

7

THE LEGISLATION

8 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RELEVANT ASPECTS OF**

9 **THE RECENTLY ENACTED LEGISLATION THAT AUTHORIZES**

10 **VERIZON TO PETITION TO REBALANCE ITS INTRASTATE ACCESS**

11 **AND BASIC LOCAL RATES.**

12 A. On May 23, 2003, Governor Jeb Bush signed into law the Tele-

13 Competition and Infrastructure Enhancement Act (Act).

14

15 The Act provides that the competitive provision of telecommunications

16 service is in the public interest and provides customers with freedom of

17 choice, encourages the introduction of new technologies and services, and

18 encourages investment in our telecommunications infrastructure.²

19

20 To enhance competition and benefit ratepayers, the Act authorizes Verizon

21 to petition the Commission to offset, over a period of two to four years, a

22 reduction in intrastate access revenues with an increase in basic local

² Florida Statutes, Section 364.01 (hereinafter, all statutory references are to the Florida Statutes).

1 exchange revenues.³ The reduction in intrastate access revenues,
2 however, cannot be offset entirely against basic monthly recurring
3 revenues – an unspecified amount must be offset against basic non-
4 recurring revenues.⁴

5
6 The offset must be revenue neutral.⁵ Under the Act, the term “revenue
7 neutral” means that the total revenues from price changes to intrastate
8 access services and basic local exchange services must offset one
9 another.⁶

10

11 The Act provides that revenues shall be calculated using the most recent
12 12 months demand units and multiplying that number by the price of the
13 service.⁷

14

15 Lifeline billing units shall not be included in the revenue neutral
16 calculation.⁸ This is because Lifeline customers are not subject to any
17 residential basic local rate increases arising from Verizon’s petition.⁹

18

19 Verizon must petition the Commission to receive authorization to rebalance

³ Section 364.164.

⁴ Section 364.164(2).

⁵ Section 364.164(2).

⁶ Section 364.164(7).

⁷ Id.

⁸ Id.

⁹ Section 364.10(3)(c).

1 its rates. In evaluating the petition, the Commission shall consider whether
2 granting the petition will:

- 3 1. remove current support for basic local telecommunications services
4 that prevents the creation of a more attractive competitive local
5 exchange market for the benefit of residential consumers;
- 6 2. induce enhanced market entry;
- 7 3. require intrastate switched network access rate reductions to be at
8 parity over a period of not less than two years nor more than four
9 years; and
- 10 4. be revenue neutral, as that term is defined in the statute.¹⁰

11

12 For purposes of the Act, the term “parity” (as used in subsection three
13 above) means that Verizon’s “intrastate switched network access rate is
14 equal to its interstate switched network access rate in effect on January 1,
15 2003.”¹¹ The term “intrastate switched network access rate,” as used in the
16 definition of “parity,” means “the composite of the originating and
17 terminating network access rate for carrier common line, local
18 channel/entrance facility, switched common transport, access tandem
19 switching, interconnection charge, signaling, information surcharge, and
20 local switching.”¹² The term “interstate switched network access rate” is

21

¹⁰ Section 364.164(1).

¹¹ Section 364.164(5).

¹² Section 364.164(6).

1 not defined in the Act.

2

3 When the Commission grants Verizon's petition, the Company can
4 commence the rebalancing process. According to the Act, the revenue
5 neutral rate adjustments shall take place on 45 days' notice and shall be
6 made once in any 12-month period.¹³

7 -

8 Because the revenue neutral rate adjustments must take place once each
9 year and must be made using the most recent 12 months demand units,
10 the actual rate increases made after the first year will have to be updated
11 to account for the difference between the current units in Verizon's
12 proposal and the actual updated units, which will become available only at
13 the end of years one and two.

14

15

IV.

16

VERIZON'S RATE REBALANCING PLAN

17 **Q. PLEASE PROVIDE A BROAD OVERVIEW OF VERIZON'S RATE**
18 **REBALANCING PLAN.**

19 A. Verizon will reduce its intrastate access total average revenue per minute
20 (ARPM) composite rate from \$.0485441 to \$.0117043 in three increments
21 over two-years.¹⁴ This reduction will bring the Company's intrastate access
22 ARPM composite rate to parity with its interstate access ARPM composite

¹³ 364.164(2).

¹⁴ See Exhibit ODF-1.

1 rate as defined by the statute.

2

3 By reducing its intrastate access ARPM composite rate to parity, Verizon
4 will reduce its intrastate access revenues by approximately \$76.2 million.¹⁵

5 Verizon will offset this reduction – as prescribed by the Act – by increasing
6 its basic service revenues by approximately the same amount in three
7 – increments over two-years.¹⁶

8

9 **Q. PLEASE EXPLAIN WHY VERIZON'S RATE REBALANCING PLAN**
10 **EMPLOYS COMPOSITE ACCESS RATES.**

11 A. Verizon's rate rebalancing plan is based on composite access rates for a
12 number of reasons.

13

14 First, Section 364.264(6) of the Act expressly defines the intrastate
15 switched access rate as a "composite of the originating and terminating
16 network access rate for carrier common line, local channel/entrance
17 facility, switched common transport, access tandem switching,
18 interconnection charge, signaling, information surcharge, and local
19 switching."¹⁷

20

21

¹⁵ See Exhibit ODF-1.

¹⁶ See Exhibit ODF-2. As this exhibit makes clear, the amounts of the proposed basic local rate increases are slightly less than the amount of the proposed access reductions.

¹⁷ Emphasis added.

1 Second, the use of composite rates follows Commission precedent. In
2 1995, the legislature made revisions to Chapter 364, Florida Statutes, that
3 required local exchange companies to reduce their intrastate switched
4 access rates to interstate levels (as of December 31, 1994). To determine
5 which carriers were required to reduce their interstate rates, the
6 Commission needed to compare each carrier's intra- and interstate access
7 rates. The Commission used composite rates to make the comparisons:

8 Since switched access rates are composed of
9 multiple elements, we believe that a meaningful
10 comparison can only be made by calculating the
11 current intrastate composite rate per minute and the
12 December 31, 1994 interstate composite rate per
13 minute.¹⁸

14
15 Third, the use of composite rates is the only way to meaningfully compare
16 intra- and interstate access rates because these rates have different rate
17 structures and different demand characteristics.

18
19 The conversion of various rate elements that comprise intra- and interstate

¹⁸ In re Switched Access Charges, Docket No. 960910-TP; Order No. PSC-96-1265-FOF-TP (October 8, 1996). The Commission re-affirmed the use of composite rates to calculate reductions in later orders: "By Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, we ordered a composite approach to calculating a LEC's intrastate and interstate rates, because switched access comprises several rate elements. In order to maintain consistency for year-to-year comparison purposes, we find it appropriate to order the LECs to use the same methodology required in 1996 and 1997 to calculate the 1998 reductions." In Re: Flow-Through Of 1998 LEC Switched Access Reductions By IXCS, Pursuant To Section 364.163(6), F. S., Docket No. 980459-TP; Order No. PSC-98-0795-FOF-TP (June 8, 1998).

1 access services into composite per-minute amounts is required by statute
2 and is a reasonable means of comparing these rates.

3

4 **Q. YOU STATED PREVIOUSLY THAT VERIZON'S INTRASTATE ACCESS**
5 **ARPM IS \$.0485441. HOW DID YOU CALCULATE THIS AMOUNT?**

6 A. I summed the intrastate access revenues for the 12 months ending
7 July 31, 2003 for each of the intrastate access rate elements. I then
8 divided the total intrastate access revenues by the total end office
9 switching minutes of use (MOU) for the same time period. This calculation
10 results in the intrastate access ARPM of \$.0485441.¹⁹

11

12 **Q. YOU STATED PREVIOUSLY THAT VERIZON'S INTERSTATE ACCESS**
13 **ARPM IS \$.0117043. HOW DID YOU CALCULATE THIS AMOUNT?**

14 A. The process that I used to calculate the interstate ARPM is similar to (but
15 slightly more complicated than) the process that I used to calculate the
16 intrastate access ARPM.

17

18 First, I calculated the traffic sensitive (TS) portion of the interstate access
19 ARPM, by summing the total TS interstate access revenues for the 12
20 months ending July 31, 2003. I then divided the TS interstate access
21 revenues by the total interstate end office switching MOU for the same
22 time period. This calculation produced a TS interstate ARPM of
23 \$.0055770.

¹⁹ See Exhibit ODF-1.

1

2 Next, I calculated the non-traffic sensitive (NTS) portion of the interstate
 3 access ARPM. I multiplied the interstate presubscribed interexchange
 4 carrier charge (PICC) rates in effect on January 1, 2003 by the intrastate
 5 demand (which is the same as the interstate demand for multiline
 6 business, ISDN-PRI, and Centrex access lines) for the 12 months ending
 7 July 31, 2003. I then divided the total interstate PICC revenues by the
 8 intrastate end office switching MOU for the same time period to develop an
 9 Intrastate PICC equivalent ARPM.²⁰ This calculation produced a NTS
 10 interstate ARPM of \$.0061273.

11

12 Finally, I added the TS interstate ARPM and the NTS interstate ARPM.
 13 This produced a composite interstate access ARPM of \$.0117043.²¹

14

15 **Q. WHY DOES VERIZON'S INTERSTATE ACCESS ARPM INCLUDE THE**
 16 **PICC REVENUES?**

17 A. Interstate access rates contain both traffic sensitive and non-traffic
 18 sensitive charges. The PICC is the non-traffic sensitive charge²² and the
 19 revenues derived from this rate element are therefore appropriately

²⁰ Because the PICC is applied to intrastate rate elements (*i.e.*, multiline business, ISDN-PRI, and centrex access lines), it is appropriate to use intrastate demand (*i.e.*, access lines and end office switching MOU) when calculating the PICC equivalent ARPM.

²¹ See Exhibit ODF-1.

²² The PICC is an interstate access rate that was developed to shift NTS costs out of TS access rate elements to end users on a per line basis. Like other access charge rate elements, the PICC is charged to interexchange carriers (IXCs) with the expectation that they will recover this cost from their end users.

1 included in the interstate access ARPM.

2

3 Moreover, including the PICC in Verizon's interstate access rate is
4 consistent with the Act. As stated above, the Act defines the term
5 "intrastate switched network access rate" to include common line charges,
6 but does not define the term "interstate switched network access rate."²³

7 - The PICC is a federal common line charge.²⁴ Because the Act includes
8 common line charges in Verizon's intrastate access rate, the analogous
9 PICC federal common line charge must be included in Verizon's
10 calculation of the interstate ARPM for a consistent comparison.

11

12 **Q. YOU STATED PREVIOUSLY THAT VERIZON WOULD HAVE TO**
13 **REDUCE ITS INTRASTATE ACCESS REVENUES BY**
14 **APPROXIMATELY \$76.2 MILLION TO REDUCE ITS INTRASTATE**
15 **ACCESS RATE TO PARITY. PLEASE EXPLAIN HOW YOU**
16 **CALCULATED THIS AMOUNT.**

17 A. As explained above, I calculated intrastate and interstate ARPMs of
18 \$.0485441 and \$.0117043, respectively, using rates in effect on January 1,
19 2003 and units for the 12 months ending July 31, 2003. I then subtracted
20 the interstate ARPM from the intrastate ARPM, and multiplied the
21 difference (\$.0368398) by the intrastate demand
22 MOUs). This produced a required access revenue reduction of

²³ Section 364.164(6).

²⁴ See Footnote 22.

REDACTED

1 \$76,231,567.²⁵

2

3 **Q. PLEASE DESCRIBE THE RATE ELEMENTS THE COMPANY WILL**
4 **ADJUST TO EFFECTUATE THE \$76.2 MILLION REDUCTION.**

5 A. Verizon will make six principal intrastate access rate adjustments in three
6 increments over two years to achieve the necessary revenue reduction.

7 - Specifically, it will: (1) reduce the interconnection charge from \$.0102494
8 to \$.0058073 in the first increment; (2) eliminate the information surcharge
9 in the first increment; (3) eliminate the interconnection charge in the
10 second increment; (4) eliminate the originating carrier common line charge
11 (CCL) in the second increment; (5) decrease the terminating CCL from
12 \$.0246950 to \$.0228649 in the second increment; and (6) reduce the
13 terminating CCL from \$.0228649 to \$.0031065 in the third increment.
14 These access rate reductions will result in revenue reductions of \$24.1
15 million in the first increment, \$27.0 million in the second increment and
16 \$25.2 million in the third increment.²⁶

17

18 **Q. WHY DID VERIZON CHOOSE TO REDUCE OR ELIMINATE THE**
19 **INTERCONNECTION CHARGE, THE INFORMATION SURCHARGE,**
20 **AND THE CCL CHARGE?**

21 A. The interconnection charge was established to recover non-traffic sensitive
22 costs previously recovered from transport rates. This permitted separate

²⁵ See Exhibit ODF-1.

²⁶ See Exhibit ODF-1.

1 rates to be set for dedicated and common transport, while shifting recovery
2 of support previously included in transport rates to the interconnection
3 rates. The interconnection charge has been eliminated at the federal level
4 and it is appropriate to take this opportunity to do the same at the state
5 level.

6
7 - The information surcharge was initially established by the FCC in response
8 to concerns about the rules for recovering the costs of interstate directory
9 assistance. The FCC's access charge rules permitted local exchange
10 carriers (LECs) to recover the interstate portion of their directory
11 assistance costs through an "information" rate element. This element was
12 assessed on a per-call basis to all interexchange carriers (IXCs) requesting
13 access to directory assistance boards through IXC directory assistance
14 trunks. Although the FCC stated that information costs are non-traffic
15 sensitive and that collecting these costs over traffic-sensitive rate elements
16 would depart from cost-causation (and thus constitute another form of
17 support collected through access charges), it allowed ILECs to establish
18 this per-minute-of-use charge on an interim basis. Verizon eliminated this
19 charge at the federal level as of September 1999 and it is now appropriate
20 to do the same at the state level.

21
22 The CCL charge is another method that has been used to obtain support
23 from access charges. Verizon previously eliminated the CCL charge on
24 originating traffic at the federal level, and it is now appropriate to eliminate

1 this charge at the state level. After taking into account the reductions to
2 the other rate elements described above, reducing the terminating CCL
3 rate from \$.0246950 to \$.0031065 brings Verizon to parity.

4

5 **Q. PLEASE DESCRIBE THE BASIC LOCAL RATES THAT WILL BE**
6 **ADJUSTED TO ENSURE THAT THE REBALANCING PROCESS IS**
7 **- REVENUE NEUTRAL.**

8 A. As discussed above, to achieve revenue neutrality, Verizon will have to
9 increase its basic local service revenues by approximately \$76.2 million to
10 offset the decreases in its intrastate access revenues. The Company will
11 accomplish this offset by increasing basic local residential revenues by
12 approximately \$70.9 million and basic local business revenues by
13 approximately \$5.3 million in three increments over two years.²⁷

14

15 On the consumer side, Verizon will raise the basic monthly recurring
16 charges in each of its five rate groups by \$4.73.²⁸ These increases will
17 take place in three increments: \$1.58 in increment one, \$1.58 in increment
18 two, and \$1.57 in increment three. Verizon will also raise the residence
19 non-recurring network establishment charge from \$20.00 to \$25.00, and
20 the non-recurring central office connection charge from \$35.00 to \$40.00.

21 Both of these increases will take place in three

22

²⁷ See Exhibit ODF-2 for a summary of the present and proposed rates.

²⁸ Residential rates currently range from \$10.12 in Rate Group 1 (the least dense rate group) to \$12.10 in Rate Group 5 (the most dense rate group).

1 increments over two years.

2

3 On the business side, Verizon will raise the basic monthly recurring
4 charges in each of its five rate groups to \$32.00.²⁹ The rate increase up to
5 \$32.00 in Rate Group 5 (the most dense rate group) will take place in the
6 second and third increments, while the rate increases in the other four rate
7 groups will take place over all three increments. Verizon will also raise the
8 business non-recurring network access establishment charge from \$33.90
9 to \$34.00.

10

11 **Q. WHY IS VERIZON INCREASING ITS BASIC LOCAL RESIDENTIAL**
12 **RATES BY A UNIFORM AMOUNT AND ITS BASIC LOCAL BUSINESS**
13 **RATES BY DIFFERING AMOUNTS?**

14 A. Verizon's objective is to comply with the statute and remove support
15 flowing from access rates to basic local rates. The Company will do this by
16 increasing basic local rates that are not covering (or barely covering) their
17 incremental costs, and thus making little or no contribution to common
18 overhead costs.

19

20 Verizon is increasing all basic local residential rates by a uniform amount
21 due to the legislative constraint that prohibits residential Lifeline rate
22 increases during the rebalancing period. Today, Lifeline customers

23

²⁹ Single-line business rates currently range from \$24.47 in Rate Group 1 (the least dense rate group) to \$30.35 in Rate Group 5 (the most dense rate group).

1 receive a monthly credit for the Subscriber Line Charge (SLC) of \$6.50 and
2 other Lifeline credits totaling \$7.00, for a total Lifeline credit of \$13.50.
3 This is a uniform credit across all rate groups. If Verizon were to increase
4 residential rates by differing amounts (as we are proposing to do for the
5 business rates), different Lifeline credits would have to be established for
6 each rate group. Establishing different Lifeline credits for each rate group
7 - would require Verizon to make complex and costly changes to its billing
8 system. Verizon has determined that it does not make economic sense to
9 undertake these changes, especially given that a uniform increase in
10 residential local rates for the two years of the rebalancing plan moves all
11 rates toward their underlying costs.³⁰

12
13 Verizon's plan to move all basic local business rates to \$32.00 will also
14 move prices towards their appropriate cost, including some contribution to
15 overhead, thereby promoting more economically rational pricing. Verizon's
16 business pricing product managers chose to establish a uniform rate
17 across all business rate groups to: (1) create a uniform price, which they
18 believe will respond to the desire for simplicity in the Florida marketplace;
19 (2) provide some additional contribution from these services; and (3) to
20 help limit price increases on other services in this process. As Dr. Danner

³⁰ Additionally, Verizon is establishing Transitional Lifeline credits, in addition to the existing 30% discount, that will ensure that no transitional lifeline customers will realize a rate increase in their basic residential rate. Transition Lifeline Assistance is a state program that provides discounts to the basic local residential rates, for a period of 12 months, for customers who no longer qualify for the traditional Lifeline Assistance Program.

1 explains, Verizon is at competitive risk for these pricing adjustments, and
2 deserves deference for its business decisions in how to price these
3 services in a competitive environment.³¹

4

5 **Q. THE ACT PERMITS VERIZON TO PETITION TO REBALANCE RATES**
6 **OVER TWO TO FOUR YEARS. WHY DID VERIZON CHOOSE TO**
7 **REBALANCE RATES OVER TWO YEARS?**

8 A. Verizon chose to rebalance rates in three increments over two years to
9 bring the benefits of rate rebalancing to ratepayers in the shortest period
10 allowed by the Act. As long as residential basic local rates remain
11 substantially below their costs, competing carriers will be reluctant to enter
12 the residential market. Bringing rates more in line with costs will provide
13 the incentive for companies to enter the market, thereby providing
14 customers with freedom of choice, encouraging the introduction of new
15 technologies and services, and encouraging investment in our
16 telecommunications infrastructure.

17

18 **Q. ARE THE INTRASTATE ACCESS AND BASIC LOCAL RATE**
19 **ADJUSTMENTS, WHICH VERIZON PROPOSES TO MAKE IN THE**
20 **SECOND AND THIRD INCREMENTS, ESTIMATES THAT MAY HAVE**
21 **TO UPDATED?**

22 A. Yes. Given that the revenue neutral rate adjustments must take place
23 once each year and must be made using the most recent 12-months

³¹ Danner Direct Testimony, Footnote No. 4.

1 demand units, the actual rate increases made in each year will have to be
2 adjusted to account for the difference between the current units in
3 Verizon's plan and the actual units at the time of the rate adjustments.

4

5 Q. HAS VERIZON DEVELOPED ILLUSTRATIVE TARIFFS FOR THE
6 PROPOSED ADJUSTMENTS TO ITS INTRASTATE ACCESS AND
7 BASIC LOCAL RATES?

8 A. Yes. These illustrative tariffs are attached hereto as Exhibit No. ODF-4.

9

10

V.

11

VERIZON'S RATE REBLANCING PLAN

12

SHOULD BE APPROVED BECAUSE

13

IT MEETS THE CRITERIA IN THE ACT

14 A. The Rate Rebalancing Plan Removes Current Support For Basic
15 Local Telecommunications Services.

16 Q. DOES VERIZON'S PLAN REMOVE CURRENT SUPPORT FLOWING
17 FROM ITS ACCESS RATES TO ITS BASIC LOCAL
18 TELECOMMUNICATIONS SERVICES?

19 A. Yes. Verizon's basic local residential telecommunications services receive
20 support, and Verizon's plan removes this support by increasing the rates of
21 these services.

22

1 Q. WHAT METHODOLOGY DID VERIZON EMPLOY TO DEMONSTRATE
2 THAT ITS BASIC LOCAL TELECOMMUNICATIONS SERVICES
3 RECEIVE SUPPORT?

4 A. Verizon used the unbundled network element (UNE) rates established by
5 this Commission in Order No. PSC-02-1574-FOF-TP, issued November
6 15, 2002 (November 15 Order), to develop composite UNE rates that
7 - conservatively estimate the total service long-run incremental costs
8 (TSLRICs) of basic local services. Verizon then compared those
9 composite UNE rates to the rates of basic local residential and business
10 services to demonstrate the level of support received.³²

11

12 Q. WHY DID VERIZON USE THE UNE RATES ESTABLISHED IN THE
13 NOVEMBER 15 ORDER AS A SURROGATE FOR TOTAL ELEMENT
14 LONG-RUN INCREMENTAL COSTS (TELRICS)?

15 A. Verizon relied on the Commission-approved UNE rates for three reasons.
16
17 First, the Commission has already approved these rates, and so it will not
18 have to entertain any controversy about their level in this proceeding. The
19 Commission only has 90 days to issue an order, and these rates will let the
20 Commission meet the terms of the statute. Of course, Verizon has
21 appealed these rates and costs to the Florida Supreme Court because

³² See Exhibit ODF-3.

1 they understate Verizon's cost to render service.³³ Verizon's appeal
2 demonstrates that these rates are conservative and set a value that is
3 below the true cost of residential basic service. Otherwise stated, the
4 subsidy flows to local services are actually higher when the correct costs
5 are used. However, using these rates more than satisfies the statutory
6 requirement that support to local rates be removed to enhance market
7 entry.

8
9 Second, the composite UNE rates are a conservative estimate of the cost
10 of provisioning basic local residential services because they do not reflect
11 true TSLRICs. They exclude retailing costs (e.g. marketing and
12 advertising) and retail directory listings costs that Verizon actually incurs to
13 provision these services, thus understating the estimated TSLRIC. They
14 also reflect other TELRIC assumptions with which Verizon disagrees.

15
16 Third, the composite UNE rates do not include features.

17
18 Fourth, the Commission approved UNE rates are readily available. It
19 would be less resource intensive for the Commission and the parties to
20 analyze these rates, which have already been subject to considerable
21 scrutiny, than it would be to develop and analyze a new cost study.

³³ Verizon has filed an appeal with the Florida Supreme Court challenging the rates established in the November 15 Order. That appeal is pending. Verizon's use of these artificially low rates, solely for purposes of demonstrating that its basic residential services receive support, does not waive any claims in Verizon's pending appeal.

1

2 **Q. DO THE COMMISSION ORDERED UNE RATES PROVIDE SOME**
3 **MARKUP FOR JOINT AND COMMON COST?**

4 A. Yes, the Commission used a common cost allocator of 12.1156 percent.

5

6 **Q. WHY DID VERIZON LOOK AT THE COMMISSION ORDERED UNE**
7 **RATES AT A RATE GROUP LEVEL VERSUS AN EXCHANGE LEVEL?**

8 A. It was proper to estimate the cost at the rate group level because the rate
9 rebalancing plan establishes prices at that level. It would be inappropriate
10 for Verizon to use estimated costs at the exchange level or the total
11 company level, because current and proposed rates in the rate rebalancing
12 plan do not set prices at those levels. Moreover, establishing prices at the
13 exchange level would cause ratepayers in the higher-cost exchanges to
14 pay higher basic local rates than those established in the rate rebalancing
15 plan. For example a customer in Indian Lake, a zone 3 exchange would
16 experience rates in excess of the conservative \$35.75 estimated UNE-P
17 rate if an exchange level basis was utilized for pricing purposes.³⁴

18

³⁴ Based on Verizon's filed UNE cost in docket number 990649B-TP, Indian Lake is 75% higher than the average Zone 3 cost. Therefore Indian Lake's exchange level estimated UNP-P cost would be \$62.56 (UNE-P based on ordered rates: \$35.75 x 1.75).

1 Q. PLEASE DESCRIBE THE PROCESS YOU USED TO DEVELOP THE
2 COMPOSITE UNE RATE.

3 A. I first identified the specific ordered UNEs that would be used to provide
4 basic local residential or business service. These UNEs include the loop,
5 port, switching and transport. Next, given that the UNE loop rate is
6 deaveraged into three zones in Florida, I mapped the deaveraged loop rate
7 for each exchange to its appropriate rate group. This allowed me to
8 develop a composite UNE rate for each rate group. I then compared the
9 current local exchange rates for residence and business services,
10 including the subscriber line charge of \$6.50, with the composite UNE rate
11 for each rate group. The estimated amount of support is the difference
12 between the current basic rates and the UNE composite rate for each rate
13 group. For example, the basic residential rate in Rate Group 5 (the most
14 dense rate group), including the \$6.50 SLC, is \$18.60. The composite
15 UNE rate for this rate group is \$23.90. Therefore, based on this
16 conservative analysis, the estimated support provided to the basic
17 residential customer in Rate Group 5 is \$5.30, or 22.18%.³⁵

18
19 The following table shows the business and residence contribution
20 analysis by rate group:

21

³⁵ See Exhibit ODF-3.

1 CURRENT ESTIMATED SUPPORT

2 RESIDENCE

3		Annualized	Present	Present Rate	Ordered	Estimated
4	<u>Service Description</u>	<u>Units</u>	<u>Rate</u>	<u>w/EUCL</u>	<u>UNE-P*</u>	<u>Support</u>
5	Basic Local Exchange Service					
6	Flat Rate – 1 Party Service/Business					
7	Rate Group 1		\$10.12	\$16.62	\$35.75	-53.51%
8	Rate Group 2		\$10.95	\$17.45	--	--
9	Rate Group 3		\$11.33	17.83	\$31.27	-42.98%
10	Rate Group 4		\$11.70	\$18.20	\$28.72	-36.63%
11	Rate Group 5		\$12.10	\$18.60	\$23.90	-22.18%

13 CURRENT ESTIMATED SUPPORT

14 BUSINESS

16		Annualized	Present	Present	Ordered	Estimated
17	<u>Service Description</u>	<u>Units</u>	<u>Rate</u>	<u>Rate w/EUCL</u>	<u>UNE-P*</u>	<u>Support</u>
18	Basic Local Exchange Service					
19	Flat Rate – 1 Party Service/Business					
20	Rate Group 1		\$24.47	\$30.97	\$35.75	-13.37%
21	Rate Group 2		\$26.82	\$33.32	--	--
22	Rate Group 3		\$28.05	\$34.55	\$31.27	10.49%
23	Rate Group 4		\$28.85	\$35.35	\$28.72	23.08%
24	Rate Group 5		\$30.35	\$36.85	\$23.90	54.18%

25

26 Q. HOW DID YOU DETERMINE WHAT ELEMENTS TO INCLUDE IN THE

27 COMPOSITE RATE, AND WHAT ASSUMPTIONS DID YOU MAKE

28 REGARDING SWITCHING AND TRANSPORT USAGE?

29 A. I used the network elements that are typically used to provide basic local

1 residential and business telephone service. These elements are the loop,
 2 port, switching and transport. The loop and port elements are priced on a
 3 flat rate basis, and switching and transport are priced on a minute-of-use
 4 basis. I determined, based on typical usage patterns, that 2,376 switching
 5 minutes and 618 transport minutes are typically used to provision basic
 6 local service in Florida.

7 -

8 **Q. WHAT ARE THE RESULTS OF YOUR COMPOSITE UNE ANALYSIS**
 9 **AND WHAT CONCLUSIONS DO YOU REACH?**

10 A. Basic local residential rates are subsidized and receive substantial
 11 support. In all five basic residential rate groups, the current rates are
 12 below the ordered UNE rates. The estimated shortfall ranges from
 13 in Rate Group 1 to in Rate Group 5. The two-year
 14 rebalancing effort will make significant progress in eliminating support in
 15 residential rates, but a level of subsidy will remain in all exchanges even
 16 after residential rates are rebalanced.³⁶

17

18 With regard to business rates, there is currently a subsidy being provided
 19 to rates in Rate Group 1 (the least dense rate group) only. Rates
 20 (including the SLC) in Rate Groups 2 through 5 exceed their comparable
 21 composite UNE rates.³⁷ Even using the conservative composite UNE
 22 rates, this analysis confirms that basic local residential rates receive

³⁶ See Exhibit ODF-3.

³⁷ See Exhibit ODF-3.

REDACTED

1 significant support from switched access rates, and the more competitive
2 business services cover their composite UNE rates (albeit with small
3 contributions to covering Verizon's common costs) in all but the least
4 dense rate group.

5

6 **B. The Rate Rebalancing Plan Requires Intrastate Switched Network**
7 **Access Rate Reductions To Parity Over A Period Of Not Less Than**
8 **Two Years.**

9 **Q. DOES VERIZON'S RATE REBALANCING PLAN REQUIRE**
10 **INTRASTATE SWITCHED NETWORK ACCESS RATE REDUCTIONS**
11 **TO PARITY OVER A PERIOD OF NOT LESS THAN TWO YEARS NOR**
12 **MORE THAN FOUR YEARS?**

13 A. Yes. As explained above, Verizon will reduce its intrastate access
14 composite rate from \$.0485441 to \$.0117043 in three increments over two
15 years. As required by the statute, this reduction will bring the Company's
16 intrastate access composite rate to parity with its interstate access
17 composite rate in effect on January 1, 2003.

18

19 **C. The Rate Rebalancing Plan Is Revenue Neutral, As That Term Is**
20 **Defined In The Act.**

21 **Q. IS VERIZON'S RATE REBALANCING PLAN REVENUE NEUTRAL?**

22 A. Yes. As explained above, the plan calls for Verizon to reduce its intrastate
23 access ARPM composite rate to parity, which will require the Company to
24 reduce its intrastate access revenues by approximately \$76.2 million. It

1 further calls for the Company to offset this amount by increasing basic
2 local residential revenues by approximately \$70.9 million and basic local
3 business revenues by approximately \$5.3 million.

4

5

VI.

6

IMPLEMENTATION OF THE

7

RATE REBALANCING PLAN

8

Q. HOW WILL THE COMPANY IMPLEMENT EACH YEAR'S PRICING

9

ADJUSTMENTS?

10

A. First, consistent with the statute and prior to any price adjustment, Verizon

11

will immediately create a revenue category mechanism that includes basic

12

local telecommunications service revenues and intrastate switched

13

network access revenues.³⁸ This revenue category mechanism will allow

14

the Commission to verify that Verizon's pricing adjustments are revenue

15

neutral. Second, and also consistent with the statute, no later than 45

16

days in advance of the initial price adjustment, Verizon will ensure that all

17

affected basic local service customers are notified of the date and amount

18

of the pending pricing adjustments. In addition to customer notice, no later

19

than 45 days in advance of the desired effective date for its initial pricing

20

adjustments, Verizon will make a formal tariff filing with the Commission

³⁸ A "revenue category mechanism" is simply the establishment of a revenue category that includes basic local residential and business rates and intrastate switched access rates for the sole purpose of ensuring that all rate changes, when multiplied by current units, produce revenue changes that are, in total, revenue neutral, in accordance with Section 364.164(2) of the statute.

1 that mirrors the attached illustrative tariff.³⁹ No sooner than 12 months
2 following the effective date of Verizon's first price adjustments, this tariff
3 filing process will be followed again to implement the second price
4 adjustments. The third price adjustment will take place 12 months later.

5

6 **Q. WILL VERIZON'S TARIFF FILINGS PRECISELY MIRROR THE**
7 **ILLUSTRATIVE TARIFF?**

8 A. No. Verizon's formal tariff filings will not precisely mirror the attached
9 illustrative tariff because the statute requires the Company to base its filing
10 on its most recent 12-months pricing units. Therefore, for its formal tariff
11 filing implementing the price adjustments, Verizon will update its proposed
12 rates using the most recent 12-months units.

13

14 **Q. WHAT ACTION IS THE COMMISSION REQUIRED TO TAKE UPON**
15 **RECEIVING THE FORMAL TARIFF FILINGS YOU DESCRIBED**
16 **ABOVE?**

17 A. Section 364.164(3) states, "[t]he commission shall have the authority only
18 to verify the pricing units for the purpose of ensuring that the company's
19 specific adjustments, as authorized by this section, make the revenue
20 category revenue neutral for each filing."⁴⁰ Further, the statute states that,
21 "[t]he commission shall, within 45 days after the rate adjustment filing,
22 issue a final order confirming compliance with this section, and such an

³⁹ See Fulp Exhibit ODF-4

⁴⁰ Emphasis added.

1 order shall be final for all purposes.” Thus, when the Commission
2 approves Verizon’s petition, and Verizon files its formal tariff, the
3 Commission must within 45 days: (1) verify that each of Verizon’s annual
4 tariff filings are revenue neutral within the revenue category mechanism
5 created for this purpose; and (2) issue a final order confirming a revenue
6 neutral finding.

7 -

8 VII.

9 CONCLUSION

10 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

11 A. Verizon’s Plan accomplishes access rate rebalancing in a revenue neutral
12 manner over a two-year period as required by the Act. Further, the Plan
13 removes support from basic local rates thus inducing market entry by
14 creating a more attractive competitive environment for these customers.
15 Verizon’s Plan meets all the criteria contained in the Act and should be
16 approved by the Commission

17

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

19 A. Yes, it does.

20

21

22

23

24

1 BY MR. CHAPKIS:

2 Q Mr. Fulp, have you caused to be filed in
3 this proceeding rebuttal testimony consisting of 12
4 pages?

5 A Yes.

6 Q And do you have any changes to that
7 testimony?

8 A No.

9 Q If I were to ask you the questions
10 contained in that testimony today, would your answers
11 be the same?

12 A Yes.

13 MR. CHAPKIS: There are no exhibits to
14 that testimony. I would ask that that testimony be
15 entered into the record as though read from the stand.

16 CHAIRMAN JABER: The prefilled rebuttal
17 testimony of Orville D. Fulp will be inserted into the
18 record as though read.

19

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I.

INTRODUCTION AND OVERVIEW OF REBUTTAL TESTIMONY

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

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

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

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

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

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

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

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

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

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

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

18

19

II.

20

THE PICC IS PROPERLY INCLUDED IN

21

VERIZON'S INTERSTATE ACCESS RATE

22

Q. MESSRS. OSTRANDER (PAGE 43, LINE 7 – PAGE 47, LINE 10) AND

23

FONTIEX (PAGE 10, LINES 1– 20) ARGUE THAT THE PICC SHOULD

24

NOT BE INCLUDED IN VERIZON'S INTERSTATE ACCESS RATE. DO

25

YOU AGREE?

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

7

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

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

20

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

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

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

3

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

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

16

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

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

25

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

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

13

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

20

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

1 **AGREE?**

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

18

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

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

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

6

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

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

13

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

17

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

23

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

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

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

19

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

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

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

3

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

8

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

11

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

14

15

III.

16

LIFELINE CUSTOMERS ARE PROTECTED UNDER THE ACT

17

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

22

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

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

9
10 **IV.**

11 **VERIZON'S PROPOSAL TO**

12 **UPDATE UNITS COMPLIES WITH THE ACT**

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

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

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

3

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

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

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

3

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

10

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

12 **A. Yes.**

13

14

15

16

17

18

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25

1 BY MR. CHAPKIS:

2 Q Mr. Fulp, would you please summarize your
3 testimony?

4 A Yes. Verizon is sponsoring four witnesses
5 in this proceeding. You heard from Dr. Ken Gordon
6 yesterday, who is one of our witnesses.

7 I am here to testify to the rebalancing
8 plan that we filed and demonstrate that our plan
9 brings access rates to parity with our federal access
10 charges, removes current support for basic services,
11 and is revenue neutral, all in compliance with the
12 act.

13 Dr. Danner will be preceding me and will
14 testify and demonstrate some other criteria of the
15 plan, basically that it removes current support and
16 enables a more competitive market for residential
17 customers, it will induce enhanced market entry, and
18 it provides important benefits to residential
19 customers.

20 Mr. Evan Leo will be testifying on the
21 state of competition in Verizon. He prepared a
22 Verizon territory specific competition report, which
23 is consistent with the Commission staff's competition
24 report, which points out the huge disparity in
25 residential competition versus business competition in

1 Verizon's territory.

2 when the Commission considers the testimony
3 by Verizon by all witnesses, it will see that our
4 plan, number one, meets all of the criteria of the
5 act; number two, is a reasonable and beneficial
6 approach to meeting the criteria of the act, and it
7 should be approved for the benefit of all ratepayers.

8 In bringing access rates to parity, Verizon
9 chose to do so in three increments over two years. We
10 utilized composite rates which are consistent with the
11 act and consistent with previous Commission precedent
12 when we had reduced access rates to interstate rates
13 in the past. Using composite rates also allows us to
14 make a valid comparison between inter- and intrastate
15 rates without having to have a strict mirroring.

16 In order to reach parity to our federal
17 access rates, we have a reduction in our intrastate
18 access rates of \$76.2 million. We will offset this
19 with increases in basic local service rates by the
20 same amount. At the end of the day, when you look at
21 the access reductions that Verizon is proposing, if
22 you look at a call that Verizon will handle two ways,
23 it's 7 to 8 cents reduction in our intrastate access
24 rates.

25 In removing the basic support from local

1 services, Verizon utilized UNE-Ps that have been
2 approved by this Commission, and it's very important
3 to understand why we chose to do that.

4 Number one, in utilizing the UNE-Ps, it's a
5 conservative estimate of the TSLRICs that have been
6 discussed by other companies in this proceeding.

7 We followed the Commission UNE-P rates that
8 were approved, even though these rates are on appeal
9 by Verizon. We don't believe that they are the
10 correct level, but again, for this proceeding, we
11 chose to utilize Commission-approved UNE-P rates to
12 make our point on what the support calculation would
13 be. As I said, the UNE-P rates are a conservative
14 estimate of TSLRICs. We did not include any
15 retailing costs. We excluded features.

16 The last reason for utilizing this is that,
17 again, they're readily available. We hoped we
18 wouldn't have to argue about the elements, about cost
19 standards, by utilizing Commission-approved UNE-P
20 rates. It also shows at the end of the day that there
21 is a large amount of support to basic services
22 utilizing these rates.

23 As far as the plan being revenue neutral,
24 again, we developed our parity. We looked at the
25 access reductions that would need to be made to be in

1 parity with our federal access reductions, and then we
2 chose the increases that we have on basic services and
3 nonrecurring charges to offset the amounts.

4 Our attorney has already talked to you
5 about Lifeline. We will continue the Lifeline credit,
6 as he stated, for four years. Also, I would like to
7 point out that in the long run, we realized that there
8 needs to be a competitive neutral Lifeline funding
9 mechanism, and Verizon will work with all parties in
10 the industry in order to develop something like that
11 for more long term if there is a concern after the
12 four years with Lifeline rates.

13 CHAIRMAN JABER: Let me clarify before you
14 close your summary so that if there's any
15 disagreement, you have an opportunity to clear it up.

16 You will continue the Lifeline credit
17 because you have to. What you're saying -- correct?
18 What you're saying is no increases will apply to
19 Lifeline customers for a period of four years starting
20 September.

21 THE WITNESS: That's correct.

22 CHAIRMAN JABER: And I make that
23 clarification because whatever the Lifeline credit is
24 on the bill, it is. The incremental increase after
25 that four-year period is what you will be collecting

1 in addition to the bill. You're not suggesting that
2 you're not going to provide the Lifeline credit to
3 customers after the four-year period?

4 THE WITNESS: No, not at all, not at all.

5 CHAIRMAN JABER: That's how your summary
6 came out, so --

7 THE WITNESS: I apologize.

8 CHAIRMAN JABER: -- let me let you clarify
9 that.

10 THE WITNESS: Not at all.

11 In summary, Verizon's plan will bring our
12 rates into parity with our federal charges, it will be
13 revenue neutral, it will provide benefits to
14 customers, and it fully complies with the act.

15 Lastly, Verizon Long Distance will have a
16 witness Broten who will be on later in this proceeding
17 to talk about flow-through of access charges, and he
18 will discuss how Verizon LD will do that. You will
19 see that it will be weighted heavily towards the
20 residential class.

21 As the ILEC, I will tell you that in
22 conjunction with intraLATA Toll rates, our plan will
23 also be to flow through access reductions that are
24 received for intraLATA toll.

25 That concludes my summary.

1 MR. CHAPKIS: The witness is available for
2 cross examination.

3 CHAIRMAN JABER: Public Counsel.

4 MR. BECK: No questions.

5 CHAIRMAN JABER: Ms. Bradley.

6 MS. BRADLEY: No questions.

7 CHAIRMAN JABER: Mr. Twomey.

8 MR. TWOMEY: Yes, ma'am.

9 MR. HATCH: Madam Chairman, I don't know.
10 Pursuant to your protocol, perhaps I should go first.
11 I do have a few questions.

12 CHAIRMAN JABER: Yes, please do. Thank you
13 for jumping in, Mr. Hatch.

14 CROSS EXAMINATION

15 BY MR. HATCH:

16 Q Mr. Fulp, my name is Tracy Hatch. I'll be
17 asking you a few questions on behalf of AT&T.

18 I want to talk to you about some of your
19 PICC calculations that you identify in your direct
20 testimony. I believe that's on page -- I guess 12
21 through 15 total, but I'm going to focus on -- I think
22 it's page 12, at the top, lines 1 through 9, actually.

23 CHAIRMAN JABER: Mr. Hatch, bring the
24 microphone closer to you.

25 MR. HATCH: My apologies.

1 BY MR. HATCH:

2 Q Now, if I understand what you're
3 describing in terms of calculation of your
4 nontraffic-sensitive interstate average revenue per
5 minute, as I understand your mathematics, what you
6 have done -- and correct me where I go wrong, but you
7 took your interstate PICC rates as they are, or were,
8 at least as of January 1, 2003; is that correct?

9 A That's correct.

10 Q Now, would you describe the PICC charge for
11 me for a moment, please?

12 A I'm sorry.

13 Q would you describe the PICC charge for me,
14 what that is, how it works.

15 A The PICC charge is a charge in our
16 interstate tariff, I believe it's Section 12, that is
17 a -- under our carrier common line charges in our
18 interstate tariff, which includes the CCL as well as
19 the PICC.

20 The PICC is a per line charge assessed to
21 interexchange carriers in our interstate jurisdiction.
22 It is also -- it can also be assessed to an end-user
23 customer if an end user is not PIC'd to an
24 interexchange carrier. And this charge applies to
25 business customers.

1 Q Your PICC charge as you have applied it
2 historically has been a flat rate charge per line; is
3 that correct?

4 A That's correct.

5 Q Now, in terms of your calculations, you
6 took your interstate PICC rates, and then you
7 multiplied that times your intrastate or interstate
8 demand. And as I understand it in your testimony,
9 your inter- and intrastate demand is the same because
10 it's based on business lines; is that correct?

11 A That's correct.

12 Q Okay. And so that would give you your
13 total interstate PICC revenues; is that correct?

14 A That's correct. I'm sorry. Did you say
15 interstate?

16 Q Interstate PICC revenues.

17 A Yes.

18 Q That's how you derive that.

19 A Yes.

20 Q Okay. The next step in your calculations
21 is, you took your interstate PICC revenues from the
22 first calculation, then you divided that by your
23 intrastate minutes of use to get your interstate ARPM;
24 is that correct?

25 A I divided it by intrastate minutes of use

1 to get my intrastate average revenue per minute
2 equivalent to interstate.

3 Q Turn to your testimony on page 12, lines 8
4 and 9. Could you read the last sentence for me,
5 please?

6 A This calculation produced an NTS interstate
7 ARPM of .0061273.

8 Q Now, what you just told me is that
9 calculation produced an intrastate ARPM, not an
10 interstate ARPM, but your testimony says it's an
11 interstate ARPM. Could you just clarify which one it
12 is?

13 A It utilizes the interstate demand and the
14 intrastate minutes of use, and I guess I was
15 explaining to you why we divided it by intrastate
16 minutes of use versus interstate. And the reason we
17 did that was in order to come up with an intrastate
18 equivalent.

19 Q In order to generate an interstate average
20 revenue per minute, wouldn't you have to use
21 interstate minutes of use to get your average revenue
22 per minute for interstate?

23 A If you did that --

24 MR. HATCH: Could I get a yes or no, Madam
25 Chairman?

1 COMMISSIONER DEASON: Mr. Chairman can
2 direct.

3 MR. HATCH: I realized my mistake before I
4 looked, but I was hoping you wouldn't notice.

5 COMMISSIONER DEASON: Yes. If you could
6 preface your answer with a yes or no, it would be
7 helpful.

8 THE WITNESS: And I'm sorry. The question
9 again?

10 BY MR. HATCH:

11 Q How can you get -- in order to calculate an
12 interstate average revenue per minute, do you not have
13 to utilize interstate minutes of use?

14 A Because the end result --

15 Q Yes or no?

16 A I think the answer is no, and let me
17 explain. The first thing we have to do is calculate
18 the PICC interstate revenue. And the end result that
19 we're trying to come up with is an intrastate PICC
20 equivalent, average revenue per minute. That's what
21 we proposed in our filing. Okay. So you don't have
22 the exact same step that you had in my
23 traffic-sensitive calculation for interstate, where I
24 took my interstate revenue and divided it by my
25 interstate demand to come up with my interstate

1 average revenue per minute. Okay. So that's what I
2 did on the traffic-sensitive.

3 On the PICC side, I don't have a
4 corresponding intrastate PICC rate element. And so
5 what I did is to take the revenues that I received
6 from the interstate jurisdiction. And again, the end
7 result that I'm looking for is an intrastate average
8 revenue per minute to keep me revenue neutral with my
9 calculation. So I had to utilize intrastate minutes
10 of use on my interstate PICC revenue. Otherwise, I
11 would not be revenue neutral.

12 If I took the dollar amount of revenue for
13 PICC on the interstate jurisdiction and divided it by
14 my interstate minutes of use and came up with a rate
15 and utilized that rate against my intrastate minutes
16 of use, I would not be able to be revenue neutral with
17 my interstate revenues.

18 Q Let me go back a little bit. In terms of
19 generating your composite interstate rate, you
20 generated essentially an average revenue per minute
21 for your traffic-sensitive and your
22 nontraffic-sensitive, and that gave you your composite
23 rate; is that correct?

24 A That's correct.

25 Q Now, that's for your interstate. Now,

1 going back to my previous question, before you ever
2 get to the intrastate jurisdiction, in calculating
3 your interstate nontraffic-sensitive portion, you used
4 your -- in this case, you're using PICC as one of
5 those nontraffic-sensitive elements. In order to
6 calculate that interstate average revenue per minute,
7 how can you get an interstate average revenue per
8 minute without using interstate minutes?

9 A I can get an interstate average revenue
10 per minute for the PICC by doing the calculation that
11 you suggest. I cannot utilize that as the intrastate
12 rate that I would charge in order to be revenue
13 neutral, and that's why I had to use the intrastate
14 minutes of use, because --

15 Q Let me break this down into a couple of
16 stages. Perhaps maybe that's where the disconnect is
17 arriving.

18 You first need to calculate -- in order to
19 do parity with a composite rate, you have to first
20 calculate what your interstate composite rate is; is
21 that correct?

22 A That's correct.

23 Q And in doing so, you used intrastate
24 minutes as your denominator for the PICC revenues to
25 calculate your interstate average revenue per minute.

1 That's what you did; right?

2 A Yes.

3 Q Again, how does -- well, correct me if I'm
4 wrong. Your interstate minutes are significantly
5 higher than your intrastate minutes; is that correct?

6 A That's correct.

7 Q I think those numbers are found in -- was
8 it ODF-1?

9 A Yes.

10 Q And you can refer to those if you need to.
11 But there's a substantial different. Your interstate
12 numbers were substantially higher than your intrastate
13 numbers; correct?

14 A Correct.

15 Q Now, by using intrastate minutes of use,
16 you have effectively inflated your interstate average
17 revenue per minute; is that --

18 MR. CHAPKIS: Objection. Misstates the
19 witness's testimony.

20 CHAIRMAN JABER: Mr. Hatch, you heard the
21 objection. Mischaracterizes the witness's testimony
22 is the objection.

23 MR. HATCH: Let me try this again. I don't
24 believe that I did that, but --

25 CHAIRMAN JABER: You don't want to do that.

1 You want to --

2 MR. HATCH: Clearly, I do not wish to do
3 that. I apologize if I did that.

4 CHAIRMAN JABER: Do you wish to rephrase
5 the question and move on?

6 BY MR. HATCH:

7 Q In calculating your interstate average
8 revenue per minute for PICC, you divided it by
9 intrastate minutes. In order to get an actual or a
10 more accurate interstate PICC average revenue per
11 minute, you would have to divide that by interstate
12 minutes; correct?

13 A No, I don't believe so. Going back to my
14 testimony --

15 Q Go ahead. Complete your answer.

16 A And I know that this is a bit complicated
17 going through the calculations, but if you look at
18 line 6, where I said, "I then divided the total
19 interstate PICC revenues by the intrastate end office
20 switching minutes of use for the same time period to
21 develop an intrastate PICC equivalent ARPM." Okay.
22 And then it says the calculation produced an NTS
23 interstate ARPM of .006.

24 CHAIRMAN JABER: What page are you on,
25 Mr. Fulp?

1 THE WITNESS: Page 12. And so the reason
2 I say no is, again, we can't use the same calculation
3 as we did for the traffic-sensitive calculation where
4 I developed a traffic-sensitive average revenue per
5 minute for interstate, and I developed a
6 traffic-sensitive average revenue per minute for
7 intrastate. And I took the difference between those
8 two and said that's the amount of reduction I have to
9 make to get to parity on an average revenue per minute
10 basis. Okay. So that's a bit cleaner than what we
11 had to do with the PICC.

12 With the PICC, I don't have that same
13 element on the intrastate side. I do have it on the
14 interstate side. So I calculated my revenues, and
15 then I have to come up with an intrastate composite
16 ARPM, and that's why I utilized the intrastate minutes
17 of use, because if I use -- and so getting back to
18 your question, maybe it's a misnomer when I said an
19 NTS interstate average revenue per minute, because I
20 stated it right before. What I'm really trying to
21 calculate is my intrastate average revenue per minute
22 that will keep me revenue neutral for the PICC
23 revenues in the interstate jurisdiction, and so that's
24 why I said no. So I had to do it differently.

25 If I used the calculation I think you're

1 suggesting and I have a lot more minutes in the
2 interstate jurisdiction than I do in the intrastate
3 jurisdiction, and I take a fixed number and divide it,
4 I'm going to have a different rate. If I took that
5 rate over to my intrastate jurisdiction, I would not
6 collect -- because my minutes are different, I would
7 not collect the revenue I would need to be revenue
8 neutral with my interstate revenue. And so that's why
9 I had to utilize the intrastate minutes of use to
10 develop the PICC composite.

11 CHAIRMAN JABER: Commissioner Deason.

12 COMMISSIONER DEASON: I'm having a little
13 difficulty understanding that. You say revenue
14 neutral. I take it from that and your other comments
15 to mean that you're wanting to achieve the same dollar
16 recovery of interstate PICC on an intrastate basis,
17 and I'm not sure that's what the legislation requires.
18 Can you explain?

19 THE WITNESS: what the legislation
20 requires is to have parity between the intrastate and
21 federal access charges, and so --

22 COMMISSIONER DEASON: Parity in terms of
23 the rate applied to whatever usage there is;
24 correct? You're not trying to recover interstate
25 amounts by intrastate usage, are you?

1 THE WITNESS: No, not at all, not at all.

2 COMMISSIONER DEASON: All right. That's
3 the difficulty I'm having to understand.

4 THE WITNESS: No. Let me try to walk
5 through it again and explain what I did with my
6 calculation.

7 Number one, as I stated, I used an average
8 revenue per minute calculation, and so I developed --
9 and let's just talk traffic-sensitive, because the
10 PICC is nontraffic-sensitive. The first thing I did
11 was develop my interstate demand times my interstate
12 rates. I take that revenue figure, and I divide that
13 by my interstate minutes to get an average revenue per
14 minute calculation, and that gives me an average
15 revenue per minute.

16 CHAIRMAN JABER: Hang on.

17 THE WITNESS: I do the same thing --

18 CHAIRMAN JABER: Hang on a second. You
19 took your interstate demand times your interstate
20 rates to get total interstate revenues is what you
21 said.

22 THE WITNESS: Yes.

23 CHAIRMAN JABER: Okay. And then you
24 divided that by what? You were going just a little
25 bit --

1 THE WITNESS: Then you divide that by your
2 interstate demand, and that gives you a composite
3 average revenue per minute calculation for
4 interstate.

5 That tells me -- that's my target of where
6 I need to go with my intrastate access rates. I then
7 went to the intrastate jurisdiction, and I did the
8 same calculation for my traffic-sensitive and came up
9 with the traffic-sensitive intrastate average revenue
10 per minute. Okay. So at this point, I have a --

11 COMMISSIONER DEASON: You say the same
12 calculation. You took -- for your intrastate
13 traffic-sensitive average revenue per minute, you took
14 intrastate demand times intrastate rates divided by
15 intrastate demand?

16 THE WITNESS: Yes.

17 COMMISSIONER DEASON: So you just mirrored
18 it on --

19 THE WITNESS: Just mirrored it. And so now
20 I have an average revenue per minute for
21 traffic-sensitive on the intrastate side, and I have a
22 corresponding average revenue per minute on the
23 interstate side. Okay. So that takes care of
24 traffic-sensitive.

25 I have nontraffic-sensitive costs as well

1 that are in my interstate jurisdiction, and my
2 nontraffic-sensitive costs include the PICC. Part of
3 my common carrier line basket has the CCL rate in it,
4 which I've already calculated. But I have now this
5 piece called the PICC, which is a per line charge, not
6 a minute of use charge, that's charged to
7 interexchange carriers, so I had to develop my
8 interstate NTS component. And in developing the
9 interstate NTS component, I took my units, which
10 aren't minutes of use, but lines, and multiplied it
11 out to get a revenue figure.

12 CHAIRMAN JABER: Multiplied it out by what?

13 THE WITNESS: Multiplied it out by my rates
14 times my units. And recall that, again, I don't have
15 this --

16 CHAIRMAN JABER: Those are your interstate
17 rates?

18 THE WITNESS: These are my -- I do not have
19 the PICC on the intrastate side today.

20 CHAIRMAN JABER: Right.

21 THE WITNESS: So I don't have a
22 corresponding rate element.

23 CHAIRMAN JABER: Okay.

24 THE WITNESS: So in order to get a full
25 picture of my interstate revenues and a full picture

1 of what my interstate average revenue per minute is, I
2 have this NTS piece that needs to be put on a per
3 minute of use basis. Okay. And so at this point,
4 like on the traffic-sensitive side for inter- and
5 intrastate, after I've developed my average revenues
6 per minute, I would take the difference to see how
7 much I need to reduce my intrastate rates by.

8 Okay. I don't have a corresponding NTS
9 piece or PICC on the intrastate side, so I've got to
10 put the PICC on a minute of use basis. In order to do
11 that, and in order to be revenue neutral, because
12 let's say I get X dollars from the interstate
13 jurisdiction today, okay, and to calculate an average
14 revenue per minute, in order to be revenue neutral, I
15 would have to utilize my intrastate minutes of use,
16 because if I use my -- because I have a big difference
17 between my inter- and my intrastate minutes of use.
18 So I'm trying to recover on a per minute of use basis
19 NTS revenue from the interstate jurisdiction that will
20 allow me to collect that on an intrastate basis in my
21 access rates.

22 And so again, that's why I had to utilize
23 intrastate minutes of use, because again, I'm coming
24 down to an intrastate average revenue per minute to
25 bring myself in parity with interstate and to be

1 revenue neutral, to collect the dollars that I need on
2 the interstate jurisdiction. To match my average
3 revenue per minute on the interstate jurisdiction is
4 why I utilized intrastate minutes of use versus
5 interstate minutes of use.

6 COMMISSIONER DEASON: But the idea of
7 parity is to get the intrastate rate at parity with
8 the interstate rate, not to ensure that you recover
9 interstate revenues dollar for dollar on an intrastate
10 basis; correct?

11 THE WITNESS: Yes. But if I develop the
12 rate without using the intrastate minutes of use, I'm
13 not going to be at parity. I'm not going to be
14 getting the same amount of revenues.

15 COMMISSIONER DEASON: And once, the parity
16 is not in terms of revenues or dollars, absolute
17 dollars. The parity is in terms of rates; correct?

18 THE WITNESS: Right. And I have to have
19 parity between the two rates, and if I don't have the
20 NTS piece included in my average revenue per minute
21 for my composite rates, I'm not going to be in parity.

22 COMMISSIONER DEASON: I understand what
23 you're saying. I don't understand the concept, but
24 that's fine.

25 Mr. Hatch.

1 MR. HATCH: Let's see if we can go back to
2 where I left off. I won't try and re-cover ground
3 that has already been covered.

4 BY MR. HATCH:

5 Q In developing your interstate composite for
6 your nontraffic-sensitive piece of the interstate
7 composite, did you utilize intrastate minutes of use
8 to develop your NTS interstate composite rate?

9 A Yes.

10 Q If you had used interstate minutes of use
11 to generate your interstate composite, your interstate
12 composite rate would have been lower; is that correct?

13 A Yes.

14 Q Now, with respect to the PICC, as I
15 understand what you have done in your proposal, you
16 have taken the PICC revenues and converted them to an
17 intrastate per minute of use rate; is that correct?

18 A That's correct.

19 Q Where did you put those revenues in terms
20 of your access rate elements on the intrastate side?
21 which rate element collects those revenues?

22 A They are just spread across all of the rate
23 elements. Since I don't have a PICC and did not
24 propose to have a PICC, those would be spread across
25 the other rate elements on a per minute of use basis.

1 Q So you took the revenues on a per minute of
2 use basis, and in generating your intrastate composite
3 rate, you just added that into the total and divided
4 by the total minutes of use to do that; is that
5 correct?

6 A Essentially, yes.

7 Q Okay. So some of those minutes would have
8 been spread across your -- essentially your
9 traffic-sensitive, all of your traffic-sensitive rate
10 elements, for example, end office switching; is that
11 correct?

12 A Yes.

13 Q Some of it would have been spread upon your
14 carrier common line charge; is that correct?

15 A Yes.

16 Q Now, going back to the PICC for a moment,
17 is it your understanding that the PICC was created as
18 part of the CALLS proceeding at the FCC?

19 A I just want to double check that it was
20 calls, but, yes.

21 Q In the course of the CALLS proceeding, part
22 of the purpose of that proceeding was to remove
23 essentially nontraffic-sensitive costs that were
24 currently being recovered in traffic-sensitive rate
25 elements, and that's what led to the PICC charge; is

1 that correct?

2 A Yes.

3 Q And the PICC was assessed as a per line
4 charge, not on a traffic-sensitive basis; correct?

5 A That's correct.

6 Q Turn to page 15, I believe it is, of your
7 direct testimony.

8 COMMISSIONER DEASON: Mr. Hatch, are you
9 leaving that for a moment?

10 MR. HATCH: It's sort in the same line, but
11 if you want to break in, that's fine.

12 COMMISSIONER DEASON: I'm just trying to
13 understand. When you calculate the -- put the PICC
14 charge on an average revenue per minute basis, that's
15 the whole reason for this calculation. Since it is
16 actually charged and collected on a per line basis, to
17 do your parity calculation, you need to put it on an
18 average revenue per minute basis; correct?

19 THE WITNESS: That's correct.

20 COMMISSIONER DEASON: Okay. So this
21 calculation, lines times the rate divided by
22 intrastate minutes, what does that calculation result
23 in? What does that represent?

24 THE WITNESS: That gives me an average
25 revenue per minute for the PICC.

1 COMMISSIONER DEASON: Average revenue per
2 minute for the PICC.

3 All right. Once you determine that average
4 revenue per minute, what do you do with it then in the
5 calculation to reach parity? How does it mesh in with
6 the traffic-sensitive portion? Is it -- if you could
7 just review that for me, please.

8 THE WITNESS: Yes. As I spoke before, I
9 developed an interstate traffic-sensitive average
10 revenue per minute. Now we just went through and
11 developed an intrastate traffic-sensitive --
12 intrastate average revenue per minute for the PICC.
13 And you add those two together, and you get your
14 composite average revenue per minute for interstate.

15 COMMISSIONER DEASON: For interstate.

16 THE WITNESS: For interstate. And then you
17 compare that to my composite intrastate average
18 revenue per minute, and you take the difference, and
19 that's the amount of access reductions we need to get
20 to parity.

21 COMMISSIONER DEASON: Okay. Thank you very
22 much.

23 CHAIRMAN JABER: Mr. Hatch, let me follow
24 up on that.

25 The average revenues per minute for PICC,

1 you would agree with me, though, this Commission has
2 not allowed you to collect thus far. In your rebuttal
3 testimony, you make the statement that you recognize
4 at the state level, we haven't done the intrastate
5 access reform.

6 THE WITNESS: That's correct.

7 CHAIRMAN JABER: So some would say that
8 you're imputing a fee that we have not allowed.

9 THE WITNESS: well, again, in our
10 interpretation of the act and what it states as far as
11 what your intrastate access rate is going to be
12 developed by, PICC is part of our carrier common line,
13 which was one of the components that is in the act,
14 and so that's why we did impute the PICC for purposes
15 to reach parity in this proceeding.

16 (TRANSCRIPT CONTINUES IN SEQUENCE WITH
17 VOLUME 7.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MARY ALLEN NEEL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 590 through 669 are a true and correct transcription of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, or relative or employee of such attorney or counsel, or financially interested in the action.

DATED THIS 12th day of December, 2003.



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